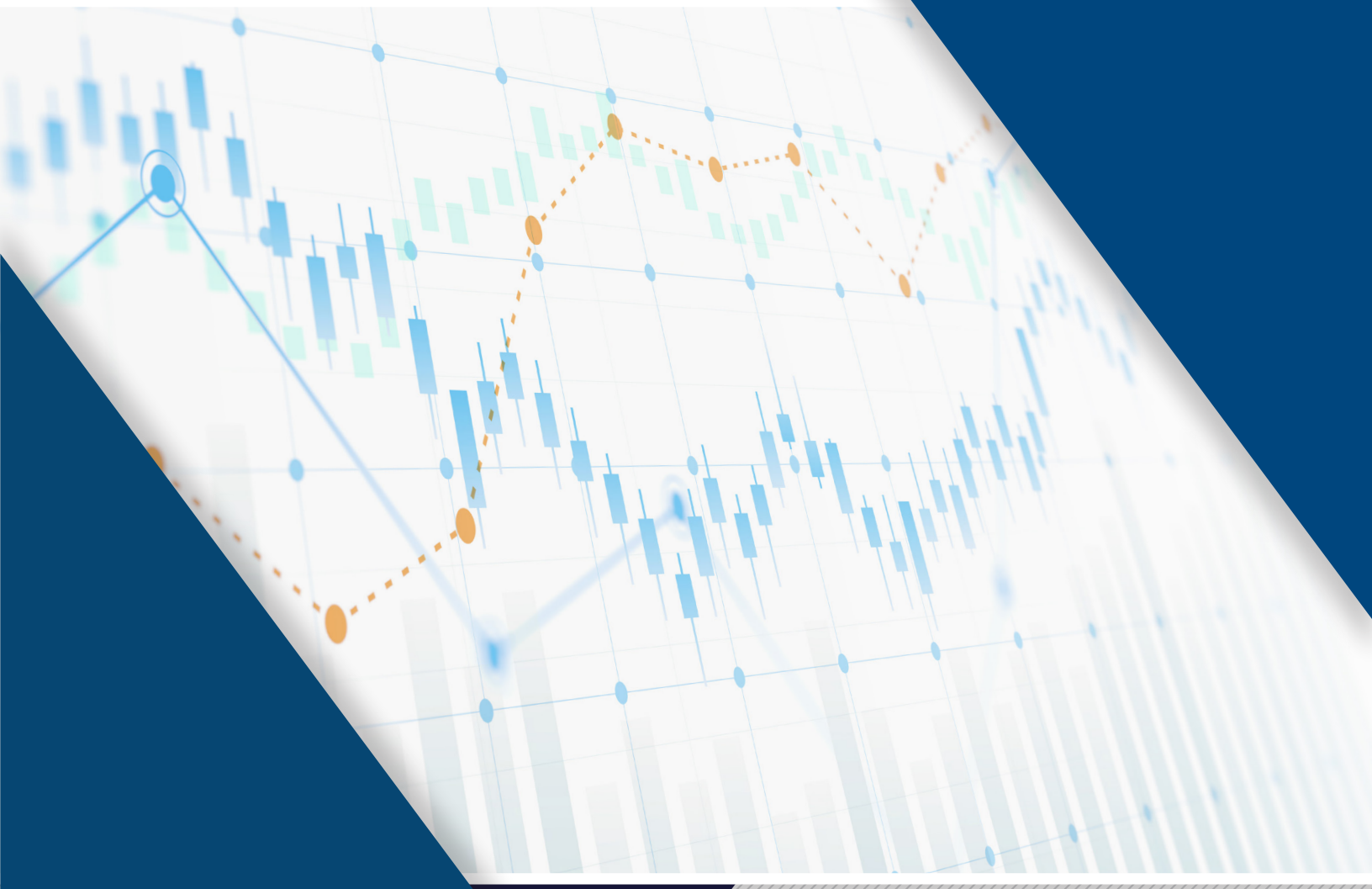


AESO 2026
Business Plan and Budget Proposal

NOVEMBER 2025

Contents

Executive Summary

The Alberta Electric System Operator (AESO) presents its *2026 Business Plan and Budget Proposal*, which reflects the objectives laid out in the AESO's Strategic Plan and positions the AESO to lead Alberta's electricity sector through rapid change by prioritizing reliability, transformation and organizational strength—while reinforcing the core pillars of our mandate.

The proposal reflects insights gathered through stakeholder engagement activities and addresses the urgent work required to navigate accelerating industry change.

Strategic Priorities

The AESO remains steadfast in its strategic priorities, recognizing that reliability and affordability are critical to the province.

The successful transition to a new market structure will support investment confidence, reliability and long-term affordability for Albertans. The *2026 Business Plan and Budget Proposal* represents a critical three-year investment in people and software to:

- Modernize Alberta's energy-only market with the implementation of the Restructured Energy Market (REM)
- Lay the foundation for the processes to enable moving away from a congestion free system to an optimally planned transmission framework
- Enable the recovery of ancillary services costs based on cost-causation

The AESO has consulted with other Independent System Operators (ISOs) and vendors regarding the implementation and costs of market management and energy settlement systems in deriving the project budget. Insights into resources required to manage and maintain the systems and added operational complexity to the organization were also considered in the forecast of resource needs through 2028.

The budget reflects a careful consideration of investments, decisions and resources to ensure we can advance strategic initiatives and ensure their timely and effective implementation.

Proactively Preparing for the Continually Evolving Future of Electricity

Alberta's electric grid is continuously transforming. Changes to the generation mix on the path to lower-emissions and increases in demand to serve existing (and new) parts of our economy present opportunities for investment. However, these all present challenges for grid operations.

The AESO must continuously lead and prepare for grid transformations to maintain reliability and affordability for Albertans.

The work and investment of the AESO today will enable Alberta's long-term vision and growth. We must advance the most significant restructuring of Alberta's electricity market in its history, implement major changes to Alberta's transmission policy and continue to reliably operate the grid.

Stakeholder Engagement

The AESO believes earlier involvement and engagement amongst the Board, the Executive and stakeholders is essential, including communicating clear expectations on the process and ultimate budget outcome. We gain stakeholder insight on areas of focus early in the process and facilitate a meaningful exchange with stakeholders to influence the type, timing and priority of work we undertake.

In June, we initiated the Budget Development Process (BDP) for the upcoming 2026 three-year budget cycle with one-on-one meetings with a subset of the AESO Board, Executive and the senior level executives of 14 organizations. Attending organizations ranged from generators representing a diverse range of supply types, consumers, utilities and industry groups. Strategic discussions centred on what they believed the AESO should be focusing on in the upcoming years. Stakeholders appreciated the opportunity to share their perspectives on what they believe is of strategic importance to our industry for 2026 and the years to come.

Stakeholders outlined three critical areas of importance during the June meetings:

1. **Certainty and Investment Confidence:** Stakeholders note that Alberta's investment potential can be strengthened through long-term planning, regulatory clarity and streamlined processes, with stakeholders expressing confidence in the AESO's ability to lead boldly, support affordability and enable innovative projects—especially data centres—that will drive future growth and competitiveness.
2. **System Resiliency and Modernization:** We heard that strengthening system resiliency through proactive planning, modernized ISO rules, and integration of innovative solutions like Distributed Energy Resources (DERs) and demand-side management will help Alberta meet rising energy demands, with stakeholders supporting AESO efforts to streamline approvals and improve long-term coordination.
3. **Collaboration and Talent Retention:** Stakeholders value meaningful collaboration and long-term engagement planning, while emphasizing the importance of retaining skilled AESO teams to ensure continuity, expertise and success in navigating industry challenges.

