CU INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

February 19, 2015

Independent Auditor's Report

To the Share Owner of CU Inc.

We have audited the accompanying consolidated financial statements of CU Inc., which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CU Inc. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

CU INC.
CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars)	Note	Year Ended December 31 2014	2013
Revenues			
Rendering of services		**2,246**	2,040
Costs and expenses			
Salaries, wages and benefits		**(264)**	(276)
Energy transmission and transportation		**(149)**	(126)
Plant and equipment maintenance		**(178)**	(137)
Fuel costs		**(19)**	(14)
Purchased power		**(65)**	(65)
Depreciation and amortization	9,10	**(355)**	(320)
Franchise fees		**(218)**	(186)
Property and other taxes		**(52)**	(46)
Other	6	**(186)**	(194)
		(1,486)	(1,364)
Operating profit		**760**	676
Interest income		**15**	15
Interest expense	12	**(230)**	(193)
Net finance costs		**(215)**	(178)
Earnings before income taxes		**545**	498
Income taxes	7	**(138)**	(126)
Earnings for the year		**407**	372

See accompanying Notes to Consolidated Financial Statements.

CU INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Note	Year Ended December 31 2014	2013
Earnings for the year		**407**	372
Other comprehensive income (loss), net of income taxes:			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits [1]	20	**(13)**	2
Comprehensive income for the year		**394**	374

(1) *Net of income taxes of $5 million for the year ended December 31, 2014 (2013 – nil).*

See accompanying Notes to Consolidated Financial Statements.

CU INC.
CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	December 31 2014	2013
ASSETS			
Current assets			
Cash and cash equivalents		**44**	8
Accounts receivable		**314**	308
Accounts receivable from parent and affiliate companies	22	**30**	6
Inventories	8	**60**	66
Prepaid expenses and other current assets		**13**	14
		461	402
Non-current assets			
Property, plant and equipment	9	**12,536**	10,869
Intangibles	10	**383**	332
Long-term advances to affiliate company	22	**130**	130
Other assets		**12**	11
Total assets		**13,522**	11,744
LIABILITIES			
Current liabilities			
Bank indebtedness	11	**4**	2
Short-term advances from parent corporation	22	**18**	-
Accounts payable and accrued liabilities		**659**	573
Accounts payable to parent and affiliate companies	22	**12**	29
Long-term debt	12	**-**	100
		693	704
Non-current liabilities			
Deferred income tax liabilities	7	**743**	628
Retirement benefit obligations	20	**141**	118
Deferred revenues	13	**1,454**	1,339
Other liabilities		**4**	4
Long-term debt	12	**6,269**	5,077
Total liabilities		**9,304**	7,870
EQUITY			
Equity preferred shares	16	**187**	343
Equity preferred shares to parent company	16, 22	**79**	79
Class A and Class B share owner's equity			
Class A and Class B shares	17	**1,056**	930
Retained earnings		**2,896**	2,522
		3,952	3,452
Total equity		**4,218**	3,874
Total liabilities and equity		**13,522**	11,744

See accompanying Notes to Consolidated Financial Statements.

[Original signed by N.C. Southern]
DIRECTOR

[Original signed by R.J. Urwin]
DIRECTOR

CU INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	**Note**	**Class A and Class B Shares**	**Equity Preferred Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total Equity**
December 31, 2012		728	422	2,170	-	3,320
Earnings for the year		-	-	372	-	372
Shares issued	17	202	-	-	-	202
Dividends	18	-	-	(22)	-	(22)
Other comprehensive income		-	-	-	2	2
Gains on retirement benefits transferred to retained earnings	20	-	-	2	(2)	-
December 31, 2013		**930**	**422**	**2,522**	**-**	**3,874**
Earnings for the year		**-**	**-**	**407**	**-**	**407**
Shares issued	17	**126**	**-**	**-**	**-**	**126**
Shares redeemed	16	**-**	**(156)**	**(4)**	**-**	**(160)**
Dividends	18	**-**	**-**	**(16)**	**-**	**(16)**
Other comprehensive loss		**-**	**-**	**-**	**(13)**	**(13)**
Losses on retirement benefits transferred to retained earnings	20	**-**	**-**	**(13)**	**13**	**-**
December 31, 2014		**1,056**	**266**	**2,896**	**-**	**4,218**

See accompanying Notes to Consolidated Financial Statements.

CU INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Note	Year Ended December 31 2014	2013
Operating activities			
Earnings for the year		**407**	372
Adjustments for:			
Depreciation and amortization	9, 10	**355**	320
Income taxes		**138**	126
Contributions by utility customers for extensions to plant	13	**155**	255
Amortization of customer contributions	13	**(40)**	(40)
Net finance costs		**215**	178
Income taxes paid		**(14)**	(12)
Other		**3**	(3)
		1,219	1,196
Changes in non-cash working capital	21	**(26)**	11
Cash flow from operations		**1,193**	1,207
Investing activities			
Additions to property, plant and equipment		**(1,921)**	(2,037)
Proceeds on disposal of property, plant and equipment		**2**	2
Additions to intangibles		**(83)**	(77)
Changes in non-cash working capital	21	**52**	(86)
Other		**(1)**	(1)
		(1,951)	(2,199)
Financing activities			
Issue of long-term debt		**1,200**	900
Repayment of long-term debt		**(101)**	(3)
Redemption of equity preferred shares to parent corporation		**(160)**	-
Issue of Class A and Class B shares		**126**	202
Dividends paid on equity preferred shares		**(16)**	(22)
Interest paid		**(280)**	(236)
Interest received from affiliate company		**11**	12
Other		**(6)**	(6)
		774	847
Cash position [(1)]			
Increase (decrease)		**16**	(145)
Beginning of year		**6**	151
End of year		**22**	6

(1) Cash position consists of cash and cash equivalents less current bank indebtedness and short-term advances from parent corporation.

See accompanying Notes to Consolidated Financial Statements.

CU INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Tabular amounts in millions of Canadian dollars, except as otherwise noted)

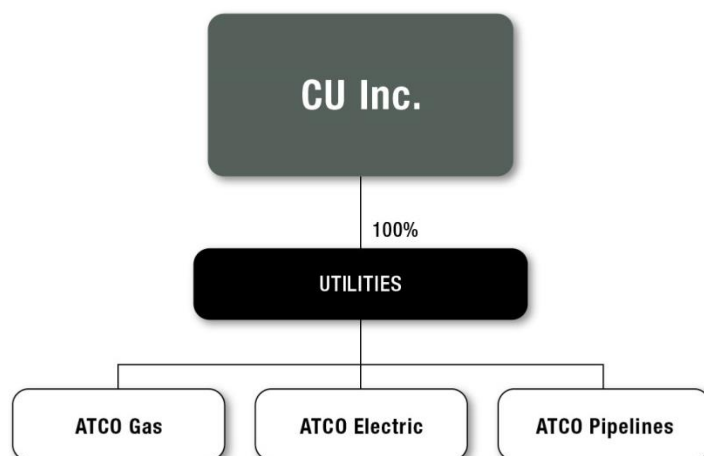
1. THE COMPANY AND ITS OPERATIONS

CU Inc. was incorporated under the laws of Canada and its debt and equity preferred shares are listed on the Toronto Stock Exchange. Its head office and registered office is at 700, 909 - 11th Avenue SW, Calgary, Alberta, T2R 1N6. The Company is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, R.D. Southern.

