CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of CU Inc. (our, we, us, or the Company) during the six months ended June 30, 2019.

This MD&A was prepared as of July 24, 2019, and should be read with the Company's unaudited interim consolidated financial statements for the six months ended June 30, 2019. Additional information, including the Company's previous MD&A, Annual Information Form (2018 AIF), and audited consolidated financial statements for the year ended December 31, 2018, is available on SEDAR at www.sedar.com. Information contained in the 2018 MD&A is not discussed in this MD&A if it remains substantially unchanged.

The Company is controlled by Canadian Utilities Limited, which in turn is controlled by ATCO Ltd. (ATCO) and its controlling share owners, Sentgraf Enterprises Ltd. and the Southern family.

Terms used throughout this MD&A are defined in the Glossary at the end of this document.

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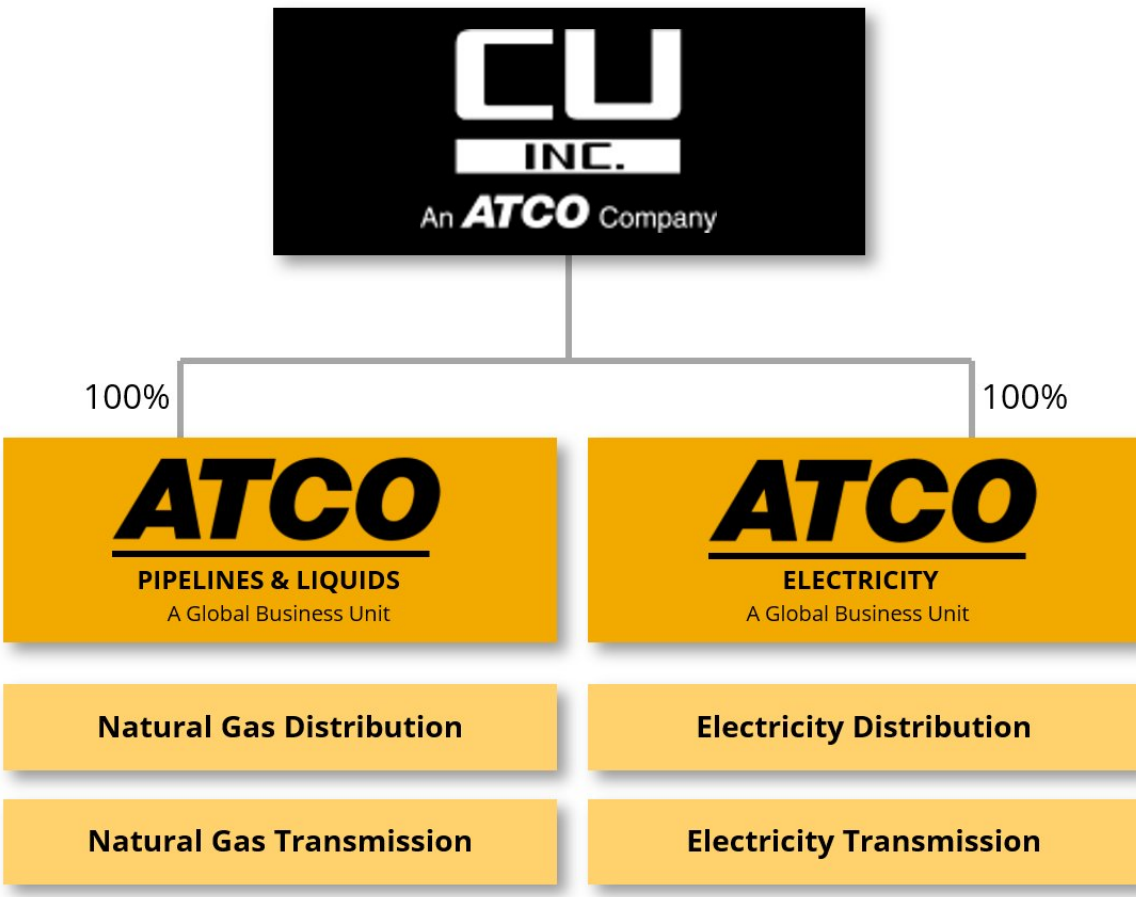
COMPANY OVERVIEW

