CANADIAN UTILITIES LIMITED
An ATCO Company

CANADIAN UTILITIES LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key financial events that influenced the operations of Canadian Utilities Limited (the Company) during the past year.

This MD&A was prepared as of February 19, 2015, and should be read with the Company's audited consolidated financial statements for the year ended December 31, 2014 (2014 Annual Financial Statements). Additional information, including the Company's Annual Information Form (AIF), is available on SEDAR at www.sedar.com.

The Company is controlled by ATCO Ltd. and its controlling share owners, Sentgraf Enterprises Ltd. and R.D. Southern.

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

TABLE OF CONTENTS

	Page
Company Overview	2
Canadian Utilities Strategies	3
Significant Developments	5
Performance Overview	6
Segmented Information	10
Utilities	10
Energy	17
ATCO Australia	24
Corporate & Other	27
Other Expenses and Income	29
Liquidity and Capital Resources	30
Share Capital	32
Quarterly Information	33
Reconciliation of Adjusted Earnings to Earnings Attributable to Equity Owners of the Company	34
Risk Management and Financial Instruments	38
Other Financial Information	40
Glossary	43
Appendix 1 Fourth Quarter Financial Information	44

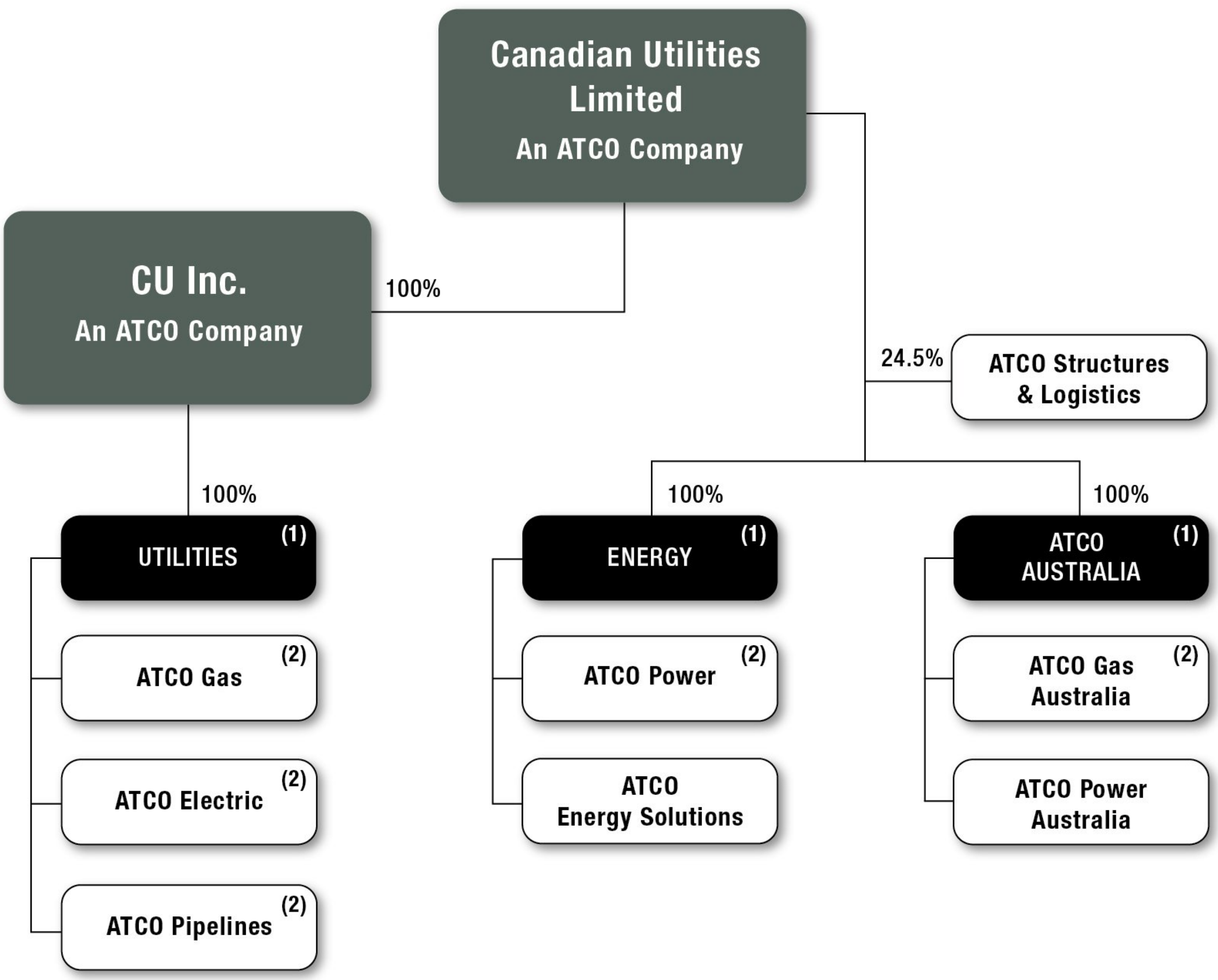
COMPANY OVERVIEW

With more than 6,800 employees and assets of approximately $17 billion, Canadian Utilities Limited, an ATCO company, is a diversified global corporation delivering service excellence and innovative business solutions through leading companies engaged in Utilities (pipelines, natural gas and electricity transmission and distribution) and Energy (power generation and sales, industrial water infrastructure, natural gas gathering, processing, storage and liquids extraction). More information can be found at www.canadianutilities.com.

The consolidated financial statements include the accounts of Canadian Utilities Limited, its subsidiaries, including the equity investment in joint ventures and a proportionate share of joint operations, and its 24.5 per cent equity investment in ATCO Structures & Logistics Ltd.

The 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.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



(1) Descriptions of segment business activities are provided in the Segmented Information section of this MD&A.

(2) Regulated operations include ATCO Gas, ATCO Electric, ATCO Pipelines, ATCO Gas Australia and the Battle River unit 5 and Sheerness generating plants of ATCO Power.

CANADIAN UTILITIES STRATEGIES

The Company develops strategies with a focus on creating value. Growth and financial strength are the principal strategies employed to build a successful enterprise. These strategic imperatives are supported by the Company's commitment to operational excellence. The Company is also committed to engaging with its employees throughout their careers and to helping create healthy, vibrant communities in which the Company does business and in which people live and work.

GROWTH

Long-term sustainable growth is critical to the Company’s future viability. The Company approaches this strategy in ways agreed to and confirmed by its Board of Directors, namely by: expanding geographically to meet the global needs of customers; developing significant, value-creating greenfield projects; and fostering continuous improvement and innovation through research and development.

FINANCIAL STRENGTH

Financial strength is fundamental to the Company’s current and future success. It ensures the Company has the financial capacity to fund existing and future capital investments through a combination of predictable cash flow from operations, cash balances on hand, committed credit facilities and access to capital markets. It enables the Company to sustain its operations and to grow through economic cycles, thereby providing long-term financial benefits.

OPERATIONAL EXCELLENCE

Operational excellence is putting into action the ‘Heart and Mind’ of the Company - this spirit of excellence governs the Company's actions and everyday decisions at all levels, reflecting core values: integrity, transparency, entrepreneurship, accountability, collaboration, perseverance and caring. It is the Company's Heart and Mind that drives its approach to service reliability and product quality, employee, contractor and public safety, and environmental stewardship. The Company approaches operational excellence by: achieving high service and product quality and reliability for its customers and the communities served; maintaining a safe work environment for employees and contractors and promoting public safety; and striving to minimize environmental impact.

TARGETED ACQUISITIONS

The ongoing exploration of opportunities to acquire assets provides the Company with additional growth potential. The Company will pursue the acquisition and development of complementary assets that have future growth potential and provide long-term value for share owners.

CAPITAL REDEPLOYMENT

The Company continuously reviews its holdings to evaluate opportunities to monetize mature assets. The viability of such opportunities depends on the outlook of each business as well as general market conditions. This ongoing focus supports the optimal allocation of capital across the Company.

COMMUNITY INVESTMENT

The Company demands a careful, respectful and collaborative community approach, where meaningful partnerships and positive relationships with community leaders and groups that will enhance economic and social development are built. Community investment involves: developing partnerships with non-profit organizations and supporting them through volunteer efforts and providing expertise and financial support; engaging with governing authorities, regulatory bodies, landowners, Indigenous and community groups that may be affected by projects and operations worldwide; and building and sustaining positive Indigenous relationships that contribute to sustainable economic and social development in their communities.

EMPLOYEE ENGAGEMENT

The Company seeks to create a work environment where employees are valued and respected. The Company upholds the highest standards of ethical behavior, fosters leadership and skills development to enable employees to grow within the organization and provides competitive compensation for their efforts. The Company is committed to: enhancing performance management, succession planning, leadership and employee development programs to build and develop learning, growth and career advancement opportunities for its employees; and fostering a productive and collaborative labour relations environment.

FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

The Company's financial and operational achievements in 2014 relative to the strategies outlined above are included in the Company's MD&A, Annual Financial Statements and AIF. Further commentary regarding strategies and commitments to operational excellence, community investment and employee engagement will be provided in the forthcoming 2014 Annual Report, Management Proxy Circular and Sustainability Report. Canadian Utilities' website, www.canadianutilities.com, is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on this website.

SIGNIFICANT DEVELOPMENTS

LONG-TERM CONTRACTED ELECTRICITY TRANSMISSION - FORT McMURRAY 500 kV Project

In December 2014, Alberta PowerLine, a newly formed partnership between the Company and Quanta Capital, a Quanta Services company, was awarded a 35-year, $1.4 billion contract by the Alberta Electric System Operator (AESO) for the Fort McMurray West 500-kilovolt (kV) Transmission Project (Fort McMurray 500 kV Project). This project will increase the capacity of the electricity system in northeastern Alberta and help to ensure that this economically vital area of the province has the power it needs. This investment is reported in the Corporate & Other Segment of this MD&A.

MEXICO

The Company has made a long-term commitment to Mexico, establishing an office in Mexico City in the third quarter of 2014 to pursue and evaluate business opportunities in Mexico's energy market. The Mexican government recently embarked on reform of its energy sector, thereby opening the door to foreign investment in power generation, electricity and natural gas transmission and distribution facilities. The Company's growth strategy in Mexico is modeled after the Company's existing Canadian and Australian operations, consisting of diverse yet complementary businesses. This investment in Mexico is eported in the Corporate & Other Segment of this MD&A.

On October 9, 2014, the Company was awarded a 25-year contract by the Comisión Federal De Electricidad (CFE) to design, build and operate a 16 kilometre natural gas pipeline near the town of Tula (located approximately 100 kilometres northwest of Mexico City) in the state of Hidalgo, Mexico. The project cost is estimated at USD $50 million and is expected to be in service in mid-2015.

On October 27, 2014, the Company and its partner Grupo Hermes S.A. de C.V. were selected by an affiliate of Mexico's state-owned petroleum company Pemex, PMX Cogeneracion S.A.P.I. de C.V., to commence the project development and approval process for a natural gas cogeneration plant at the Miguel Hidalgo refinery near the town of Tula in the state of Hidalgo, Mexico. Initial estimates value the capital investment of the proposed project at USD $820 million, of which the Company will be responsible for approximately half. Capital investment approval is expected in 2015, with a commercial operation date in 2018.

ENERGY - HYDROCARBON STORAGE

ATCO Energy Solutions announced and advanced its strategically developed ATCO Heartland Energy Centre near Fort Saskatchewan, Alberta, which is intended to provide customers with a superior alternative for hydrocarbon storage.

ATCO Energy Solutions, in partnership with Petrogas Energy Corp., announced in September 2014 the development of four salt caverns for hydrocarbon storage. The total partnership investment is approximately $200 million. ATCO Energy Solutions has a 60 per cent partnership interest. ATCO Energy Solutions is building and will operate the facility. Commercial operation for two caverns is targeted for the second quarter of 2016, with two additional caverns to be completed by the second quarter of 2017.

In January 2015, ATCO announced the partnership between ATCO Energy Solutions and Petrogas Energy Corp. had secured long-term contracts for all four of these salt caverns.

CAPITAL REDEPLOYMENT

The Company continuously reviews opportunities to monetize mature assets. In August 2014, the Company completed the sale of its information technology (IT) services to Wipro Ltd. (Wipro), a global information technology, consulting and business process services company. Wipro acquired all the shares of ATCO I-Tek, including current contracts and employees, as well as the assets of ATCO I-Tek Australia as part of the transaction. Proceeds of the sale were $204 million, resulting in a one-time after-tax gain of $138 million. The proceeds from the sale were redeployed to finance the Company's growth initiatives.

FINANCING

On September 5, 2014, CU Inc., a subsidiary of the Company, issued $1 billion of 4.085 per cent 30-year debentures, which was the single largest long-dated corporate bond on record in Canada. In addition, on October 17, 2014, CU Inc. issued $200 million of 4.094 per cent 40-year debentures. Proceeds from these two issuances were used to finance capital expenditures, to repay existing indebtedness, and for other general corporate purposes of the Utilities.

ATCO Gas Australia continues to receive favourable debt pricing from its credit rating upgrade in 2013, as well as favourable rates from the refinancing of its $450 million of Australian dollar facility and renegotiated rates on its $250 million Australian dollar facility in 2013. In November 2014, the maturity dates for these two facilities were renegotiated at favourable rates to extend their expiry to December 31, 2019.

PERFORMANCE OVERVIEW

FINANCIAL METRICS

The following chart summarizes key financial metrics associated with the Company's financial performance.