Other Impacts

The allocation of resources to energy market activities, as well as the increased budget required to deliver on the strategic initiatives outlined herein, results in an increase to the trading charge. This increase is also driven by changes in the classification of project costs under International Financial Reporting Standards (IFRS).

There is significant uncertainty in the actual costs to deliver initiatives given the early stages of their design and development. The AESO is committed to managing and reducing its costs at any opportunity and strives for efficiency. The 2026 budget represents a transparent estimate of costs considering the critical need to deliver a restructured energy market that creates investor certainty, reliability and affordability for Albertans.

In October, the draft budget, incorporating the focus areas and priorities, was presented to the Board for initial input and discussion. The AESO shared the proposed budget with stakeholders in mid-October and addressed questions during the October 29 Stakeholder Session.

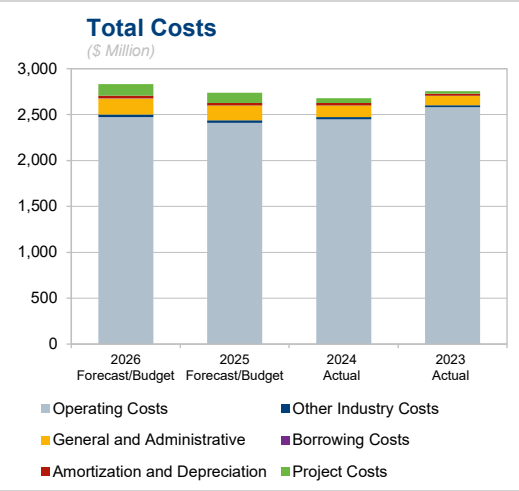
Financial Highlights

As part of this *2026 Business Plan and Budget Proposal*, the AESO is presenting the budgets and forecasts which are required to meet the needs of the organization to deliver on its commitments and to demonstrate that financial management continues to be a focus.

The financial information is presented in the following four sections:

- **Section I** – Operating Costs and Other Industry Costs
- **Section II** – General and Administrative, Borrowing Costs and Amortization and Depreciation
- **Section III** – Project Costs
- **Section IV** – Revenue

Additional information is included in Appendices A through D.



Financial Highlights ($ million)

	2026 Forecast/ Budget	2025 Forecast/ Budget[1]	$ Variance	% Variance	2024 Actual	2023 Actual
Operating Costs	**2,472.6**	2,410.9	61.7	3	2,449.4	2,580.5
Other Industry Costs	**28.9**	27.6	1.3	5	24.9	22.2
General and Administrative	**175.0**	162.0[2]	13.0	8	128.0	102.8
Borrowing Costs	**3.6**	1.6	2.0	125	0.6	0.6
Amortization and Depreciation	**27.5**	26.0	1.5	6	25.0	23.0
Project Costs	**124.7**	109.3	15.4	14	50.6	24.7

Differences are due to rounding

[1] Amounts are from the 2025 BDP.

[2] General and Administrative Budget decreased from $163.5M as presented in the AESO 2025 Business Plan and Budget Proposal to $162.0M, as a reduction in staff costs of $1.5M was made prior to final Board approval of the 2025 Budget.

Section I – Operating Costs and Other Industry Costs

Operating Costs Summary

Operating Costs ($ million)

	2026 Forecast	2025 Approved Forecast[3]	$ Variance	% Variance	2024 Actual	2023 Actual
Wires Costs	**2,049.6**	2,021.7	27.9	1	1,975.3	1,885.7
Transmission Line Losses	**144.1**	136.9	7.2	5	165.3	285.4
Operating Reserves[4]	**211.8**	191.6	20.2	11	265.0	370.0
Other Ancillary Services Costs	**66.4**	60.7	5.7	9	43.7	39.4
Unit Commitment Costs	**0.8**	-	0.8	100	0.1	-
Operating Costs	**2,472.6**	**2,410.9**	**61.7**	**3**	**2,449.4**	**2,580.8**

Differences are due to rounding

Appendix B provides more 2026 forecast methodology and cost category descriptions details.

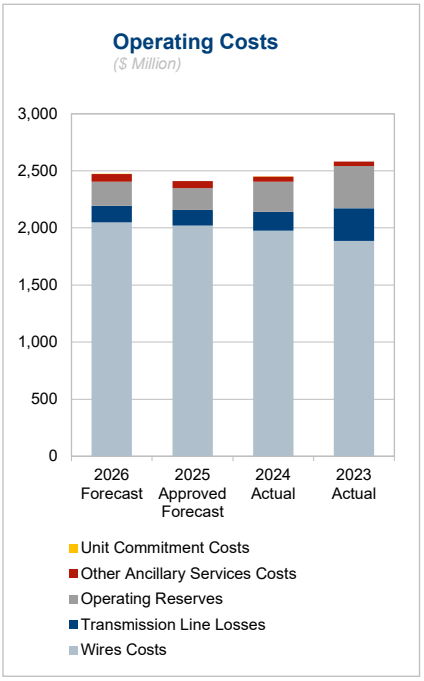
Wires Costs

Wires costs represent the amounts paid primarily to transmission facility owners (TFOs) in accordance with their Alberta Utilities Commission (AUC) approved tariffs. They are not controllable costs of the AESO, nor are they approved by the AESO Board.

In the 2023 actual costs, wires costs included long-term contracts related to Invitation to Bid on Credit (IBOC) and Location Based Credit Standing Offer (LBC SO) programs. Initiated as incentives for generation to locate closer to major load centres and provide a non-wires solution to transmission wires issues in Alberta, these contracts have since expired.

The 2026 forecast is based on TFO tariffs of $2,049.6 million (2025 - $2,021.7 million), which have been approved or applied-for as of August 2025 with a majority of the forecast reflecting:

- filed 2026 tariffs
- filed 2026 negotiated settlements
- AUC approvals for 2025 and 2026 tariffs



[3] Amounts are from the 2025 BDP.
[4] Includes both contracted and conscripted operating reserves.

Transmission Line Losses

The 2026 forecast for transmission line losses is five per cent higher than the 2025 approved forecast. This increase is primarily attributable to an increase in line losses volumes forecast offset by a decrease in pool price.

The 2026 transmission line losses volumes forecast is 2,819 gigawatt hours (GWh), which is 12 per cent higher than the 2025 forecast of 2,526 GWh. This increase in losses volumes follows the continued historical trends observed since 2022, which are the result of an increase in renewable generation located in the south of the province, far away from load centres, which tend to have higher loss factors. In addition, losses are positively correlated with load growth, therefore the increase in losses volumes forecast for 2026 is consistent with the one per cent forecast increase in Alberta internal load.

The 2026 forecast average pool price of $51.3 per megawatt hour (MWh), is six per cent lower than the 2025 forecast of $54.3 per MWh. The lower anticipated average pool price can be primarily attributed to the increased generation capacity on the grid in recent years, including large thermal assets that entered commercial operations and increased renewable generation that came online.