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO Company. CU Inc. is an Alberta-based corporation with approximately 3,500 employees and assets of $16 billion comprised of rate-regulated utility operations in natural gas and electricity distribution and transmission. More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

THE UTILITIES

The Utilities' activities are conducted through regulated businesses in two Business Units within western and northern Canada: Electricity, which includes Electricity Distribution and Electricity Transmission, and Pipelines & Liquids, which includes Natural Gas Distribution and Natural Gas Transmission.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



The unaudited interim consolidated financial statements include the accounts of CU Inc. and all of its subsidiaries. The unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

UTILITIES PERFORMANCE

REVENUES

Utilities revenues of $638 million in the second quarter of 2019 and $1,397 million in the first half of 2019 were $106 million and $114 million higher than the same periods in 2018, mainly due to settlement of the electricity transmission 2013-2014 deferral application, higher flow-through revenues in natural gas distribution for third party franchise and transmission fees, and ongoing growth in the regulated rate base.

ELECTRICITY ADJUSTED EARNINGS

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Electricity						
Electricity Distribution	**31**	27	4	**69**	60	9
Electricity Transmission	**59**	50	9	**104**	90	14
Total Electricity	**90**	77	13	**173**	150	23
Pipelines & Liquids						
Natural Gas Distribution	**3**	(3)	6	**75**	64	11
Natural Gas Transmission	**23**	18	5	**39**	36	3
Total Pipelines & Liquids	**26**	15	11	**114**	100	14
Corporate & Other and Intersegment Eliminations	**–**	–	–	**1**	–	1
Total Utilities Adjusted Earnings (1)	**116**	92	24	**288**	250	38

(1) Additional information regarding this measure is provided in the Non-GAAP and Additional GAAP Measures section of this MD&A.

Utilities adjusted earnings were $116 million in the second quarter of 2019 and $288 million in the first half of 2019, $24 million and $38 million higher than the same periods in 2018. Higher earnings were mainly due to favourable electricity and natural gas transmission regulatory decisions, ongoing growth in the regulated rate base, cost efficiencies, and lower income taxes. Lower income taxes are due to capital cost allowance acceleration measures enacted by the Government of Canada in April 2019.

Detailed information about the activities and financial results of the Utilities businesses is provided in the following sections.

ELECTRICITY

Electricity activities are conducted by Electricity Distribution and Electricity Transmission and their subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife). These businesses provide regulated electricity distribution and transmission mainly in northern and central east Alberta, the Yukon and the Northwest Territories.

Electricity Distribution

Electricity distribution earned $31 million and $69 million, $4 million and $9 million in the second quarter and first half of 2019, $4 million and $9 million higher than the same periods in 2018. Higher earnings were mainly due to continued growth in the rate base, cost efficiencies and lower income taxes.

Electricity Transmission

Electricity transmission earned $59 million and $104 million in the second quarter and first half of 2019, $9 million and $14 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to the impact of the electricity transmission 2018-2019 general tariff application (GTA) decision, which increased second quarter 2019 adjusted earnings by $17 million of which $4 million relates to the second quarter 2019, $4 million relates to the first quarter 2019, and $9 million relates to 2018. Higher earnings were partially offset by the timing of certain operating expenses and revenues.

PIPELINES & LIQUIDS

Our Pipelines & Liquids activities are conducted through two regulated businesses, Natural Gas Distribution and Natural Gas Transmission.

Natural Gas Distribution

Natural gas distribution services municipal, residential, business and industrial customers throughout Alberta and in the Lloydminster area of Saskatchewan.

Natural gas distribution recorded adjusted earnings of $3 million and $75 million in the second quarter of 2019 and first half of 2019, $6 million and $11 million higher than the same periods in 2018, mainly due to cost efficiencies, growth in the rate base, and lower income taxes.

Natural Gas Transmission

Natural gas transmission receives natural gas on its pipeline system from various gas processing plants as well as from other natural gas transmission systems and transports it to end users within the province of Alberta or to other pipeline systems, primarily for export out of the province.

Natural gas transmission recorded adjusted earnings of $23 million in the second quarter of 2019 and $39 million in the first half of 2019, $5 million and $3 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to the receipt of an AUC decision on applied-for rates in the 2019-2020 general rate application (GRA), which increased second quarter adjusted earnings by approximately $3 million, of which $2 million is related to the first quarter of 2019. Higher earnings were also positively impacted by continued growth in the rate base and lower income taxes.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

In the second quarter of 2019, Corporate & Other and Intersegment Eliminations were comparable the same period in 2018.