CU Inc. is engaged in utilities (pipelines, natural gas and electricity transmission and distribution).

The consolidated financial statements include the accounts of CU Inc. and its subsidiaries (the Company).

A simplified organization chart of the Company's principal operating subsidiaries is given below followed by a description of their business activities:



Utilities' activities are conducted through three regulated businesses in western and northern Canada: ATCO Gas, ATCO Electric and ATCO Pipelines.

ATCO Gas distributes natural gas throughout Alberta and in the Lloydminster area of Saskatchewan. It serves municipal, residential, business and industrial customers.

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), transmit and distribute electricity mainly in northern and central east Alberta, the Yukon and the Northwest Territories. Its service territory includes oil sands areas near Fort McMurray and heavy oil areas near Cold Lake and Peace River.

ATCO Pipelines transmits natural gas in Alberta. It receives natural gas at various gas processing plants as well as from other natural gas transmission systems and transports it to end users in the province or to other pipeline systems, primarily for export.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRIC).

The Board of Directors (Board) authorized these consolidated financial statements for issue on February 19, 2015.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, employee retirement benefit liabilities and cash-settled share-based compensation liabilities as disclosed in the applicable accounting policies.

3. ACCOUNTING POLICIES

CONSOLIDATION

Subsidiaries are consolidated from the date control is obtained until the date control ends. Control exists where the Company has power over the investee, exposure or rights to variable returns from the investee and the ability to use its power over the investee to affect returns.

All intra-group balances and transactions are eliminated on consolidation.

RATE REGULATION

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 in the consolidated financial statements as utilities.

In the absence of a rate-regulated standard under IFRS that the Company is eligible to adopt, 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 (see revenue recognition accounting policy below).

Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meets the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

SEGMENT INFORMATION

The accounting policies applied by the segment are the same as those applied by the Company, except for those used in the calculation of adjusted earnings.

REVENUE RECOGNITION

Revenues from the regulated distribution of natural gas and the regulated distribution of electricity include variable and fixed charges. Variable charges are recognized using meter readings on delivery of the commodity to customers and include an estimate of usage not yet billed. Fixed charges are based on the distribution service provided during the period.

Revenues for the use of regulated electricity transmission facilities are based on an annual tariff and are recognized evenly throughout the year.

Revenues from the regulated transmission of natural gas are recognized based on AUC-approved revenue requirement (cost of service).

Certain additions to property, plant and equipment, mainly in the utilities, are made with the assistance of non-refundable cash contributions from customers. These contributions are made when the estimated revenue is less than the cost of providing service or where the customer needs special equipment. Since these contributions will provide customers with on-going access to the supply of natural gas or electricity, they are classified as deferred revenues and are recognized in revenues over the life of the related asset.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognized as an expense in salaries, wages and benefits as employees render service. These benefits include wages, salaries, social security contributions, short-term compensated absences, incentives and non-monetary benefits, such as medical care. Costs for employee services incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

FRANCHISE FEES

Municipal governments charge franchise fees to the utilities in Canada for the exclusive right to provide service in their community. These costs are charged to customers through rates approved by the regulator. Franchise fee revenues and expenses are, therefore, recognized separately and are not recorded on a net basis.

INCOME TAXES

Income taxes are the sum of current and deferred taxes. Income tax is recognized in earnings, except to the extent it relates to items recorded in other comprehensive income (OCI) or in equity.

Current tax is calculated on taxable earnings using rates enacted or substantively enacted at the balance sheet date in the jurisdictions in which the Company operates.

The liability method is used to determine deferred income tax on temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred income tax is calculated using the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. If expected tax rates change, deferred income taxes are adjusted to the new rates.

Deferred income tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or of other assets and liabilities in a transaction, other than a business combination, that does not affect accounting or taxable earnings. The tax effect of temporary differences from investments in subsidiaries are not accounted for where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

Current income tax assets and liabilities are offset where the Company has the legally enforceable right to offset and the Company intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred income tax assets and liabilities are offset where the Company has a legally enforceable right to set off tax assets and liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank, bankers' acceptances, certificates of deposit issued or guaranteed by credit worthy financial institutions and federal government issued short-term investments with maturities generally of 90 days or less at purchase.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. The cost of inventories that are interchangeable is assigned using the weighted average cost method. For inventories that are not interchangeable, cost is assigned using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less variable selling expenses.

The cost of inventories is comprised of all purchase, conversion and other costs to bring inventories to their present condition and location. Purchase costs consist of the purchase price, import duties, non-recoverable taxes, transport, handling and other costs directly attributable to the purchase of finished goods, materials or services. Conversion costs include direct material and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the purchase or construction of the asset, such as materials, labour, borrowing costs incurred during construction, and contracted services. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits will flow to the Company and the cost can be measured reliably.

Major overhaul costs are capitalized and depreciated on a straight-line basis to the next major overhaul. Other repair and maintenance costs are expensed when incurred.

Borrowing costs attributable to a construction period of substantial duration are added to the cost of the asset. The effective interest method is used to calculate capitalized interest using specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization starts when borrowing costs and expenditures are incurred at the onset of construction and ends when construction is substantially complete.

The Company allocates the amount initially recognized in property, plant and equipment to its significant components and depreciates each component separately. Assets are depreciated mainly on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress.

The carrying amount of a replaced asset is derecognized when the cost of replacing the asset is capitalized. When an asset is derecognized, any resulting gain or loss is recorded in earnings.

Depreciation periods for the principal categories of property, plant and equipment are shown in the table below.

	Useful Life	Average Depreciation Rate
Utility transmission and distribution:		
Electricity transmission equipment	40 to 75 years	2.1 %
Electricity distribution equipment	15 to 75 years	2.5 %
Gas transmission equipment	3 to 81 years	2.4 %
Gas distribution plant and equipment	10 to 57 years	2.5 %
Buildings	3 to 60 years	2.9 %
Other:		
Other plant, equipment and machinery	5 to 42 years	5.6 %

Depreciation methods and the estimated residual values and useful lives of assets are reviewed on an annual basis. Any changes in these accounting estimates are recorded prospectively.

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. The Company amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and between 75 and 100 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

Amortization methods and useful lives of assets are reviewed annually. Any changes in these accounting estimates are recorded prospectively.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

Property, plant and equipment and intangible assets with finite lives are tested for recoverability when events or circumstances indicate a possible impairment. Impairment is assessed at the CGU level, which is the smallest identifiable group of assets that generates independent cash inflows. An impairment loss is recognized in earnings when the CGU's carrying value is higher than its recoverable amount. The recoverable amount is the greater of the CGU's fair value less disposal costs and its value in use. An impairment loss may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

PROVISIONS AND CONTINGENCIES

The Company recognizes provisions when: (i) there is a current legal or constructive obligation as a result of a past event, (ii) a probable outflow of economic benefits will be required to settle the obligation, and (iii) a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized in interest expense.

A contingent liability is a possible obligation, and a contingent asset is a possible asset, that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. A contingent liability may also be a present obligation that arises from past events that is not recognized because it is not probable that an outflow of economic resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

Neither contingent liabilities nor assets are recognized in the consolidated financial statements. However, a contingent liability is disclosed, unless the possibility of an outflow of resources is remote. A contingent asset is only disclosed where an inflow of economic benefits is probable.

Management evaluates the likelihood of contingent events based on the probability of exposure to potential loss. Actual results could differ from these estimates.