Operating Reserves

The 2026 forecast for operating reserves costs is 11 per cent higher than the 2025 approved forecast. The cost of operating reserves is impacted by actual volumes, hourly pool prices and operating reserve prices.

The 2026 operating reserves volumes forecast is 6,836 GWh, which is four per cent higher than the 2025 approved forecast of 6,601 GWh.

The average pool price used for the 2026 forecast is $51.3 per MWh, which is six per cent lower than the 2025 forecast of $54.3 per MWh.

Higher operating reserves costs are impacted by active operating reserves prices, derived from pool price and a premium or discount to pool price. During periods of low pool prices, the discounts offered reflect the offer strategies associated with the lower pool prices, which are low or small discounts. In periods of higher pool prices, the discounts will typically increase to correspond with the higher pool prices. While the price of operating reserves procured is indexed to the pool price, changes to the average pool price do not result in proportional changes to the operating reserves costs. The premiums and discounts used in the 2026 forecast follow the established forecast methodology.

Other Ancillary Services Costs

The AESO procures other ancillary services for the secure and reliable operation of the Alberta Interconnected Electric System (AIES). These services are procured through a competitive procurement process where possible, or in such instances where procurement may not be feasible, through bilateral negotiations.

Other Ancillary Services Costs ($ million)

	2026 Forecast	2025 Approved Forecast[5]	$ Variance	% Variance	2024 Actual	2023 Actual
Frequency Response, Black Start & Balancing Services[6]	**46.2**	37.5	8.7	23	31.7	25.7
Transmission Constraint Rebalancing	**8.0**	16.0	(8.0)	(50)	3.8	1.8
Transmission Must-Run – Contracted and Conscripted	**9.3**	4.3	5.0	116	5.3	3.3
Reliability Services	**2.9**	2.9	-	-	2.9	2.9
Other Ancillary Services Costs	**66.4**	**60.7**	**5.7**	**9**	**43.7**	**39.4**

Differences are due to rounding

The 2026 forecast for other ancillary services costs is nine per cent higher than the 2025 approved forecast primarily due to the following:

- Frequency response, black start and balancing services for 2026 are forecast to be 23 per cent higher than the 2025 approved forecast, primarily driven by a high import forecast and the commencement of contracts with additional service providers
- The 2026 forecast for transmission constraint rebalancing (TCR) is 50 per cent lower than the 2025 approved forecast, primarily due to increase supply, resulting in a lower delta between congested and uncongested prices during periods of congestion on the grid
- The 2026 forecast for transmission must-run (TMR) is 116 per cent higher than the 2025 approved forecast, primarily due to an increase in contracted TMR volume and unforeseen demand necessitating both contracted and conscripted TMR

Unit Commitment Costs

Unit commitment costs are incurred in relation to the *Supply Cushion Regulation*, which requires the AESO to issue directives to long lead time generators when the forecast supply cushion falls below the predefined threshold. This reliability mechanism requires the AESO to compensate these long lead time generators when revenues received from pool prices are insufficient to cover their costs of complying with an issued directive.

Enacted as an interim market measure, unit commitment costs are recovered directly through a pro rata ISO fee charged to pool participants. As such, they do not impact the cost base that the AESO is required to recover under the energy market trading charge or ISO tariff rates, which is further discussed in Section IV – Revenue.

[5] Amounts are from the 2025 BDP.

[6] Includes Fast Frequency Response (FFR), Black Start, Transferred Frequency Response (TFR), Load Shed Service (LSS), Voluntary Load Curtailment Program (VLCP) and Other. LSS and VLCP related to 2024 and prior years only.

The forecast for unit commitment costs for 2026 is $0.8 million, based on trending of historical data available.

Other Industry Costs

Other industry costs are those not under the direct control of the AESO or those that could not have been forecast prior to the budget year in which they arose. They include mandatory administration and membership fees, regulatory proceeding costs, other regulatory process costs, unforeseen litigation costs and non-compliance penalties.

Mandatory administration and membership fees relate to the annual administration fee for the AUC, as well as the AESO's share of Western Electricity Coordinating Council (WECC), North America Electric Reliability Corporation (NERC) and Western Power Pool (WPP) membership fees.

Regulatory process costs are associated with the AESO's involvement in AUC proceedings and costs incurred to respond to specific agency-related directions or recommendations that are beyond the routine operations of the AESO. This does not include application preparation costs.

Other Industry Costs ($ million)

	2026 Forecast	2025 Approved Forecast[7]	$ Variance	% Variance	2024 Actual	2023 Actual
AUC Fees – Transmission	**12.9**	11.7	1.2	10	10.7	10.2
AUC Fees – Energy Market	**9.5**	9.4	0.1	1	9.6	7.5
WECC/NERC/WPP[8] Fees	**3.4**	3.7	(0.3)	(8)	3.2	2.8
Regulatory Process Costs	**3.2**	2.7	0.5	19	1.4	1.8
Other Industry Costs	**28.9**	**27.6**	**1.3**	**5**	**24.9**	**22.2**

Differences are due to rounding

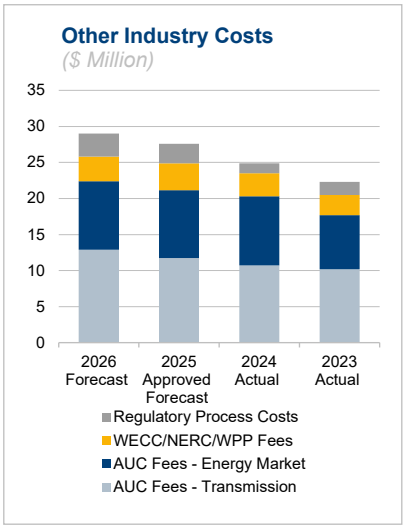
[7] Amounts are from the 2025 BDP.

[8] Western Electricity Coordinating Council/North American Electric Reliability Corporation/Western Power Pool.

AUC Fees

The AESO is required to pay annual administration fees to the AUC. The AUC recovers its operating and capital costs through an administration fee imposed on the natural gas and electricity market participants that it has jurisdiction over or any person to whom the AUC provides services.

The AUC uses a cost assessment model to allocate its costs to the various classes and categories of utilities and persons, and to determine the amount of the administration fee. Two classes of fees are paid to the AUC—one related to transmission operations and the other to energy market operations.