In the first half of 2019, Corporate & Other and Intersegment Eliminations were $1 million higher than the same period in 2018 mainly due to the timing of certain operating costs.

REGULATORY DEVELOPMENTS

ATCO ELECTRIC HANNA REGION TRANSMISSION DEVELOPMENT DEFERRAL APPLICATION

In February 2017, electricity transmission filed an application seeking approval of approximately $688 million of capital additions related to the Hanna Regional Transmission Development program incurred between 2012 and 2015. A decision from the AUC was received in June 2019 approving the vast majority of capital additions as prudently incurred. The adjustments directed by the AUC in the decision had an immaterial impact on earnings.

ATCO PIPELINES 2019-2020 GENERAL RATE APPLICATION (GRA)

In July 2018, natural gas transmission filed a GRA for 2019 and 2020. The decision was received in June 2019 approving the majority of requested capital expenditures and operating costs requested as filed. The adjustments directed by the AUC in the decision had a $3 million positive impact on second quarter 2019 adjusted earnings. The revenue associated with the Pembina Keephills Transmission Pipeline project will remain a placeholder pending its separate facilities decision.

ATCO ELECTRIC 2018-2019 GENERAL TARIFF APPLICATION (GTA)

In June 2017, electricity transmission filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of requested capital expenditures and operating costs as filed. The impact of this decision is an increase to second quarter 2019 adjusted earnings of $17 million.

INFORMATION TECHNOLOGY (IT) COMMON MATTERS

In August 2014, Canadian Utilities sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. Proceeds of the sale were $204 million, resulting in a one-time after-tax gain of $138 million which Canadian Utilities recorded in earnings attributable to equity owners of the Company. In 2014, Canadian Utilities did not include this gain on sale in adjusted earnings because it was a significant one-time event.

In 2015, the AUC commenced an Information Technology Common Matters (IT Common Matters) proceeding to review the recovery of information technology costs by the Alberta Utilities from January 1, 2015 going forward. In June 2019, the AUC issued its decision regarding the IT Common Matters proceeding, and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13 per cent and to apply a glide path that reduces pricing by 4.61 per cent in each of years 2 through 10. For the natural gas and electricity distribution utilities, the AUC's direction impacts the 2018 going-in rates and treatment of capital costs. For the natural gas and electricity transmission utilities, the AUC's direction impacts the revenue requirement dating back to 2015. The Alberta Utilities presented a considerable amount of evidence, including independent expert benchmarking and price review studies, to show that the Wipro MSA rates were at fair market value (FMV). As such, there was no cross subsidization between the sale price of Canadian Utilities' IT services business to Wipro in the 2014 transaction and the establishment of IT rates under the MSA. Despite these efforts the AUC determined that the Alberta Utilities failed to demonstrate that the IT pricing in the MSA would result in just and reasonable rates.

As a result of the AUC's IT Common Matters decision, a $14 million reduction to the previously recorded 2014 after-tax gain on sale of $138 million has been recorded in the second quarter of 2019. Going forward, the IT Common Matters decision is expected to further reduce the previously recorded gain. Consistent with the treatment in 2014, the $14 million reduction booked in the second quarter of 2019, along with future impacts associated with this decision, will not be included in adjusted earnings.

In July 2019, the Alberta Utilities filed a leave to appeal application with the Alberta Court of Appeal in relation to the AUC Decision on the IT Common Matters proceeding.

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

We believe that reducing our environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. Our success depends on our ability to operate in a responsible and sustainable manner, today and in the future.

SUSTAINABILITY REPORTING

ATCO, the controlling share owner of CU Inc., has been publishing external sustainability reports since 2008. These reports include CU Inc.'s operations sustainability performance data.

The ATCO 2018 Sustainability Report, released in June 2019, focuses on key material topics including:

- Energy Stewardship: access and affordability, security and reliability, and customer satisfaction,
- Environmental Stewardship: climate change and energy use, and environmental compliance,
- Safety: employee health and safety, public safety, and emergency preparedness, and
- Community and Indigenous relations.

