ATCO Gas
SUMMARY OF REVENUE REQUIREMENT
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Description	Cross-Ref.	2017 Actual	2018 Actual	Variance 2018 vs. 2017 (Normalized where applicable) #	%
1	Return on Rate Base	Sch. 2 / 10	226,650	191,285	(35,365)	(15.60%)
2	Operating and Maintenance Expense	Sch. 3	410,561	385,463	(25,098)	(6.11%)
3	Depreciation & Amortization Expense	Sch. 4 / 10	154,051	172,777	18,726	12.16%
4	Income Taxes	Sch. 5 / 10	37,262	18,327	(18,935)	(50.82%)
5	Property and Other Tax Expense		555	577	22	3.96%
6	Sub Total Utility Revenue Requirement		829,079	768,429	(60,650)	(7.32%)
7	Flow Through Expenses	Sch. 6 / 10	203,675	180,958	(22,717)	(11.15%)
8	**Total Utility Revenue Requirement**	Sch. 6 / 10	**1,032,754**	**949,387**	**(83,367)**	**(8.07%)**
	Detailed Revenue					
9	Rate Revenue	Sch. 6	821,838	716,271	(105,567)	(12.85%)
10	Franchise Fee Revenue	Sch. 6 / 10	203,675	180,958	(22,717)	(11.15%)
11	Interim Rates and AUC Decisions	Sch. 6	(11,347)	29,413	40,760	(359.21%)
12	Other Revenue	Sch. 6	18,587	22,745	4,158	22.37%
13	**Utility Revenue**	Sch. 6 / 10	**1,032,753**	**949,387**	**(83,366)**	**(8.07%)**

Guidelines:

(1) Variance explanations required for $5 million, or 10% or greater and any difference equal to or greater than $1 million.
(2) Total Revenue Requirement must be reconciled on Schedule 10 to the Audited Financial Statements.
(3) Provide a detailed breakdown of items included in Revenue Offsets and Other Revenue in a supporting sub-schedule.
(4) Please provide a footnote stating the source of the approved forecast or approval of the negotiated settlement.
(5) The original applied for forecast is for information purposes only and a variance explanation is not required.
(6) Provide the application number where the applied for forecast information was obtained.
(7) Please identify flow through items and any reporting anomalies.
(8) If figures are unavailable for a given category please leave bank and make a notation at the bottom of the schedule or in the variance explanation as to the reason they are unavailable.
(9) List the flow through items included in line 8. Flow through items may or may not include franchise fees and natural gas supply.

Variance Explanations

Cross-Ref	
2	**Operating and Maintenance Expense** - See Schedule 3.
3	**Depreciation & Amortization Expense** - See Schedule 4.
4	**Income Taxes** - See Schedule 5.
7	**Flow Through Expenses** - See Schedule 6.
9	**Rate Revenue** - See Schedule 6.
10	**Franchise Fee Revenue** - See Schedule 6.
11	**Interim Rates and AUC Decisions** - See Schedule 6.

ATCO Gas
SUMMARY OF RETURN ON RATE BASE
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Description	Cross Ref.	Actual Current Year End	Actual Previous Year End	Actual Mid-Year Capital	Deemed Ratio	Prorated Rate Base	Cost Rate %	Return $
1	Debt	Sch. 2.3	1,688,700	1,559,251	1,623,976	59.61%	1,572,724	5.10%	80,243
2	Preferred Shares	Sch. 2.4	89,561	89,561	89,561	3.39%	89,561	3.77%	3,377
3	Common Equity		1,027,187	990,807	1,008,997	37.00%	976,265	11.03%	107,665
4	Mid-Year Invested Capital		2,805,448	2,639,619	2,722,534	100.00%	2,638,549	7.250%	
5	Return on Rate Base	Sch. 1 / 10							191,285
6	No Cost Capital						701		
7	Total Mid-year Rate Base	Sch. 2.1					2,639,250		
8	Return on Common Equity	Line 3						11.03%	107,665
9	Less ECM Earnings							(0.47%)	(4,549)
10	Adjusted ROE[1]							10.56%	103,116

Guidelines:

(1) Variance explanations required for $5 million, or 10% or greater and any difference equal to or greater than $1 million.
(2) Provide the breakdown of the items making up the difference (including disallowed items etc.).
(3) Common equity is based on the approved equity ratio.
(4) Please complete these schedules using the approved deemed capital structure.
(5) The cost rate for the common equity should be inferred from the return and prorated rate base of common equity.

Note

[1] In accordance with Decision 20414-D01-2016, paragraph 278.

