



May 1, 2020

Alberta Utilities Commission  
Eau Claire Tower  
1400, 600 Third Avenue SW  
Calgary, Alberta T2P 0G5

**Re: Direct Energy Regulated Services Rule 005 - 2019 Annual Reporting Requirements of Operational and Financial Results**

Direct Energy Regulated Services respectfully submits its AUC Rule 005 filings for both electricity and natural gas. Should you have any questions, please contact the undersigned at 403-463-4189.

Yours truly,

<<ORIGINAL SIGNED BY C. SCISSONS>>

Carolyn Scissons  
Director, Accounting  
Direct Energy Regulated Services  
*Direct Energy Regulated Services  
is a business unit of Direct Energy Marketing Limited*

Encl.

**Direct Energy Regulated Services**  
**AUC RULE 005: ANNUAL REGULATED RATE TARIFF (RRT) FINANCIAL AND OPERATIONAL RESULTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**TABLE OF CONTENTS**

<b>Schedule</b>	<b>Description</b>
A	Purpose of RRT schedules
1	Regulated Rate Tariff income statement
2	Revenue by customer class
3	Sites and energy sales by customer class
4	Energy and operating expenses
5	Debt capital employed and interest expense
6	Income tax / Payment In Lieu Of Taxes (PILOT)
7	Capital assets continuity schedule
8	Manpower summary
9	Reserve accounts
10	Affiliate transactions
11	Reconciliation from audited income statement to regulatory schedules

## **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	2019	2018	Variance higher/(lower)	Variance %
<b>Revenue</b>						
1	Revenue	Sch 2	\$ 268,638	\$ 265,843	\$ 2,795	1.1%
2	Revenue offsets and other adjustments	Sch 2	\$ 800	\$ 1,547	\$ (748)	-48.3%
3	Total Revenue		<u>\$ 269,438</u>	<u>\$ 267,390</u>	<u>\$ 2,048</u>	<u>0.8%</u>
<b>Expenses</b>						
4	Energy and operating expenses	Sch 4	\$ 88,274	\$ 86,514	\$ 1,760	2.0%
5	Interest	Sch 5	\$ -		\$ -	0.0%
6	Income tax	Sch 6	\$ 2,272	\$ 1,743	\$ 529	30.3%
7	Depreciation & amortization	Sch 7	\$ -		\$ -	0.0%
8	Flow-through expenses	Sch 11	\$ 172,356	\$ 174,293	\$ (1,937)	-1.1%
9	Total Expenses		<u>\$ 262,902</u>	<u>\$ 262,550</u>	<u>\$ 352</u>	<u>0.1%</u>
10	<b>Regulatory net income/(loss)</b>	Sch 11	<u><u>\$ 6,535</u></u>	<u><u>\$ 4,840</u></u>	<u><u>\$ 1,695</u></u>	<u><u>35.0%</u></u>
<b>Reconciliation</b>						
11	Regulatory net income/(loss)	Sch 11	\$ 6,535	\$ 4,840	\$ 1,695	35.0%
12	Less: Regulatory cost disallowances	Sch 11	\$ (467)	\$ (268)	\$ (199)	0.74
13	<b>Adjusted regulatory net income/(loss)</b>		<u><u>\$ 7,002</u></u>	<u><u>\$ 5,108</u></u>	<u><u>\$ 1,496</u></u>	<u><u>29.3%</u></u>

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

**Line No.      Variance Explanation:**

2      Revenue offsets decreased due to higher balance on Unknown customers accounts.

6      Income tax increase is due to higher taxable income in 2019. Refer to schedule 6 for details.

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

Line No.	Description	2019		
		Residential	Commercial	Total *
<b>Revenue:</b>				
1	Energy revenue	\$ 38,641	\$ 39,031	\$ 77,671
2	Non-energy revenue	\$ 13,376	\$ 5,235	\$ 18,611
3	Flow-through revenue	\$ 110,555	\$ 61,801	\$ 172,356
4	Total revenue	\$ 162,571	\$ 106,067	\$ 268,638 (to Sch 1)
<b>Revenue offsets and other adjustments:</b>				
5	Final notice fees			\$ 1,669
6	Title search fees			\$ (869)
7	Application fees			
8	Penalty revenue			\$ 1,669
9	Other			\$ (869)
10	Total revenue offsets and other adjustments			\$ 800 (to Sch 1)
11	<b>Total</b>			<b>\$ 269,438 (to Sch 11)</b>