Industry Membership Fees

The AESO actively participates in key organizations to ensure system reliability and efficiency:

- **WECC:** Promotes bulk power system reliability and security in the geographic area known as the Western Interconnection
  - Its members coordinate the day-to-day interconnected system operations and long-range planning required to provide reliable electric service in the WECC region, which spans from Canada to Mexico, including Alberta, British Columbia, the northern portion of Baja California and all or portions of the 14 Western states in between
- **NERC:** Ensures effective and efficient risk reduction to the reliability and security to the North American electricity grid by developing and enforcing reliability standards
- **WPP:** Operates to achieve maximum benefits of coordinated operations for its member organizations
  - Participation in the WPP allows the AESO to take advantage of their Reserve Sharing Group, thereby reducing Alberta's reserve requirements at times

Regulatory Process Costs

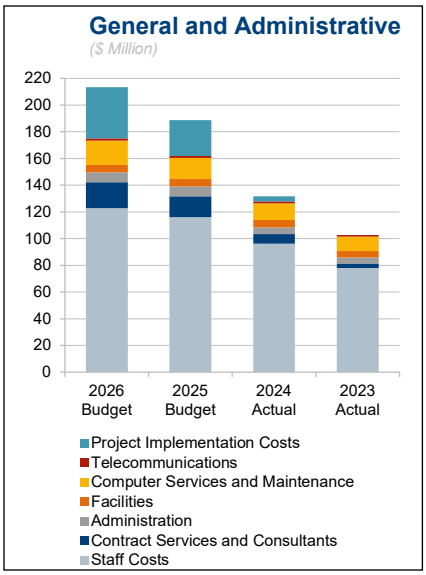
Costs associated with the AESO's involvement in an AUC proceeding, excluding application preparation costs, are included in the cost category Regulatory Process Costs. These proceedings become a high priority relative to other business initiatives that were identified in the business planning process and the level of AESO resources required to address these matters brought before the AUC is difficult to determine in advance of a budget year. To ensure ongoing focus and achievement of the planned business initiatives and to avoid constraints on the general and administrative budget management, these costs appear as other industry costs. Intervener costs that receive AUC cost order approval are also included in this category.

The 2026 forecast for regulatory process costs is 19 per cent higher than the 2025 approved forecast primarily due to an increase in the estimated number of complex regulatory proceedings and litigation matters that are expected to be heard before the AUC and the Courts.

Section II – General and Administrative, Borrowing Costs and Amortization and Depreciation

The following table provides a summary of the general and administrative costs budgeted for 2026. AESO management believes these costs appropriately represent the resources required to successfully deliver on the strategic focus and priorities outlined in earlier sections of this proposal, while continuing to provide the safe, reliable and affordable operation of the electric system in Alberta.

In preparing the budget proposal, AESO Management considered the information currently available to assess the impact on both the strategic plan and budget requirements. As time progresses, new information or events may require a change to focus areas that if material in nature, may require further stakeholder and AESO Board consideration on the impact. Appendix D highlights the scenarios and processes that would be undertaken in these circumstances.



General and Administrative Costs

General and Administrative Costs ($ million)

	2026 Budget	2025 Budget[9]	$ Variance	% Variance	2024 Actual	2023 Actual
Staff Costs	**122.9**	116.0	6.9	6	96.1	78.1
Contract Services and Consultants	**19.3**	15.6	3.7	24	7.3	3.3
Administration	**7.5**	7.5	-	-	5.1	4.4
Facilities	**5.5**	5.6	(0.1)	(2)	5.5	4.8
Computer Services and Maintenance	**18.2**	15.6	2.6	17	12.5	10.9
Telecommunications	**1.7**	1.6	0.1	6	1.4	1.3
General and Administrative Costs	**175.0**	**162.0**	**13.0**	**8**	**128.0**	**102.8**
Project Implementation Costs	38.2	26.8	11.4	43	3.8	-
Total General and Administrative Costs	**213.2**	**188.8**	**24.4**	**13**	**131.8**	**102.8**

Differences are due to rounding

[9] General and Administrative Budget decreased from $163.5M as presented in the AESO 2025 Business Plan and Budget Proposal to $162.0M, as a reduction in staff costs of $1.5M was made prior to final Board approval of the 2025 Budget.

The AESO's 2026 proposed general and administrative budget, excluding project implementation costs, represents an eight per cent increase from the 2025 budget and reflects the anticipated resources required to continue to deliver on its capacity as a leader in enabling the accelerated transformation of the electricity industry in Alberta. In 2026, this includes continuing to address near-term reliability concerns as well as advancing the REM implementation and transmission policy changes.

The AESO's project costs budget for 2026 includes $38.2 million in anticipated costs to be allocated to general and administrative costs and are discussed further in Section III – Project Costs. These costs are subject to variability until projects are underway, with solutions and scope defined, but will be recovered in a similar manner and are therefore included in the table above. The 43 per cent increase in project implementation costs compared to the 2025 budget is driven by the project mix and technology solutions being implemented year over year, with an increase in platform as a service and cloud solutions budgeted for 2026.

Each of the general and administrative costs categories above are discussed in more detail in the sections that follow.

Significant Variances from the 2025 Approved Budget ($ million)

2025 Approved Budget	**$ 162.0**
Net increase in staff costs	
Budgeted positions not hired in 2025, other timing differences and unanticipated vacancies	(1.2)
Additional resources to deliver on strategic work in 2026	7.0
Impact of market adjustments and employee retention program	3.4
Increase in project labour (staff costs offset)	(2.4)
Increase in contract services and consulting	3.7
Decrease in facilities costs (operating costs, utilities, taxes, etc.)	(0.1)
Increase in IT maintenance and telecommunications costs	2.6
2026 Proposed Budget	**$ 175.0**
Anticipated project costs allocated to general and administrative costs	**38.2**
Forecasted connection fee revenue offset	**(2.9)**
2025 Proposed Budget Impact	**$210.3**

Differences are due to rounding

Staff Costs

The AESO maintains market-based compensation for staff which incorporates a benefits plan, pension plan and a performance-based variable pay program.

Budgeted staff costs for 2026 are six per cent higher than the 2025 budget. This increase reflects $7.0 million in additional resource needs for 2026, offset by a ($1.2) million strategic

deferral of costs budgeted in 2025. It also includes proposed market adjustments and promotions for 2026 of $3.4 million offset by a ($2.4) million decrease in staff costs related to projects. These additional resources, market adjustments and other employee benefits costs are paramount to the AESO's ability to retain and attract the talent it requires to continue to deliver on its strategic work in 2026.

Staff costs are based on several key budget variables or factors:

- **Base pay adjustments:** Reviews of general economic indicators and salary survey information occur to determine the impact on employee compensation, aligned with compensation-related regulations in effect for agencies of the Government of Alberta
  - The proposed market adjustment for 2026 is 3.5 per cent, which also takes into consideration adjustments to employee compensation for inversions, compressions and promotions
- **Variable pay program:** Based on an assessment of corporate and individual performance, as aligned to corporate objectives and key results
- **Benefit costs:** In addition to their salary, each employee participates in the organization's comprehensive benefit plan
  - This represents costs such as health and dental coverage, a defined contribution pension plan, a post-retirement benefit plan and federal payroll taxes
  - These costs are presented as a percentage of salary costs to determine a "benefits load factor"
  - While health and dental benefits costs continue to experience notable increases, the overall costs are budgeted at 27 per cent of staff salaries for 2026, a slight decrease compared to the 2025 budgeted costs of 28 per cent

Connection fee revenue of $2.9 million has been forecasted for 2026. This revenue will offset, in large part, budgeted staff and consulting costs to provide connection study services and appropriately manage the growing connections queue, as well as other associated but less material budgeted general and administrative costs.

Contract Services and Consultants ($ million)

	2026 Budget	2025 Approved Budget	$ Variance	% Variance	2024 Actual	2023 Actual
Consulting	**16.6**	13.0	3.6	28	6.4	2.7
Legal	**2.6**	2.5	0.1	4	0.8	0.5
Audit	**0.1**	0.1	-	-	0.1	0.1
Contract Services and Consultants	**19.3**	**15.6**	**3.7**	**24**	**7.3**	**3.3**

Differences are due to rounding

Contract services and consultants' costs typically vary from year to year based on requirements to meet business initiatives or strategic focus areas.