			Year Ended December 31
($ millions, except per share data and outstanding shares)	**2014**	**2013**	**2012**
Key Financial Metrics			
Adjusted earnings	**575**	572	515
Utilities	**409**	338	282
Energy	**99**	151	136
ATCO Australia	**51**	45	43
Corporate & Other	**16**	38	52
Intersegment Eliminations	**–**	–	2
Earnings attributable to equity owners of the Company	**711**	587	553
Capital expenditures (including capitalized interest)	**2,274**	2,398	2,272
Revenues	**3,600**	3,381	3,039
Total assets	**16,702**	15,051	13,218
Long-term debt	**7,315**	6,291	5,474
Class A and Class B Share owners' equity	**4,305**	3,936	3,308
Cash dividends declared per Class A and Class B share *($)*	**1.07**	0.97	0.89
Funds generated by operations	**1,643**	1,687	1,449
Other Financial Metrics *(restated for 2013 two-for-one share split)*			
Earnings per Class A and Class B share *($)*:			
Basic	**2.52**	2.10	2.03
Diluted	**2.52**	2.09	2.02
Class A and Class B shares outstanding, year end *(thousands)*	**263,907**	261,030	257,113
Weighted average Class A and Class B shares outstanding *(thousands):*			
Basic	**262,013**	258,433	255,326
Diluted	**262,818**	259,298	256,019

ADJUSTED EARNINGS

The Company's adjusted earnings were $575 million in 2014. Earnings growth from continued capital investment in the Utilities along with improved earnings in ATCO Energy Solutions and ATCO Australia were partially offset by lower earnings in ATCO Power.

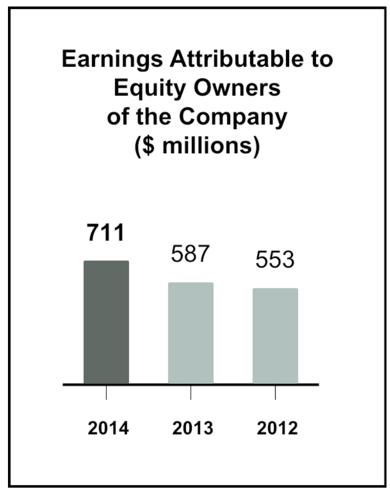
- Utilities - The Company continues to make significant investment in utility infrastructure in Alberta, notably in electricity transmission facilities. Capital expenditures of $2.1 billion in 2014 were comparable to the $2.2 billion invested in 2013. Over the last three years, capital expenditures in the Utilities totaled $6.4 billion. This investment has translated into significant growth in the Utilities' adjusted earnings. Adjusted earnings for 2014 were $409 million, a 21 per cent increase over last year.
- ATCO Power - Adjusted earnings for 2014 were $74 million compared to $146 million in the prior year. Alberta Power Pool prices and spark spreads were $49.42/MWh and $17.62/MWh, respectively, in 2014, compared to $80.19/MWh and $57.60/MWh, respectively, in 2013. These unfavourable market prices, together with reduced price volatility, contributed to lower adjusted earnings.

Earnings performance for the Company's other segments is discussed in the Segmented Information section.

EARNINGS ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Earnings attributable to equity owners of the Company were higher at $711 million in 2014 compared to $587 million for the same period in 2013. This increase was $121 million higher than the growth in adjusted earnings.

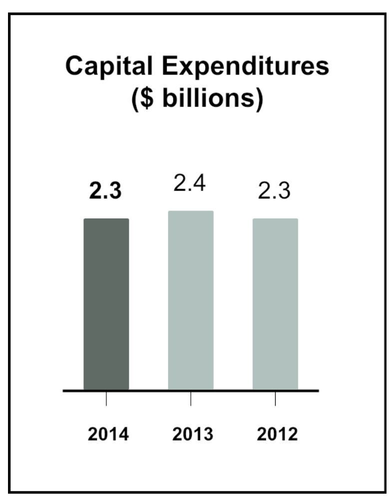
Earnings attributable to equity owners of the Company include one-time gains and losses, significant impairments, adjustments related to the timing of rate-regulated activities that were not included in adjusted earnings and dividends on equity preferred shares of the Company. These items in total contributed a net $136 million of additional earnings attributable to equity owners of the Company in 2014. In 2013, these items contributed to a net increase in earnings attributable to equity owners of the Company of $15 million. More information on these items is available in the "Reconciliation of Adjusted Earnings to Earnings Attributable to Equity Owners of the Company" section in this MD&A.



CAPITAL EXPENDITURES

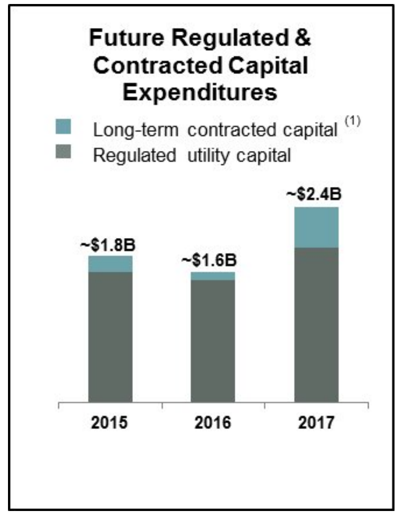
Total capital expenditures of $2.3 billion in 2014 were consistent with the high levels reported in 2013 and 2012. The Utilities accounted for $2.1 billion of this year's capital spending, with the remaining expenditures spread across the Company's other business segments.

The majority of the Utilities' expenditure was in the transmission operations of ATCO Electric and was predominantly for AESO direct-assigned projects. Several large transmission infrastructure projects are underway.



A further $5.8 billion of capital expenditures are expected in the three-year period from 2015 to 2017. Of this amount, $4.8 billion of capital expenditures is planned in the regulated Utilities in Alberta. ATCO Electric is planning to invest $3.1 billion, including $1.2 billion related to projects directly assigned from the AESO to meet the needs it has identified to reinforce and expand Alberta's electricity transmission system to meet future demand. ATCO Gas and ATCO Pipelines are planning to invest the balance of $1.7 billion from 2015 to 2017.

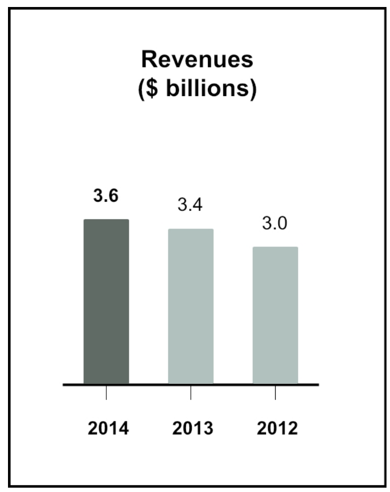
In addition to capital expenditures in the regulated Utilities, the Company intends to invest a further $1 billion in long-term contracted capital from 2015 to 2017. Of this $1 billion, $531 million is planned on the long-term contracted capital investment for the Company's Fort McMurray 500 kV Project.



(1) Includes the Company's proportionate share of investments in partnership interests.

REVENUES

Revenues in 2014 were $3.6 billion, which were slightly higher than 2013. The main reasons for this increase were: $206 million growth in the Utilities segment and a $145 million increase at ATCO Energy Solutions primarily due to higher flow-through revenues in the Company's natural gas extraction operations. Flow-through revenues are operating costs passed on to customers by the Company. These higher revenues were partially offset by a decrease of $134 million in ATCO Power primarily due to lower Alberta Power Pool prices.



ASSETS, DEBT AND EQUITY

The Company's total assets, long-term debt and Class A and Class B share owners' equity reflect the significant growth during 2014 and how that growth was financed. Total assets grew from $15 billion at the beginning of 2014 to $17 billion at year end. That growth occurred mainly in the Utilities segment as a result of significant capital investment.

To finance this asset expansion, the Company added long-term debt of $1.2 billion in 2014. The Company capitalized on the current low interest rate environment and the capital markets' acceptance of the Company's public debt offerings by issuing $1 billion of 30-year debt, and $200 million of 40-year debt, at attractive interest rates of 4.085 per cent and 4.094 per cent, respectively. The Company also repaid $100 million of 5.096 per cent debentures at maturity on November 18, 2014.

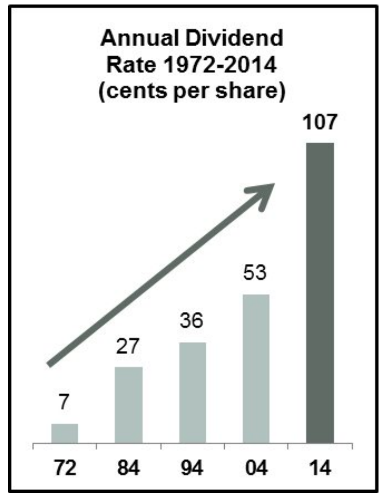
The Company maintained strong investment grade credit ratings, which allow access to capital markets at competitive rates. In 2014, Standard and Poor's Ratings Services (S&P) and DBRS Limited re-affirmed their ratings of the Company as "A" with a stable outlook and "A" with a stable trend, respectively. In addition, S&P reaffirmed its "A-" with a stable outlook rating for ATCO Gas Australia in February 2015.

Class A and Class B share owners' equity increased over the prior year mainly as a result of 2014 earnings, partially offset by higher dividends paid to share owners. Additionally, on June 1, 2014, the Company's subsidiary, CU Inc., redeemed all outstanding 6.70 per cent Cumulative Redeemable Preferred Shares Series 2 totaling $160 million. The redemption was financed with available cash reserves.

DIVIDENDS

The Board of Directors increased the quarterly dividends paid per Class A and Class B share for the four quarters of 2014 from 24.25 cents per share to 26.75 cents per share, an increase of 10 per cent over 2013.

On January 8, 2015, the Board of Directors declared a first-quarter dividend of 29.50 cents per share. That amount represents a 10 per cent increase over the quarterly dividends per share paid in 2014; the third consecutive year of a 10 per cent increase in dividends. The Company has increased its common share dividends each year since 1972.



FUNDS GENERATED BY OPERATIONS

Funds generated by operations of $1.6 billion in 2014 were $44 million lower than the prior year mainly as a result of decreased contributions received from customers for utility capital expenditures. Funds generated by operations are cash flow from operations excluding changes in non-cash working capital.

Management is committed to maintaining a significant level of liquidity at all times to provide financing flexibility. In addition to funds generated by operations, sources of liquidity include cash and available committed credit facilities.

SEGMENTED INFORMATION

Utilities

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

REVENUES

Revenues in the Utilities were $29 million higher in the fourth quarter and $206 million higher for the year ended December 31, 2014, compared to the prior year.

Increased revenues for the transmission operations of ATCO Electric are attributable to significant capital investments in transmission infrastructure in Alberta.

The distribution operations of ATCO Gas and ATCO Electric recorded increased revenues as the interim 2014 Performance Based Regulation (PBR) rates are higher than the interim 2013 PBR rates. In addition, revenues in the distribution operations of ATCO Gas increased as a result of higher transmission rates paid to the transmission services provider and higher franchise fees paid to municipalities, both of which are recovered from customers. Revenues also reflected increased capital investment in utility infrastructure, more customers and higher demand for energy largely resulting from colder weather.

ADJUSTED EARNINGS

Adjusted earnings for each of the Utilities are shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
ATCO Electric	**66**	46	20	**273**	223	50
ATCO Gas	**54**	42	12	**97**	81	16
ATCO Pipelines	**9**	7	2	**39**	34	5
Total Utilities	**129**	95	34	**409**	338	71

In 2014, adjusted earnings generated by the Utilities of $409 million were $71 million, or 21 per cent, higher than 2013. Adjusted earnings in the fourth quarter of 2014 of $129 million were $34 million higher than the same period of 2013.

The Company continued to make significant capital investments in the Utilities, particularly in electricity transmission infrastructure in Alberta. Capital growth was the primary driver for the year-over-year increase in adjusted earnings.

In addition, the distribution operations of ATCO Electric and ATCO Gas included incremental earnings from the AUC's 2014 Interim Rates Decisions received in the third quarter of 2014. The Decisions approved recovery of increased interim rates from 60 per cent to 90 per cent of incremental Capital Tracker funding, pending final decisions expected in the first quarter of 2015. Adjusted earnings increased by $26 million as a result of these decisions which covered 2013 and 2014. Of this amount, $11 million related to 2013 and $15 million related to 2014.

Utilities adjusted earnings increased by 21% in 2014 compared to 2013

The Utilities also recorded $14 million in adjusted earnings as a result of a significant reduction in registered defined benefit pension plan contributions for 2014. This reduction in required employer contributions came about due to a valuation of the Company's largest defined benefit pension plan completed in 2014.

The AUC's 2014 decision for information technology and customer care and billing services (2010 Evergreen Decision) partly offset the impact of the 2014 Interim Rates Decisions and pension revaluation. Adjusted earnings decreased by $32 million in

2014 as a result of this decision which covered the period 2010 to 2014. Of this amount, $10 million related to 2014 and $22 million related to prior periods.

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

ATCO ELECTRIC

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 the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River.

ATCO Electric's adjusted earnings were $66 million in the fourth quarter and $273 million in 2014, an increase of $20 million and $50 million, respectively. Strong 2014 fourth quarter and year-over-year adjusted earnings are mainly attributable to growth in rate base in transmission operations. Capital investment in ATCO Electric's distribution operations also generated higher earnings under the interim approved Capital Tracker rates. In 2014, ATCO Electric received approval from the AUC to recover 90 per cent of its requested incremental capital funding on an interim basis for 2013 and 2014. The final decision on Capital Trackers is expected in the first quarter of 2015. The distribution operations also benefited from more customers and higher demand for energy.

Adjusted earnings for 2014 included a $6 million reduction related to the prior-period impact of the 2010 Evergreen Decision. Additionally, adjusted earnings for 2013 included $13 million to reflect the full impact of the AUC Decision relating to the 2013/2014 General Tariff Application.

ATCO GAS

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

Adjusted earnings in ATCO Gas were $54 million in the fourth quarter and $97 million in 2014, an increase of $12 million and $16 million, respectively, over the prior periods. Increased earnings for the year came from capital investment, more customers, higher demand and a reduction in pension plan contributions. ATCO Gas received approval from the AUC to recover 90 per cent of its requested incremental capital funding on an interim basis for 2013 and 2014. The final decision on Capital Trackers is expected in the first quarter of 2015.

Adjusted earnings in 2014 included a $14 million reduction related to the prior-period impact of the 2010 Evergreen Decision.