Line No.	Description	2018		
		Residential	Commercial	Total *
<b>Revenue:</b>				
1	Energy revenue	\$ 38,388	\$ 37,918	\$ 76,306
2	Non-energy revenue	\$ 10,939	\$ 4,305	\$ 15,244
3	Flow-through revenue	\$ 112,950	\$ 61,342	\$ 174,293
4	Total revenue	\$ 162,277	\$ 103,566	\$ 265,843 (to Sch 1)
<b>Revenue offsets and other adjustments:</b>				
5	Final notice fees			\$ 1,741
6	Title search fees			\$ (193)
7	Application fees			
8	Penalty revenue			\$ 1,741
9	Other			\$ (193)
10	Total revenue offsets and other adjustments			\$ 1,547 (to Sch 1)
11	<b>Total</b>			<b>\$ 267,390</b>

\* 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.
- 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 higher due to higher energy rates.
- 2 2019 non-energy revenue is higher driven by the impact of rider Z (as approved in AUC decision 23986-D01-2018).
- 9 Other revenues include provision for Unknown Customers which increased in 2019.

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

Line No.	Description	2019		
		Residential	Commercial	Total *
1	Sites - average	80,461	34,184	114,644
2	Energy sales (MWh)	542,217	542,214	1,084,430
3	Energy sales per site (kWh/site)	6,739	15,862	9,459

Line No.	Description	2018		
		Residential	Commercial	Total *
1	Sites - average	84,772	34,363	119,135
2	Energy sales (MWh)	576,425	578,978	1,155,402
3	Energy sales per site (kWh/site)	6,800	16,849	9,698

\* 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 3.8% or 4,491 sites.
- 2 Energy sales (MWh) declined by 6.1% or 70,972 MWh.
- 3 Energy Sales per site has decreased by 2.5%

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

Line No.	Description	Cross-Ref. from	2019	2018	Variance higher/(lower)	Variance %
<b>Physical spot market</b>						
1	AESO - energy charges		\$ 67,203	\$ 60,928	\$ 6,275	10.3%
2	AESO - retail adjustment to market (RAM)		\$ 127	\$ 42	\$ 85	204.1%
3	AESO - trading charges		\$ 496	\$ 330	\$ 166	50.2%
4	AESO - uplift charges		\$ 29	\$ 24	\$ 5	19.9%
5	AESO - other		\$ (26)	\$ (28)	\$ 2	-6.8%
6	Physical forward market costs (outside the power pool)		\$ 5,559	\$ 5,778	\$ (220)	-3.8%
<b>Financial forward market</b>						
7	Net hedging cost (revenue)				\$ -	-100%*
8	NGX - trading charges/auction fees		\$ 30	\$ 67	\$ (37)	-55.1%
9	Other electricity procurement costs		\$ (235)	\$ 3,675	\$ (3,910)	-106.4%
<b>Other operating expenses (Note)</b>						
10	Credit costs		\$ 440	\$ 576	\$ (137)	-23.7%
11	Billing & customer care		\$ 8,152	\$ 8,743	\$ (591)	-6.8%
12	Corporate allocations	Sch 10	\$ -	\$ 1,065	\$ (1,065)	-100.0%
13	Operational and administration costs		\$ 1,894	\$ 2,074	\$ (180)	-8.7%
14	Bad debts expense		\$ 4,616	\$ 5,154	\$ (538)	-10.4%
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		\$ (10)	\$ (1,914)	\$ 1,904	(0.99)
19	<b>Total energy and operating expense</b>		<b>\$ 88,274</b>	<b>\$ 86,514</b>	<b>\$ 1,760</b>	<b>2.0%</b>

**Note** The expenses reported above should exclude regulatory disallowances, as defined on schedule 11. Any disallowed expenses should be reported on schedule 11, column 1.

**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 statement.
- 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 Power purchases costs increased in 2019 driven by higher commodity costs.
- 6-9 Energy is procured as per the AUC approved Energy Price Setting Plan (EPSP).
- 11 Billing and Customer Care costs decreased due to lower number of customers.
- Corporate Allocations decreased due to a reorganization. System allocations module posted Corporate Allocations to DRT Profit Center however there is implied split between DRT (\$4.3m) and RRT (\$1.1m).
- 12
- 14 Bad debt expenses decreased due to improved economic condition.
- 18 Other items are related to 2018 settlement with customer care and billing vendor.