Budgeted contract services and consultants' costs for 2026 are 24 per cent higher than the 2025 approved budget. This increase is reflective of the significant work ahead of the AESO in its capacity to continue to advance the implementation of the REM and transmission policy changes, which require specific skill sets that may not exist within the AESO.

- **Consulting:** Consultants are hired to supplement staff resources for two general purposes:
  - When it is not practical to permanently retain staff with specific skill sets that may only be required for certain initiatives
    - In these circumstances, consultants are utilized to either complete work or assist in training AESO staff
  - To address workload peaks to maintain seamless operations and continual progression on strategic focus areas
- **Legal:** Legal counsel is retained to support general business operations by supplementing in-house legal resources and to provide expertise on regulatory filings and more complex commercial matters
  - Costs associated with involvement in an AUC proceeding to hear objections and complaints to ISO rules or any regulatory application are included in the cost category of other industry costs—regulatory process costs, as opposed to the general and administrative cost category
- **Audit:** The professional services of third parties are used to conduct audits or reviews on AESO processes, systems or reporting

In 2026, $14.3 million of contract services and consultants' costs are budgeted to primarily support strategic initiatives, most notably the REM and transmission policy implementations. The connection fee revenue forecasted for 2026 will, in part, serve to offset the $1.7 million in contract services and consultants' costs budgeted to provide connection study services.

Administration ($ million)

	2026 Budget	2025 Approved Budget[10]	$ Variance	% Variance	2024 Actual	2023 Actual
Travel and Training	**2.8**	2.5	0.3	12	1.8	1.0
Insurance	**1.3**	1.4	(0.1)	(7)	1.4	1.5
AESO Board Fees	**0.8**	0.6	0.2	33	0.4	0.5
Other Administration	**2.6**	3.0	(0.4)	(13)	1.5	1.4
Administration	**7.5**	**7.5**	**-**	**-**	**5.1**	**4.4**

Differences are due to rounding

[10] Amounts are from the 2025 BDP.

Administration costs primarily relate to insurance, office costs, corporate subscriptions, general business travel, staff recruiting and training, and associated travel, corporate meetings and related meals, including costs related to stakeholder consultation sessions.

Budgeted administration costs for 2026 are comparable to the 2025 approved budget. Increases in travel, training, meals and AESO Board fees are offset by decreases in insurance and other administration.

- **Travel and Training:** The travel and training category covers costs incurred for general business travel, staff training and associated travel, corporate meetings and related meals, including costs related to stakeholder consultation sessions
- **Insurance:** The *Electric Utilities Act* (EUA) provides limited statutory protection for the business risks of the AESO organization, directors, officers and staff
  - To ensure business risks are properly insured, the AESO carries insurance for exposures not covered by the EUA, specifically for direct damages resulting from negligence
  - The AESO has statutory protection for indirect damages, which would typically be the costliest damages that would occur for business interruption and lost revenue
- **AESO Board Member Fees:** The AESO is governed by the AESO Board whose members are appointed by the Government of Alberta
  - While the number of Board members can vary from time to time, there can be no more than nine members, with their compensation based on a retainer fee and additional fees based on their Board committee involvement and time spent on corporate matters
- **Other Administration Costs:** This category includes corporate subscriptions, memberships and professional membership fees, general office costs, corporate relations and recruiting

Facilities

Facilities costs are associated with rent and operating costs for the AESO's three office locations:

- The main office in downtown Calgary which is leased through a long-term lease arrangement
- The AESO Operations Complex (AOC), which includes the System Coordination Centre (SCC) and additional office space, all of which is owned and operated by the AESO
- Additional space for the AESO's Back-Up Coordination Centre to accommodate redundant computer systems to support seamless operating performance in the event of a disruption to the operations at the SCC

To accommodate staff and contract resources in the main office, 116,441 square feet of office space is currently leased through an agreement that will expire in 2035. Due to the long-term nature, this lease is classified as a right-of-use asset and corresponding lease liability. Amortization of the right-of-use asset is captured as amortization of intangible assets, with interest related to the time value of money captured as borrowing costs. Short-term and immaterial leases remain classified as rent.

Budgeted facilities costs for 2026 are two per cent lower than the 2025 approved budget. The decrease is primarily associated with lower forecasted utilities costs.

Computer Services and Maintenance

On an annual basis, the AESO invests in software applications and systems to support the business and IT infrastructure needs, which then require ongoing maintenance and licence agreements to support the high availability requirements of these systems. The AESO operates with a managed services model[11] for IT infrastructure operating support (e.g., network, database and middleware platforms).

Budgeted costs for 2026 are 17 per cent higher than the 2025 approved budget. The increase is driven by several factors, including:

- Increased software, licensing and data storage costs
- The movement of capital costs to general and administrative as software tools are commissioned and placed into service
- Inflationary and foreign exchange impacts observed in 2025, which are expected to continue into 2026

Telecommunications

The AESO incurs costs for network systems and telecommunications to support general business operations and, to a much larger extent, to support real-time grid and market operations. The strategy for developing and maintaining the telecommunication infrastructure is based upon the requirement for high availability, which necessitates redundancies of services and equipment.

Budgeted costs for 2026 are six per cent higher than the 2025 approved budget. The increase is primarily driven by the increase in staff resources and related mobility costs.

Borrowing Costs and Amortization and Depreciation ($ million)

	2026 Budget	2025 Approved Budget[12]	$ Variance	% Variance	2024 Actual	2023 Actual
Borrowing Costs	**3.6**	1.6	2.0	125	0.6	0.6
Amortization and Depreciation	**27.5**	26.0	1.5	6	25.0	23.0

Differences are due to rounding

[11] A managed services model is where the AESO transfers the day-to-day management and operations of a support function (not the strategic management) to a third-party provider. With this support approach the AESO is able to leverage available technical resources and tools to provide more effective support for its critical processes. The managed services approach facilitates resource efficiencies and improves reliability.

[12] Amounts are from the 2025 BDP.

Borrowing Costs

Borrowing Costs are incurred primarily in relation to interest charges on bank debt held throughout the year and the associated borrowing rate. Bank debt is issued to fund intangible and capital asset purchases, prepayments of future expenses and working capital deficiencies due to timing differences in the collection of revenues and payment of expenses. Borrowing costs are also incurred through the amortization of lease liabilities in accordance with IFRS 16.

Budgeted costs for 2026 are 125 per cent higher than the 2025 approved budget, reflecting interest on borrowings anticipated in that latter half of the year as cash reserves are depleted by ongoing operational activities and budgeted project spend not recovered until future years.

Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment

Intangible and capital assets are financed through the AESO's credit facilities and associated costs are recovered over the useful lives of the assets (included in amortization and depreciation) in accordance with IFRS. The useful lives are reviewed on an annual basis. Intangible assets include computer software purchases and development. Amortization and depreciation are also incurred through the amortization of right-of-use assets in accordance with IFRS 16.

The 2026 budget is six per cent higher than the 2025 approved budget, reflecting a higher depreciable asset base in 2026, consistent with the increased capital budget year-over-year.