ATCO Gas
SUMMARY OF MID-YEAR RATE BASE
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Description	Cross-Ref.	2017 Actual	2018 Actual	Variance 2017 vs. 2016 #	%
	Property, Plant and Equipment					
1	Opening Balance		4,589,503	4,927,586	338,083	7.37%
2	Additions	Sch. 4.1 / 4.2	383,158	291,387	(91,771)	(23.95%)
3	Retirements	Sch. 4.1	(42,064)	(30,705)	11,359	(27.00%)
4	Adjustments	Sch. 4.1	3,730	133	(3,597)	(96.43%)
5	Closing Balance	Sch. 4.1	4,934,327	5,188,401	254,074	5.15%
6	**Mid-Year PPE**		4,761,915	5,057,994	296,079	6.22%
	Accumulated Depreciation					
7	Opening Balance		1,653,365	1,769,729	116,364	7.04%
8	Depreciation Expense	Sch. 4	167,818	177,665	9,847	5.87%
9	Retirements	Sch. 4.1	(42,064)	(30,656)	11,408	(27.12%)
10	Proceeds from Disposals of Capitalized Assets	Sch. 4.1	3,200	1,974	(1,226)	(38.31%)
11	Removal, Depreciation Capitalized and Other Transfers		(12,590)	(10,643)	1,947	(15.46%)
12	Closing Balance	Sch. 4.1	1,769,729	1,908,069	138,340	7.82%
13	**Mid-Year Accumulated Depreciation**		1,711,547	1,838,899	127,352	7.44%
14	Construction Work in Progress (CWIP) - Mid-Year		(71,956)	(76,080)	(4,124)	5.73%
15	Assets Not In Rate Base - Mid-Year		(4,477)	(4,478)	(1)	0.02%
16	Transfers and Other Adjustments - Mid Year		(712)	(374)	338	(47.47%)
	Contributions in Aid of Construction					
17	Opening Balance	Sch. 4.1	(687,837)	(718,346)	(30,509)	4.44%
18	Closing Balance	Sch. 4.1	(718,346)	(744,732)	(26,386)	3.67%
19	**Mid-Year Contributions in Aid of Construction**		(703,092)	(731,539)	(28,448)	4.05%
	Amortization of Contributions					
20	Opening Balance	Sch. 4.1	200,236	210,520	10,284	5.14%
21	Closing Balance	Sch. 4.1	210,520	221,484	10,964	5.21%
22	**Mid-Year Amortization of Contributions**		205,378	216,002	10,624	5.17%
23	**Mid-Year Utility Plant in Service**		2,475,510	2,622,626	147,116	5.94%
	Necessary Working Capital					
24	Cash Expenses		(12,047)	5,392	17,439	(144.76%)
25	Materials and Supplies		2,689	2,941	252	9.37%
26	Prepayments and Deferrals		3,493	2,357	(1,136)	(32.52%)
27	Financial Items		7,867	6,711	(1,156)	(14.69%)
28	Goods and Services Tax (GST)		(799)	(777)	22	(2.75%)
			1,203	16,624	15,421	1281.88%
29	**Mid Year Rate Base**	Sch. 2	**2,476,713**	**2,639,250**	**162,537**	**6.56%**

ATCO Gas
SUMMARY OF MID-YEAR RATE BASE
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Guidelines:
(1) Variance explanations required for $5 million, or 10% or greater and any difference equal to or greater than $1 million.
(2) If there was a negotiated settlement in place for the reporting year please state the approved negotiated settlement numbers in the decision column.
(3) Please note the source of the numbers in the decision or negotiated settlement as applicable.

Variance Explanations

Cross-Ref	
2	**Additions** see Schedule 4.2.
3/9	**Retirements** are lower than prior year mainly due to a decrease in retirements from the Plastic Mains Replacement Program, Steel Mains Replacement Program, and Meter Relocation and Replacement Program.
4	**Adjustments and Transfers** are lower than prior year mainly due to decreased transfers from ATCO Pipelines for the Urban Pipelines Replacement Program from 2017.
8	**Depreciation Expense** refer to Schedule 4.0 for deviations from prior year.
10	**Proceeds from Disposals of Capital Assets** are lower than prior year mainly due to insurance proceeds received in 2017 for the Wood Buffalo Wildfire and lower proceeds on meter and heavy equipment retirements in 2018.
11	**Removal, Depreciation Capitalized and Other Transfers** is lower than prior year mainly due to lower services and alterations removal costs, as well as decrease in relocation project removal costs.
24	**Cash expenses** are higher mainly due to income tax installments.
26	**Prepayments and deferrals** are lower than the prior year mainly due to activity in the transmission deferral account.
27	**Financial items** are lower than prior year mainly due to lower retained earnings component, offset by depreciation expense.