FINANCIAL INSTRUMENTS

The Company classifies financial instruments when they are first recognized as fair value through profit or loss, available for sale, held to maturity investments or loans and receivables. Financial liabilities are classified as fair value through profit or loss or amortized cost.

Fair value through profit or loss

Financial instruments classified as fair value through profit or loss, other than derivative instruments that are effective hedging instruments, are measured at fair value. Changes in fair value are recognized in earnings.

Available for sale

Financial instruments classified as available for sale are measured at fair value using quoted prices in an active market. When actively quoted prices are not available, fair value is determined using other valuation techniques. Changes in fair value are recognized in other comprehensive income. If fair value cannot be reliably estimated, the item is carried at cost.

Held to maturity

Financial instruments classified as held to maturity, loans and receivables, or other liabilities are initially measured at fair value. Thereafter, they are measured at their amortized cost using the effective interest method. Investments in equity instruments that do not have an actively quoted price and whose fair value cannot be reliably measured are measured at cost.

Transaction costs

Transaction costs directly attributable to the purchase or issue of financial assets or financial liabilities that are not fair value through profit or loss are added to the fair value of such assets or liabilities when initially recognized. Transaction costs for long-term debt and preferred shares classified as liabilities are amortized over the life of the respective financial liability using the effective interest method. The Company's long-term debt and preferred shares are presented net of their respective transaction costs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet: (i) if there is a legally enforceable right to offset the recognized amounts, and (ii) if the Company intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Derecognition of financial instruments

Financial assets are derecognized: (i) when the right to receive cash flows from the financial assets has expired or been transferred, and (ii) the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognized when the obligation is discharged, cancelled, or expired.

Fair value hierarchy

The Company uses quoted market prices when available to estimate fair value. Models incorporating observable market data, along with transaction specific factors, are also used to estimate fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Management's judgment as to the significance of a particular input may affect placement within the fair value hierarchy levels.

The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting means recognizing an asset on the day it is received by the Company and recognizing the disposal of an asset on the day it is delivered by the Company. Any gain or loss on disposal is also recognized on that day.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

An impairment of loans and receivables or held to maturity investments carried at amortized cost is recognized in earnings when the asset's carrying amount is higher than the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. When an available for sale financial asset is impaired, the cumulative gain or loss previously reported in accumulated other comprehensive income (AOCI) is recognized in earnings.

An impairment loss may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. The revised recoverable amount cannot exceed the carrying amount had no impairment charge been recognized in previous periods.

An impairment charge for an investment in an equity instrument classified as available for sale is not reversed.

DERIVATIVE FINANCIAL INSTRUMENTS

Contracts settled net in cash or in another financial asset are classified as derivatives, unless they meet the Company's own use requirements.

All derivative financial instruments, including derivatives embedded in other financial instruments or host contracts, are measured at fair value. The gain or loss that results from changes in fair value of the derivative is recognized in earnings immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in earnings depends on the hedging relationship.

Where the Company elects to apply hedge accounting, the Company documents the relationship between the derivative and the hedged item at inception of the hedge, and then assesses at each reporting period whether the derivative has been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of the hedged item. The Company discontinues hedge accounting prospectively if the hedging relationship ceases to be highly effective, the derivative is no longer designated as a hedging instrument, or the underlying hedged item is derecognized.

Fair value hedges

A fair value hedge offsets the risk of volatility in the fair value of a recognized asset, liability, or firm commitment. Adjustments to the carrying value of the hedged item caused by changes in the fair value of the risk being hedged are offset in earnings by the effective portion of the changes in the fair value of the derivative.

If the Company discontinues hedge accounting, no further changes to the carrying value of the hedged item are recognized. The cumulative fair-value adjustments to the carrying amount of the hedged item are amortized to earnings over the remaining term of the hedged item using the effective interest method.

Cash flow hedges

A cash flow hedge offsets the risk of volatility in the variable cash flows arising from a recognized asset or liability, a highly probable forecast transaction or a firm commitment in a foreign currency transaction. The effective portion of changes in fair value of the derivative is recognized in OCI, whereas the ineffective portion is recognized in earnings immediately. The cumulative gain or loss in AOCI is transferred to earnings when the hedged item affects earnings. If a forecast transaction results in the recognition of a non-financial asset or liability, the amount in AOCI is added to the initial cost of the non-financial asset or liability.

If the Company discontinues hedge accounting, the cumulative gain or loss in AOCI is transferred to earnings at the same time as the hedged item affects earnings.

The amount in AOCI is immediately transferred to earnings if the hedged item is derecognized or it is probable that a forecast transaction will not occur in the originally specified time frame.

RETIREMENT BENEFITS

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the Group Plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, the Company is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 2013.

The minimum funding requirements for the Group Plan are comprised of the contributions related to current service cost and the amortization of the unfunded liability as determined by the actuary. The Company does not have any liability to the Group Plan other than the minimum funding requirements of its subsidiaries. In the event of a withdrawal from the Group Plan or the termination of the Group Plan, the companies will still be required to contribute to the Group Plan where such contributions are required under pension regulations.

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in other post-employment benefit (OPEB) and non-registered group defined benefit pension plans. These plans are administered on a combined basis, and the Company accrues for its obligations under these plans. Costs of these benefits are determined using the projected unit credit method and reflect management's best estimates of wage and salary increases, age at retirement and expected health care costs. The Company consults with qualified actuaries when setting the assumptions used to estimate benefit obligations and the cost of providing retirement benefits during the period.

Accrued benefit obligations at the balance sheet date are determined using a discount rate that reflects market interest rates. The rates are equivalent to those on high quality corporate bonds that match the timing and amount of expected benefit payments.

For the non-registered defined benefit pension plans, the Company is assessed a percentage of the total cost of the plans.

For the non-registered defined benefit pension plan and the OPEB plans, gains and losses resulting from changes in assumptions, including the liability discount rate and future compensation rates, used to measure the accrued benefit obligations are recognized in OCI in the period in which they occur. Those gains and losses are then transferred directly to retained earnings.

Employer contributions to the defined contribution pension plans are expensed as employees render service.

For non-registered defined benefit pension plans and OPEB plans, service cost is recognized as an expense in salaries, wages and benefits, and net interest expense is recognized in interest expense. The cost of retirement benefits for registered defined benefit pension plans and defined contribution pension plans is recognized as an expense in salaries, wages and benefits. Past service costs are recognized immediately in earnings in the period of a plan amendment. When retirement benefit costs for employee services are incurred in constructing an asset and meet asset recognition criteria, they are included in the related property, plant and equipment or intangible asset.

RELATED PARTY TRANSACTIONS

Transactions with related parties in the normal course of business are measured at the exchange amount. Transfers between entities under common control are measured at the carrying amount.

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in Canadian dollars. Transactions denominated in foreign currencies are translated at the exchange rate at the transaction date.

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new or amended standards or interpretations issued by the IASB or IFRIC do not need to be adopted in the current period. The Company has not early adopted these standards or interpretations.

Standards issued, but not yet effective, which the Company anticipates may have a material effect on the consolidated financial statements or note disclosures are described below.