ATCO PIPELINES

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

Adjusted earnings in ATCO Pipelines were $9 million in the fourth quarter and $39 million in 2014 resulting in an increase over the same periods in 2013 of $2 million and $5 million, respectively. These increases were mainly from growth in rate base.

Adjusted earnings for 2014 included a $2 million reduction related to the prior-period impact of the 2010 Evergreen Decision.

MAJOR CAPITAL EXPENDITURE PROJECT UPDATES

Total capital expended in the Utilities over the last three years was $6.4 billion. The largest expenditures were in the transmission operations of ATCO Electric. The AESO has identified the need for major reinforcement and expansion of the electricity transmission system in Alberta, and ATCO Electric is dedicated to improving Alberta's electrical system through responsible transmission development.

Capital expenditures for ATCO Gas, ATCO Electric Distribution and ATCO Pipelines over the three-year period are representative of expenditure levels required to provide safe and reliable service and meet the demands of a growing province.

$6.4 billion in Utility capital expenditures from 2012 to 2014

Total capital expenditures for the Utilities in the last three years are provided in the table below.

($ millions)	**2014**	**2013**	**2012**
			Year Ended December 31
Electric Transmission	**1,233**	1,355	1,345
Electric Distribution	**369**	408	387
Gas Distribution	**292**	268	323
Pipeline Transmission	**185**	147	87
Total	**2,079**	**2,178**	**2,142**

The Utilities continued their major capital expenditure programs, investing a further $524 million in the fourth quarter of 2014. Total capital expenditures in the Utilities during 2014 were $2.1 billion, comparable to the same period of 2013. The transmission operations of ATCO Electric invested $272 million in the fourth quarter and $1.2 billion in 2014. The Eastern Alberta Transmission Line (EATL) is the largest single project under construction. The EATL project spend was $148 million in the fourth quarter, bringing the total spend to date to $1.7 billion. The in-service-date has shifted from December 2014 into 2015 due to delays related to the completion of the converter stations. A new date will be established once updated construction schedules have been finalized and the commissioning of the project has been coordinated and agreed with the AESO. While the impact on the project cost will be determined once the re-scheduling has been finalized, the costs at this time are not expected to be materially different from the $1.8 billion previously forecasted. Amounts for the EATL project exclude interest during construction.

The Company plans to invest $4.8 billion in capital expenditures in the Utilities segment during the period 2015 to 2017. Of this amount, ATCO Electric is planning to spend $3.1 billion, of which $1.2 billion relates to projects directly assigned from the AESO to meet the needs it has identified to reinforce and expand Alberta's electricity transmission system to meet future demand. ATCO Gas and ATCO Pipelines intend to spend the remaining $1.7 billion, of which $467 million relates to the Urban Pipeline Replacement Project (UPR).

$4.8 billion in planned Utility capital expenditures for 2015 to 2017

A breakdown of the Utilities' major capital expenditure projects at December 31, 2014, is given below (all figures in the table and related commentary exclude interest during construction).

Project *($ millions)*	**Total Cost**	**Year to date December 31 2014**	**Total to date December 31 2014**	**Costs to Complete**	**In Service Date**
Eastern Alberta Transmission Line	**1,803**	**736**	**1,674**	129	2015
Northwest Fort McMurray Transmission Development	**463**	**33**	**64**	399	2019
Central East Transmission Development	**340**	**112**	**312**	28	2015
North East Region Transmission Development [(1)]	**800**	**59**	**106**	694	2019
Vermillion-Red Deer-Edgerton-Provost Transmission Development	**375**	**2**	**2**	373	2019
Urban Pipeline Replacement	**700**	**15**	**68**	632	2018
Total	**4,481**	**957**	**2,226**	2,255	

(1) Includes projects awaiting AESO approval.

Eastern Alberta Transmission Line (EATL) Project

This 500 kV high voltage direct-current transmission line, with associated converter stations and facilities, extends approximately 485 km along a corridor on the east side of the province of Alberta between Edmonton and Calgary. The line adds capacity to Alberta's existing electricity transmission system in response to the need identified by the AESO to reinforce the transmission system between the two cities and to prepare the province for projected load growth. By the end of 2014, all foundations and towers were installed and erected with 92 per cent of stringing completed. The remaining stringing was completed in February 2015. While work also progressed on the two converter stations, the in-service-date has shifted into 2015 due to contractor delays.

Northwest Fort McMurray Transmission Development Project

ATCO Electric received direction from the AESO to undertake a transmission development project northwest of Fort McMurray, Alberta. The project responds to several requests for transmission system access in the area, where significant load and generation requirements for oil sands developments are forecast. This project consists of two new substations and approximately 140 km of transmission lines, with total capital expenditures estimated at $463 million.

This project consists of two phases. The first is a substation with an estimated cost of $55 million. Final AUC approval was received in January 2014, with an expected in-service-date being delayed until the second quarter of 2015 as the customer was not ready to energize their facilities. The second phase consists of another substation and transmission lines with an estimated cost of $408 million. Customers are presently reviewing these facilities and their connection needs. It is expected that this portion of work may be delayed beyond 2019.

Central East Transmission Development Project

The Central East Transmission Development Project consists of a number of transmission line and substation upgrades to enhance the reliability and carrying capacity of the regional system in central east Alberta. Most of the transmission system upgrade work will be in the St. Paul, Cold Lake, and Bonnyville areas, approximately 300 km northeast of Edmonton, Alberta. The total estimated cost for the entire development is $340 million. All projects have received final approval from the AUC and are anticipated to be completed in 2015.

North East Region Transmission Development Project

Transmission development in the northeast region of Alberta consists of a number of customer-driven enhancements and additional 240 kV transmission lines in the Fort McMurray area. Preliminary estimates for this transmission development are approximately $800 million. Approximately $200 million in customer-driven enhancements are ongoing and are expected to be fully completed by the end of 2016. A system enhancement project referred to as Thickwood is required to strengthen the 240 kV system and allow for the tie in of the Fort McMurray 500 kV Project. The preliminary estimate of the cost of this enhancement is approximately $200 million with a forecast in-service-date of 2018. The remaining $400 million is tied to future oil sand expansions. Due to falling oil prices and continued inter-provincial pipeline capacity issues, the timing of this work remains to be finalized.

Vermillion - Red Deer - Edgerton - Provost Transmission Development

Transmission development in the area between Red Deer and Vermillion, in the central part of Alberta, is now being planned by the AESO to upgrade and enhance the reliability and carrying capacity. Early estimated costs of this development are $375 million and expected completion is in 2019.

Urban Pipeline Replacement (UPR)

The capital investment to complete construction of ATCO Pipelines' AUC approved UPR project will recommence in the first quarter of 2015. Construction will last approximately five years and the total cost of the UPR project is estimated to be $700 million, which includes the cost to integrate the new high-pressure network with ATCO Gas' low-pressure distribution system. The project will replace and relocate aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth.

REGULATORY DEVELOPMENTS

Information Technology and Customer Care and Billing Services (Evergreen Application)

An AUC decision for information technology and customer care and billing services (2010 Evergreen Decision) was received in the second quarter of 2014. Adjusted earnings decreased by $32 million in 2014 as a result of this decision which covered the period 2010 to 2014. Of this amount, $10 million related to 2014 and $22 million related to prior periods.

Performance Based Regulation (PBR) Capital Tracker (K Factor) Applications

The K Factor applications are mechanisms included in the PBR regulatory model to allow the Company to recover capital expenditures that are not recoverable through the base PBR formula that meet certain criteria. In December 2013, the AUC approved the continued collection, on an interim basis, of 60 per cent of the applied-for incremental Capital Trackers for 2013 and 2014 as requested by ATCO Gas and ATCO Electric.

ATCO Electric and ATCO Gas re-filed their 2013 Capital Tracker Applications in the second quarter of 2014 as requested by the AUC. These re-filings came about as a result of an earlier decision that clarified the assessment process the AUC would follow to determine Capital Tracker funding. ATCO Electric and ATCO Gas also filed 2014 and 2015 Capital Tracker Applications in the second quarter of 2014 as requested by the AUC. Decisions from the AUC on the 2013, 2014 and 2015 Capital Tracker Applications are not expected until the first quarter of 2015. Meanwhile, ATCO Electric and ATCO Gas filed interim rate applications in the second quarter of 2014 for 100 per cent of the applied-for Capital Tracker rates. On October 24, 2014, the AUC approved 90 per cent of the applied-for Capital Tracker rates on an interim basis. Adjusted earnings increased by $26 million as a result of these decisions which covered 2013 and 2014.

2011 and 2013 Pension Decisions

In April 2014, the Supreme Court of Canada granted the Company leave to appeal the AUC's 2011 pension decision, which limited recovery of annual cost of living allowance (COLA) adjustments to 50 per cent of the Consumer Price Index (CPI), with a maximum COLA adjustment of 3 per cent. The Supreme Court heard the Company's appeal in December 2014, with a decision expected in 2015.

In the meantime, the Company submitted a Pension Application to the AUC for 2013 that included a request for 100 per cent recovery of the COLA adjustment. In January 2015, the AUC issued its decision in which it did not accept that the new evidence provided by the ATCO Utilities supported an increase in the recovery of annual COLA adjustments above the previously determined level of 50 per cent of CPI. The Company is planning to file an appeal of this decision.

Generic Cost of Capital (GCOC)

In 2014, the AUC held a proceeding to review cost of capital matters, including capital structure and return on common equity (ROE) for 2013 and 2014. As part of this proceeding, the AUC is also considering whether or not to return to a formula approach to determine ROE for 2015 and beyond.

The current AUC-approved interim rate of ROE is 8.75 per cent. A change in the approved capital structure or ROE may impact the Utilities' adjusted earnings. Under the terms of PBR, changes to the approved capital structure and ROE of distribution utilities have less of an impact on adjusted earnings. For these distribution utilities, their rates are determined through the use of a formula during the PBR term. A decision is expected in the first quarter of 2015.

2012 Deferral Account Application

On October 2, 2014, the AUC issued its Decision on ATCO Electric Transmission's 2012 Deferral Account Application. The Application included $585 million of expenditures for the 22 direct-assigned AESO projects that went into service in 2012, including $230 million for the North Fort McMurray Transmission Development. One $25 million project was removed from the Application and will be tested as part of a future proceeding. The Decision fully approved all costs into rate base and confirmed ATCO Electric's prudent management of its capital projects.

Alberta System Integration

ATCO Pipelines and Nova Gas Transmission Ltd. (NGTL) entered into an agreement with respect to natural gas transmission service that will allow ATCO Pipelines and NGTL to utilize their physical assets under a single rates and services structure with a single commercial interface for Alberta customers. This integration will end duplicate tolling and operational activities and result in more efficient regulatory processes.

The AUC issued a decision on May 27, 2010, approving the integration, subject to subsequent applications to address (i) the transition of ATCO Pipelines' customers to NGTL, and (ii) the swap of assets between ATCO Pipelines and NGTL in order to establish distinct operating areas. Commercial integration and the transition of customers took place on October 1, 2011, following AUC approval.

On November 22, 2012, the AUC issued a decision approving the asset swap between ATCO Pipelines and NGTL in order to establish distinct operating areas. On October 16, 2014, the National Energy Board issued an order approving the asset swap between ATCO Pipelines and NGTL. The asset transfers will commence in 2015 and are expected to be completed over a two-year period.

2015 - 2016 General Rate Application

In December 2014, ATCO Pipelines filed a general rate application for its operations for 2015 and 2016. The application requests, among other things, additional revenues to recover higher financing, depreciation and operating costs associated with increased rate base in Alberta.

UTILITIES RISKS

Cost of Service Rate Model

The Utilities segment is subject to the normal risks faced by regulated companies. These risks include the regulator's approval of customer rates that permit a reasonable opportunity to recover service costs on a timely basis, including a fair return on rate base.

These risks also include the regulator's potential disallowance of costs incurred. The ability to recover the actual costs of providing service and earn the approved rates of return depends on the Utilities achieving the forecasts established in the rate-setting process. In addition, there has been a series of recent regulatory decisions and ongoing cases before the courts related to the retirement of assets, which the Utilities continue to monitor and assess how they might impact the recovery of prudent costs. The determination of a fair rate of return on the common equity component of rate base is addressed as part of a generic proceeding for all regulated Alberta utilities and is an earnings and cash flow risk.

PBR Model

The Company's electricity and natural gas distribution operations represented by ATCO Electric and ATCO Gas moved to the PBR model on January 1, 2013. Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery. Furthermore, certain matters related to the 2013, 2014 and 2015 Capital Tracker Applications for ATCO Gas and ATCO Electric remain outstanding, which causes additional uncertainty.

The Company has filed several leave to appeal applications with the Alberta Court of Appeal in order to preserve the Company's right to challenge the AUC's decisions in regard to PBR.

Pipeline Integrity

ATCO Pipelines and ATCO Gas have significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequences of a failure can be severe. Programs are in place to monitor the integrity of the pipeline infrastructure and replace pipelines as required. ATCO Pipelines' UPR project is intended to replace and relocate the aging, high-pressure natural gas pipelines in Calgary and Edmonton, to address safety, reliability, and future growth.

Measurement Inaccuracies in Metering Facilities

Measurement inaccuracies can occur from time to time in the Utilities' metering facilities. The Utilities' measurement adjustments are settled between parties, based on the requirements of the Electricity and Gas Inspections Act (Canada) and applicable regulations. There is a risk of disallowance of recovering a measurement adjustment. For Utilities, this disallowance can occur if controls and timely follow up are found to be inadequate by the AUC.

Transfer of the Retail Energy Supply Businesses

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.

Capital Expenditure Projects

Planned capital expenditures for the Utilities are based on the following significant assumptions:

- Projects identified by the AESO will proceed as currently scheduled;
- The remaining planned capital expenditures are required to maintain safe and reliable service and meet planned growth in the Utilities' service areas;
- Regulatory approval for capital projects can be obtained in a timely manner; and
- Access to capital market financings can be maintained.