The Sustainability Report is based upon the internationally recognized Global Reporting Initiative (GRI) Standards. Our reporting is also guided by frameworks such as the Sustainability Accounting Standards Board and the Financial Stability Board's Task Force on Climate-related Financial Disclosures' recommendations.

The 2018 Sustainability Report, Sustainability Framework Reference Document, and other disclosures are available on our website, at www.ATCO.com.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the second quarter and first half of 2019 and 2018 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

		Three Months Ended June 30			Six Months Ended June 30	
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Operating costs	**296**	318	(22)	**601**	630	(29)
Depreciation and amortization	**128**	141	(13)	**255**	263	(8)
Net finance costs	**90**	87	3	**178**	172	6
Income taxes	**(179)**	(4)	(175)	**(114)**	59	(173)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, decreased by $22 million and $29 million in the second quarter and first half of 2019, compared to the same periods in 2018, mainly due to lower salaries and wages.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by $13 million and $8 million in the second quarter and first half of 2019 when compared to the same periods in 2018, mainly due to higher costs in the second quarter of 2018 related to decisions to discontinue certain projects that no longer represented long-term strategic value to the Company, partially offset by higher depreciation due to continued growth in the regulated rate base.

NET FINANCE COSTS

Net finance costs increased by $3 million and $6 million in the second quarter and first half of 2019, compared to the same periods in 2018, mainly due to incremental debt issued to fund the ongoing capital investment program in the Regulated Utilities.

INCOME TAXES

Income taxes decreased by $175 million and $173 million in the second quarter and first half of 2019, compared to the same periods in 2018, mainly due to lower corporate income tax rates enacted by the Government of Alberta in June 2019, partially offset by higher earnings before income taxes. In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent over four years, commencing with a one per cent decrease on July 1, 2019, followed by one per cent reductions on January 1 of each of the next three years.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position is supported by Utility operations. Our business strategies, funding of operations, and planned future growth are supported by maintaining strong investment grade credit ratings and access to capital markets at competitive rates. Primary sources of capital are cash flow from operations, the debt and preferred share capital markets and injections of equity from Canadian Utilities Limited. Liquidity is generated by cash flow from operations and is supported by appropriate levels of cash and available committed credit facilities.

CREDIT RATINGS

Credit ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.

On July 17, 2019, Dominion Bond Rating Service affirmed its 'A (high)' long-term corporate credit rating and stable outlook on CU Inc.

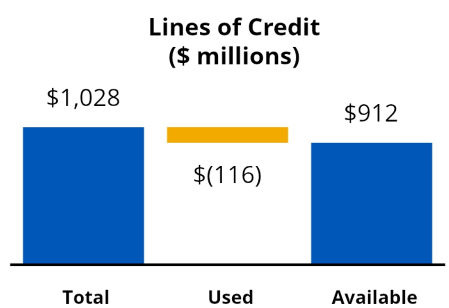
LINES OF CREDIT

At June 30, 2019, CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**900**	50	850
Uncommitted	**128**	66	62
Total	**1,028**	116	912

Of the $1,028 million in total credit lines, $128 million was in the form of uncommitted credit facilities with no set maturity date.

The other $900 million in credit lines was committed with maturities between 2020 and 2021, unless extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.



CONSOLIDATED CASH FLOW

At June 30, 2019, the Company's cash position was $14 million, a decrease of $7 million compared to December 31, 2018 mainly due to capital investment and the repayment of long-term debt, partially offset by earnings for the period.

Funds Generated by Operations

Funds generated by operations were $342 million and $810 million in the second quarter and first half of 2019, $138 million and $159 million higher than the same period in 2018. The increase was mainly due to higher earnings and lower current income taxes paid.

Cash Used for Capital Expenditures

Capital expenditures were $196 million in the second quarter of 2019, $42 million lower than the same period in 2018. The decrease was mainly due to lower planned capital spending in natural gas distribution and electricity distribution.

Capital expenditures were $393 million in the first half of 2019, $79 million lower than the same period in 2018. The decrease was mainly due to lower planned capital spending in the Utilities.