ATCO Gas

SUMMARY OF DEGREE DAYS, YEAR END CUSTOMERS AND THROUGHPUT

FOR THE YEAR ENDED DECEMBER 31, 2018

Line No.	Description	2017 Actual	2018 Actual	2018 Forecast	Variance 2018 Actual vs. Forecast #	Variance 2018 Actual vs. Forecast %	Variance 2018 vs. 2017 #	Variance 2018 vs. 2017 %
1	10 Year Average Normal Degree Days	4,182	4,141	4,141	-	-	(41)	(0.98%)
	Number of Year End Customers							
2	Residential	1,100,625	1,117,109	1,117,450	(341)	(0.03%)	16,484	1.50%
3	Commercial	98,123	99,363	99,428	(65)	(0.07%)	1,240	1.26%
4	Industrial	347	344	348	(4)	(1.15%)	(3)	(0.86%)
5	Irrigation	3	3	3	-	-	-	-
6	Total Customers	1,199,098	1,216,819	1,217,229	(410)	(0.03%)	17,721	1.48%
	Normalized Throughput - TJs							
7	Residential	126,545	123,237	127,335	(4,098)	(3.22%)	(3,308)	(2.61%)
8	Commercial	123,923	127,302	124,672	2,630	2.11%	3,379	2.73%
9	Industrial	13,031	13,913	12,785	1,128	8.82%	882	6.77%
10	Irrigation	338	289	274	15	5.47%	(49)	(14.50%)
11	Total Normalized Throughput	263,837	264,741	265,066	(325)	(0.12%)	904	0.34%

Note:
The 2017 throughput is normalized based on the ten year average temperatures ending 2015.
The 2018 throughput is normalized based on the ten year average temperatures ending 2017.
The 2018 customers and throughput forecasts are based on AUC Decision 23355-D01-2018 (Errata).

In Decision 20820-D01-2015, the Commission directed in subsequent PBR annual rate adjustment filings to provide information on the variance from forecast to actual billing determinants in each completed prior year of the PBR term, as well as identify drivers behind a variance larger than ±5 per cent on an annual basis.

ATCO Gas

SCHEDULE OF DEBT CAPITAL EMPLOYED

FOR THE YEAR ENDED DECEMBER 31, 2018

($000s)

2018 Actual

Line No.	Cross-Reference	Description	Series	Issue Date	Maturity Date	Coupon Rate	Principal Amount	Underwriting Discount & Expense	Total Amount	Effective Cost Rate %	Principal Outstanding at Year-End	Carrying Cost	Average Embedded Cost Rate
1		A	11.770%	90/11/28	2020	11.770%	23,738	(52)	23,686	11.904%	23,686	2,820	
2		B	9.920%	91/12/18	2022	9.920%	26,803	(110)	26,693	10.070%	26,693	2,688	
3		C	9.400%	92/12/08	2023	9.400%	43,629	(167)	43,462	9.512%	43,462	4,134	
4		D	6.800%	99/08/12	2019	6.800%	120,000	(42)	119,958	6.861%	119,958	8,230	
5		F	5.432%	04/01/23	2019	5.432%	105,000	(4)	104,996	5.495%	104,996	5,770	
6		H	5.896%	04/11/18	2034	5.896%	57,000	(248)	56,752	5.940%	56,752	3,371	
7		I	5.183%	05/11/21	2035	5.183%	20,000	(97)	19,903	5.227%	19,903	1,040	
8		J	4.801%	06/11/20	2021	4.801%	20,000	(28)	19,972	4.857%	19,972	970	
9		K	5.032%	06/11/20	2036	5.032%	20,000	(93)	19,907	5.072%	19,907	1,010	
10		L	5.556%	07/11/30	2037	5.556%	65,000	(317)	64,683	5.597%	64,683	3,620	
11		M	5.563%	08/05/26	2028	5.563%	55,000	(220)	54,780	5.619%	54,780	3,078	
12		N	5.580%	08/05/26	2038	5.580%	95,000	(499)	94,501	5.625%	94,501	5,316	
13		O	4.543%	11/06/30	2041	4.543%	114,300	(623)	113,677	4.582%	113,677	5,209	
14		P	4.593%	11/06/30	2061	4.593%	45,700	(276)	45,424	4.626%	45,424	2,101	
15		Q	3.805%	12/09/10	2042	3.805%	97,000	(540)	96,460	3.841%	96,460	3,705	
16		R	3.825%	12/09/11	2062	3.825%	39,000	(240)	38,760	3.854%	38,760	1,494	
17		S	4.722%	13/09/09	2043	4.722%	70,000	(412)	69,588	4.763%	69,588	3,314	
18		T	4.085%	14/09/09	2044	4.085%	130,000	(743)	129,257	4.122%	129,257	5,327	
19		U	3.964%	15/07/27	2045	3.964%	90,000	(576)	89,424	4.004%	89,424	3,581	
20		V	4.211%	15/10/30	2055	4.211%	45,000	(299)	44,701	4.246%	44,701	1,898	
21		X	3.763%	16/11/16	2046	3.763%	140,000	(952)	139,048	3.803%	139,048	5,288	
22		Y	3.548%	17/11/22	2047	3.548%	145,000	(1,002)	143,998	3.587%	143,998	5,165	
23		Z	3.950%	18/11/21	2048	3.950%	130,000	(930)	129,070	3.988%	129,070	5,147	
24	Sch. 11	**Current Year-End Balance**					**1,697,170**	**(8,470)**	**1,688,700**		**1,688,700**	**84,276**	**4.99%**
25		Prior Year-End Balance									**1,559,251**	**79,093**	5.07%
26		**Mid-Year Balance**									**1,623,976**	**81,685**	**5.03%**
27		Mid-Year Short Term Debt									-	-	1.00%
28		Bank Charges and Financing									-	1,173	
29		**Mid-Year Balance**									**1,623,976**	**82,858**	**5.10%**
30		Adjustment for Deemed Debt									(51,252)	(2,615)	5.10%
31	Sch. 2	**Deemed Debt**									**1,572,724**	**80,243**	**5.10%**