The Company believes these assumptions are reasonable, but no assurance can be given that the assumptions will prove to be correct.

The Company is subject to the normal risks associated with major capital projects, including delays and cost increases. Although the Company attempts to reduce these risks by careful planning and entering into long-term contracts when possible, there can be no assurances against significant cost increases or delays.

Energy

Energy's activities are conducted through ATCO Power and ATCO Energy Solutions.

REVENUES

Energy segment revenues of $1 billion in 2014 and $254 million for the fourth quarter were comparable to the same periods of 2013.

ATCO Energy Solutions' revenues for the fourth quarter and year ended December 31, 2014, increased mainly due to higher flow-through natural gas sales at one of its natural gas liquids (NGL) extraction facilities and the sale of excess natural gas at the Carbon facility. Offsetting these increases were lower revenues in ATCO Power as a result of lower realized Alberta Power Pool prices.

ADJUSTED EARNINGS

Adjusted earnings for ATCO Power and ATCO Energy Solutions are shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
ATCO Power						
Independent Power Plants (1)	**7**	1	6	**33**	80	(47)
Regulated Power Plants	**11**	18	(7)	**41**	66	(25)
Total ATCO Power	**18**	**19**	**(1)**	**74**	**146**	**(72)**
ATCO Energy Solutions						
Storage Operations	**12**	6	6	**18**	10	8
NGL Extraction and Gas Gathering & Processing	**4**	9	(5)	**15**	14	1
Other Operations	**(2)**	(5)	3	**(8)**	(19)	11
Total ATCO Energy Solutions	**14**	**10**	**4**	**25**	**5**	**20**
Total Energy	**32**	**29**	**3**	**99**	**151**	**(52)**

(1) With the expiry of the Battle River 3 and 4 Power Purchase Agreements (PPA) at the end of 2013, 304 MW of Regulated Power Plant capacity moved to Independent Power Plants in 2014.

Energy segment adjusted earnings of $32 million for the fourth quarter and $99 million for the year ended December 31, 2014, were comparable to the fourth quarter of 2013 and $52 million lower than the full year of 2013, respectively. Adjusted earnings for the year ended December 31, 2014, in the power generation business were significantly lower than the prior year primarily as a result of lower realized Alberta Power Pool prices and spark spreads. Lower adjusted earnings also reflected continued investment in business development which supports a new commercial and industrial sales program as well as the pursuit of various project opportunities in growth markets with long-term potential. Increased adjusted earnings in ATCO Energy Solutions were mainly the result of higher Storage Operation earnings realized from the sale of excess natural gas in the fourth quarter of 2014 as a result of enhancements in the delivery capability of the Company's natural gas storage facility, and lower depreciation expense in Inuvik Gas Ltd. resulting from higher depreciation in 2013.

Detailed information about the activities and financial results of ATCO Power and ATCO Energy Solutions is provided in the following sections.

ATCO POWER

ATCO Power’s businesses include the regulated and non-regulated supply of electricity from natural gas, coal-fired and hydroelectric generating plants in western Canada and Ontario. During the fourth quarter of 2014, the Company, together with its partners, made the decision to close and ceased operation of the 1,000 MW Barking generating plant in the U.K. ATCO Power has a 25.5 per cent ownership interest in this plant.

Generating Plant Capacity and Availability

At December 31, 2014, ATCO Power owned total generating capacity of 2,286 MW, of which 1,806 MW, or approximately 80 per cent, was in Alberta.

ATCO Power's generating capacity at the year ended December 31, 2014 and 2013, is shown below.

	Year ended December 31	
($ millions)	**2014**	**2013**
Independent Power Plants		
Contract *(MW)*	**806**	819
Merchant *(MW)* (1) (2)	**705**	643
Total Independent Power Plants	**1,511**	1,462
Regulated Power Plants		
Contract *(MW)* (1)	**746**	1,041
Merchant *(MW)*	**29**	38
Total Regulated Power Plants	**775**	1,079
Total	**2,286**	2,541

(1) With the expiry of the Battle River 3 and 4 PPA at the end of 2013, 295 MW of Regulated Power Plant capacity classified as Contract moved to Merchant capacity under the Independent Power Plants in 2014. The total capacity of these units is 304 MW, and is now reported within Independent Power Plants.

(2) With the closure of the Barking generating plant in the fourth quarter of 2014, the Merchant capacity under Independent Power Plants decreased by 255 MW.

ATCO Power targets a ratio of contracted power to total owned capacity in the 60 to 80 per cent range. This is primarily achieved through long-term power generation agreements. As at December 31, 2014, ATCO Power owned 1,552 MW of contracted power generating capacity, which is 68 per cent of the total owned capacity. In addition to this contracted generating capacity, the Company further reduces exposure to uncontracted capacities through financial and physical forward contracts and direct sales of electricity to commercial and industrial customers in Alberta when acceptable contract terms are available.

ATCO Power's generating availability in Alberta is shown below.

	Three Months Ended December 31			Year Ended December 31		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
Independent Power Plants (1) (2)	**94%**	94%	—%	**95%**	96%	(1%)
Regulated Plants (1) (2)	**94%**	90%	4%	**95%**	92%	3%

(1) Generating plant capacity fluctuates with the timing and duration of outages.

(2) With the expiry of the Battle River 3 and 4 PPA at the end of 2013, these units are reported within Independent Power Plants in 2014.

Generating plant availability was consistent for the independent power plants and slightly higher for the regulated power plants of ATCO Power in 2014 compared to the prior year. The availability was higher for the regulated power plants due to planned outages in 2013.

Independent Power Plants

The favourable Alberta market conditions of 2013 were not repeated in 2014. Although adjusted earnings from independent power plants were higher in the fourth quarter mainly due to realized gains on financial forward contracts, adjusted earnings were lower in the year primarily due to increased supply resulting in lower Alberta Power Pool price volatility and lower average spark spreads in Alberta.

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the three months and year ended December 31, 2014 and 2013, are shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
	2014	2013	Change	2014	2013	Change
Average Alberta Power Pool electricity price *($/MWh)*	**30.47**	48.59	(37%)	**49.42**	80.19	(38%)
Average natural gas price *($/GJ)*	**3.42**	3.34	2%	**4.24**	3.01	41%
Average spark spread *($/MWh)*	**4.82**	23.56	(80%)	**17.62**	57.60	(69%)

In 2014, Alberta Power Pool prices were 38 per cent lower and volatility also decreased due to the increased availability of coal-fired generation in Alberta. The lower Alberta Power Pool prices, combined with natural gas prices that were 41 per cent higher, resulted in a 69 per cent reduction in spark spreads in 2014, which affected earnings from the Company's natural gas-fired generation. The fourth quarter of 2014 experienced similar trends, which affected earnings from the Company's natural-gas fired plants.

Regulated Power Plants

The electricity generated by the Battle River 5 and Sheerness plants is sold through PPA. Under the PPA, ATCO Power must make the generating capacity for each generating unit available to the PPA purchaser of that unit. These arrangements entitle ATCO Power to recover its forecast fixed and variable costs for that unit from the PPA purchaser.

Earnings from the regulated power plants, which are governed by the PPA, were lower in the three months and year ended December 31, 2014. The expiry of the PPA at the Battle River units 3 and 4 at the end of 2013 resulted in the transfer of 304 MW of capacity to independent power plants at the beginning of 2014.

U.K. Operations

On October 27, 2014, the Company was informed that the Barking generating plant was not selected by the National Grid to supply capacity for the upcoming winter season through the Supplemental Balancing Reserve mechanism. During the fourth quarter of 2014, the Company, together with its partners, commenced the process of immediate closure and shut-down of the plant. The Company has provisioned for decommissioning and demolition activities expected to be completed by 2016. The final earnings impact related to the wind-up of the defined benefit pension plan will be determined in 2015.

Environmental Matters

The Energy segment is subject to extensive federal, provincial, and local environmental protection laws. These laws concern emissions to the air, discharges to surface and subsurface waters, land use activities, and the handling, manufacturing, processing, use, emission and disposal of materials and waste products. Existing and proposed environmental regulations could have a material impact on the future financial performance of ATCO Power's regulated coal-fired generating plants. The Company continues to monitor emissions output and the impact of complying with future regulations.

Future prospects for certain power generation assets in Alberta will be impacted by changing environmental regulations. The federal government of Canada has already released regulations for greenhouse gas emissions that will limit the life of the Company's coal-fired generating plants. Still uncertain are the federal and provincial environmental regulations for other air pollutants that are being developed. The risks for the Company around these actual and pending regulations are discussed in more detail below.

Greenhouse Gas (GHG) Emissions

The Canadian government published its final Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity Regulations on September 12, 2012. A "clean as gas" performance standard will be applied to coal-fired generation units that have reached a date referred to as "end of useful life." In most cases, this term is 50 years, effectively limiting the plants' operating lives.

The following table summarizes the impact of this regulation on ATCO Power’s regulated coal-fired generation units. The GHG regulation is only one factor considered in assessing the useful life of the units.

Unit	Federal GHG End of Useful Life
Battle River unit 3	2019
Battle River unit 4	2025
Battle River unit 5	2029
Sheerness unit 1	2036
Sheerness unit 2	2040

Environment Canada is currently working with industry on a GHG regulation for natural gas turbine generating stations. A draft of this regulation may be released in mid to late 2015. The estimated impact of this regulation is considered to be minimal.

The provincial government manages GHG emissions through the Specified Gas Emitters Regulation which was scheduled to be renewed at the end of 2014. The renewal period is now extended to June 2015. A review will be undertaken in conjunction with discussions being held with the federal government on an Equivalency Agreement between the federal and provincial governments. An Equivalency Agreement, if finalised, could simplify compliance under one regulator.

Air Pollutants

In addition to the GHG regulations, federal and provincial environmental regulations are also being developed and/or revised for other air pollutants. These pollutants include sulfur dioxide, nitrogen oxides, volatile organic carbons, and particulate matter. Such regulations could require significant expenditures for emissions control on the Company’s coal fired generating plants once enacted.

The Clean Air Strategic Alliance (CASA) is a multi-stakeholder group of representatives from industry, government and non-government organizations. This group creates strategies to assess and improve air quality for Albertans and influences air emission regulations. CASA developed a framework to manage air emissions from the electricity sector in Alberta, and this is currently going through a review process. A primary issue under review is the current misalignment of federal greenhouse gas coal regulations with the Alberta air emission regulations. The risk from this misalignment is the early retirement of coal generating plants to avoid significant uneconomic expenditures with only a few years left to operate.

The CASA framework also created base line emissions standards, which allow existing units to create credits for future use. ATCO Power is currently operating below base line on some of its units. Battle River 3 began compliance with the regulation at the beginning of 2014 and Battle River 4 must comply from the beginning of 2016. After these dates, Battle River 3 and Battle River 4 must either purchase emissions credits or invest in air quality control equipment to comply with CASA regulations. ATCO Power has identified emissions compliance abatement upgrades that will allow Battle River 3 and Battle River 4 to operate under the federal GHG end of useful life regulation. These emission abatement upgrades are scheduled for installation later in 2015.

ATCO Power estimates that the total capital costs relating to air quality control equipment over the period 2015 to 2017 will be approximately $16 million in order to create emissions credits and achieve compliance with the existing Alberta regulations for NO_x and SO_2 emissions. These costs will be systematically reassessed against the evolving regulatory framework and electricity market conditions. Further to these increased capital costs, operating costs will also be higher.

ATCO Power continues to advocate through various industry working groups and direct discussions with the federal and provincial regulators for a reasonable and timely resolution to both the GHG and Air Pollutant regulations.

Battle River Decommissioning

In 2013, the Company was faced with the possibility of regulation requiring the removal of the Battle River dam and reservoir after Battle River Unit 5’s end of life. In the fourth quarter of 2014, ATCO Power sought and received confirmation from the Alberta Government that the Company will not be required to decommission and reclaim the reservoir and dam at its Battle River power generating station at the end of its useful life. This confirmation has removed the risk of paying substantial reclamation costs, which factored into the Company's decision to continue to operate Battle River units 3 and 4 after the end of 2014. However, due to the uncertainty of air emissions regulations and market conditions, the decision to continue operations will be assessed on an ongoing basis.

Cost Recovery

For ATCO Power's regulated power units, the PPA should allow the Company to recover costs for compliance with both federal and Alberta regulations during the term of the PPA. If the costs are for operations after the PPA term, the plant owner, not the PPA counterparty, bears the burden of these costs. An exception to this recovery is for emissions from output beyond the committed capacity in the PPA. The emissions amount of this excess output should be minimal. ATCO Power expects to recover the majority of compliance costs for its independent power plants from existing contractual arrangements or through the electricity market.

ATCO ENERGY SOLUTIONS

ATCO Energy Solutions' businesses include non-regulated natural gas gathering, processing, storage and transmission, natural gas liquids extraction, electricity transmission and industrial water services.

Adjusted earnings achieved in the fourth quarter and year ended December 31, 2014, were $14 million and $25 million, an increase of $4 million and $20 million, respectively, over the same periods in 2013. These increases were mainly the result of higher Storage Operation earnings realized from the sale of excess natural gas in the fourth quarter of 2014 as a result of enhancements in the delivery capability of the Company's natural gas storage facility, and lower depreciation expense in Inuvik Gas Ltd. in 2014. Adjusted earnings in NGL Extraction and Gas Gathering and Processing Operations were higher in 2014 mainly due to higher NGL frac spreads resulting from higher commodity prices in the first three quarters of the year, partially offset by lower volumes and ethane sales. However, average frac spreads for the fourth quarter of 2014 were lower than the same period in 2013 resulting in lower quarter-over-quarter earnings.

As a result of the Company's ongoing review of economic conditions and prospects in ATCO Energy Solutions, impairments of certain natural gas gathering and processing assets in western Canada were recognized in the fourth quarter of 2014. Together, these impairments reduced earnings attributable to equity owners of the Company by $14 million. These impairment charges were not included in adjusted earnings.