Capital expenditures for the second quarter and first half of 2019 and 2018 are shown in the table below.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Electricity Distribution	**43**	60	(17)	**88**	106	(18)
Electricity Transmission	**44**	51	(7)	**107**	120	(13)
Natural Gas Distribution	**60**	80	(20)	**104**	135	(31)
Natural Gas Transmission	**49**	47	2	**94**	111	(17)
Total (1)	**196**	238	(42)	**393**	472	(79)

(1) Includes additions to property, plant and equipment, intangibles and $3 million and $8 million (2018 - $6 million and $10 million) of interest capitalized during construction for the second quarter and first half of 2019.

Base Shelf Prospectuses

On June 11, 2018, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of July 24, 2019, aggregate issuances of debentures were $385 million.

SHARE CAPITAL

CU Inc. equity securities consist of Class A shares and Class B shares.

At July 23, 2019, the Company had outstanding 3,570,322 Class A shares and 2,188,262 Class B shares.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended September 30, 2017 through June 30, 2019.

($ millions)	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Revenues	547	677	759	**638**
Earnings for the period	60	126	174	**303**
Adjusted earnings				
Electricity	70	68	83	**90**
Pipelines & Liquids	(2)	84	88	**26**
Corporate & Other and Intersegment Eliminations	4	1	1	**–**
Total adjusted earnings	72	153	172	**116**

($ millions)	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Revenues	567	696	751	532
Earnings (loss) for the period	76	114	169	(10)
Adjusted earnings				
Electricity	74	80	73	77
Pipelines & Liquids	10	77	85	15
Corporate & Other and Intersegment Eliminations	–	–	–	–
Total adjusted earnings	84	157	158	92

ADJUSTED EARNINGS

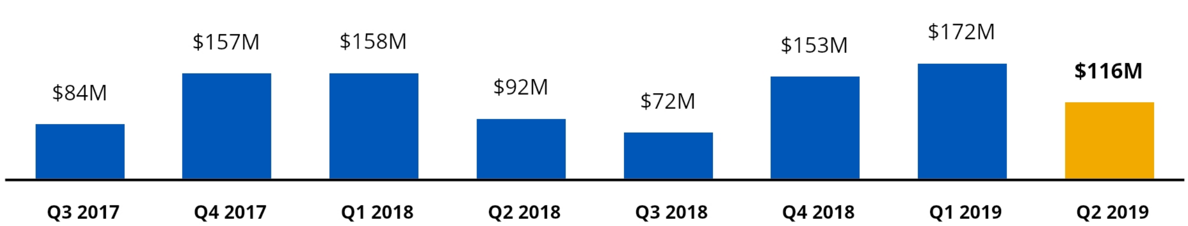
Our financial results over the previous eight quarters reflect the large capital expenditure made by the Utilities. These investments earn a return under a regulated business model and drive growth in adjusted earnings. Our earnings have also been impacted by the timing of certain major regulatory decisions. In addition, interim results will vary due to the seasonal nature of demand for electricity and natural gas.

In 2017, earnings were positively impacted by capital investment and rate base growth. Third quarter 2017 earnings were adversely impacted by the 2013 to 2014 Deferral Accounts decision in electricity transmission. Fourth quarter 2017 earnings were positively impacted by growth in rate base across our Utilities and growth in customers in our natural gas distribution business.

In the first quarter of 2018, higher seasonal demand in natural gas distribution and growth in rate base across the Utilities were partially offset by rate rebasing under Alberta's regulated model in electricity distribution and natural gas distribution. In the second, third, and fourth quarters of 2018, lower earnings compared to the same periods in 2017 were mainly due to rate rebasing under Alberta's regulated model in electricity distribution and natural gas distribution and lower interim rates approved by the Alberta Utilities Commission (AUC) for electricity transmission, partially offset by growth in rate base across the Utilities, and higher seasonal demand in natural gas distribution.

In the first quarter of 2019, higher earnings were mainly due to ongoing growth in the regulated rate base and cost efficiencies in electricity distribution and natural gas distribution.

In the second quarter of 2019, higher earnings were mainly due to favourable electricity and natural gas transmission regulatory decisions, ongoing growth in the regulated rate base, cost efficiencies, and lower income taxes.



NON-GAAP AND ADDITIONAL GAAP MEASURES

Adjusted earnings are defined as earnings for the period after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings for the period is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 4 of the unaudited interim consolidated financial statements.

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. A reconciliation of funds generated by operations to cash flows from operating activities is presented in this MD&A.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE PERIOD

Adjusted earnings are earnings for the period after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings that management uses to assess segment performance and allocate resources. It is management's view that adjusted earnings allow a better assessment of the economics of rate regulation in Canada than IFRS earnings.