Additional information on the AESO's 2026 project costs is provided in the following section.

Section III – Project Costs

The AESO invests in its people, technology and processes to advance its strategic initiatives. The investments in technology (computer systems and the SCC) are the focus for capital expenditures, with a small percentage being allocated to leasehold improvements. The development and acquisition of capital assets is a major budget component given the AESO's significant reliance on IT infrastructure and applications for business operations. As with all IT-intensive organizations, the challenge is to find the right balance between implementing technology advancements, determining the level of IT development that can be supported by business operations, then establishing the funding requirements to make it all happen.

As noted earlier in Section II – General and Administrative, Borrowing Costs and Amortization and Depreciation related to general and administrative costs, cloud computing solutions such as software as a service and platform as a service, or those where there is a trend of suppliers limiting product rights to the end consumer, are resulting in reduced capitalization. IT solutions and their underlying accounting treatment is often unknown until a final product and vendor are chosen; hence the budgeted general and administrative component and capital component of the total project budget is as anticipated at the time this budget was prepared and is subject to variability as project work progresses throughout 2026.

The AESO always reports on its capital projects given their critical and strategic nature and is presenting its projects in the same manner for the 2026 Budget and Forecast, regardless of the final classification as capital or general and administrative.

Projects are classified into the following programs.

- **Strategic Related Initiatives:** Strategic-related initiatives that must be completed within the timeframe identified
- **Critical Initiatives:** The most critical projects that must be initiated in 2026, but with flexibility on how they are paced
  - These are more internal AESO operational, business and/or security-related projects
- **Other Project Initiatives & Life Cycle Funding:** Other business projects and leasehold improvements that may have more flexibility in planning or delivery, so timing may have more flexibility
  - Includes hardware replacements (end of useful life) and recurring software upgrades that have required cyclical timing for updating or replacement
- **Special Projects:** Major projects that are over $10 million
  - These tend to be non-typical capital projects that are not part of operational initiatives or life cycle programs

Projects initiated by the AESO are approved through a portfolio management process and reviewed on an ongoing basis to ensure appropriate prioritization, assess progress and budget spending, and to identify potential issues. Any new or modified requirements are reviewed and prioritized to determine how they align with existing work; part of a continual process to ensure alignment of priorities and business needs.

The following table identifies a preliminary list of programs that are planned for 2026 based on current operations and the business initiatives.

Project Expenditures ($ million)

	2026 Budget	2025 Approved Budget[13]	$ Variance	% Variance	2024 Actual	2023 Actual
Strategic Related Initiatives	**103.3**	74.7	28.6	38	9.6	11.2
Enabling Transformation	**100.0**	72.6	27.4	38	6.8	4.1
Restructure Energy Market (REM)	85.0	63.5	21.5	34	0.5	-
Other Transformation	15.0	9.1	5.9	65	6.3	4.1
EMS Sustainment	**3.3**	2.1	1.2	57	2.8	7.1
Critical Initiatives	**8.7**	14.8	(6.1)	(41)	7.8	1.3
Business System Modernization	3.3	4.4	(1.1)	(25)	0.2	0.3
Productivity and Critical Systems Modernization	5.4	10.4	(5.0)	(48)	7.6	1.0
Other Initiatives and Life-Cycle Funding	**12.7**	11.9	0.8	7	10.9	10.8
Special Projects[14]	**-**	8.0	(8.0)	(100)	22.2	1.3
Total Projects	**124.7**	109.3	15.4	14	50.6	24.7
General and Administrative component*	**38.2**	26.8	11.4	43	3.8	-
Capital component*	**86.5**	82.5	4.0	5	46.8	24.7
Total General Projects (excludes REM and Special Projects)	**39.7**	37.9	1.8	5	27.8	23.3

Differences are due to rounding

*Anticipated

Project requirements for 2026 take into consideration the progress that has been made on the inflight projects that are multi-year in nature, the new requirements for 2026 and the AESO's capacity. Based on these requirements, the proposed general project budget for 2026 is five per cent higher than the 2025 approved project budget. This increase is mainly attributable to an

[13] Amounts are from the 2025 BDP.

[14] Downtown Office Relocation Project.

increase in costs associated with the transformation initiatives (excluding REM), partially offset by a decrease in costs associated with critical initiatives such as systems modernization

Budgeted REM project costs for 2026 are 34 per cent higher than the 2025 approved REM project budget, driven by an increased investment in REM-related tools as the implementation progresses. The REM IT implementation supports a significant increase in the complexity of our current market structure. The reduction in costs associated with system modernization reflects the strategic decisions to avoid costs on current systems that will be replaced through the REM.

Section IV – Revenue

The AESO recovers its operating and capital costs through four separate revenue sources. Each is designed to recover the costs directly related to a specific service as well as a portion of the shared corporate services costs. The AESO's operations integrate the functions of transmission, energy market, load settlement and the Renewable Electricity Program (REP) administration to maximize benefits under the EUA. This integration results in cost allocations in many parts of the organization for the purpose of cost recovery. In determining the revenue requirement on a function-by-function basis, all AESO costs are assigned or allocated to one of the four functions. Appendix C provides additional information on the cost allocation methodology.

Transmission

The AESO is responsible for paying the costs of the provincial transmission system and recovering the costs through a tariff approved by the AUC. The ISO tariff is designed to allocate the costs to all users of the transmission system based on level of usage. The budgeted costs related to the transmission function will be incorporated into the AESO's tariff rates.

Energy Market

The AESO recovers the costs of operating the real-time energy market through an energy market trading charge on all megawatt hours traded. In accordance with the EUA, these costs may also include expenses of other related powers, duties, responsibilities and functions of the AESO.

Based on the 2026 budget and a current trading volume forecast, an energy market trading charge of 55.7¢ per MWh traded is proposed to recover the AESO's budgeted costs for 2026. The trading charge for 2026 is higher than 2025, reflecting the increase in the 2026 general and administrative budget. Partially offsetting this increase in costs is the continuity of a refund of overcollection from previous years.

The AESO costs are 51.5¢ per MWh traded, representing an increase of 11.5¢ per MWh traded or 29 per cent from the 2025 rate of 40.0¢ per MWh traded.

These trading charge amounts exclude the Market Surveillance Administrator (MSA) charge. The MSA cost recovery amount is approved by the Chair of the AUC in an independent budget process and is included in the final trading charge.

These trading charge amounts also exclude the REM IT system project costs, which will be recovered through the trading charge and tariff rates once REM is implemented.

Trading Charge (¢ per MWh)

	2026	2025	2024	2023	2022	2021
AESO Costs	**51.5**	40	29.6	25.6	23.0	28.5
Energy Market Shortfall / (Surplus)	**(3.1)**	(3.9)	(3.3)	(1.8)	(2.8)	1.2
AESO Component	**48.4**	36.1	26.3	23.8	20.2	29.7
AUC's Portion of Energy Market Administration Fee	**7.3**	7.3	6.9	6.3	6.3	5.4
Total	**55.7**	43.4	33.2	30.1	26.5	35.1

Differences are due to rounding

Trading Charge Recoverable Amounts ($ million)

	2026	2025	2024	2023	2022	2021
AESO Costs	**67.2**	51.3	35.7	31.9	28.5	34.3
Energy Market Shortfall / (Surplus)	**(4.0)**	(5.0)	(4.0)	(2.3)	(3.5)	1.5
AESO Component	**63.2**	46.3	31.7	29.7	25.0	35.8
AUC's Portion of Energy Market Administration Fee	**9.5**	9.4	8.4	7.8	7.9	6.6
Total	**72.7**	55.7	40.0	37.5	32.9	42.4

Differences are due to rounding

Renewable Electricity Program

The AESO is responsible for administering the REP and recovering the costs through fees charged to generators that receive renewable energy credits. Any cumulative shortfalls of revenue over costs will be recovered at the conclusion of the program.