**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

**2019**

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
<b>Long term- debt</b>											
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
											<b>Total interest expense</b> <u>\$ -</u> (to Sch 1)

**2018**

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
<b>Long term- debt</b>											
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
											<b>Total interest expense</b> <u>_____</u> (to Sch 1)



**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	2019	2018	Variance higher/(lower)	Variance %
1	Income / (Loss) for RRT (before taxes)	Sch 11	\$ 8,808	\$ 6,584	\$ 2,224	33.8%
2	Permanent differences		\$ 1	\$ 7	\$ (6)	-86.3%
3	Timing differences		\$ 306	\$ (1,146)	\$ 1,452	-126.7%
4	Taxable Income / (Loss)		\$ 9,114	\$ 5,445	\$ 3,670	67.4%
5	Combined tax rate		26.0%	27.0%		
6	Current tax provision		\$ 2,338	\$ 1,434	\$ 904	63.0%
7	Adjustments to current tax provision		\$ 14	\$ -	\$ 14	0.0%
8	Future income tax provision		\$ (79)	\$ 309	\$ (388)	-125.7%
9	<b>Total Income Tax Provision</b>	Sch 11	<b>\$ 2,272</b>	<b>\$ 1,743</b>	<b>\$ 529</b>	<b>30.4%</b>

(to Sch 1)

Tax rates:

10	Federal	15.0%	15.0%
11	Provincial	11.0%	12.0%
	Combined	26.0%	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 2019 is higher due to higher taxable income.
- 3 Timing difference in 2019 is filed in accordance with Alberta tax rates.
- 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 12/31/2018	2019 Additions	2019 Retirements	2019 Transfers	2019 Adjustments	Balance at 12/31/2019
1	Office furniture and equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Computer equipment	\$ 496	\$ -	\$ -	\$ -	\$ -	\$ 496
3	Software	\$ 2,429	\$ -	\$ -	\$ -	\$ -	\$ 2,429
4	Other (list separately)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Subtotal	\$ 2,925	\$ -	\$ -	\$ -	\$ -	\$ 2,925
6	Capital Work In Progress / Assets Under Construction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	<b>Total</b>	<b>\$ 2,925</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,925</b>

**ACCUMULATED DEPRECIATION**

Line No.	Property Group	Balance at 12/31/2018	2019 Additions	2019 Retirements	2019 Transfers	2019 Adjustments	Balance at 12/31/2019
8	Office furniture and equipment	-	\$ -	\$ -	\$ -	\$ -	\$ -
9	Computer equipment	\$ (496)	\$ -	\$ -	\$ -	\$ -	\$ (496)
10	Software	\$ (2,429)	\$ -	\$ -	\$ -	\$ -	\$ (2,429)
11	Other (list separately)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	<b>Total</b>	<b>\$ (2,925)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,925)</b>
13	Depreciation / amortization adjustment		\$ -				
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.

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

**COST OF MANPOWER**

Line No.	Description	2019	2018	Variance higher/(lower)	Variance %
1	Salaries and wages	\$ 2,472	\$ 2,433	\$ 39	1.6%
2	Employee benefits	\$ 416	\$ 434	\$ (18)	-4.1%
3	Contracted labor			\$ -	-
4	Gross manpower expenses	\$ 2,887	\$ 2,866	\$ 21	0.7%
5	Less: Capitalized manpower			-	-
6	Less: Other reductions in manpower (specify)			-	-
7	<b>Net manpower operating expense</b>	<b>\$ 2,887</b>	<b>\$ 2,866</b>	<b>\$ 21</b>	<b>0.7%</b>

**FULL TIME EQUIVALENTS (FTE'S)**

Line No.	Description	2019	2018	Variance higher/(lower)	Variance %
8	Regular employees - gross	18.0	15.0	3.0	20.0%
9	Temporary employees - gross			-	-
10	Contract staff - gross			-	-
11	Gross FTE's	18.0	15.0	3.0	20.0%
12	Less: Capitalized manpower			-	-
13	Less: Other reductions in manpower (specify)			-	-
14	<b>Net operating FTE's</b>	<b>18.0</b>	<b>15.0</b>	<b>3.0</b>	<b>20.0%</b>

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).