Guidelines:

(1) In any year where there is a new issue, provide a supporting schedule.
(2) Any differences between Decision and Actual are to be explained in a supporting working paper.
(3) Include any short-term interest-bearing debt.
(4) Variance analysis is on Carrying Cost.
(5) Total debt should equal the financial statement debt and is not expected to equal the deemed debt indicated on Schedule 2.
(6) Please provide details affecting regulated financial results such as placeholders and R & V issues underway.

Note:
In accordance with Commission Direction 4 in Decision 22570-D01-2018, the 2018 actual debt cost rate is 5.14%.

Variance Explanations

Cross-Ref	
22	Series Z - Issued debentures to finance the 2018 capital program and existing rate base.

ATCO Gas
SCHEDULE OF PREFERRED SHARE CAPITAL EMPLOYED
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Cross-Reference	Series	Issue Date	Dividend Rate	Stated Value of Issue	Unamortized Underwriting Discount & Expense	Net Proceeds Outstanding	Preferred Dividend Requirement	Current Year Amortization of Issue Costs	Average Embedded Cost Rate
1		V	97/10/03	4.60%	24,061	-	24,061	1,107	-	4.600%
2		1	07/04/18	4.60%	34,000	-	34,000	1,564	-	4.600%
3		4	10/12/02	2.24%	31,500	-	31,500	707	-	2.243%
4	Sch. 11	Current Year-End Balance			89,561	-	89,561	3,377	-	3.771%
5		Prior Year-End Balance					89,561	3,377	-	3.771%
6		**Mid-Year Balance**					89,561	3,377	-	3.771%

Guidelines:
(1) Variance explanations required for $5 million, or 10% or greater and any difference equal to or greater than $1 million.
(2) In any year where there is a new issue, provide a supporting schedule.
(3) Any differences between Forecast and Actual are to be explained in a supporting documentation.

__Variance Explanations__

N/A

ATCO Gas
RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.		2018 Actual
1	Return on Mid-year rate base financed by common equity - Schedule 2.0	107,665
2	Return on book value of common equity - Schedule 10	108,036
3	**Difference**	**(371)**
	Reconciliation	
4	Common Equity Return of Mid-year rate base financed by common equity	**107,665**
5	Long-Term Debt - Schedule 2.0	80,243
6	Preferred Shares - Schedule 2.0	3,377
7	**Subtotal - Utility Income**	**191,285**
8	Interest and Other Expense	(76,305)
9	Preferred Dividend Requirement	(3,377)
10	AFUDC	4,970
11	Other Income (Expense)	(3,840)
12	Non-Utility Revenue net Expense	(7,196)
13	Income Tax Differences	2,499
14	**Return on book value of common equity as per financial statements**	**108,036**

Guidelines:
(1) Please identify key areas creating the difference between the financial return and the regulated utility return contained in these spreadsheets.
(2) As a rule of thumb, five to six main points causing the variance is recommended but the utilities explanation is not limited to that number.