Standard	Description	Impact	Effective Date
IFRS 9 (2013) *Financial Instruments*	This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and previous versions of IFRS 9. It includes revised guidance on the classification and measurement of financial assets and liabilities and adds guidance on general hedge accounting.	The adoption of this standard is not expected to have a material impact on the Company's financial results but will result in additional disclosures in the Company's annual financial statements.	Effective until January 1, 2018 if adopted by January 31, 2015. The Company will early adopt this standard January 1, 2015.
IFRS 9 (2014) *Financial Instruments*	This final standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and previous versions of IFRS 9. It incorporates IFRS 9 (2013), with a further classification category for financial assets, and includes a new impairment model for financial instruments.	The Company has not yet determined the impact of the final standard.	Effective for annual periods on or after January 1, 2018. The Company will not early adopt this standard.
IFRS 15 *Revenue from Contracts with Customers*	This standard replaces previous guidance on revenue recognition. It provides a framework to determine when to recognize revenue and at what amount.	It applies to new contracts created on or after the effective date and to existing contracts not yet completed as of the effective date. The Company has not yet determined the impact of the final standard.	Effective for annual periods on or after January 1, 2017.

4. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively.

Significant judgments and estimates made by the Company are outlined below.

SIGNIFICANT ACCOUNTING JUDGMENTS

Impairment of long-lived assets

Indicators of impairment are considered when evaluating whether or not an asset is impaired. Factors which could indicate an impairment exists include: significant underperformance relative to historical or projected operating results, significant changes in the way in which an asset is used or in the Company's overall business strategy, significant negative industry or economic trends, or adverse decisions by regulators. Events indicating an impairment may be clearly identifiable or based on an accumulation of individually insignificant events over a period of time. Measurement uncertainty is increased where the Company is not the operator of a facility. The Company continually monitors its operating facilities and the markets and business environment in which it operates. Judgments and assessments about conditions and events are made order to conclude whether a possible impairment exists.

Property, plant and equipment and intangibles

The Company makes judgments to: assess the nature of the costs to be capitalized and the time period over which they are capitalized in the purchase or construction of an asset; evaluate the appropriate level of componentization where an asset is made up of individual components for which different depreciation and amortization methods and useful lives are appropriate; distinguish major overhauls to be capitalized from repair and maintenance activities to be expensed; and determine the useful lives over which assets are depreciated and amortized.

Income taxes

The Company makes judgments with respect to changes in tax legislation, regulations and interpretations thereof. Judgment is also applied to estimating probable outcomes, when temporary differences will reverse, and whether tax assets are realizable.

When tax legislation is subject to interpretation, management periodically evaluates positions taken in tax filings and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date, using a probability weighting of possible outcomes.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

An estimate of usage not yet billed is included in revenues from the regulated distribution of natural gas and electricity. The estimate is derived from unbilled gas and electricity distribution services supplied to customers. This estimate is from the date of the last meter reading and uses historical consumption patterns. Management applies judgment to the measure and value of the estimated consumption.

Useful lives of property, plant and equipment and intangibles

Useful lives are estimated based on current facts and past experience taking into account the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecast demand, and the potential for technological obsolescence.

Impairment of long-lived assets

The Company continually monitors its long-lived assets and the markets and business environment in which it operates for indications of asset impairment. Where necessary, the Company estimates the recoverable amount for the CGU to determine if an impairment loss is to be recognized. These estimates are based on assumptions, such as the price for which the assets in the CGU could be obtained or future cash flows that will be produced by the CGU, discounted at an appropriate rate. Subsequent changes to these estimates or assumptions could significantly impact the carrying value of the assets in the CGU.

Retirement benefits

Costs for the non-registered defined benefit pension and OPEB plans are determined using the projected unit credit method and reflect management's best estimates of investment returns, long-term inflation rate, wage and salary increases, age at retirement, liability discount rates and expected health care costs. The Company consults with qualified actuaries when setting the assumptions used to estimate benefit obligations and the cost of providing retirement benefits during the period. Key assumptions used to determine benefit cost and obligation are shown in Note 20.

Income taxes

Management periodically evaluates positions taken in tax filings where tax legislation is subject to interpretation, and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date measured using a probability weighting of possible outcomes.

5. SEGMENT INFORMATION

ADJUSTED EARNINGS

Adjusted earnings are earnings after adjusting for the timing of revenues and expenses for 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 used by the Chief Operating Decision Maker (CODM) to assess segment performance and allocate resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the 2014 and 2013 year is shown below.

	2014	2013
Adjusted earnings	**409**	338
Adjustments for rate-regulated activities	**(18)**	12
Dividends on equity preferred shares of the Company	**16**	22
Earnings for the year	**407**	372

Adjustments for rate-regulated activities

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Consequently, the Company does not recognize assets and liabilities arising from rate-regulated activities under IFRS.

Before adopting IFRS, the Company used standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities. 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 segment disclosures on this basis.

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

	Rate-Regulated Accounting Treatment	IFRS Treatment
1.	The Company defers the recognition of cash received in advance of future expenditures.	The Company records revenues when amounts are billed to customers and recognizes costs when they are incurred.
2.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings.
3.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company recognizes earnings when customer rates are changed and amounts are billed to customers.
4.	Intercompany profits on the manufacture or construction of facilities for a regulated public utility in the consolidated group are deemed to have been realized to the extent that the transfer price on such facilities is recognized for rate-making purposes by a regulator.	Intercompany profits are eliminated upon consolidation. The Company then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset.

Timing adjustments for rate-regulated activities are as follows:

	2014	2013
Additional revenues billed in current period:		
Future removal and site restoration costs [1]	**23**	40
Finance costs on major transmission capital projects [2]	**46**	39
Impact of colder temperatures on revenues [3]	**7**	–
Other	**10**	1
	86	80
Revenues to be billed in future periods:		
Deferred income taxes [4]	**(86)**	(73)
Transmission access payments [5]	**(7)**	(46)
Transmission capital deferral [6]	**(6)**	(14)
Other	**(10)**	(14)
	(109)	(147)
Regulatory decisions related to current and prior periods:		
Transmission access payments recoveries [7]	**13**	65
Transmission capital deferral refunds [7]	**(10)**	–
Evergreen and capital tracker decisions [7]	**4**	–
Weather recoveries (refunds) [3]	**(4)**	4
Other	**2**	10
	5	79
	(18)	12

Descriptions of the adjustments, and the timing of recovery or refund, are as follows:

	Description	Timing of Recovery or Refund
1.	Removal and site restoration costs billed to customers are based on the costs forecast to be incurred in future periods. Customers fund these expected costs over the estimated useful life of the related assets. Under rate-regulated accounting, billings to customers in excess of costs incurred in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings when removal and site restoration costs are incurred.
2.	Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred. Under rate-regulated accounting, the finance costs billed to customers are deferred.	The deferred revenues will be recognized in adjusted earnings over the service life of the related assets.
3.	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. Under rate-regulated accounting, revenues above or below the norm in the current period are deferred and refunded to or recovered from customers in future periods.	ATCO Gas may apply to the AUC for recoveries from or refunds to customers when the net revenue variances exceed $7 million at April 30th of any year for either of its North or South systems.