($ millions) **Three Months Ended June 30**

2019 / **2018**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**340**	**299**	**–**	**(1)**	**638**
	281	251	–	–	532
Adjusted earnings (loss)	**90**	**26**	**(1)**	**1**	**116**
	77	15	–	–	92
Restructuring and other costs	**–**	**–**	**–**	**–**	**–**
	(25)	(14)	–	–	(39)
Rate-regulated activities	**120**	**79**	**–**	**–**	**199**
	(53)	(12)	–	–	(65)
IT Common Matters decision	**(7)**	**(7)**	**–**	**–**	**(14)**
	–	–	–	–	–
Dividends on equity preferred shares of the Company	**2**	**–**	**–**	**–**	**2**
	1	1	–	–	2
Earnings (loss) for the period	**205**	**98**	**(1)**	**1**	**303**
	–	(10)	–	–	(10)

($ millions) **Six Months Ended June 30**

2019 / **2018**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**699**	**699**	**–**	**(1)**	**1,397**
	616	667	–	–	1,283
Adjusted earnings	**173**	**114**	**–**	**1**	**288**
	150	100	–	–	250
Restructuring and other costs	**–**	**–**	**–**	**–**	**–**
	(25)	(14)	–	–	(39)
Rate-regulated activities	**117**	**81**	**–**	**–**	**198**
	(66)	9	–	–	(57)
IT Common Matters decision	**(7)**	**(7)**	**–**	**–**	**(14)**
	–	–	–	–	–
Dividends on equity preferred shares of the Company	**3**	**2**	**–**	**–**	**5**
	3	2	–	–	5
Earnings (loss) for the period	**286**	**190**	**–**	**1**	**477**
	62	97	–	–	159

RESTRUCTURING AND OTHER COSTS

In the second quarter of 2018, restructuring and other costs not in the normal course of business of $39 million after tax were recorded. These costs mainly relate to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.

RATE-REGULATED ACTIVITIES

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas and ATCO Pipelines are collectively referred to as Utilities.

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the Utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the Utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulator's decisions on revenues.

Rate-regulated accounting differs from IFRS in the following ways:

Timing Adjustment	Items	RRA Treatment	IFRS Treatment
Additional revenues billed in current period	Future removal and site restoration costs, and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes and impact of warmer temperatures.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

The significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs [1]	**17**	20	(3)	**37**	39	(2)
Impact of colder temperatures [2]	**–**	–	–	**12**	12	–
Revenues to be billed in future periods						
Deferred income taxes [3]	**(27)**	(25)	(2)	**(55)**	(58)	3
Deferred income taxes due to decrease in provincial corporate tax [4]	**210**	–	210	**210**	–	210
Regulatory decisions received (see below)	**(3)**	–	(3)	**(3)**	–	(3)
Settlement of regulatory decisions and other items [5]	**2**	(60)	62	**(3)**	(50)	47
	199	(65)	264	**198**	(57)	255

(1) *Removal and site restoration costs are billed to customers over the estimated useful life of the related assets based on forecast costs to be incurred in future periods.*

(2) *ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the normal in the current period are refunded to or recovered from customers in future periods.*

(3) *Income taxes are billed to customers when paid by the Company.*

(4) *In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent. This decrease is being phased in increments from July 1, 2019 to January 1, 2022. As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings for the three and six months ended June 30, 2019 by $210 million.*

(5) *In the second quarter of 2018, ATCO Electric recorded a decrease in earnings for the period of $38 million mainly related to the refund of deferral account balances for 2013 and 2014. ATCO Gas also recorded a reduction in earnings for the period of $23 million related to the refund of previously over collected transmission costs.*

Regulatory Decisions Received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. A description of the significant regulatory decisions recognized in adjusted earnings in 2019 is provided below.

	Decision	Amount	Description
1.	Information Technology (IT) Common Matters	14	In August 2014, the Company sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. In 2015, the AUC commenced an Information Technology Common Matters proceeding to review the recovery of IT costs by the Alberta Utilities from January 1, 2015 going forward. On June 5, 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13% and to apply a glide path that reduces pricing by 4.61% in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to June 30, 2019 of $14 million was recorded in the second quarter of 2019.
2.	ATCO Electric Transmission General Tariff Application (GTA)	(17)	In June 2017, ATCO Electric Transmission filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of capital expenditures and operating costs requested. The increase in adjusted earnings resulting from the decision of $17 million was recorded in the second quarter of 2019.