ATCO Gas

SUMMARY OF OPERATING AND MAINTENANCE EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2018

($000s)

Line No.	Description	Cross-Ref.	2017 Actual	2018 Actual	Variance 2018 vs. 2017 #	Variance 2018 vs. 2017 %
	Operating & Maintenance Expense					
1	Gas Management		603	703	100	16.58%
2	Transmission		208,294	178,317	(29,977)	(14.39%)
3	Distribution		80,421	99,473	19,052	23.69%
4	General		8,683	9,307	624	7.19%
5	Sales and Transportation Promotion		3,596	5,664	2,068	57.51%
6	Customer Accounting		21,738	22,943	1,205	5.54%
7	Administration and General		94,741	79,540	(15,201)	(16.04%)
8	**Total Operating & Maintenance Expense**		418,076	395,947	(22,129)	(5.29%)
9	Less: Non-Utility O&M	Sch. 10	7,515	10,484	2,969	39.51%
10	**Operating & Maintenance Expense - Net**	Sch. 1	410,561	385,463	(25,098)	(6.11%)

Guidelines:

(1) Variance explanations required for $5 million, or 10% or greater and any difference equal to or greater than $1 million.

(2) Global reductions refers to the reduction of fees chargeable as deemed in the rate application decision.

(3) Please add line items as needed to more clearly identify major O&M expenses.

Variance Explanations

Cross - Ref	
2	**Transmission** costs are lower than prior year mainly due to a decrease in rates and volume.
3	**Distribution** costs are higher than prior year mainly due to the inclusion of fringe benefits as fringe benefits has been distributed across all functions in 2018. Distribution costs are also higher due to increased costs in line repairs, secondary services, maintenance on mains & services and customer service calls partially offset by a decrease in line locate costs.
5	**Sales and Transportation Promotion** costs are higher than prior year mainly due to an increase in non-utility sales.
7	**Administration and General** costs are lower than prior year mainly due to the distribution of fringe benefits across all functions in 2018.
9	**Non-Utility O&M** costs are higher than prior year mainly due to an increase in non-utility sales.

ATCO Gas
SUMMARY OF DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Description	Cross-Ref.	2017 Actual	2018 Actual	Variance 2018 vs. 2017 #	Variance 2018 vs. 2017 %
	Depreciation Expense					
1	Distribution Plant		143,161	152,621	9,460	6.61%
2	General Plant		28,997	39,905	10,908	37.62%
3	AFUDC		511	566	55	10.76%
4	Sub-total	Sch. 4.1	172,669	193,092	20,423	11.83%
5	Less: Capitalized Depreciation		(4,851)	(4,680)	171	(3.53%)
6	Sub-total	Sch. 2.1	167,818	188,412	20,594	12.27%
7	**Amortization of Contributions**	Sch. 4.1	(14,296)	(14,920)	(624)	4.36%
	Other					
8	Production Abandonments		700	1,400	700	100.00%
	Non-Utility Items					
9	Non-Utility Items		(171)	(2,115)	(1,944)	1136.84%
10	**Total Utility Depreciation Expense**	Sch. 1 / 10	**154,051**	**172,777**	**18,726**	**12.16%**

Guidelines:
(1) Variance explanations required for $5 million, or 10% or greater and any difference equal to or greater than $1 million.

Variance Explanations

Cross-Ref	
1	**Distribution Plant** is higher than the prior year due to a higher opening depreciable base as well as an increase in depreciation resulting from 2018 capital additions.
2	**General Plant** depreciation is higher than prior year due to the impairment of software programs in 2018.
9	**Non-Utility Items** depreciation is higher than the prior year due to the impairment of software programs in 2018.

ATCO Gas
CAPITAL ASSETS CONTINUITY SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