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

**RESERVE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31

(\$000s)

Line No.	Description	Balance at 12/31/2018	Costs incurred	Recovery through Rates	Balance at 12/31/2019
		(Note 1)	(Note 2)		(Note 1)
1	AUC Administration Fee				\$ -
2	Hearing Costs				\$ -
3	Energy Deferrals-EPSP				\$ -
4	Non-Energy Deferrals	\$ -	-	-	\$ -
5	<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**NOTES**

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

Note 2

- 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.

**Regulated Rate Provider: Direct Energy Regulated Services**  
**AFFILIATE TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31**  
**(\$000s)**

Line No.	Affiliate name	Nature of Service	2019 Net	2019 Revenue	2019 Expense	2018 Net	Variance higher/(lower)	Variance %
1	Direct Energy Business	Energy purchases	\$ 4,966	\$ -	\$ 4,966	\$ 4,992	\$ (26)	-0.5%
2	Centrica PLC and Affiliates	Corporate allocations	\$ -	\$ -	\$ -	\$ 1,065	\$ (1,065)	-100.0%
3	Direct Energy Marketing Ltd.	Salary Allocations	\$ 600	\$ -	\$ 600	\$ 353	\$ 247	70.1%
4	Direct Energy Limited Partnership	Billing & Back Office	\$ 6,792	\$ -	\$ 6,792	\$ 7,295	\$ (503)	-6.9%
5	<b>Total</b>		<b>\$ 12,358</b>	<b>\$ -</b>	<b>\$ 12,358</b>	<b>\$ 13,705</b>	<b>\$ (1,347)</b>	<b>-9.8%</b>

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:

2018 Net: sum of 2018 revenue and 2018 expense columns.

2018 Revenue: affiliate transactions that are recorded as a revenue to the RRT provider.

2018 Expense: affiliate transactions that are recorded as an expense to the RRT provider.

2017 Net: sum of prior year affiliate transactions (may be a credit or debit).

Line

No. Variance Explanation:

2&amp;3 Corporate Allocations decreased due to a reorganization. System allocations module posted Corporate Allocations to DRT Profit Center however there is implied split between DRT (\$4.3m) and RRT (\$1.1m).

**Regulated Rate Provider: Direct Energy Regulated Services**  
**RECONCILIATION FROM AUDITED INCOME STATEMENT TO REGULATORY SCHEDULES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
 (\$000s)

Line No.	Description	2019 Audited Income Statement	Non RRT Related Adjustments	Regulatory Cost Disallowances	RRT Portion
1	<b>Revenue</b>	\$ 269,438	\$ -	\$ -	\$ 269,438
2	Adjustment for revenue not associated with RRT operations				
3	Total	\$ 269,438	\$ -	\$ -	\$ 269,438 (to Sch 2)
4	<b>Expenses</b>				
5	Energy and operating expenses	\$ 88,274	\$ -	\$ -	\$ 88,274 (to Sch 4)
6	Flow through expenses	\$ 172,356	\$ -	\$ -	\$ 172,356 (to Sch 1)
7	Adjustment for expenses not associated with RRT or disallowed	\$ -	\$ -	\$ 467	\$ (467)
8	Total	\$ 260,630	\$ -	\$ 467	\$ 260,163
9	<b>Depreciation and Amortization</b>	\$ -	\$ -	\$ -	\$ -
10	Adjustment for expenses not associated with the RRT or disallowed				
11	Total	\$ -	\$ -	\$ -	\$ - (to Sch 7)
12	<b>Interest Expense</b>				
13	Adjustment for expenses not associated with the RRT or disallowed				
14	Total	\$ -	\$ -	\$ -	\$ - (to Sch 5)
15	<b>Income before tax</b>	\$ 8,808	\$ -	\$ (467)	\$ 9,275 (to Sch 6)
16	<b>Income Tax</b>	\$ 2,273	\$ -	\$ -	\$ 2,273
17	Adjustment for expenses not associated with the RRT or disallowed				\$ -
18	Total	\$ 2,273	\$ -	\$ -	\$ 2,273 (to Sch 6)
19	<b>Net Income</b>	\$ 6,535	\$ -	\$ (467)	\$ 7,001 (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.