Load Settlement

Expenses that the AESO incurs to provide services related to administering provincial load settlement are charged to the owners of electric distribution systems and wire service providers conducting load settlement under AUC Rule 21, *Settlement System Code Rules*.

Appendix A: 2025 Updated Forecast vs 2025 Budget Development Process

Transmission Operating Costs ($ million)

	2025 Updated Forecast	2025 Approved Forecast[15]	$ Variance	% Variance
Wires Costs	**2,026.0**	2,021.7	4.3	0
Transmission Line Losses	**113.2**	136.9	(23.7)	(17)
Operating Reserves	**191.7**	191.6	0.1	0
Other Ancillary Services Costs	**44.1**	60.7	(16.6)	(27)
Transmission Operating Costs	**2,375.0**	**2,410.9**	**(35.9)**	**(1)**

Differences are due to rounding

Wires Costs

The 2025 updated forecast for wires costs is consistent with the 2025 approved forecast based on the amounts paid primarily to the TFOs in accordance with their AUC-approved tariffs.

The 2025 updated forecast is based on TFO tariffs approved or applied-for as of August 2025 with most of the updated forecast reflecting:

- filed 2025 tariffs
- filed 2025 negotiated settlements
- AUC approvals for 2025 tariffs

Transmission Line Losses

Transmission line losses costs in the 2025 updated forecast are 17 per cent lower than the 2025 approved forecast. The decrease is primarily due to a 22 per cent decrease in the 2025 updated forecast of average pool price of $42 per MWh compared to the 2025 approved forecast pool price of $54 per MWh. The decrease in average pool price is driven by a multitude of factors, most notably the addition of new generation capacity, a reduction in gas prices and the impact of interim market power mitigation regulations.

The 2025 updated forecast of transmission line losses volumes is 2,792 GWh, which is 11 per cent higher than the 2025 approved forecast of 2,526 GWh and is primarily driven by higher actual losses volumes in the first half of 2025. Increases in losses are driven by the increase of renewable generation located far away from load centres such as the wind and solar generation based in the south of Alberta. In addition, losses are positively correlated with load growth,

[15] Amounts are from the 2025 BDP.

therefore the increase in losses in 2025 is consistent with the one per cent forecast increase in Alberta internal load.

Operating Reserves

Operating reserves costs in the 2025 updated forecast are consistent with the 2025 approved forecast.

The 2025 updated forecast of operating reserves volumes is 6,817 GWh, which is three per cent higher than the 2025 forecast of 6,601 GWh.

Other Ancillary Services Costs

The 2025 updated forecast for other ancillary services costs is 27 per cent lower than the 2025 approved forecast. This decrease is primarily due to a reduction in actual and anticipated frequency response services costs, which are required to enable transmission system market access for imports in support of the AESO's obligation to restore the intertie without compromising system reliability. Alberta has been a net exporter for most of 2025, leading to the decrease in the forecast for these services.

Other Industry Costs ($ million)

	2025 Updated Forecast	2025 Approved Forecast[16]	$ Variance	% Variance
AUC Fees – Transmission	**12.0**	11.7	(0.1)	(1)
AUC Fees – Energy Market	**8.9**	9.4	(0.2)	(2)
WECC/NERC/WPP Fees	**3.2**	3.7	(0.3)	(8)
Regulatory Process Costs	**2.1**	2.7	(0.8)	(30)
Other Industry Costs	**26.2**	**27.6**	**(1.4)**	**(5)**

Differences are due to rounding

The 2025 updated forecast for other industry costs is five per cent lower than the 2025 approved forecast. This decrease is primarily due to a reduction in regulatory process costs as fewer complex regulatory proceedings and litigation matters are anticipated to be heard before the AUC.

[16] Amounts are from the 2025 BDP.

General and Administrative Costs ($ million)

	2025 Forecast	2025 Budget[17]	$ Variance	% Variance
Staff Costs	**105.8**	116.0	(10.2)	(9)
Contract Services and Consultants	**14.8**	15.6	(0.8)	(5)
Administration	**7.1**	7.5	(0.4)	(5)
Facilities	**5.2**	5.6	(0.4)	(7)
Computer Services and Maintenance	**16.8**	15.6	1.2	8
Telecommunications	**1.5**	1.6	(0.1)	(6)
General and Administrative Costs	**151.2**	**162.0**	**(10.8)**	**(7)**

Differences are due to rounding.

Staff costs for 2025 are forecast to be nine per cent lower than the 2025 budget primarily due to the impact of delays in planned hires and unanticipated vacancies.

Computer services and maintenance costs for 2025 are forecasted to be eight per cent higher than the 2025 approved budget due to higher than anticipated supplier costs.

Forecast costs for 2025 for all other general and administrative cost categories above do not vary significantly from the 2025 budget.

Borrowing Costs and Amortization and Depreciation ($ million)

	2025 Forecast	2025 Approved Budget[18]	$ Variance	% Variance
Borrowing Costs	**1.3**	**1.6**	**(0.3)**	**(19)**
Amortization and Depreciation	**26.0**	**26.0**	**-**	**-**

Differences are due to rounding

Borrowing Costs

Borrowing costs for 2025 are forecast to be 19 per cent lower than the 2025 approved budget due to a reduction in lease liabilities associated with the downtown office lease. Lease liabilities are recorded at present value and therefore have a component of interest that is recognized as the time value of money.

[17] Amounts are from the 2025 BDP.

[18] Amounts are from the 2025 BDP.

Amortization and Depreciation

Amortization and depreciation costs for 2025 are forecast to be consistent with the 2025 approved budget, noting that variability exists due to the timing of assets being completed and placed into service.

General Project Budget ($ million)

	2025 Forecast	2025 Approved Budget[19]	$ Variance	% Variance
Strategic Related Initiatives	**11.7**	11.2	0.5	4
Critical Initiatives	**12.0**	14.8	(2.8)	(19)
Other Initiatives & Life Cycle	**16.8**	11.9	4.9	41
Total General Projects	**40.5**	**37.9**	**2.6**	**7**
REM	**37.2**[20]	63.5	(26.3)	(41)
Special Projects	**11.2**	8.0	3.2	40
Total Projects	**88.8**	**109.3**	**(20.5)**	**(19)**

Differences are due to rounding

Forecast costs for 2025 do not vary significantly from the 2025 approved total projects budget.

[19] Amounts are from the 2025 BDP.

[20] REM Forecast decreased from $57.3M as presented in the AESO 2026 BDP Stakeholder Presentation.