	Description	Timing of Recovery or Refund
4.	Deferred income taxes are a non-cash expense resulting from temporary differences between the book value and the tax value of assets and liabilities. Income taxes are billed to customers when paid by the Company. Deferred income taxes are not billed to customers unless directed to do so by the regulator. Under rate-regulated accounting, revenues are recognized in the current period for the deferred income taxes to be billed to customers in future periods.	The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.
5.	Transmission access payments billed to customers by ATCO Electric are based on the forecast payments to be incurred. Under rate-regulated accounting, differences between actual costs incurred and forecast costs billed to customers are deferred for collection from or refund to customers in future periods.	Recoveries from or refunds to customers of the differences between transmission access payments billed to customers and paid by ATCO Electric are expected to occur in the next 6 to 12 months.
6.	For major transmission capital projects, ATCO Electric's billings to customers include a return on forecast rate base. When actual capital costs vary from forecast capital costs, the return on rate base, and the resulting billings to the Alberta Electric System Operator (AESO), will be higher or lower than expected. Under rate-regulated accounting, differences between billings to the AESO and the return on actual rate base are deferred.	Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in the following year.
7.	The utilities recognize revenues from regulatory decisions when customer rates are changed and amounts are billed to customers. Under rate-regulated accounting, revenues from regulatory decisions that affect current and prior periods are recognized when the decision is received.	**Transmission Access Payment Recoveries** In the years 2014 and 2013, actual payments for transmission access paid by ATCO Electric exceeded forecast costs included in billings to customers. These excess costs are subsequently recovered from customers. **Transmission Capital Deferral Refunds** In 2014, ATCO Electric refunded amounts to customers over-collected in 2011 for major transmission capital projects. **Evergreen and Capital Tracker Decisions** The Utilities recorded a reduction in adjusted earnings of $32 million in 2014 for an AUC decision which disallowed a portion of the information technology and customer care and billing costs (Evergreen decision) incurred in the period 2010 to 2014. In the fourth quarter of 2014, customer rates were adjusted and $28 million was refunded to customers. In 2014, ATCO Gas and the distribution operations of ATCO Electric recorded adjusted earnings of $26 million for the period January 1, 2013 to December 31, 2014, for the AUC decisions which approved 90 per cent of the applied-for Capital Tracker rates on an interim basis. In the fourth quarter of 2014, customer rates were adjusted and $26 million was collected from customers.

6. OTHER COSTS AND EXPENSES

Other costs and expenses comprise the following:

	2014	2013
Goods and services [(1)]	**169**	175
Rent and utilities	**17**	19
	186	194

(1) Goods and services include professional fees, contractor costs, technology related expenses, advertising, and other general and administrative expenses.

7. INCOME TAXES

INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2014	2013
Current income tax expense:		
Expense for the year	**19**	17
Adjustment in respect of prior years	**–**	1
	19	18
Deferred income tax expense:		
Reversal of temporary differences	**119**	110
Adjustment in respect of prior years	**–**	(2)
	119	108
	138	126

The reconciliation of statutory and effective income tax expense is as follows:

	2014		2013	
Earnings before income taxes	**545**	**%**	498	%
Income taxes, at statutory rates	**136**	**25.0**	125	25.0
Other	**2**	**0.3**	1	0.2
	138	**25.3**	126	25.2

The combined federal and Alberta statutory Canadian income tax rate did not change from 2013 to 2014.

INCOME TAX ASSETS AND LIABILITIES

Income tax assets and liabilities in the consolidated balance sheet at December 31 are summarized below.

Income Tax Assets and Liabilities	Statements of Financial Position Location	2014	2013
Income tax assets:			
Current	Prepaid expenses and other current assets	**3**	4
Income tax liabilities:			
Current	Other current liabilities	**4**	–
Deferred	Deferred income tax liabilities	**743**	628
Total income tax liabilities		**747**	628

DEFERRED INCOME TAXES

The changes in deferred income tax liabilities were as follows:

	Property, Plant and Equipment	Intangibles	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
Deferred income tax liabilities:						
December 31, 2012	502	44	(1)	(24)	(1)	520
Charge (credit) to earnings	121	1	(14)	(1)	1	108
December 31, 2013	**623**	**45**	**(15)**	**(25)**	**–**	**628**
Charge (credit) to earnings	**96**	**40**	**(19)**	**(4)**	**6**	**119**
Charge (credit) to other comprehensive income	**–**	**–**	**–**	**(5)**	**1**	**(4)**
December 31, 2014	**719**	**85**	**(34)**	**(34)**	**7**	**743**

The Company does not expect its deferred income tax assets or liabilities to reverse within the next twelve months.

At the end of 2014, the Company had $136 million in tax losses and credits, which expire on the following dates:

	Non-Capital Losses
2031	17
2033	47
2034	72

The Company recorded deferred income tax assets of $34 million for these losses and credits.

8. INVENTORIES

Inventories at December 31 were comprised of:

	2014	2013
Natural gas and fuel in storage	**15**	14
Raw materials and consumables	**44**	51
Work-in-progress	**1**	1
	60	66

For the year ended December 31, 2014, inventories recognized as an expense were $5 million (2013 – $4 million). Write-downs to net realizable value were less than $1 million in 2014 and 2013 and there were no reversals of previous write-downs to net realizable value.

No inventories are pledged as security for liabilities.

9. PROPERTY, PLANT AND EQUIPMENT

The Company continues to make significant investment in utility infrastructure in Alberta, particularly in electricity transmission facilities.

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Utility Transmission & Distribution	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost:					
December 31, 2012	9,698	456	1,381	403	11,938
Additions	1,760	62	205	86	2,113
Disposals	(60)	(2)	–	(12)	(74)
Transfer to affiliate	–	(4)	–	–	(4)
December 31, 2013	**11,398**	**512**	**1,586**	**477**	**13,973**
Additions	**1,152**	**52**	**719**	**81**	**2,004**
Disposals	**(69)**	**(1)**	**–**	**(9)**	**(79)**
Transfer to affiliate	**(2)**	**–**	**–**	**–**	**(2)**
December 31, 2014	**12,479**	**563**	**2,305**	**549**	**15,896**
Accumulated depreciation:					
December 31, 2012	2,627	97	–	156	2,880
Depreciation	253	12	–	35	300
Disposals	(60)	(2)	–	(12)	(74)
Transfer to affiliate	–	(2)	–	–	(2)
December 31, 2013	**2,820**	**105**	**–**	**179**	**3,104**
Depreciation	**284**	**17**	**–**	**34**	**335**
Disposals	**(68)**	**–**	**–**	**(9)**	**(77)**
Transfer to affiliate	**(2)**	**–**	**–**	**–**	**(2)**
December 31, 2014	**3,034**	**122**	**–**	**204**	**3,360**
Net book value:					
December 31, 2013	8,578	407	1,586	298	10,869
December 31, 2014	**9,445**	**441**	**2,305**	**345**	**12,536**

The additions of property, plant and equipment included $75 million (2013 – $64 million) of interest capitalized. Interest rates ranged from 4.28 per cent to 5.60 per cent (2013 – 5.34 per cent to 5.80 per cent).

Construction work-in-progress additions in 2014 are net of transfers of $880 million (2013 – $1,560 million) to other property, plant and equipment categories.

10. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights.

A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Other	Total
Cost:				
December 31, 2012	336	158	8	502
Additions	37	39	1	77
Disposals	(2)	–	–	(2)
December 31, 2013	**371**	**197**	**9**	**577**
Additions	**50**	**33**	**–**	**83**
Disposals	**(3)**	**(1)**	**–**	**(4)**
December 31, 2014	**418**	**229**	**9**	**656**
Accumulated amortization:				
December 31, 2012	188	28	2	218
Amortization	27	2	–	29
Disposals	(2)	–	–	(2)
December 31, 2013	**213**	**30**	**2**	**245**
Amortization	**29**	**2**	**–**	**31**
Disposals	**(3)**	**–**	**–**	**(3)**
December 31, 2014	**239**	**32**	**2**	**273**
Net book value:				
December 31, 2013	158	167	7	332
December 31, 2014	**179**	**197**	**7**	**383**

11. BANK INDEBTEDNESS AND LINES OF CREDIT

The Company has the following lines of credit that enable it to obtain financing for general business purposes:

			2014			2013
	Total	Used	Available	Total	Used	Available
Long-term committed	**900**	**31**	**869**	900	31	869
Uncommitted	**28**	**4**	**24**	28	2	26
	928	**35**	**893**	928	33	895

Long-term committed credit facilities have maturities greater than one year. Uncommitted credit facilities have no set maturity and the lender can demand repayment at any time.