# **Direct Energy Regulated Services - Gas & Electricity**

(a business unit of Direct Energy Marketing Limited)

Financial Statements  
**December 31, 2019**

(in thousands of Canadian dollars)

## Independent Auditor's Report

To the Directors of  
Direct Energy Regulated Services

### Opinion

We have audited the financial statements of Direct Energy Regulated Services – Gas & Electricity (the "Company"), which comprise the statements of financial position as at December 31, 2019, and the statements of comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with the basis of accounting as disclosed in note 2 of the financial statements.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter - Basis of Accounting

We draw attention to note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company 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.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 GAAS 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 GAAS, 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.

*Deloitte LLP*

Chartered Professional Accountants  
Edmonton, Alberta  
April 30, 2020

# Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

## Statement of Financial Position

For the year ended December 31, 2019

(In thousands of Canadian dollars)

	2019	2018
<b>Assets</b>		
<b>Current assets</b>		
Cash	-	481
Accounts receivable	150,569	150,194
Deferred accounts	-	3,846
Intra-company receivables	98,585	96,511
	<b>249,154</b>	<b>251,032</b>
<b>Non-Current assets</b>		
Deferred income taxes	1,066	983
Capital assets, net (note 3)	154	345
	<b>250,374</b>	<b>252,360</b>
<b>Liabilities and Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	151,229	159,703
Customer deposits	6,497	11,993
	<b>157,726</b>	<b>171,696</b>
<b>Equity and retained earnings</b>		
Equity - On track incentive plan (OTIP) share scheme	1,979	1,819
Retained earnings	90,669	78,845
	<b>92,648</b>	<b>80,664</b>
	<b>250,374</b>	<b>252,360</b>

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)

## Statement of Comprehensive Income

For the year ended December 31, 2019

(in thousands of Canadian dollars)

	2019	2018
<b>Revenue</b>		
Gas and electricity	971,699	909,514
<b>Expenses</b>		
Gas supply cost	636,394	581,164
Electricity supply cost	245,793	245,259
Customer care	44,596	47,901
General and administrative	27,202	16,609
Finance expense	1,466	1,359
Amortization	128	457
	955,579	892,749
<b>Income before income tax</b>	<b>16,120</b>	<b>16,765</b>
<b>Provision for income taxes</b>		
Current	4,380	4,603
Deferred	(84)	(61)
	4,296	4,542
<b>Comprehensive Income</b>	<b>11,824</b>	<b>12,223</b>
Retained earnings – Beginning of year	78,845	66,622
Comprehensive Income	11,824	12,223
<b>Retained earnings – End of year</b>	<b>90,669</b>	<b>78,845</b>

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)

## Cash Flow Statement

For the year ended December 31, 2019

(in thousands of Canadian dollars)

Cash provided by (used in)	2019	2018
Net Income	11,824	12,223
Amortization	128	457
Deferred tax	(84)	(61)
Employee share scheme costs	160	27
Loss on disposal of fixed assets	63	153
Financing interest	1,466	1,359
<b>Operating cash flow before movements in working capital</b>	<b>13,557</b>	<b>14,158</b>
(Increase) / decrease in receivables	(375)	15,883
Increase / (decrease) in payables	(14,962)	(14,561)
Deferred accounts	3,846	5,150
<b>Net cash flow from operating activities</b>	<b>2,066</b>	<b>20,630</b>
<b>Net cash flow from investing activities</b>	<b>-</b>	<b>-</b>
Financing interest	(1,466)	(1,359)
Change in inter-group financing	(2,073)	(16,713)
<b>Net Cash used in financing activities</b>	<b>(3,539)</b>	<b>(18,072)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1,473)</b>	<b>2,558</b>
Cash/(Overdraft), beginning of year	481	(2,077)
<b>Cash/(Overdraft), end of year</b>	<b>(992)<sup>1</sup></b>	<b>481</b>

The accompanying notes are an integral part of the financial statements

<sup>1</sup> 2019 Cash Credit balance is presented in the Accounts Payable and Accrued Liabilities line on the Statement of Financial Position.

# Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

## Notes to the Financial Statements

For the year ended December 31, 2019

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(in thousands of Canadian dollars)

### 1 Basis of presentation

The financial information has been prepared based on the principles of IFRS as explained in the accounting policies summarised in the following notes. The financial information has been prepared for the purpose of fulfilling regulatory requirements. Not all disclosures required by IFRS have been incorporated in the preparation of these general purpose financial statements.