Appendix B: Transmission Operating Cost Definitions

2026 Pool Price Forecast Methodology

Consistent with previous BDPs, the AESO used EDC Associates' hourly pool price forecast for 2026. The hourly pool prices were taken from the seed that had an average annual price closest to the EDC summary monthly price. The hourly pool price forecast is used as an input to calculate the ancillary services and transmission line losses costs.

There are numerous variables and assumptions used in the hourly pool price forecast and it is noted that recent market fundamentals, such as those below, have been considered by EDC:

- Provincial and Federal energy policies
- Natural gas prices
- Extreme weather conditions
- Outage of generation units and transmission assets

Transmission Line Losses

Transmission line losses represent the volume of energy that is lost because of electrical resistance on the transmission system. Volumes associated with line losses are determined through the energy market settlement process as the difference between generation and import volumes, less consumption and export volumes. The hourly volumes of line losses vary based on load and export levels, generation (baseload, peaking units and import) available to serve load, weather conditions and changes in the transmission topology. System maintenance schedules, unexpected failures, dispatch decisions on the AIES and short-term system measures (such as demand response) may also affect the volume of losses.

The annual volume forecast for transmission line losses is based on statistical models that use variables such as economic inputs, weather and seasonal effects to forecast hourly losses volumes.

The annual forecast for transmission line losses costs is the aggregate of the hourly forecast losses volumes multiplied by the hourly forecast pool prices. As such, the transmission line losses costs are highly correlated with the pool price forecast.

Operating Reserves

Operating reserves are generating capacity or load that is held in reserve and made available to the System Controller to manage the transmission system supply-demand balance in real time. The procurement of operating reserve volumes is directly correlated to load and generation. Operating reserves are procured through an online, day-ahead exchange. In exchange for this payment, the AESO obtains the right to utilize the provider's energy and/or capacity as reserves.

Categories of Operating Reserves

Active operating reserves:

- Required to automatically balance small changes in supply and demand
- Required to maintain system reliability during unplanned events such as the loss of a generator, loss of a transmission line, or a sudden increase in demand
- Alberta Reliability Standards (ARS) define the minimum levels that must be procured
- Costs are the product of volumes procured multiplied by operating reserve price, which is indexed to the hourly pool price
- Represents approximately 90 per cent of total operating reserves costs
- Costs are impacted by pool price fluctuations, supply of offered reserves and market participant offer behaviour

Standby operating reserves:

- Provide additional reserves when the active operating reserves are insufficient to ensure system reliability
- Pricing includes two components:
  - **Option premium:** Paid for the capability to activate the standby reserves
  - **Activation price:** Paid only if the standby reserves are activated to provide energy
- Represents approximately 10 per cent of total operating reserves costs

Operating reserve products (in both the active and standby markets)

- **Regulating reserves:** The generation capacity, energy and maneuverability that is responsive to the AESO's automatic generation control (AGC) system required to automatically balance supply and demand on a minute-to-minute basis in real time
- **Spinning reserves:** Unloaded generation that is synchronized to the transmission system, automatically responsive to frequency deviation and ready to provide additional energy in response to an AESO System Controller directive
  - Spinning reserve suppliers must be able to ramp up their generator within 10 minutes of receiving a System Controller directive
- **Supplemental reserves:** While similar to spinning reserves, supplemental reserves are not required to respond to frequency deviations
  - They include unloaded generation, off-line generation or system load that is ready to serve additional energy (generator) or reduce energy (load) within 10 minutes of receiving a System Controller directive

Ancillary Services

Ancillary services are procured by the AESO to ensure reliability of the system and include operating reserves and services with generation capacity and load reduction capabilities.

Ancillary services are procured through various methods including a daily competitive exchange for operating reserves and competitive processes that result in contracts for other types of ancillary services. In circumstances where procurement may not be feasible, other ancillary services may be secured through bilateral negotiations.

Other Ancillary Services

Fast Frequency Response (FFR) is a fast-acting transmission reliability service that facilitates the arrest of, and recovery from, frequency decay caused by events such as the sudden loss of imports from the Alberta-BC intertie and the Montana-Alberta tie line and/or internal generation.

Black Start services are provided by generators that can restart their generation facility with no outside source of power. In the event of a system-wide black-out, Black Start services are required in specific areas of the AIES to re-energize the transmission system and provide start-up power to generators who cannot self-start.

Transferred frequency response (TFR) is a product which helps to satisfy the AESO's frequency response obligation within the WECC.

Related programs that ended in 2024 include:

- Load shed service (LSS), which is similar to FFR but is limited to interruptible loads
- Voluntary load curtailment program (VLCP) which supports system reliability by providing voluntary curtailable load during periods of energy emergency alerts

Transmission constraint rebalancing (TCR) costs are incurred when the transmission system is unable to deliver electricity from a generator to a given electricity consuming area without contravening reliability requirements. When this occurs, a market participant downstream of a constraint may be dispatched for purposes of TCR under the ISO rules and would receive a TCR payment for energy provided for that purpose.

Transmission must-run (TMR) occurs when generation is required to mitigate the overloading of transmission lines associated with line outages, system conditions in real time or the loss of generation in an area. For the portion that can be reasonably foreseen, the AESO may contract with a generator to provide TMR services. During unforeseeable events when there is insufficient or no contracted TMR, non-contracted generators may be dispatched to provide this service (referred to as conscripted TMR).

Reliability services provide grid restoration balancing support in the event of an Alberta blackout and emergency energy in the event of supply shortfall.

Appendix C: Allocation of Costs

Management reviews allocation percentages on an ongoing basis and adjusts accordingly throughout the year.

Cost Type	Allocation Methodology
Direct Operating	Individual department input/analysis for current year work focus
Shared Services – Corporate Services[21]	Individual department input/analysis for current year work focus, as well as allocation of direct operating group costs
Shared Services – Information Technology	Activity-based analysis on system and resource costs
Shared Services – Office Leases	Based on AESO staff count
Project Expenditures	Assigned on a project-by-project basis
Other Industry Costs – Fees and Memberships	Based on related function
Other Industry Costs – Regulatory Process Costs	Individual review/assessment for each proceeding

[21] Corporate Services includes departments such as: Accounting, Settlement and Credit, People and Culture, Corporate Communications, Law, etc.

Appendix D: Budget Amendments

As part of the established budget development process, should an unplanned funding requirement be identified during the budget period and a material budget amendment required, management will proceed following the steps outlined in the following table.

Steps for Addressing Unplanned Funding Requirements

Results of Forecast	Related Budget Process
If the forecast is below or in line with the previously approved budget amount	At management's discretion, any under-budget amounts will be used to advance future year business priorities or will be accumulated in the deferral accounts
If the forecast is above the previously approved budget amount and the amount is determined to be a 'manageable variance'	Management would request approval from the AESO Board and would subsequently issue a stakeholder communication
If the forecast is above the previously approved budgeted amount and the amount is in excess of a 'manageable variance'	Management will review the new funding requirements with stakeholders, followed by a request for approval from the AESO Board

A '**manageable variance**' is a forecast to actual variance that would be:

- Less than 10 per cent of budgeted general and administrative expenditures
- Less than 20 per cent of budgeted project expenditures

Variances related to the application of IFRS to the financial statements do not qualify as a reportable variance.

Alberta Electric System Operator

3000, 240 4 Avenue SW
Calgary, AB • T2P 4H4
aeso.ca

11/25