Storage Operations

ATCO Energy Solutions owns 46 PJs of natural gas storage capacity in Alberta. In 2014, the Company enhanced delivery capabilities and continued to evaluate storage facility expansion and further delivery improvements to facilitate capitalization of market opportunities and increased earnings.

The natural gas storage business is affected by volatility in the seasonal natural gas price spreads. These spreads are determined by the differential in natural gas prices between the traditional summer injection (April to October) and winter withdrawal (November to March) season.

ATCO Energy Solutions contracts with a range of customers, including financial institutions, marketers, and utilities. It provides customers with services under long-term (greater than one year) as well as short-term (one year or less) contracts.

In 2014, the Company enhanced delivery capabilities at its natural gas storage operations and sold excess natural gas resulting from these improvements which contributed to increased earnings. Partly offsetting this transaction were lower seasonal storage price differentials and higher operating costs.

NGL Extraction and Gas Gathering and Processing Operations

Earnings from this division are derived from NGL, processing, NGL extraction, and transportation.

The majority of NGL extraction operations involve extracting NGL from natural gas and replacing the liquids (on a heat content equivalent basis) with shrinkage gas. For Propane Plus, the difference between the natural gas price and the value of the liquids extracted is commonly called the "frac spread." Frac spreads vary with fluctuations in the input price of natural gas and revenue derived from the applicable liquids extracted. In 2014, average industry frac spreads were $9.46/GJ, compared to $9.20/GJ in 2013.

Earnings in NGL Extraction and Gas Gathering and Processing Operations were $1 million higher in 2014 mainly due to higher NGL frac spreads resulting from higher commodity prices in the first three quarters of the year, partially offset by lower volumes and ethane sales. Average frac spreads for the fourth quarter of 2014 were lower than the same period in 2013 resulting in lower quarter-over-quarter earnings.

Other Operations

ATCO Energy Solutions owns one-third interests in Inuvik Gas Ltd. (IGL) and the Ikhil Joint Venture, which in turn hold natural gas reserves and production assets near the Town of Inuvik in the Northwest Territories and distribution assets which provide heating fuel to the town. In November 2014, IGL and the Town of Inuvik signed a new 10-year Franchise Agreement.

In 2014, adjusted earnings were $11 million higher than 2013 reflecting lower depreciation expense in IGL resulting from assets being fully depreciated in 2013 and higher earnings from the Ikhil Joint Venture.

Major Projects

ATCO Energy Solutions continues to focus on development in the Alberta Industrial Heartland area near Fort Saskatchewan, Alberta. In addition to two major industrial water capital projects announced in 2013, the Company plans to invest in the development of salt caverns for hydrocarbon storage.

Hydrocarbon Storage

ATCO Energy Solutions announced and advanced its strategically developed ATCO Heartland Energy Centre near Fort Saskatchewan, Alberta, which is intended to provide customers with a superior alternative for hydrocarbon storage and solve logistical challenges that currently restrict moving NGL to market. ATCO Energy Solutions has the potential to develop more than 40 salt caverns on ATCO-owned land in Alberta's Industrial Heartland.

In September 2014, ATCO Energy Solutions, in partnership with Petrogas Energy Corp., announced development of four salt caverns for hydrocarbon storage. The total partnership investment is approximately $200 million. ATCO Energy Solutions has a 60 percent partnership interest. ATCO Energy Solutions is building and will operate the facility. Commercial operation for two caverns is targeted for the second quarter of 2016, with two additional caverns to be completed by the second quarter of 2017. These initial storage caverns will have capacity to store approximately 400,000 cubic metres of propane, butane, and ethylene to provide additional hydrocarbon storage in western Canada.

By January 2015, the partnership between ATCO Energy Solutions and Petrogas Energy had secured long-term contracts for all of these four salt caverns.

In response to growing customer demand, ATCO Energy Solutions has acquired an additional 160 acres of land for further surface facility and salt cavern developments at the ATCO Heartland Energy Centre.

Industrial Water

In 2014, construction continued on two industrial water projects in Alberta's Industrial Heartland region. These projects will provide essential water transportation services and other value benefits to customers in the area. The North West Redwater Partnership project and the Air Products Canada Ltd. project are expected to be in operation in the latter part of 2015.

ENERGY BUSINESS RISKS

Energy Commodity Price Risk

Changes to the power reserve margin (power supply relative to demand) and natural gas prices can result in volatility in Alberta Power Pool Prices and spark spreads.

Energy segment earnings are also affected by short-term price volatility. A number of key factors contribute to price volatility including electricity demand and electricity supply, primarily from Alberta's coal and wind generation. The Company is constantly monitoring movements in the market price in order to capture value from this volatility. Starting in January 2014, 295 MW of capacity from the coal-fired Battle River units 3 and 4 in ATCO Power became available on the merchant market. To the extent that this capacity is not contracted or hedged, spot power pool prices will have a greater effect on the earnings generated by these units.

ATCO Energy Solutions' NGL extraction operations are exposed to the following market forces: the difference between the selling price of NGL and the purchase price of shrinkage gas; the cost of transporting natural gas to its facilities; power costs; and the availability of natural gas supply for processing. ATCO Energy Solutions' natural gas storage facility in Carbon, Alberta, is also exposed to storage price differentials.

Generation Equipment and Technology Risk

ATCO Power's generating plants are exposed to operational risks which can cause outages due to issues such as boiler, turbine, and generator failures. To reduce this risk, a proactive maintenance program is regularly carried out with scheduled outages for major overhauls and other maintenance. The Company also carries property and business interruption insurance for its power plants to protect against extended outages.

PPA are designed to provide force majeure relief for regulated plant outages beyond 42 days. If a generating plant does not meet availability or production targets specified in the PPA or another long-term agreement, ATCO Power may need to compensate the purchaser for the loss of production availability. For merchant facilities, an outage may result in lost merchant opportunities. Therefore, an extended outage could negatively impact earnings and cash flows.

Coal Supply for Battle River and Sheerness Generating Plants

Fuel costs for the Battle River and Sheerness generating plants are mostly for coal. These plants have a coal supply agreement with Prairie Mines & Royalties Limited. To protect against coal price volatility, ATCO Power has long-term contracts for both its Battle River and Sheerness coal-fired generating plants. These contracts are at prices that are either fixed or indexed to inflation.

The Battle River coal supply agreement was extended from the beginning of 2013 until 2022. The agreement reflects the higher cost of mining deeper coal. The coal supply agreement for Sheerness extends to 2026 or until the coal supply is exhausted, whichever comes earlier. For regulated units, coal costs are recovered under the terms of the PPA.

Measurement Inaccuracies in Metering Facilities

Measurement inaccuracies can occur from time to time at ATCO Energy Solutions' metering facilities. Measurement adjustments are settled between parties based on the requirements of the provincial regulatory bodies within the jurisdictions in which ATCO Energy Solutions operates and the contract terms. There is a risk that measurement adjustments may not be recoverable if controls and timely follow up exceed contractual limitation periods.

Carbon Natural Gas Storage Facility

The Carbon facility is subject to drainage. To protect the facility from drainage, ATCO Energy Solutions monitors operating pressures and commissions studies to help protect the facility's integrity. When deemed necessary, ATCO Energy Solutions has undertaken an acreage protection program by acquiring the rights to surrounding properties to minimize or eliminate the effects of drainage.

ATCO Australia

The ATCO Australia segment consists of two distinct business operations: ATCO Gas Australia and ATCO Power Australia.

REVENUES

Revenues for the year were $264 million, $3 million higher than the comparable period in 2013. Revenues in 2014 increased mainly due to higher customer rates from continuing capital investment in utility infrastructure and customer growth, partially offset by lower flow-through recovery of carbon taxes.

Revenues of $59 million for the fourth quarter of 2014 were $3 million lower than same period in the prior year primarily due to lower flow-through recovery of carbon taxes.

ADJUSTED EARNINGS

Adjusted earnings for ATCO Australia are shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
ATCO Gas Australia	**8**	11	(3)	**35**	35	–
ATCO Power Australia	**6**	8	(2)	**22**	22	–
Other (1)	**(1)**	(3)	2	**(6)**	(12)	6
Total ATCO Australia	**13**	16	(3)	**51**	45	6

(1) Other includes ATCO I-Tek Australia to mid-August 2014 and ATCO Australia's corporate office.

Adjusted earnings achieved by ATCO Australia in 2014 were $51 million, which were $6 million, or 13 per cent higher than 2013. Adjusted earnings in ATCO Gas Australia for the year of 2014 were comparable to the same period of 2013, reflecting continued growth in rate base and interest savings, offset by a lower actual inflation factor applied to the utility's rate base. Adjusted earnings in ATCO Power Australia in the fourth quarter of 2013 included a favourable tax adjustment which was not repeated in 2014; full year earnings were comparable to the prior year. Adjusted earnings in Other operations increased in 2014 as a result of lower general and administrative costs.

Detailed information about the activities and financial results of ATCO Australia is provided below.

ATCO GAS AUSTRALIA

ATCO Gas Australia is a regulated provider of natural gas distribution services in Western Australia. It serves metropolitan Perth and surrounding regions.

ATCO Gas Australia's adjusted earnings of $35 million in 2014 were comparable with 2013. Continued growth in rate base from ongoing capital investment, and interest savings related to the Company's long-term debt refinancing at favourable rates, was offset by a lower actual inflation factor applied to the utility's rate base.

ATCO Gas Australia continues to receive favourable debt pricing from its credit rating upgrade in 2013, as well as favourable rates from the refinancing of its $450 million of Australian dollar facility, and renegotiated rates on its $250 million Australian dollar facility in 2013. In November 2014, the maturity dates for these two facilities were renegotiated at favourable rates to extend their expiry to December 31, 2019.

ATCO Gas Australia renegotiates $700 million Australian dollar credit facilities at favourable terms

REGULATORY DEVELOPMENTS

Access Arrangement Decision

On October 14, 2014, the Economic Regulatory Authority (ERA) published its Draft Decision in relation to ATCO Gas Australia's applied-for Access Arrangement for the period July 1, 2014, to December 31, 2019. The Company and interested parties responded to the Draft Decision in the fourth quarter of 2014. Following conclusion of the consultation process, the ERA is expected to publish its Final Decision in the second quarter of 2015. Once the ERA publishes its Final Decision, the Company must consider whether it can accept the required amendments and revise its Access Arrangement. If it cannot accept the required amendments, the ERA must put in place its own Access Arrangement within two months after the Final Decision is received. If this occurs, the Company then has fifteen days to file an application for leave to review the ERA's Access Arrangement to the Australian Competition Tribunal (ACT). If leave is granted, the ACT has a target period of three months in which to make a final determination.

ATCO POWER AUSTRALIA

ATCO Power Australia supplies electricity from three natural gas-fired generation plants in Adelaide, South Australia; Brisbane, Queensland; and Karratha, Western Australia. Additionally, the Bulwer Island plant in Brisbane provides co-generation steam.

Adjusted earnings for ATCO Power Australia were lower in the fourth quarter of 2014 than the same period in 2013 as a result of favourable tax adjustments in 2013 that were not repeated this year. Adjusted earnings in 2014 were consistent with the prior year.

Availability fluctuates with the timing and duration of outages of the plants and can affect ATCO Power Australia's earnings. Availability for the fourth quarter and year ended December 31, 2014, was 99.7 per cent and 97.8 per cent, respectively, and 97.9 per cent and 94.5 per cent, respectively, in the same periods of 2013.

Bulwer Island Power Station

BP announced in April 2014 that it will cease refining operations at its oil refinery in Brisbane by mid-2015. Consequently, the Company recorded an impairment charge of its lease receivable and a related intangible goodwill asset of $11 million in 2014 for its 33 MW Bulwer Island power station, which is jointly owned with Origin Energy. As BP is the power station's only customer, this announcement has a direct impact on the ability of the plant to generate future revenues. The impairment was excluded from adjusted earnings, but reduced earnings attributable to equity owners of the Company. While the partners have pursued alternate commercial arrangements, no suitable economic replacement has been identified. Management is working toward a planned closure in the second quarter of 2015; the impact to adjusted earnings for 2015 is expected to be approximately $2 million.

OTHER

Other operations include the financial results of the Company's corporate services and included ATCO I-Tek Australia until the close of the sale of the Company’s IT services to Wipro in August 2014.

Adjusted earnings in Other operations in 2014 were $6 million higher than 2013. Lower business development costs resulted in increased adjusted earnings, partially offset by higher corporate advertising related to the Company's successful branding campaign in 2014.

Refer to the Corporate & Other section below for information regarding the Company’s sale of its information technology services.

ATCO AUSTRALIA BUSINESS RISKS

Weather Fluctuations

ATCO Gas Australia's financial results fluctuate with seasonal demand for natural gas and fluctuations in temperature. Temperature fluctuations are measured in Heating Degree Days (HDD), which is defined as the difference between the average daily temperature and 18 degrees Celsius.

In a normal year, approximately 0 per cent of HDD are experienced in January to March, 30 per cent in April to June, 60 per cent in July to September, and the remaining 10 per cent in October to December. For every 10 per cent that HDD are warmer or colder than normal, on an annual basis, the segment's annual earnings are impacted by approximately $2 million.

Regulated Operations

ATCO Gas Australia is subject to the normal risks faced by regulated companies. These risks include the regulator's approval of customer rates that permit a reasonable and timely recovery of estimated service costs, including a fair return on rate base. These risks also include the potential for disallowance by the regulator of costs incurred. The ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. The determination of a fair rate of return on the common equity component of rate base is an earnings and cash flow risk.

Measurement Inaccuracies in Metering Facilities

Measurement inaccuracies can occur from time to time in ATCO Gas Australia's metering facilities. Measurement adjustments are settled between parties and costs are recovered via tariff, based on a predetermined adjustment threshold in the ERA's Access Arrangement for the Mid-West and South-West Gas Distribution System. The Access Arrangement also contains a cost pass-through mechanism for recovering any increases in gas commodity prices associated with these measurement adjustments. There is a risk of disallowance of recovering a measurement adjustment.