The 2019 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”). The disclosures are appropriate for the purpose for which these statements have been created.

The preparation of the financial statements, in accordance with the principles of IFRS, requires management to make assumptions and apply estimates that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosure of commitments and contingent assets and liabilities at the financial statement date. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial information in future periods could be significant.

This financial information of Direct Energy Regulated Services - Gas & Electricity (“DERS”) has been prepared by the management of Direct Energy Marketing Limited (“DEML”). DERS is a business unit of DEML, an incorporated entity in Canada. The ultimate parent of DEML is Centrica plc, a multinational company incorporated in the United Kingdom. The business unit’s principal place of business is Alberta and its registered office is at 333 Bay Street, Suite #2400, Toronto ON M5H 2T6, Canada.

These financial statements are authorized for issuance by the DEML Board of Directors as of April 24, 2020.

### 2 Summary of significant accounting policies

#### a) Description of Business and Regulation

DERS is regulated by the Alberta Utilities Commission (AUC) pursuant to the *Electric Utilities Act* (Alberta) and the *Gas Utilities Act* (Alberta). The acts and regulations covering such matters as rates, financing, accounting, operations and service areas.

DERS performs the natural gas default rate tariff (DRT) and electricity regulated rate tariff (RRT) functions in the service territories of ATCO Gas and ATCO Electric Ltd.

# Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

## Notes to the Financial Statements

For the year ended December 31, 2019

---

(in thousands of Canadian dollars)

DRT rates are set based on the Gas Cost Flow-through Rate (GCFR) under Default Gas Supply Regulation subsection (4)(b)(i)) and RRT rates are established through AUC decisions relating to the Energy Price Setting Plan (“EPSP”) and Non-Energy rates.

### b) Basis of Accounting

The financial information has been prepared in accordance with accounting policies summarised in the following notes. The 2019 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”).

The preparation of these statements requires management to make assumptions and apply estimates that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosure of commitments and contingent assets and liabilities at the financial statement date. 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.

### c) Revenue Recognition

DERS supplies gas and electricity to residential and business customers in Alberta, Canada. The contracts with customers consist primarily of perpetual contracts that are effective until terminated by the customer. In case of termination of service, DERS has the right to receive payment for the performance completed to the termination date. The performance obligation is the supply of energy over the contractual term; the units of supply represent a series of distinct goods that are substantially the same with the same pattern of transfer to the customer. The performance obligation is satisfied as the customer consumes based on the units of energy delivered. This is the point at which revenue is recognised. DERS has the right to consideration from the customer for an amount that corresponds directly with the value delivered to the customer through their consumption, determined based on the rates approved by the AUC.

Revenue for energy supply activities are recognized in accordance with IFRS 15: ‘Revenue from contracts with customers. The recognition of this revenue includes assessment of the amount that it has a right to invoice including an assessment of energy supplied to customers between the date of the last meter reading for which billing was rendered and the year end (known as unbilled revenue). Unbilled revenue is comprised of unbilled commodity and administration fees which are estimated based on daily charges at the AUC approved rates on a customer-by-customer basis using billing system data and distributor wholesale data. Unbilled revenue is adjusted for billed revenue and for vacant sites.

### d) Natural Gas Supply Costs

# Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

## Notes to the Financial Statements

For the year ended December 31, 2019

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(in thousands of Canadian dollars)

Natural gas supply costs are based on the actual cost of natural gas purchases.

Per AUC Rule 028: Natural Gas Settlement System Code rules, gas utilities in Alberta have four months to submit the final load settlement data following the month in which the gas was consumed (e.g. variances in initial and final settlement and final adjustments). As the data, processes and systems used to estimate consumption are complex, this can lead to variances between initial, final settlement and final adjustments.

### e) Provincial Carbon Levy and Federal Carbon Tax

The nature of both the Alberta provincial government's carbon levy and the Canadian government's carbon tax is a cost imposed upon the final consumer of natural gas including generators for the generation of electricity from a fossil fuel source. DERS collects these amounts on behalf of a third party and such is acting as an agent. These amounts are excluded from the transaction price and therefore excluded from revenue. Since DERS is acting as an agent in passing through costs, the amounts collected are presented on a net basis in cost of sales.