Of the $35 million used at December 31, 2014, $4 million was current bank indebtedness and $31 million represented outstanding letters of credit (2013 – $2 million was current bank indebtedness and $31 million represented outstanding letters of credit).

12. LONG-TERM DEBT

LONG-TERM DEBT

Long-term debt outstanding is shown in the table below.

	Effective Interest Rate	2014	2013
CU Inc. debentures – unsecured	5.146% (2013 – 5.382%)	**6,300**	5,200
(Interest is the average effective interest rate weighted by principal amounts outstanding)			
CU Inc. other long-term obligation, due December 2016 – unsecured	3.000%	**3**	5
Less: Deferred financing charges		**(34)**	(28)
		6,269	5,177
Less: Amounts due within one year		**–**	(100)
		6,269	5,077

CONTRACTUAL MATURITIES OF DEBT

The undiscounted contractual maturities of long-term debt and non-recourse long-term debt were as follows:

	Principal	Interest
2015	–	322
2016	3	321
2017	150	320
2018	–	312
2019	480	295
2020 and thereafter	5,670	5,801
	6,303	7,371

INTEREST EXPENSE

Interest expense is as follows:

	2014	2013
Long-term debt	**292**	247
Amortization of deferred financing charges	**1**	1
Retirement benefits net interest expense	**3**	3
Other	**9**	6
	305	257
Less: Interest capitalized *(Note 9)*	**(75)**	(64)
	230	193

13. DEFERRED REVENUES

CUSTOMER CONTRIBUTIONS

Customer contributions for extensions to plant are included in deferred revenues and recognized as revenue over the life of the related asset. Changes in deferred customer contribution revenues are summarized below.

	2014	2013
Beginning of year	**1,339**	1,124
Receipt of customer contributions	**155**	255
Amortization	**(40)**	(40)
End of year	**1,454**	1,339

14. CONTINGENCIES

Measurement inaccuracies occur from time to time on the utilities' metering facilities. These measurement adjustments are settled between the parties according to the Electricity and Gas Inspections Act (Canada) and related regulations. The AUC may disallow recovery of a measurement adjustment if it finds that controls and timely follow-up are inadequate.

The Company is party to a number of other disputes and lawsuits in the normal course of business. The Company believes that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements.

In 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy. The legal obligations of ATCO Gas and ATCO Electric for the retail functions transferred to Direct Energy, which include the supply of natural gas and electricity to customers as well as billing and customer care, remain if Direct Energy fails to perform. In certain circumstances, the functions will revert to ATCO Gas and/or ATCO Electric, with no refund of the transfer proceeds to Direct Energy.

Centrica plc., Direct Energy's parent company, provided a $300 million guarantee, supported by a $235 million letter of credit for Direct Energy's obligations to ATCO Gas and ATCO Electric under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to defray all costs that could arise if the obligations are not met.

15. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

FINANCIAL RISKS

The Company is exposed to a variety of risks associated with the use of financial instruments. These risks are comprised of foreign currency exchange rate risk, credit risk and liquidity risk. The Company's Board is responsible for understanding the principal risks of the Company's business, achieving a proper balance between risks incurred and the potential return to share owners, and confirming there are controls in place to effectively monitor and manage those risks with a view to the long-term viability of the Company. The Board established a Risk Review Committee to review significant risks associated with future performance, growth and lost opportunities identified by management that could materially affect the Company's ability to achieve its strategic or operational targets. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

The Company may use various derivative instruments, including forward contracts, to manage the risks arising from fluctuating exchange rates. All such instruments are used only to manage risk and not for trading purposes.

FOREIGN CURRENCY EXCHANGE RATE RISK

Foreign currency exchange rate risk arises from financial instruments denominated in a currency other than the functional currency. The Company entered into foreign currency forward contracts to manage its exposure to foreign exchange rate risk arising from certain service contracts, planned equipment expenditures and operating cash flows denominated in U.S. dollars. At December 31, 2014, there were no contracts outstanding. At December 31, 2013, the contracts consisted of purchases of $10 million U.S. in return for $10 million Canadian dollars.

CREDIT RISK

For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Cash and cash equivalents credit risk is reduced by investing in instruments issued by credit-worthy financial institutions and in short-term instruments issued by the federal government.

Accounts receivable credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The Utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations.

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to its term and conditions. This risk is minimized by dealing with large, credit-worthy counterparties according to established credit approval policies.

The maximum exposure to credit risk is the carrying value of loans and receivables. The Company does not have a concentration of credit risk with any counterparty. Substantially all of the loans and receivables are from the Company's operations in Alberta.

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. The provision for impairment of credit losses was less than $1 million in 2014 and 2013.

The aging analysis of trade receivables that are past due but not impaired is as follows:

	2014	**2013**
30 to 90 days	**3**	2
Greater than 90 days	**1**	1
	4	3

No other impairments have been identified within accounts receivable.

The Company has also entered into guarantee arrangements with Centrica plc. (see Note 14).

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations. The Company considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Cash flow from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances, bank borrowings and issuances of long-term debt and Class A and B shares. Commercial paper borrowings and short-term bank loans are used under available credit lines to provide flexibility in the timing and amounts of long-term financing. The Company has a policy not to invest any of its cash balances in asset-backed securities.

The Company has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

	2015	**2016**	**2017**	**2018**	**2019**	**2020 and thereafter**
Accounts payable and accrued liabilities	659	–	–	–	–	–
Accounts payable to parent and affiliate companies	12	–	–	–	–	–
Long-term debt *(Note 12)*	–	3	150	–	480	5,670
Interest expense *(Note 12)*	322	321	320	312	295	5,801
Operating leases (1)	16	12	10	9	3	5
Purchase obligations:						
Operating and maintenance agreements (2)	264	267	271	252	137	31
Capital expenditures (3)	113	–	–	–	–	–
Other	10	–	–	–	–	–
	1,396	603	751	573	915	11,507

(1) Operating leases are comprised primarily of long-term leases for office premises and equipment.

(2) Consists of ATCO Gas's transmission service from NOVA Gas Transmission Ltd. and the Company's information technology services contractual obligations.

(3) Consists of various contracts to purchase goods and services with respect to capital expenditures.

FAIR VALUE OF NON-DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, accounts receivable from parent and affiliate companies, bank indebtedness, accounts payable and accrued liabilities, accounts payable to parent and affiliate companies and current portion of long-term debt to parent company approximate carrying value due to their short-term nature.

The fair values of the Company's non-derivative financial instruments measured at other than fair value are as follows:

Recurring Measurements	2014 Carrying Value	2014 Fair Value	2013 Carrying Value	2013 Fair Value
Financial Assets				
Loans and Receivables:				
Long-term advances to affiliate company (1)	**130**	**178**	130	176
Financial Liabilities				
Amortized Cost:				
Long-term debt (1)	**6,269**	**7,271**	5,177	5,548

(1) Recorded at amortized cost. Fair values are determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements. Long-term debt and long-term advances to affiliate company are classified in Level 2 of the fair value hierarchy.