Pipeline Integrity

ATCO Gas Australia has significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequence of a failure can be severe. Programs are in place to monitor the integrity of the pipeline infrastructure and replace pipelines as required.

Generating Plant Operating Risk

ATCO Power Australia's generating plants are exposed to operational risks which may cause outages due to issues such as boiler, turbine, and generator failures. To reduce this risk, a proactive maintenance program is regularly carried out with scheduled outages for major overhauls and other maintenance. ATCO Power Australia also carries property and business interruption insurance to protect against the risk of extended outages.

Environmental Matters

In July 2012, federal legislation came into effect to regulate carbon emissions. The legislation introduced a carbon tax for approximately 500 of the largest emitters in Australia. On July 17, 2014, the carbon tax legislation was repealed in parliament effective July 1, 2014, and has been replaced by a new emissions reduction scheme, 'Direct Action', enacted by the Federal Government on October 31, 2014. ATCO Power Australia's generating plants are regulated by this new legislation.

While the mechanics of the new scheme are yet to be finalized, the Company does not expect a significant impact to its earnings.

Corporate & Other

The Corporate & Other segment includes the strategic growth investments in long-term contracted electricity transmission infrastructure in Alberta and geographical expansion into Mexico. In addition, the segment also includes the commercial real estate owned by the Company in Alberta and included ATCO I-Tek until the close of the sale of the Company's IT services to Wipro in August 2014. ATCO I-Tek developed, operated and supported the Company's information systems and technologies. The billing services, payment processing, credit, collection, and call centre services formerly provided by ATCO I-Tek were retained by the Company; the financial results of these activities were reported in the Corporate & Other segment.

Corporate and other adjusted earnings in the fourth quarter of 2014 were comparable to the same period in 2013 and were $22 million lower for the full year. Foregone earnings from the sale of the Company's information technology services and incremental preferred share dividends arising from the issuance of preferred shares in 2013 contributed to lower earnings, partially offset by lower general and administrative costs in 2014.

MAJOR PROJECTS

The following major projects were announced in 2014.

Long-Term Contracted Electricity Transmission - Fort McMurray 500 kV Project

Alberta's Provincial Energy Strategy directed the AESO to develop a process and model for competitively procuring new electricity transmission facilities without regard for service area. In 2013, the AUC approved the AESO's Competitive Process Application. The competitive model only applies to facilities designated as "Critical Transmission Infrastructure". The Fort McMurray 500 kV Project was the first project awarded under this process.

In December 2014, Alberta PowerLine, a newly formed partnership between the Company and Quanta Capital, a Quanta Services company, was awarded a 35-year, $1.4 billion contract by the AESO to design, build, own, operate and finance the Fort McMurray 500 kV Project. This project will increase the capacity of the electricity system in northeastern Alberta and help to ensure that this economically vital area of the province has the power it needs.

Valard Construction, a Canadian subsidiary of Quanta Services, will provide turnkey engineering, procurement, and construction services for the project, while ATCO Electric will be responsible for the overall management, route planning, permitting and operations and maintenance of the transmission facilities for 35 years. The project consists of approximately 500 kilometres of 500 kV transmission line running from Wabamun (west of Edmonton) to Fort McMurray, Alberta.

$1.4 billion contract for the Fort McMurray 500 kV Project

The proposed route, substations and design of the transmission line are subject to approval by the AUC. Alberta PowerLine will be consulting with landowners and submitting its Facilities Application to the AUC by the end of 2015. If approved, construction of the Fort McMurray 500 kV Project is scheduled to start in 2017 and be in service in 2019. The Company is planning $531 million in capital expenditures from 2015 to 2017 for the project. This represents Canadian Utilities' proportionate share of the investment in the partnership interest.

The Company is subject to the normal risks associated with major capital projects, including delays and cost increases. Although the Company attempts to reduce these risks by careful planning and entering into long-term contracts when possible, there can be no assurances against significant cost increases or delays.

Mexico

In the third quarter of 2014, the Company established an office in Mexico City to pursue and evaluate business opportunities in Mexico's energy market. The Mexican government recently embarked on reform of its energy sector, inviting foreign investment in energy infrastructure such as power generation, electricity and natural gas transmission and distribution facilities. The Company's growth strategy in Mexico is modeled after its existing Canadian and Australian operations, consisting of diverse yet complementary energy businesses based on a strong reputation of technical and operational capability.

On October 9, 2014, the Company was awarded a 25-year contract by the Comisión Federal De Electricidad (CFE) to design, build and operate a 16 kilometre 30" natural gas pipeline near the town of Tula (located approximately 100 kilometres northwest of Mexico City) in the state of Hidalgo, Mexico. This contract marks ATCO's first energy infrastructure project under the newly reformed energy sector in the country. The project investment is estimated at USD $50 million and is expected to be in service in mid-2015.

Long-term contract awarded for 16 km natural gas pipeline in Mexico

Also, on October 27, 2014, the Company and its partner Grupo Hermes S.A. de C.V. were selected by an affiliate of Mexico's state-owned petroleum company Pemex, PMX Cogeneracion S.A.P.I. de C.V., to commence the project development and approval process for a natural gas cogeneration plant at the Miguel Hidalgo refinery near the town of Tula in the state of Hidalgo, Mexico. Initial estimates value the capital investment of the proposed project at USD $820 million of which ATCO will be responsible for approximately half of the required investment. Capital investment approval is expected in 2015, with a commercial operation date in 2018.

CAPITAL REDEPLOYMENT

In the third quarter of 2014, the Company completed the sale of its IT services to Wipro, a global information technology, consulting and business process services company. Wipro acquired all the shares of ATCO I-Tek, including current contracts and employees, as well as the assets of ATCO I-Tek Australia as part of the transaction. Proceeds of the sale were $204 million, resulting in a one-time after-tax gain of $138 million. Given the 2010 Evergreen Decision and completion of the Direct Energy and other contracts, the effect of the sale on adjusted earnings for the Company as a whole in 2015 is not expected to be significant. The proceeds from the sale were redeployed to finance the Company's growth initiatives.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the three months and year ended December 31, 2014 and 2013, is given below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Operating costs	**524**	494	30	**2,052**	1,854	198
Earnings from investment in joint ventures	**7**	(31)	38	**15**	(24)	39
Depreciation, amortization and impairment	**144**	141	3	**514**	478	36
Net finance costs	**74**	78	(4)	**297**	273	24
Income taxes	**44**	45	(1)	**206**	187	19

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation, amortization and impairment, increased by $30 million in the fourth quarter of 2014 and by $198 million for the full year. Higher expenses resulted from higher flow-through gas purchases for NGL extraction operations in ATCO Energy Solutions, higher franchise fees paid to municipalities and higher transmission costs paid by ATCO Gas. Transmission costs and franchise fees are flowed through to customers resulting in no material impact to adjusted earnings.

EARNINGS FROM INVESTMENT IN JOINT VENTURES

Earnings from investment in joint ventures increased by $38 million in the fourth quarter of 2014 and $39 million for the full year. ATCO Power recorded an impairment of certain power generation assets in the U.K. in the fourth quarter of 2013. This impairment was recognized as a reduction in earnings from investments in joint ventures as this joint arrangement is equity accounted. Increased earnings for the year were a result of this impairment not recurring in 2014.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In 2014, depreciation, amortization and impairment expense increased by $36 million in the year and increased by $3 million in the fourth quarter, compared to the same periods in 2013. The increased expense was mainly the result of higher capital investments in the Utilities.

In addition, the Company recorded impairments of power generating assets in Australia in the second quarter of 2014 and of certain natural gas gathering, processing and liquids extraction assets in Canada in the fourth quarter of 2014. In the fourth quarter of 2013, the Company recorded impairments of natural gas gathering, processing and NGL extraction assets in Canada and power generation assets in Australia.

NET FINANCE COSTS

Net finance costs increased by $24 million for the full year. Higher expenses resulted from incremental debt financing undertaken in 2013 and 2014 to fund the Utilities' significant capital expenditure program. This increase was partially offset by interest savings in ATCO Australia resulting from its strategic refinancing at favourable rates.

INCOME TAXES

Income taxes increased by $19 million for the full year of 2014. This increase was mainly due to higher earnings before income taxes, offset partially by a lower effective tax rate arising from the gain on sale of the Company's information technology services in August 2014.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position is supported by regulated utility and long-term contracted operations. Its 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 and the debt and preferred share capital markets. An additional source of capital is the Class A non-voting shares the Company issues under its Dividend Reinvestment Plan (DRIP).

The Company considers it prudent to maintain enough liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. 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.

In 2014, S&P and DBRS Limited re-affirmed their ratings of the Company as “A” with a stable outlook and "A" with a stable trend, respectively.

In February 2015, S&P re-affirmed its rating of ATCO Gas Australia's debt as "A-" with a stable outlook.

LINES OF CREDIT

At December 31, 2014, the Company and its subsidiaries had the following lines of credit:

($ millions)	Total	Used	Available
Long-term committed	**2,227**	494	1,733
Uncommitted	**53**	4	49
Total	**2,280**	498	1,782

Of the $2,280 million in total credit lines, $53 million was in the form of uncommitted credit facilities with no set maturity date. The other $2,227 million in credit lines were committed, with $600 million maturing in 2016. The remaining lines of credit mature between 2017 and 2019 and may be extended at the option of the lenders.

The majority of the $498 million of credit line usage was associated with ATCO Gas Australia. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia's term debt financing needs. Credit lines for ATCO Gas Australia are provided by Australian banks, with the majority of all other credit lines provided by Canadian banks.

CONSOLIDATED CASH FLOW

At December 31, 2014, the Company’s cash position was $347 million, a decrease of $149 million compared to 2013. Major movements are outlined in the following table:

	Three Months Ended December 31			Year Ended December 31		
($ millions)	2014	2013	Change	2014	2013	Change
Proceeds from funds generated by operations	**429**	451	(22)	**1,643**	1,687	(44)
Cash used for capital expenditures (including capitalized interest)	**(612)**	(783)	171	**(2,274)**	(2,398)	124
Proceeds on sale of information technology services	**–**	–	–	**204**	–	204
Proceeds from issuance of long-term debt	**200**	225	(25)	**1,200**	900	300
Repayment of long-term debt	**(100)**	–	(100)	**(100)**	–	(100)
Issue of equity preferred shares	**–**	–	–	**–**	400	(400)
Redemption of equity preferred shares by subsidiary company	**–**	–	–	**(160)**	–	(160)
Dividends to Class A and Class B share owners	**(49)**	(27)	(22)	**(177)**	(116)	(61)
Other	**(261)**	(142)	(119)	**(485)**	(326)	(159)
(Decrease) increase in cash	**(393)**	(276)	(117)	**(149)**	147	(296)

Proceeds from funds generated by operations

Funds generated by operations for the 2014 fourth quarter and full year were $22 million and $44 million lower, respectively, than the 2013 periods. The year-over-year decreases reflected lower contributions from ATCO Electric customers for capital expenditures.

Cash used for capital expenditures

Cash used for capital expenditures decreased by $171 million in the fourth quarter and $124 million in the year of 2014 compared to the same prior year periods. Total cash used for capital expenditures was approximately $2.4 billion in 2013 and $2.3 billion in 2014. The Utilities in Alberta were the primary users of cash for capital expenditures in 2013 and 2014.

Debt issuances and repayments

In order to fund significant capital investments, to repay existing indebtedness, and for other general corporate purposes of the Utilities, the Company's subsidiary, CU Inc., issued a total of $1.2 billion of long-term debt in 2014. Of this amount, CU Inc. issued $1.0 billion of 4.085 per cent 30-year debentures on September 5, 2014, which was the largest long-dated corporate bond on record in Canada. In addition, on October 17, 2014, CU Inc. issued $200 million of 4.094 per cent 40-year debentures. The Company also repaid $100 million of 5.096 per cent debentures at maturity on November 18, 2014.

Preferred share redemption

On June 1, 2014, the Company's subsidiary, CU Inc., redeemed all outstanding 6.70 per cent Cumulative Redeemable Preferred Shares Series 2 totaling $160 million. The Company refinanced these preferred shares with more cost-effective financing.

Base Shelf Prospectuses

CU Inc. Debentures

On June 11, 2012, the Company's subsidiary, CU Inc., filed a base shelf prospectus that permitted it to issue up to an aggregate of $2.6 billion of debentures over the 25-month life of the prospectus. The prospectus expired on July 11, 2014, with aggregate issuances of debentures totaling $1.8 billion.

On July 24, 2014, the Company's subsidiary, CU Inc. filed a new base shelf prospectus that permits it to issue up to an aggregate of $2.6 billion of debentures over the 25-month life of the prospectus. As of February 18, 2015, aggregate issuances of debentures were $1.2 billion.

Debt Securities and Preferred Shares

On December 4, 2013, the Company, filed a base shelf prospectus that permits it to issue up to an aggregate of $2 billion of debt securities and preferred shares over the 25-month life of the prospectus. No debt securities or preferred shares have been issued to date under this base shelf prospectus.

Dividends

The Company has increased its common share dividend each year since 1972. In each of the last three years, the Company has increased its quarterly dividend by 10 per cent. The payment of any dividend is at the discretion of the Board of Directors and depends on the Company's financial condition and other factors.

10% increase in quarterly dividend for the third consecutive year

Dividend Reinvestment Plan

In the fourth quarter of 2014, the Company issued 563,063 Class A non-voting shares under its DRIP in lieu of cash dividend payments of $22 million.

During the year, the Company issued 2,699,207 Class A non-voting shares under its DRIP in lieu of cash dividend payments of $104 million.

SHARE CAPITAL

Canadian Utilities' equity securities consist of Class A shares and Class B shares.

At February 18, 2015, the Company had outstanding 188,734,707 Class A shares, 75,176,735 Class B shares, and options to purchase 964,000 Class A shares.