### f) Electricity Supply Costs

Electricity supply costs are based on the actual cost of electricity purchases. By regulation, electricity wire service providers in Alberta have four months to submit the final electricity load settlement data after the month in which such electricity was consumed (e.g. variances in initial and final settlement and final adjustments). The data, processes and systems used to estimate consumption are complex and estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents.

Variances in the cost of supply may arise during the settlement process. These variances are recorded as supply costs in the period that they are estimated.

### g) 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.

### h) Cash

# Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

## Notes to the Financial Statements

For the year ended December 31, 2019

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(in thousands of Canadian dollars)

Cash balances are balances held in banks.

### i) Accounts Receivable

Accounts receivable include amounts for billed and unbilled energy consumption and are reduced by a provision for bad debt. The provision is an “expected credit loss” (ECL) model that calculates the impairment and recognizes it at amortized costs as an allowance against the financial assets. The provision is predominantly based on historical credit loss experience for trade receivable with consideration where relevant and material to current market conditions and future expectations.

Customers with credit balances are reclassified out of Accounts Receivable and reported under a liability account.

### j) Deferred Charges

The AUC, through its decision, has approved the limited 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.

### k) 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.

### l) Financial Instruments

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



# Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

## Notes to the Financial Statements

For the year ended December 31, 2019

(in thousands of Canadian dollars)

### 3 Capital Assets

Capital assets are recorded at cost and depreciated over their useful life, estimated as five years, on a straight-line basis.

Cost and accumulated depreciation balances were adjusted to reflect all applicable retirements and write-offs of capital assets.

#### Computer software and hardware

<b>Cost</b>	<b>2019</b>	<b>2018</b>
As at January 1st	4,676	11,339
Additions	-	-
Disposals	(308)	(6,663)
<b>As at December 31st</b>	<b>4,368</b>	<b>4,676</b>
<b>Accumulated Depreciation</b>		
As at January 1st	(4,331)	(10,384)
Amortization	(128)	(457)
Disposals and adjustments	245	6,510
<b>As at December 31st</b>	<b>(4,214)</b>	<b>(4,331)</b>
<b>Net Book Value</b>		
As at January 1st	345	955
<b>As at December 31st</b>	<b>154</b>	<b>345</b>

### 4 Guarantees

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

	<b>2019</b>	<b>2018</b>
Guarantees for gas supply contracts	36,521	27,512

These values reflect actual exposure at December 31, 2019, rather than the full value of the guarantee.

# Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

## Notes to the Financial Statements

For the year ended December 31, 2019

(in thousands of Canadian dollars)

### 5 Finance Expenses

	2019	2018
Guarantees and letters of credit fees	1,466	1,359
<b>Finance Expenses</b>	<b>1,466</b>	<b>1,359</b>

The 2018 finance expense results that reflect guarantee and letter of credit fees are now separately reported from general administration costs.

### 6 Contractual Obligations

DEML 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. DEML may terminate this agreement without cause with a 1-year notice period. This contract has a cancellation penalty of approximately \$25m if cancelled in 2020 and this penalty decreases year over year until 2024.

### 7 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:

	2019			2018		
	Gas	Electricity	Total	Gas	Electricity	Total
Revenue	702,261	269,438	971,699	642,124	267,390	909,514
Expenses	694,949	260,630	955,579	631,942	260,807	892,749
Earnings before taxes	7,312	8,808	16,120	10,182	6,583	16,765
Income tax expense	2,023	2,273	4,296	2,799	1,743	4,542
Net earnings	5,289	6,535	11,824	7,383	4,840	12,223
Deferred accounts	-	-	-	3,846	-	3,846
Deferred-tax assets	1,021	45	1,066	1,003	(20)	983
Capital assets (net)	154	-	154	345	-	345

# Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

## Notes to the Financial Statements

For the year ended December 31, 2019

(in thousands of Canadian dollars)

### 8 Related Party Transactions

Entity	Relationship	Transaction	Recorded as	2019	2018
Direct Energy Marketing Ltd. (DEML)	Affiliate	Corporate charges	General and administrative	416	389
Energy Management Group (a division of DEML)	Affiliate	Gas supply costs	Gas supply costs	25,528	28,963
Energy Management Group (a division of DEML)	Affiliate	Gas and power supply costs	Procurement costs	1,056	909
Energy Management Group (a division of DEML)	Affiliate	Power supply costs	Power supply costs	4,966	4,992
Direct Energy Partnership (DEP)	Affiliate	Customer Care	Billing and back office charges	37,403	39,533
Centrica PLC and Affiliates	Affiliate	Corporate service allocations	General and administrative	5,403	8,409

All the above transactions are in the normal course of business and are measured in local currency.