CAPITAL ASSETS

Line No.	Property Group	Cross-Reference	Balance at '12/31/2017	2018 Additions	2018 Retirements	2018 Transfers	2018 Adjustments	Balance at '12/31/2018
	Distribution							
1	Land		6,578	626	2	-	-	7,202
2	Land Rights		26,761	4,191	-	-	-	30,952
3	Structures & Improvements		45,236	6,384	185	-	-	51,435
4	Services & Alterations		1,431,723	73,845	2,479	-	-	1,503,089
5	Regulators & Meters		456,444	16,687	1,525	-	-	471,606
6	Mains		1,874,896	122,118	6,894	-	-	1,990,120
7	Measurement & Regulating Equipment		163,681	17,484	906	-	-	180,259
8	Meters		227,660	16,096	8,079	-	-	235,677
9	Renewable Energy		3,761	-	-	-	-	3,761
10	**Distribution**		4,236,740	257,431	20,070	-	-	4,474,101
	General Plant & Equipment							
11	Franchises		1,256	-	-	-	-	1,256
12	Land		18,378	-	46	-	-	18,332
13	Structures		136,405	2,757	1,458	-	-	137,704
14	Interco Contributions		242	-	-	-	-	242
15	**General Plant & Equipment**		156,281	2,757	1,504	-	-	157,534
	Moveable Equipment							
16	Office Furniture & Equipment		19,462	83	367	-	-	19,178
17	Transportation Equipment		82,987	7,127	4,942	133	-	85,305
18	Heavy Work Equipment		26,076	1,416	425	-	-	27,067
19	Tools & Work Equipment		28,993	1,174	2,405	-	-	27,762
20	Cogeneration Equipment		3,966	-	-	-	-	3,966
21	Communication Equipment		35,760	866	449	-	-	36,177
22	Stores & Shop and Lab Equipment		17,948	215	309	-	-	17,854
23	Leasehold Improvements		22,699	1,105	118	-	-	23,686
24	Electronic Data Processing Equipment		6,435	264	-	-	-	6,699
25	Base Maps		2,138	-	170	-	-	1,968
26	Software Development		191,223	18,719	-	-	-	209,942
27	**Moveable Equipment**		437,687	30,969	9,185	133	-	459,604
28	**AFUDC**		17,760	2,270	(54)	-	-	20,084
29	**Inventory Spares**		748	(748)	-	-	-	-
30	**Capital Work in Progress (CWIP)**		78,370	(1,292)	-	-	-	77,078
31	**Total Capital Assets**	Sch. 2.1 / 4.2	**4,927,586**	**291,387**	**30,705**	**133**	**-**	**5,188,401**
32	**Non Utility Assets**		11,017	687	(26)	19	-	**11,749**
33	Less: Inventory Spares		748	(748)	-	-	-	-
34	**Total Utility Capital Assets**		**4,915,821**	**291,448**	**30,731**	**114**	**-**	**5,176,652**
	Contributions							
35	Utility		716,310	30,098	3,956	-	-	742,452
36	Non Utility		1,422	-	-	-	-	1,422
37	Contributions Work in Progress (KWIP)		614	244	-	-	-	858
38	**Total Contributions**	Sch 2.1	**718,346**	**30,342**	**3,956**	**-**	**-**	**744,732**

ATCO Gas
CAPITAL ASSETS CONTINUITY SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