CLASS A NON-VOTING SHARES AND CLASS B COMMON SHARES

Class A and Class B share owners are entitled to share equally, on a share for share basis, in all dividends the Company declares on either of such classes of shares as well as in the Company's remaining property on dissolution. Class B share owners are entitled to vote and to exchange at any time each share held for one Class A share.

If a take-over bid is made for the Class B shares and if it would result in the offeror owning more than 50% of the outstanding Class B shares (excluding any Class B shares acquired upon conversion of Class A shares), the Class A share owners are entitled, for the duration of the take-over bid, to exchange their Class A shares for Class B shares and to tender the newly exchanged for Class B shares to the take-over bid. Such right of exchange and tender is conditional on completion of the applicable take-over bid.

In addition, Class A share owners are entitled to exchange their shares for Class B shares if ATCO Ltd., the Company's controlling share owner, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B shares. In either case, each Class A share is exchangeable for one Class B share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

Of the 12,800,000 Class A shares authorized for grant of options under the Company's stock option plan, 5,544,400 Class A shares were available for issuance at December 31, 2014. Options may be granted to officers and key employees of the Company and its subsidiaries at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the grant date. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended March 31, 2013, through December 31, 2014. Per share amounts have been restated to reflect the two-for-one share split that occurred in the second quarter of 2013.

($ millions except for per share data)	Q1	Q2	Q3	Q4
2014				
Revenues	1,017	856	802	**925**
Earnings attributable to equity owners of the Company	221	115	224	**151**
Earnings per Class A and Class B share *($)*	0.80	0.39	0.81	**0.52**
Diluted earnings per Class A and Class B share *($)*	0.80	0.39	0.80	**0.53**
Adjusted earnings				
Utilities	139	52	89	**129**
Energy	33	13	21	**32**
ATCO Australia	8	13	17	**13**
Corporate & Other	6	7	(5)	**8**
Total adjusted earnings	186	85	122	**182**
2013				
Revenues	876	845	755	**905**
Earnings attributable to equity owners of the Company	183	160	127	**117**
Earnings per Class A and Class B share *($)*	0.68	0.57	0.45	**0.40**
Diluted earnings per Class A and Class B share *($)*	0.68	0.57	0.44	**0.40**
Adjusted earnings				
Utilities	126	57	60	**95**
Energy	28	56	38	**29**
ATCO Australia	10	10	9	**16**
Corporate & Other	16	8	5	**9**
Total adjusted earnings	180	131	112	**149**

The consolidated statements of earnings and cash flows for the three months ended December 31, 2014, and 2013, are provided in Appendix 1 of this MD&A.

The financial results for the previous eight quarters reflect continued growth in the Company's utility operations and fluctuating commodity prices in the power generation and sales, natural gas gathering, processing, storage and liquids extraction operations. In addition, interim results will vary due to the seasonal nature of demand for electricity and natural gas, and the timing of utility regulatory decisions.

Adjusted Earnings

The large capital investment made by the Utilities in the previous eight quarters has contributed to a general increase in adjusted earnings. This growth is most evident in ATCO Electric's transmission operations, where significant capital has been added as a result of the expansion and reinforcement of the transmission network in several regions of Alberta. These expenditures, on which the Utilities earn a regulated return on investment, drive growth in adjusted earnings. Utilities' adjusted earnings have also been affected by the timing of certain major regulatory decisions. Higher adjusted earnings in the third quarter of 2014 reflect the impact of the 2014 Interim Rates Decisions. Lower adjusted earnings in the second quarter of 2014 reflected the financial impact of the 2010 Evergreen Decision for the entire four-and-a-half year period covered by the decision. The third quarter of 2013 included the positive impact of ATCO Electric's 2013/2014 GTA Decision.

The Company’s power generation business in the Energy segment is cyclical. During 2014 a combination of increased supply of electricity in the Alberta market and a sharp rise in natural gas prices produced unfavourable market conditions and lower earnings in the year. Partially offsetting the lower earnings were higher Storage Operation earnings from the sale of excess natural gas as a result of enhancements to the delivery capability of the facility in the fourth quarter of 2014.

In contrast, the second and third quarters of 2013 were marked by outages of several large coal-fired plants in the province and lower natural gas prices resulting in higher realized power pool prices, high spark spreads and greater price volatility. As a result of the high availability of the Company’s generating plants during these quarters, the Company was able to capitalize on these favourable market conditions with record earnings in the power generation business in 2013.

ATCO Australia’s gas distribution utility continued to invest in utility infrastructure on which it earns a regulated return. Adjusted earnings over the eight quarters reflect this growth in rate base. Starting in the last quarter of 2013, adjusted earnings also reflect reduced financing costs from the refinancing of debt and a credit rating upgrade. Fluctuations in quarterly earnings are also caused by the timing of plant outages, the variability in the actual inflation factor applied to the utility’s rate base and the timing of business development expenditures. Weather, which can significantly affect the financial results of the gas distribution business, was warmer than normal over all eight quarters.

Earnings attributable to equity owners of the Company

Earnings attributable to equity owners of the Company include one-time gains and losses and significant impairments recorded at various times over the past eight quarters. These items are excluded from adjusted earnings.

In the third quarter of 2014, the Company recognized a gain on sale of the Company's IT services of $138 million. In the third quarter of 2013, ATCO Structures & Logistics recognized a gain on sale of its South American operations, and the Company recognized its 24.5 per cent share of the gain of $15 million.

Partially offsetting these gains were the following significant impairments:

- in the fourth quarter of 2014, the Company recognized an impairment of certain gas gathering, processing and liquids extraction facilities of $14 million;
- in the second quarter of 2014, the Company recognized an impairment for the Bulwer Island power station in Australia of $11 million; and
- in the fourth quarter of 2013, the Company recognized impairments of certain power generation assets in the U.K. and Australia of $35 million and certain natural gas gathering, processing and liquids extraction assets in Canada of $12 million.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Adjusted earnings are earnings attributable to the equity owners of the Company 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 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 and Australia than IFRS earnings.

The following table reconciles adjusted earnings to earnings attributable to equity owners of the Company.

($ millions) **2014** 2013	Utilities	Energy	ATCO Australia	Corporate & Other	Eliminations	Total
						Three Months Ended December 31
Revenues	**601**	**254**	**59**	**30**	**(19)**	**925**
	572	255	62	65	(49)	905
Adjusted earnings	**129**	**32**	**13**	**9**	**(1)**	**182**
	95	29	16	9	–	149
Gain (loss) on sales of operations	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	–	(1)	–	(1)
Impairments	**–**	**(17)**	**–**	**–**	**–**	**(17)**
	–	(45)	(2)	–	–	(47)
Adjustments for rate-regulated activities	**(28)**	**–**	**–**	**–**	**1**	**(27)**
	9	–	(5)	–	(1)	3
Dividends on equity preferred shares of Canadian Utilities Limited	**1**	**–**	**–**	**12**	**–**	**13**
	1	–	–	12	–	13
Earnings attributable to equity owners of the Company	**102**	**15**	**13**	**21**	**–**	**151**
	105	(16)	9	20	(1)	117

($ millions) **2014** 2013	Utilities	Energy	ATCO Australia	Corporate & Other	Eliminations	Total
						Year Ended December 31
Revenues	**2,246**	**1,026**	**264**	**208**	**(144)**	**3,600**
	2,040	1,017	261	236	(173)	3,381
Adjusted earnings	**409**	**99**	**51**	**16**	**–**	**575**
	338	151	45	38	–	572
Gain (loss) on sales of operations	**–**	**–**	**(3)**	**141**	**–**	**138**
	–	–	–	14	–	14
Impairments	**–**	**(17)**	**(11)**	**–**	**–**	**(28)**
	–	(45)	(2)	–	–	(47)
Adjustments for rate-regulated activities	**(18)**	**–**	**(4)**	**–**	**(2)**	**(24)**
	12	–	(7)	–	(2)	3
Dividends on equity preferred shares of Canadian Utilities Limited	**3**	**1**	**–**	**46**	**–**	**50**
	3	1	–	41	–	45
Earnings attributable to equity owners of the Company	**394**	**83**	**33**	**203**	**(2)**	**711**
	353	107	36	93	(2)	587

GAIN (LOSS) ON SALES OF OPERATIONS

In the third quarter of 2014, the Company completed the sale of its information technology services to Wipro. Proceeds of the sale were $204 million, resulting in an after-tax gain of $138 million.

In September 2013, ATCO Structures & Logistics sold its 50 per cent interest in Tecno Fast ATCO, S.A. to its joint venture partner for cash proceeds of $124 million. The Company's 24.5 per cent share of the gain on sale contributed earnings of $15 million. In November 2013, ATCO Structures & Logistics sold its non-core U.K. rental fleet assets for proceeds of $5 million. The Company's 24.5 per cent share of the loss was $1 million.

The proceeds from these sales were redeployed to finance the Company's growth initiatives, including the significant capital expenditure program underway in the Utilities.

IMPAIRMENTS

In the second quarter of 2014, the Company adjusted for an impairment of $11 million relating to ATCO Power Australia's Bulwer Island power station. Additionally, in the fourth quarter of 2014, the Company adjusted for impairments totaling $17 million mainly related to certain natural gas gathering and processing, and liquids extraction assets in Canada.

During 2013, the Company adjusted for impairments of its power generation assets in the U.K. and in Australia and natural gas gathering, processing and liquids extraction assets in Canada. In total, these impairments reduced earnings by $47 million.

ADJUSTMENTS FOR RATE-REGULATED ACTIVITIES

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Prior to adopting IFRS, the Company used standards for rate-regulated operations issued by the Financial Accounting Standards Board (FASB) in the United States as a source of generally accepted accounting principles. The Company continues to use these FASB standards to fairly present the operating results of its rate-regulated activities.

Rate-regulated accounting reduces earnings volatility as the Company defers the recognition of revenue when cash is received in advance of future expenditures and it recognizes revenue for recoverable costs incurred in advance of future billings to customers. Under IFRS, the Company records revenues when amounts are billed to customers and recognizes costs when they are incurred. The Company does not recognize their recovery until changes to customer rates are reflected in future customer billings.

Under rate-regulated accounting, the Company recognizes revenues from regulatory decisions that relate to current and prior periods when the decisions are received. Under IFRS, the Company recognizes those revenues when customer rates are changed and customers are billed.

Finally, under rate-regulated accounting, amounts relating to intercompany profits recognized in rate base by a regulator are not eliminated on consolidation. Under IFRS, however, intercompany profits are eliminated on consolidation. The Company then recognizes those profits in earnings when amounts are billed to customers over the life of the asset.

Timing adjustments made in rate-regulated accounting are shown in the following table.

($ millions)	Three Months Ended December 31 2014	2013	Change	Year Ended December 31 2014	2013	Change
Additional revenues billed in current period						
Future removal and site restoration costs [1]	**(12)**	8	(20)	**23**	40	(17)
Retirement benefits	**–**	1	(1)	**1**	5	(4)
Finance costs on major transmission capital projects	**15**	10	5	**46**	39	7
Impact of colder temperatures on revenues	**(3)**	–	(3)	**7**	–	7
Other	**6**	(9)	15	**10**	1	9
Total	**6**	10	(4)	**87**	85	2
Revenues to be billed in future period						
Deferred income taxes [2]	**(24)**	(20)	(4)	**(86)**	(73)	(13)
Transmission access payments [3]	**6**	(9)	15	**(7)**	(46)	39
Transmission capital deferral [4]	**(3)**	(2)	(1)	**(6)**	(14)	8
Impact of warmer temperatures on revenues	**–**	6	(6)	**–**	–	–
Impact of inflation on rate base for ATCO Gas Australia	**–**	(8)	8	**(8)**	(16)	8
Other	**(7)**	(5)	(2)	**(10)**	(14)	4
Total	**(28)**	(38)	10	**(117)**	(163)	46
Regulatory decisions related to current and prior periods						
2010 Evergreen Decision [5]	**(24)**	–	(24)	**4**	–	4
2014 Interim Rates Decisions [6]	**22**	–	22	**–**	–	–
Transmission access payments recoveries (refunds) [3]	**(6)**	27	(33)	**13**	65	(52)
Transmission capital deferral refunds [4]	**–**	–	–	**(10)**	–	(10)
ATCO Gas Australia appeal decision	**–**	5	(5)	**4**	9	(5)
Weather recoveries (refunds)	**(4)**	–	(4)	**(4)**	4	(8)
Other	**6**	1	5	**2**	10	(8)
Total	**(6)**	33	(39)	**9**	88	(79)
Elimination of intercompany profits related to the construction of property, plant and equipment and intangible assets	**1**	(2)	3	**(3)**	(7)	4
Total adjustments	**(27)**	3	(30)	**(24)**	3	(27)

Notes:

(1) Future removal and site restoration costs

Future removal and site restoration costs are billed to customers on a forecast basis over the life of the associated assets. Under rate regulated accounting, billings to customers in excess of costs incurred in the current period are deferred. In 2013 and 2014, billings to customers exceeded costs incurred in the period. In the fourth quarter of 2014, actual costs incurred exceeded forecast costs included in billings to customers.

(2) Deferred income taxes

Deferred income taxes are a non-cash expense incurred by the Company for temporary differences between the book value and tax value of assets and liabilities. Unless directed by the regulator, deferred incomes taxes are not billed to customers until income taxes are paid by the Company. The change in deferred income taxes for the year ended December 31, 2014, relates to the timing of settling deferral tax balances as well as higher temporary timing differences that are deductible for income tax purposes.

(3) Transmission access payments recoveries (refunds)

Transmission access payments are billed to customers by ATCO Electric on a forecast basis; payments are expensed when 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. In 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.

(4) Transmission capital deferral refunds

For major transmission capital projects, ATCO Electric's billings to AESO 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 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 for future recovery or refund. Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in subsequent years.

(5) 2010 Evergreen Decision

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 incurred from the beginning of 2010 to the end of 2014. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings. In the fourth quarter of 2014, customer rates were adjusted and $28 million was refunded to customers. The remaining amounts are expected to be refunded in 2015.