### 9 Contingencies

The Company is a 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 financial position.

### 10 Dividends

There were no dividends declared in 2019 (2018 - \$ nil).

# Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

## Notes to the Financial Statements

For the year ended December 31, 2019

(in thousands of Canadian dollars)

### 11 Changes in non-cash working capital

Year ended December 31	2019	2018
Accounts receivable	(375)	15,883
Other assets	3,846	5,150
Deferred revenue adjustment	(2,972)	2,972
<b>Total AR movements</b>	<b>499</b>	<b>24,005</b>
Accounts payable and accrued liabilities	(18,350)	(21,240)
Other liabilities	(992)	2,011
<b>Total AP movements</b>	<b>(19,342)</b>	<b>(19,229)</b>
Due to / from affiliates	(2,074)	(16,713)
<b>Total</b>	<b>(20,917)</b>	<b>(11,937)</b>

### 12 Financial Risk Management

The Partnership is exposed to a number of different financial risks arising from business activities and its use of financial instruments, including market risk, credit risk, and liquidity risk.

#### *Market risk*

Market risk is the risk of loss that results from changes in market factors such as electricity prices and natural gas prices. The level of market risk to which DERS is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements, demand for gas and electricity, and the composition of financial assets and liabilities held.

#### *Commodity price and volume risk*

DERS sells electricity to Regulated Rate Option (RRO) customers at a monthly rate approved by the Alberta Utilities Commission. All electricity for the RRO customers is purchased from the Alberta Power Pool in real time through the Alberta Electric System Operator (AESO), but is hedged in advance. The amount of electricity to be hedged, the hedging protocol, and the monthly rates are determined under the Energy Price Setting Plan (EPSP).

According to the EPSP, DERS will purchase financial futures contracts or swaps up to 120-days prior to delivery. The average monthly hedge price is the basis of the monthly rates. The monthly hedge volume is set by that month's electricity usage forecast. When actual usage varies from the forecast/hedge volumes, DERS is financially exposed to the real time price of electricity as it must sell excess or buy extra volume. The financial exposure to volume variances increases as price volatility rises due to supply and demand conditions.

# Direct Energy Regulated Services – Gas & Electricity

(a business unit of Direct Energy Marketing Limited)

## Notes to the Financial Statements

For the year ended December 31, 2019

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(in thousands of Canadian dollars)

Financial swaps settle directly with a single creditworthy and adequately secured counterparty by swapping the difference between the AESO electricity spot market price and the fixed contract price for a specified volume. Likewise, financial futures exchange the AESO electricity spot market price and the fixed contract price for a specified volume with the Natural Gas Exchange (NGX) who provide central counterparty clearing for the Alberta power and gas markets.

### *Credit risk*

Credit risk is the possible financial loss associated with the inability of counterparties to satisfy their contractual obligations to DERS. Credit and counterparty risk management procedures and practices generally include assessment of individual counterparty creditworthiness and establishment of exposure limits prior to entering into a transaction with the counterparty. Exposures are subsequently monitored and are regularly reported to senior management. In its role as the RRT and DRT provider, DERS must provide service to customers who choose to receive regulated electricity or gas within its service territory. To manage and mitigate credit risk, DERS employs various credit mitigation practices such as deposits from customers, parent company guarantees and letters of credit.

### *Rate-regulated customer credit risk*

Credit risk exposure for residential and commercial customers under the DRT and RRT tariffs is generally limited to amounts due from customers for electricity consumed but not yet paid for. DERS mitigates credit risk from counterparties by performing credit checks and on higher risk customers or by taking deposits.

### *Liquidity risk*

Liquidity risk is the risk that DERS will not be able to meet its financial obligations as they become due. DERS liquidity is managed centrally by Centrica plc's Treasury function.

## **13 Subsequent Events**

Subsequent to December 31, 2019, financial markets have been negatively impacted by the novel Coronavirus or COVID19, which was declared a pandemic by the World Health Organization on March 12, 2020. This has resulted in significant economic uncertainty and consequently, it is difficult to reliably measure the potential impact of this uncertainty on the Company's future financial results.