ACCUMULATED DEPRECIATION

Line No.	Property Group	Cross-Reference	Balance at '12/31/2017	Depreciation Provision	2018 Retirements	2018 Removals	2018 Salvage	2018 Adjustments	Balance at '12/31/2018
	Distribution								
1	Land		-	-	-	-	-	-	-
2	Land Rights		3,326	323	-	-	-	-	3,649
3	Structures & Improvements		10,686	1,321	185	355	-	-	11,467
4	Services & Alterations		573,836	59,603	2,479	7,991	-	-	622,969
5	Regulators & Meters		159,222	14,144	1,525	234	-	-	171,607
6	Mains		552,954	53,803	6,894	4,045	78	-	595,896
7	Measurement & Regulating Equipment		68,972	6,556	906	876	56	-	73,802
8	Meters		70,062	16,708	8,079	1	756	-	79,446
9	Renewable Energy		702	163	-	-	-	-	865
10	**Distribution**		1,439,760	152,621	20,068	13,502	890	-	1,559,701
	General Plant & Equipment								
11	Franchises		720	124	-	-	-	-	844
12	Land		-	-	-	-	-	-	-
13	Structures & Improvements		50,608	4,727	1,458	45	236	-	54,068
14	**General Plant & Equipment**		51,328	4,851	1,458	45	236	-	54,912
	Moveable Equipment								
15	Office Furniture & Equipment		8,380	987	367	-	-	-	9,000
16	Transportation Equipment		41,114	5,610	4,942	21	761	132	42,654
17	Heavy Work Equipment		13,515	2,154	425	-	45	-	15,289
18	Tools & Work Equipment		10,652	1,867	2,405	-	36	-	10,150
19	Cogeneration Equipment		3,584	191	-	-	-	-	3,775
20	NAIT Fuel Cell		566	-	-	-	-	-	566
21	Communication Equipment		19,962	1,880	449	25	-	-	21,368
22	Stores, Shop & Lab Equipment		8,164	1,051	309	-	6	-	8,912
23	Electronic Data Processing Equipment		1,988	541	-	-	-	-	2,529
24	Base Maps		2,069	31	170	-	-	-	1,930
25	Leaseholds		19,032	533	118	-	-	-	19,447
26	Software Development		148,302	9,462	-	-	-	-	157,764
27	**Moveable Equipment**		277,328	24,307	9,185	46	848	132	293,384
30	**Regulatory Differential (AFUDC-IDC)**		1,823	566	(55)	-	-	-	2,444
31	**Retirements Work in Progress (RWIP)**		(510)	-	-	1,862	-	-	(2,372)
32	**Total Accumulated Depreciation**	Sch. 2.1 / 4	**1,769,729**	**182,345**	**30,656**	**15,455**	**1,974**	**132**	**1,908,069**
33	**Non Utility Assets**		**6,033**	424	8	-	-	-	6,449
34	Regulatory Differential (IDC)		**12**	(2)	(55)	-	-	-	65
35	**Total Non Utility Accumulated Depreciation**		**6,045**	**422**	**(47)**	**-**	**-**	**-**	**6,514**
36	**Total Utility Accumulated Depreciation**		**1,763,684**	**181,923**	**30,703**	**15,455**	**1,974**	**132**	**1,901,555**
	Contributions								
37	Utility		209,740	14,888	3,956	-	-	-	220,672
38	Non Utility		780	32	-	-	-	-	812
39	**Total Contributions**	Sch 2.1 / 4	**210,520**	**14,920**	**3,956**	**-**	**-**	**-**	**221,484**
40	**Net Property, Plant, and Equipment**	Sch. 11	**2,649,283**						**2,757,084**
41	**Net Property, Plant and Equipment (Non-Utility)**	Sch. 11	**(4,330)**						**(4,625)**
42	**Net Property, Plant, and Equipment (Utility)**	Sch. 11	**2,644,953**						**2,752,459**

Guidelines:

(1) Asset categories need to be identified by the individual utilities. However, they should show sufficient breakdown to allow for reasonable understanding of operations.
(2) Provide a detailed breakdown of items included in "Other", in a supporting sub-schedule.
(3) Year-end balances for each category must be reconciled on Schedule 11 to the audited Balance Sheet.

ATCO Gas
SUMMARY OF CAPITAL EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Description	Cross-Reference	2017 Year End	2018 Year End	Variance 2018 vs. 2017	
	Distribution					
1	Extensions		32,921	40,004	7,083	21.52%
2	Services		33,320	38,593	5,273	15.83%
3	Meters, Regulators and Installations		28,148	34,544	6,396	22.72%
4	Improvements and MRRP		245,633	148,212	(97,421)	(39.66%)
5	Sub-Total		340,022	261,353	(78,669)	(23.14%)
	Land and Structures					
6	General		4,408	4,036	(372)	(8.44%)
	Moveable Equipment					
7	General		14,709	8,246	(6,463)	(43.94%)
8	Communication and Lab Equipment		2,121	889	(1,232)	(58.09%)
9	Software Development		23,556	20,147	(3,409)	(14.47%)
10	Renewable Energy		(110)	10	120	(109.09%)
11	Sub-Total		40,276	29,292	(10,984)	(27.27%)
12	Change in Inventory Spares		73	(748)	(821)	(1124.66%)
13	Capital Expenditures (IFRS)		384,779	293,933		
14	IDC / AFUDC and Other IFRS Adjustments		(1,621)	(2,546)		
15	**Capital Expenditures**	Sch. 2.1 / 4.1	**383,158**	**291,387**	**(91,771)**	**(23.95%)**

Guidelines:
(1) Asset categories need to be identified by the individual utilities. However, they should show sufficient breakdown to allow for reasonable
(2) Please add line items as needed to give sufficient understanding of the main capital additions in the reporting year.

Variance Explanations

Cross-Ref	
1	**Extensions** expenditures were higher than prior year due to higher demand for urban residential extensions and urban feeder mains.
2	**Services** expenditures were higher than prior year mainly due to the increased demand for service installs.
3	**Meters, Regulators and Installations** expenditures were higher than prior year due to higher customer demand.
4	**Improvements and MRRP** expenditures were lower than prior year mainly due to lower expenditures in the Meter Relocation & Replacement Program, the Plastic Mains Replacement Program and the Steel Mains Replacement Program, and the Urban Pipeline Relocation Program.
7	**Moveable Equipment - General** expenditures were lower than prior year due to lower replacement of trailers, heavy equipment and vehicles.
8	**Communication and Lab Equipment** expenditures were lower than prior year due to lower replacement of communication equipment.
9	**Software Development** expenditures were lower than prior year mainly due to software development occurring in 2017.