(6) 2014 Interim Rates Decisions

ATCO Gas and ATCO Electric recorded increased adjusted earnings of $22 million in the third quarter of 2014 and a further $4 million in the fourth quarter of 2014 for the AUC Decisions which approved 90 per cent of the applied-for Capital Tracker rates on an interim basis. Under IFRS, earnings will be adjusted when customer rates are revised and the amounts receivable from customers are collected through future billings. In the fourth quarter of 2014, customer rates were adjusted and $26 million was collected from customers.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Board of Directors (Board) is responsible for understanding the principal risks of the business in which the Company is engaged. The Board also must achieve a prudent balance between risks incurred and the potential return to share owners. It must confirm controls are in place that effectively monitor and manage those risks for the Company's long-term viability.

The Board has established a Risk Review Committee, which reviews significant risks associated with future performance and growth. The committee also reviews 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 is exposed to changes in interest rates, foreign currency exchange rates and commodity prices. In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options to manage the risks arising from fluctuations in interest rates, exchange rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

At December 31, 2014, the following derivative instruments were outstanding: interest rate swaps that hedge interest rate risk on the variable future cash flows associated with a portion of long-term debt and non-recourse long-term debt, forward power sales and forward gas purchases.

INTEREST RATE RISK

The interest rate risk faced by the Company is largely a result of its recourse and non-recourse long-term debt at variable rates as well as cash and cash equivalents. The Company has converted certain variable rate long-term debt and non-recourse long-term debt to fixed rate debt through interest rate swap agreements. At December 31, 2014, the Company had fixed interest rates, either directly or through interest rate swap agreements, on 99 per cent (2013 - 99 per cent) of total long-term debt and non-recourse long-term debt. Consequently, the exposure to fluctuations in future cash flows, with respect to debt, from changes in market interest rates was limited.

The Company’s cash and cash equivalents include fixed rate instruments with maturities of generally 90 days or less that are reinvested as they mature. The Company has exposure to interest rate movements that occur beyond the term of maturity of the fixed-rate investments.

FOREIGN CURRENCY EXCHANGE RATE RISK

The Company’s earnings from, and carrying values of, its foreign operations are exposed to fluctuations in exchange rates. This foreign exchange impact is partially offset by foreign-denominated financing and by hedging activities. Revenues and expenses in functional currencies other than Canadian dollars are translated at the average monthly rates of exchange during the period. Gains or losses on translation of the assets and liabilities of foreign operations are included in the foreign currency translation adjustment account in accumulated other comprehensive income in the 2014 Annual Financial Statements.

The Company is also exposed to transactional foreign exchange risk through transactions denominated in a foreign currency. The Company manages this risk through its policy of matching revenues and expenses in the same currency. When matching is not possible, the Company utilizes foreign currency forward contracts to manage the risk.

ENERGY COMMODITY PRICE RISK

The Company is exposed to energy commodity price risk in its power generation, NGL extraction, and natural gas storage operations. Refer to the “Segmented Information - Energy” section for a description of this price risk.

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 federal government issued short-term instruments. Approximately 79 per cent of the cash equivalents at December 31, 2014, was invested in Government of Canada treasury bills and certificates of deposit issued by Canadian financial institutions.

Derivative and lease receivable credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. The Company minimizes these risks by dealing with large, credit-worthy counterparties with established credit-approval policies.

The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments. The Company does not have a concentration of credit risk with any counterparties, except for the lease receivables, which by their nature are with single counterparties. A significant portion of loans and receivables are from the Company’s operations in Alberta, except for the lease receivable for the Karratha plant in Australia.

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.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations. 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 and externally through bank borrowings and the issuance of long-term debt, non-recourse long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans under available credit lines are used 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. At December 31, 2014, the Company’s cash position was $347 million and there were available committed and uncommitted lines of credit of approximately $1.8 billion which can be utilized for general corporate purposes.

Contractual obligations for the next five years and thereafter are shown below.

		Payments Due by Period			
($ millions)	**Total**	**1 Year or Less**	**2-3 Years**	**4-5 Years**	**After 5 Years**
Accounts payable and accrued liabilities	829	829	–	–	–
Long-term debt	7,227	83	153	1,121	5,870
Non-recourse long-term debt	129	15	30	30	54
Interest expense	7,598	366	721	682	5,829
Operating leases (1)	127	32	48	24	23
Purchase obligations:					
Coal purchase contracts (2)	856	89	197	209	361
Operating and maintenance agreements (3)	1,495	311	607	436	141
Capital expenditures (4)	138	138	–	–	–
Derivatives (5)	4	4	–	–	–
Other	84	46	37	1	–
Total	18,487	1,913	1,793	2,503	12,278

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

(2) ATCO Power has long-term fixed price contracts to purchase coal for its coal-fired generating plants.

(3) Consists of ATCO Power's long-term service agreements with suppliers to provide operating and maintenance services at certain of their generating plants, ATCO Gas's transmission service from NOVA Gas Transmission Ltd. and the Company's information technology services contractual obligations.

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

(5) Payments on outstanding derivatives have been estimated using rates in effect at December 31, 2014.

FINANCING RISK

The Company's financing risk relates to the price volatility and availability of external financing to fund the capital expenditure program and refinance existing debt maturities. Financing risk is directly influenced by market factors. As financial market conditions change, these risk factors can affect the availability of capital and also the relevant financing costs.

To address this risk, the Company manages its capital structure to maintain strong credit ratings which allow continued ease of access to the capital markets. The Company also considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. This liquidity is generated by cash flow from operations and supported by appropriate levels of cash and available committed credit facilities.

OTHER FINANCIAL INFORMATION

OFF-BALANCE SHEET ARRANGEMENTS

Canadian Utilities Limited does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, the Company's liquidity and capital resources.

CONTINGENCIES

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

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 4 of the 2014 Annual Financial Statements, which are prepared in accordance with IFRS. The timely preparation of consolidated financial statements requires management to make judgments, estimates, and assumptions. These judgments may affect the application of policies on the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses.

Key variables used in the calculations, or changes to estimates, could cause actual results to differ from those estimates. The judgments could have a material impact on the Company's financial position or performance. Management uses current economic conditions to develop these assumptions and these assumptions are reviewed on an on-going basis.

ACCOUNTING CHANGES NOT YET ADOPTED

Certain new or amended standards or interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) do not have to be adopted in the current period.

The standards issued, but not yet effective, which the Company anticipates may have a material effect on the consolidated financial statements are described below:

- IFRS 9 (2013) Financial Instruments - this standard replaces IAS 39 Financial Instruments: Recognition and Measurement and also replaces previous versions of IFRS 9. The standard provides revised guidance on the classification and measurement of financial assets and liabilities adding guidance on general hedge accounting.

  The Company will early adopt the standard on January 1, 2015. 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 annual consolidated financial statements.
- IFRS 9 (2014) Financial Instruments - this final standard replaces IAS 39 Financial Instruments: Recognition and Measurement and also replaces previous versions of IFRS 9. The standard incorporates IFRS 9 (2013), providing a further classification category for financial assets, and includes a new impairment model for financial instruments.

  The standard is effective on or after January 1, 2018. The Company has not yet determined the impact of the final standard and will not early adopt the standard.
- IFRS 15 Revenue from Contracts with Customers - this standard replaces previous guidance on revenue recognition, providing a framework to determine when to recognize revenue and at what amount. The standard applies to new contracts created on or after January 1, 2017, and to existing contracts not yet completed as of that date. The Company will not early adopt the standard.

There are no other standards or interpretations issued, but not yet effective, that the Company anticipates may have a material effect on the consolidated financial statements once adopted.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2014, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The controls also seek to assure this information is accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions on required disclosure.

Management, including the CEO and the CFO, does not expect the Company's disclosure controls and procedures will prevent or detect all errors. The inherent limitations in all control systems are that they can provide only reasonable, not absolute, assurance that all control issues and instances of error, if any, within the Company have been detected.

Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures were effective at December 31, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As of December 31, 2014, management evaluated the effectiveness of the Company's internal control over financial reporting as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance regarding the reliability of financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the CEO and the CFO have concluded that the Company’s internal control over financial reporting was effective at December 31, 2014.

There was no change in the Company’s internal control over financial reporting that occurred during the period beginning on October 1, 2014, and ended on December 31, 2014, that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

NON-GAAP AND ADDITIONAL GAAP MEASURES

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 without changes in non-cash working capital. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

Adjusted earnings are defined as earnings attributable to equity owners of the Company 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 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 attributable to equity owners of the Company is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 5 to the 2014 Annual Financial Statements.

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.

GLOSSARY

Adjusted earnings means earnings attributable to equity owners of the Company 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 day-to-day operations. Refer to the “Reconciliation of Adjusted Earnings to Earnings Attributable to Equity Owners of the Company” section for a description of these items.

AESO means the Alberta Electric System Operator.

Alberta Power Pool means the market for electricity in Alberta operated by AESO.

AUC means the Alberta Utilities Commission.

Availability is a measure of time, expressed as a percentage of continuous operation, that a generating unit is capable of producing electricity, regardless of whether the unit is actually generating electricity.

Carbon facility means ATCO Energy Solutions’ natural gas storage facility located at Carbon, Alberta.

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

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

Company means Canadian Utilities Limited and, unless the context otherwise requires, includes its subsidiaries.

DRIP means the dividend reinvestment plan (refer to the "Dividend Reinvestment Plan" section).

Frac spread means the premium or discount between the purchase price of natural gas and the selling price of extracted natural gas liquids on a heat content equivalent basis.

GAAP means Canadian generally accepted accounting principles.

Gigajoule (GJ) is a unit of energy equal to approximately 948.2 thousand British thermal units.

Heating Degree Day (HDD) is the difference between the average daily temperature and 18 degrees Celsius.

IFRS means International Financial Reporting Standards.

LNG means liquefied natural gas.

Megawatt (MW) is a measure of electric power equal to 1,000,000 watts.

Megawatt hour (MWh) is a measure of electricity consumption equal to the use of 1,000,000 watts of power over a one-hour period.

Mmcf/day means million cubic feet per day.

NGL means natural gas liquids, such as ethane, propane, butane and pentanes plus, that are extracted from natural gas and sold as distinct products or as a mix.

PBR means Performance Based Regulation.

Petajoule (PJ) is a unit of energy equal to approximately 948.2 billion British thermal units.

PPA means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electric utility business in Alberta. PPA are legislatively mandated and approved by the AUC.

Propane Plus means propane, butane, pentane and other hydrocarbons other than methane and ethane.

Shrinkage gas means the natural gas which is used to replace, on a heat equivalent basis, the NGL extracted during NGL extraction operations.

Spark spread is the difference between the selling price of electricity and the marginal cost of producing electricity from natural gas. In this MD&A, spark spreads are based on an approximate industry heat rate of 7.5 GJ per MWh.

Storage price differentials means seasonal differences (summer/winter) in the prices of natural gas.

U.K. means United Kingdom.

U.S. means United States of America.

APPENDIX 1
FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2014 and 2013, is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
($ millions of Canadian Dollars except per share data)	**2014**	**2013**
Revenues	**925**	905
Costs and expenses		
Salaries, wages and benefits	**(119)**	(123)
Energy transmission and transportation	**(42)**	(36)
Plant and equipment maintenance	**(92)**	(73)
Fuel costs	**(105)**	(90)
Purchased power	**(19)**	(20)
Materials and consumables	**(12)**	(13)
Depreciation, amortization and impairment	**(144)**	(141)
Franchise fees	**(54)**	(51)
Property and other taxes	**(22)**	(21)
Other	**(59)**	(67)
	(668)	(635)
	257	270
Earnings from investment in ATCO Structures & Logistics	**7**	6
Earnings from investment in joint ventures	**7**	(31)
Operating profit	**271**	245
Interest income	**4**	–
Interest expense	**(78)**	(78)
Net finance costs	**(74)**	(78)
Earnings before income taxes	**197**	167
Income taxes	**(44)**	(45)
Earnings for the period	**153**	122
Earnings attributable to:		
Equity owners of the Company	**151**	117
Equity preferred share owners of subsidiary company	**2**	5
	153	122
Earnings per Class A and Class B share	**$ 0.52**	$ 0.40
Diluted earnings per Class A and Class B share	**$ 0.53**	$ 0.40

CONSOLIDATED STATEMENT OF CASH FLOWS

($ millions of Canadian Dollars)	Three Months Ended December 31 2014	2013
Operating activities		
Earnings for the period	**153**	122
Adjustments for:		
Depreciation, amortization and impairment	**144**	141
Earnings from investment in ATCO Structures & Logistics, net of dividends received	**(5)**	13
Earnings from investment in joint ventures, net of dividends and distributions received	**(3)**	35
Income taxes	**44**	45
Unearned availability incentives	**(4)**	(14)
Contributions by customers for extensions to plant	**47**	69
Amortization of customer contributions	**(11)**	(13)
Net finance costs	**74**	78
Income taxes paid	**(15)**	(22)
Other	**5**	(3)
	429	451
Changes in non-cash working capital	**(133)**	18
Cash flow from operations	**296**	469
Investing activities		
Additions to property, plant and equipment	**(566)**	(733)
Proceeds on disposal of property, plant and equipment	**2**	1
Additions to intangibles	**(25)**	(36)
Changes in non-cash working capital	**50**	(36)
Other	**–**	(2)
	(539)	(806)
Financing activities		
Repayment of short-term debt	**(60)**	–
Issue of long-term debt	**201**	631
Repayment of long-term debt	**(110)**	(410)
Repayment of non-recourse long-term debt	**(8)**	(7)
Dividends paid on equity preferred shares	**(13)**	(13)
Dividends paid on equity preferred shares of subsidiary company	**(2)**	(5)
Dividends paid to Class A and Class B share owners	**(49)**	(27)
Interest paid	**(103)**	(102)
Other	**(2)**	(4)
	(146)	63
Foreign currency translation	**(4)**	(2)
Cash position		
Decrease	**(393)**	(276)
Beginning of period	**740**	772
End of period	**347**	496