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The following trade receivables and payables are subject to offsetting, enforceable master netting arrangements and similar agreements:

	2014	2013
Gross amounts of recognized trade receivables	**60**	42
Gross amounts of recognized trade payables	**(27)**	(22)
Net amounts of trade receivables presented in the balance sheet	**33**	20

16. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT COMPANY

EQUITY PREFERRED SHARES

Authorized and issued

Authorized: An unlimited number of Preferred Shares, issuable in series.

Issued:

	Stated Value *(dollars)*	Redemption Dates	2014 Shares	2014 Amount	2013 Shares	2013 Amount
Cumulative Redeemable Preferred Shares						
4.60% Series 1	25.00	See below	**4,600,000**	**115**	4,600,000	115
6.70% Series 2	25.00	See below	**–**	**–**	6,400,000	160
3.80% Series 4	25.00	See below	**3,000,000**	**75**	3,000,000	75
Issuance costs				**(3)**		(7)
				187		343

On June 1, 2014, the Company redeemed all outstanding 6.70 per cent Cumulative Redeemable Preferred Shares Series 2 totaling $160 million. The redemption was financed with available cash reserves.

Fair values

The preferred shares have a fair value of $162 million at December 31, 2014 (2013 – $323 million) and are classified in Level 1 of the fair value hierarchy. The fair value was determined using quoted market prices of the same issues.

Redemption privileges

The Series 1 Preferred Shares are redeemable at the option of the Company commencing on June 1, 2012, at the stated value plus a 4 per cent premium per share for the next twelve months plus accrued and unpaid dividends. The redemption premium declines by 1 per cent in each succeeding twelve month period until June 1, 2016.

On June 1, 2016, and on June 1 of every fifth year thereafter, the Company may redeem the Series 4 Preferred Shares in whole or in part at the stated value plus all accrued and unpaid dividends. Holders may elect to convert any or all of their Series 4 Preferred Shares into an equal number of Cumulative Redeemable Preferred Shares Series 5 on June 1, 2016, and on June 1 of every fifth year thereafter. Holders of the Series 5 Preferred Shares will be entitled to receive, as and when declared by the Board, floating rate cumulative preferential cash dividends, payable quarterly at a rate equal to the then current 3-month Government of Canada Treasury Bill yield plus 1.36%. On June 1, 2021, and on June 1 of every fifth year thereafter (Series 5 Conversion Date), holders of the Series 5 Preferred Shares may elect to convert any or all of their Series 5 Preferred Shares back into an equal number of Series 4 Preferred Shares. The Company may redeem the Series 5 Preferred Shares in whole or in part at $25.00 on a Series 5 Conversion Date or at $25.50 on any other date.

EQUITY PREFERRED SHARES TO PARENT COMPANY

Authorized and issued

Authorized: An unlimited number of Series Second Preferred Shares, issuable in series.

Issued:

			2014		2013	
	Stated Value *(dollars)*	Redemption Dates	Shares	Amount	Shares	Amount
Perpetual Cumulative Second Preferred Shares						
4.00% Series V	25.00	October 3, 2017	**3,176,578**	**79**	3,176,578	79

The dividends payable on the Series V Preferred Shares are fixed until the redemption date specified above, at which time a new dividend rate may be established by negotiations between the Company and Canadian Utilities Limited.

Fair values

The preferred shares have a fair value of $82 million at December 31, 2014 (2013 – $79 million) and are classified in Level 2 of the fair value hierarchy. The fair value was determined using quoted market prices for similar issues.

Redemption privileges

The preferred shares are redeemable on the date specified above at the option of the Company at the stated value plus accrued and unpaid dividends.

17. CLASS A AND CLASS B SHARES

A reconciliation of the number and dollar amount of outstanding Class A non-voting and Class B common shares at December 31, 2014 is shown below.

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2012	3,446,592	451	2,112,427	277	5,559,019	728
Shares issued	77,075	125	47,240	77	124,315	202
December 31, 2013	**3,523,667**	**576**	**2,159,667**	**354**	**5,683,334**	**930**
Shares issued	**46,655**	**78**	**28,595**	**48**	**75,250**	**126**
December 31, 2014	**3,570,322**	**654**	**2,188,262**	**402**	**5,758,584**	**1,056**

Class A and B shares have no par value.

18. DIVIDENDS

Cash dividends declared and paid per share are as follows:

(dollars per share)	2014	2013
Equity preferred shares:		
4.60% Cumulative Redeemable Preferred Shares, Series 1	**1.1500**	**1.1500**
6.70% Cumulative Redeemable Preferred Shares, Series 2 *(Note 16)*	**0.8375**	**1.6750**
3.80% Cumulative Redeemable Preferred Shares, Series 4	**0.9500**	**0.9500**
Equity preferred shares to parent company:		
4.00% Perpetual Cumulative Second Preferred Shares, Series V	**1.0000**	**1.0000**
Class A and Class B shares	**–**	–

The payment of dividends on the Company's Class A and Class B shares and equity preferred shares is at the discretion of the Board and depends on the financial condition of the Company and other factors.

19. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to:

1. Safeguard the Company's ability to continue as a going concern so it can continue to provide returns to its share owner and benefits for other stakeholders.
2. Maintain strong investment-grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.
3. Remain within the capital structure approved by the AUC for the utilities.

The Company considers the impact of the AUC's decisions with respect to the company's subsidiaries, as well as changes in economic conditions and risks impacting its operations, in managing its capital structure. The Company may adjust the dividends paid to the share owner, issue or purchase Class A and Class B shares, and issue or redeem preferred shares, and long-term debt. Financing decisions are based on assessments by management in line with the Company's objectives, with a goal of managing the financial risk to the Company as a whole.

While the utilities have as their objective to be capitalized according to the AUC-approved capital structure, the Company as a whole is not restricted in the same manner. The Company sets its capital structure relative to risk and to meet financial and operational objectives, while factoring in the decisions of the regulator.

The Company also manages capital to comply with the customary covenants on its long-term debt. A common financial covenant for a large portion of the Company's debentures and credit facilities is that total debt divided by total capitalization must be less than 75 per cent. The Company defines total debt as the sum of bank indebtedness and long-term debt (including current portion). It defines total capitalization as the sum of Class A and Class B shares, retained earnings, equity preferred shares, and total debt. Management maintains the debt capitalization ratio well below 75 per cent to sustain access to cost-effective financing.

Debt capitalization does not have standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. Also, the definitions of total debt and total capitalization vary slightly in the Company's debt-related agreements.

The Company's capitalization is as follows:

	2014	2013
Bank indebtedness	**4**	2
Short-term advances from parent corporation	**18**	–
Long-term debt	**6,269**	5,177
Total debt	**6,291**	5,179
Class A and Class B shares	**1,056**	930
Retained earnings	**2,896**	2,522
Equity preferred shares	**187**	343
Equity preferred shares to parent company	**79**	79
Total equity	**4,218**	3,874
Total capitalization	**10,509**	9,053
Debt capitalization	**60%**	57%

For the year ended December 31, 2014, the Company complied with externally imposed requirements on its capital, including covenants related to debentures and credit facilities. The Company will continue to assess its capital structure and objectives in light of any future decisions received from the AUC.