IT COMMON MATTERS DECISION

As described in the IT Common Matters decision above, in August 2014, CU Inc.'s parent, CU sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. Proceeds of the sale were $204 million, resulting in a one-time after-tax gain of $138 million. In 2014, CU did not include this gain on sale in Adjusted Earnings because it was a significant one-time event.

In June 2019, the AUC issued its decision regarding the IT Common Matters proceeding which is described in the regulatory decisions received section above. In the proceeding, the Company presented a considerable amount of evidence, including expert benchmarking and price review studies to support that the Wipro MSA rates were at fair market value. As such, there was no cross subsidization between the sale price of the CU's IT services business to Wipro in the 2014 transaction and the establishment of IT rates under the MSA. Despite these efforts the AUC found that the Alberta Utilities failed to demonstrate that the IT pricing in the MSA would result in just and reasonable rates.

Consistent with the treatment in 2014, the $14 million reduction booked in the second quarter of 2019, along with future impacts associated with this decision, will not be included in adjusted earnings.

OTHER FINANCIAL INFORMATION

ACCOUNTING CHANGES

On January 1, 2019, the Company adopted the new accounting standard, IFRS 16 *Leases*, which replaces IAS 17 *Leases* and related interpretations. This standard introduces a new approach to lease accounting that requires a lessee to recognize right-of-use assets and lease liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance.

The Company adopted the standard using the modified retrospective approach which does not require restatement of prior period financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information in the unaudited interim consolidated financial statements is not restated.

On adoption of the new standard on January 1, 2019, the Company recognized $8 million of right-of-use assets and $8 million of lease liabilities. The right-of-use assets and lease liabilities relate to leases for land and buildings. From January 1, 2019, the Company recognizes depreciation expense on right-of-use assets and interest expense on lease liabilities with lease payments recorded as a reduction of the lease liability. Prior to the adoption of IFRS 16, lease payments were recorded as expenses in the statement of earnings. The adoption of IFRS 16 has not had a significant impact on earnings. Further information on the adoption of IFRS 16, right-of-use assets and lease liabilities are provided in Notes 3, 8 and 11 of the unaudited interim consolidated financial statements.

In June 2019, the IFRS Interpretations Committee, acting on a request for interpretation, concluded that a pipeline sub-surface arrangement is, or contains, a lease under IFRS 16. A pipeline sub-surface arrangement is an agreement with a landowner to lay an underground pipeline in exchange for consideration. It contains a lease because the underground space is physically distinct from the landowner's land, and the owner of the pipeline has exclusive use of the underground space. The Company is currently assessing the impact of the interpretation on its pipeline sub-surface arrangements. The assessment is expected to be complete before the end of 2019. Based on the preliminary analysis performed to date, the impact on the consolidated financial statements is not expected to be significant.

There are no other new or amended standards issued, but not yet effective, that the Company anticipates will have a material effect on the unaudited interim consolidated financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on April 1, 2019, and ended on June 30, 2019, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

The Company's actual results could differ materially from those anticipated in any forward-looking information contained in this MD&A as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Company.

Any forward-looking information contained in this MD&A represents the Company's expectations as of the date hereof, and is subject to change after such date. The Company disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

GLOSSARY

AUC means the Alberta Utilities Commission.

Alberta Utilities or **Utilities** means Electricity Distribution (ATCO Electric Distribution), Electricity Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas) and Natural Gas Transmission (ATCO Pipelines).

Class A shares means Class A non-voting shares of the Company.

Class B shares means Class B common shares of the Company.

CODM means Chief Operating Decision Maker, and is comprised of the Chair, Chief Executive Officer, and the other members of the Executive Committee.

Company means CU Inc. and, unless the context otherwise requires, includes its subsidiaries.

Earnings means Adjusted Earnings as defined in the Non-GAAP and Additional GAAP Measures section of this MD&A.

GAAP means Canadian generally accepted accounting principles.

IFRS means International Financial Reporting Standards.

Km means kilometre.

PBR means Performance Based Regulation.