20. RETIREMENT BENEFITS

The Company, together with Canadian Utilities Limited and its subsidiary companies, maintains registered defined benefit and defined contribution pension plans for most of its employees. It also provides other post-employment benefits, principally health, dental and life insurance, for retirees and their dependents. The defined benefit pension plans provide for pensions based on employees' length of service and final average earnings. As of 1997, new employees automatically participate in the defined contribution pension plan.

The Company, together with Canadian Utilities Limited and its subsidiary companies, also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

Contributions to the Group Plan, which is accounted for as a defined contribution pension plan, are expensed as paid. OPEB and non-registered defined benefit pension plans, which the Company funds out of general revenues, are administered on a combined basis with Canadian Utilities Limited and its subsidiary companies. For non-registered defined benefit pensions, the Company is assessed a percentage of the total cost of the plans.

THE COMPANY'S BENEFIT PLANS

Information about the Company's participation in the group benefit plans, in aggregate, is as follows:

	2014		2013	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Components of benefit plan cost:				
Defined benefit plans cost	**37**	**6**	58	5
Defined contribution plans cost	**22**	**–**	20	–
Total cost	**59**	**6**	78	5
Less: Capitalized	**33**	**3**	41	2
Net cost recognized	**26**	**3**	37	3
Accrued benefit obligations:				
Beginning of year	**38**	**80**	39	78
Defined benefit plan cost	**37**	**6**	58	5
Benefit payments	**(4)**	**(2)**	(4)	(2)
Contributions to defined benefit plans	**(32)**	**–**	(54)	–
Losses (gains) on accrued benefit obligations	**5**	**13**	(1)	(1)
End of year	**44**	**97**	38	80

WEIGHTED AVERAGE ASSUMPTIONS

	2014		2013	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Assumptions regarding benefit plan cost:				
Discount rate for the year	**4.9%**	**4.9%**	4.3%	4.3%
Average compensation increase for the year	**Note (1)**	**–**	Note (1)	–
Assumptions regarding accrued benefit obligations:				
Discount rate at December 31	**4.0%**	**4.0%**	4.9%	4.9%
Long-term inflation rate	**2.0%**	**Note (2)**	2.0%	Note (2)

Note (1) The assumed average compensation increase is 3.25% for 2014 and thereafter (2013 – 3.25% until the end of 2013 and thereafter).

Note (2) The assumed annual health care cost trend rate increases used in measuring the accumulated OPEB obligation are as follows: for drug costs, 5.83% for 2014 grading down over ten years to 4.5% (2013 – 5.97% for 2013 grading down over eleven years to 4.5%), for other medical costs, 4.5% for 2014 and thereafter (2013 – 4.5% for 2013 and thereafter), and for dental costs, 4.0% for 2014 and thereafter (2013 – 4.0% for 2013 and thereafter).

In 2014, the Company adopted the Private Sector Canadian Pensioners Mortality table published by the Canadian Institute of Actuaries as the basis for assumption regarding future life expectancy. In 2013 assumptions regarding future life expectancy were based on a 1994 mortality table, updated for improvements in life expectancy.

FUNDING

Employees contribute a percentage of their salary to registered pension plans. The Company contributes its share of contributions for the defined contribution pension plans. The Company also provides the balance of the funding necessary to ensure that benefits will be fully provided for the defined benefit pension plans.

In 2014, an actuarial valuation for funding purposes as of December 31, 2013 was completed for the registered defined benefit pension plans. Based on this valuation, employer contributions for 2014 were $32 million compared to $54 million in 2013, a decrease of $22 million. The 2014 amount is also the estimated contribution for 2015. The next actuarial valuation for funding purposes must be completed as of December 31, 2016.

The Company's defined benefit contributions for the year ended December 31, 2014 amounted to 81% (2013 – 82%) of the total employer contributions, in aggregate, for the Group Plan.

Employer contributions to the defined contribution component of the plans for 2014 were $22 million (2013 – $20 million).

CANADIAN UTILITIES LIMITED BENEFIT PLANS

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2014.

21. CHANGES IN NON-CASH WORKING CAPITAL

Activities resulting in changes in non-cash working capital are summarized below.

	2014	2013
Operating activities, changes related to:		
Accounts receivable	**(11)**	(20)
Accounts receivable from parent and affiliate companies	**(19)**	(3)
Inventories	**1**	4
Prepaid expenses and other current assets	**(2)**	(1)
Accounts payable and accrued liabilities	**22**	35
Accounts payable to parent and affiliate companies	**(17)**	(4)
	(26)	11
Investing activities, changes related to:		
Inventories	**5**	(11)
Prepaid expenses	**2**	(1)
Accounts payable and accrued liabilities	**45**	(74)
	52	(86)

22. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note.

TRANSACTIONS WITH PARENT COMPANY OR ULTIMATE PARENT

Transaction	Recorded As	2014	2013
Rent, aircraft usage and	Other expenses	**16**	16
licensing fees	Property, plant and equipment	**9**	8
Interest on short-term advances	Interest expense	**1**	2

The Company obtains short-term advances from its parent in the normal course of business. These short-term advances are generally due within 30 days or less from the date of the transaction. The interest rates are based on the Bank of Canada overnight rate plus an applicable spread.

TRANSACTIONS WITH AFFILIATE COMPANIES

Transaction	Recorded As	2014	2013
Natural gas storage, transportation and other natural gas services, rent and office services, payroll and accounting services	Revenues	**8**	6
Interest on long-term advances	Interest income	**12**	12
Purchase and storage of natural gas	Fuel costs	**3**	2
Computer services and systems development, call centre and customer billing services	Other expenses	**66**	77
	Prepaids and other current assets	**–**	1
	Property, plant and equipment	**25**	25
	Intangibles	**13**	30
Trailer supply and noise management services	Property, plant and equipment	**1**	15

Affiliate companies are subsidiaries of the Company's parent or ultimate parent.

These transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

RELATED PARTY LOANS AND BALANCES

Transaction	Recorded As	2014	2013
Receivables from related parties	Accounts receivable from parent company	**19**	–
	Accounts receivable from affiliate companies	**11**	6
Payables to related parties	Accounts payable to parent company	**8**	13
	Accounts payable to affiliate companies	**4**	16
Long-term advances	Long-term advances to affiliate company	**130**	130
Short-term advances	Short-term advances from affiliate company	**18**	–
Equity preferred shares *(Note 16)*	Equity preferred shares to parent company	**79**	79

Receivables and payables with related parties are generally due within 30 days or less from the date of the transaction. The amounts outstanding are unsecured, bear no interest and will be settled in cash. No provisions are held against receivables from related parties.

Long-term advances to affiliate company	Effective Interest Rate	2014	2013
1999 6.80% due August 2019	6.861%	**51**	51
1990 Second Series 11.77% due November 2020	11.903%	**27**	27
1991 Series 9.92% due April 2022	10.063%	**35**	35
1992 Series 9.40% due May 2023	9.511%	**17**	17
		130	130

The long-term advances are unsecured and will be settled in cash. No provisions are held against the advances.

KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2014	2013
Salaries and short-term employee benefits	**5**	6
Retirement benefits	**1**	1
Share-based compensation	**4**	5
	10	12

Key management personnel comprise members of executive management and the Board, a total of 11 individuals (2013 – 9 individuals).

23. SUBSEQUENT EVENT

On January 8, 2015, the Company declared eligible dividends of $0.28750 per share on the Series 1 Preferred Shares and $0.23750 per share on the Series 4 Preferred Shares.