ATCO Gas
SUMMARY OF UTILITY INCOME TAX
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Description	Cross-Reference	2017 Actual Federal	2017 Actual Provincial	2018 Actual Federal	2018 Actual Provincial
1	Net Income Before Tax		184,305	184,305	119,103	119,103
2	Total Flowthrough Differences		(52,652)	(52,507)	(63,297)	(63,072)
3	Total Deferred Differences		(31,131)	(31,131)	6,288	6,288
4	Total Differences		(83,783)	(83,638)	(57,009)	(56,784)
5	Taxable Income		100,522	100,667	62,094	62,319
6	Income Tax Rate		15%	12%	15%	12%
7	Current Tax Payable		15,078	12,080	9,314	7,478
8	Other (Prior Period Adjustments)		(76)	(61)	(833)	(666)
9	Other (Part VI.I Tax)		1,308	-	1,351	-
10	Current Income Tax		16,310	12,019	9,832	6,812
11	Deferred Tax		4,670	3,736	(943)	(755)
12	Deferred Tax (Prior Period Adjustments)		(552)	(441)	-	-
13	**Corporate Income Tax**	Sch. 10	**20,428**	**15,314**	**8,889**	**6,057**
14	**Income Tax Adjustments**					
15	Non-Utility/Impact of Decisions		844	676	1,878	1,503
16	Utility Income Tax	Sch. 1	**21,272**	**15,990**	10,767	7,560
17	**Total Federal & Provincial (Utility)**	Sch. 1/10		**37,262**		**18,327**

Line No.	Description	Federal Actual 2017 vs 2016 $	Federal Actual 2017 vs 2016 %	Provincial Actual 2017 vs 2016 $	Provincial Actual 2017 vs 2016 %
18	**Utility Income Tax**	(10,505)	(49.38%)	(8,430)	(52.72%)

Guidelines:

(1) Variance explanations required for $5 million, or 10% or greater and any difference equal to or greater than $1 million.
(2) Describe tax methodology (flowthrough or based on CICA)

Other Information

ATCO Gas uses a flowthrough tax methodology.
In accordance with Commission Direction 2 in Decision 22570-D01-2018, the unfunded FIT liability is $272.5 for 2018 and $244.6M for 2017, year-over-year change of $27.9M.

Variance Explanations

Cross-Ref	
1	**Net Income Before Tax -** see Schedule 10.
2	**Total Flowthrough Differences** are higher than prior year mainly due to higher deductions in 2018.
3	**Total Deferred Differences** are lower than prior year due to changes in the deferral accounts. (see Schedule 9)

ATCO Gas
SUMMARY OF UTILITY REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Description	Cross-Ref.	2017 Actual	2018 Actual	2018 Forecast	2018 Normalized vs. Forecast #	2018 Normalized vs. Forecast %	Variance 2018 vs. 2017 #	Variance 2018 vs. 2017 %
	REVENUE CLASSIFICATIONS								
	Residential								
1	Average Number of Customers		1,090,776	1,107,297	1,107,858	(561)	(0.05%)	16,521	1.51%
2	Revenue		576,513	517,100	520,597	(3,497)	(0.67%)	(59,413)	(10.31%)
	Commercial (Apartment)								
3	Average Number of Customers		9,207	9,243	9,266	(23)	(0.25%)	36	0.39%
4	Revenue		35,240	27,878	28,176	(298)	(1.06%)	(7,362)	(20.89%)
	Commercial (Non-Apartment)								
5	Average Number of Customers		87,989	89,202	89,259	(57)	(0.06%)	1,213	1.38%
6	Revenue		195,366	161,349	162,030	(681)	(0.42%)	(34,017)	(17.41%)
	Industrial								
7	Average Number of Customers		348	346	346	0	0.00%	(2)	(0.57%)
8	Revenue		14,132	9,508	9,332	176	1.89%	(4,624)	(32.72%)
	Irrigation								
9	Average Number of Customers		391	409	391	18	4.60%	18	4.60%
10	Revenue		587	436	434	2	0.46%	(151)	(25.72%)
11	Total Average Number of Customers		1,188,711	1,206,497	1,207,120	(623)	(0.05%)	17,786	1.50%
12	Sub-Total Rate Revenue	Sch. 1	821,838	716,271	720,569	(4,298)	(0.60%)	(105,567)	(12.85%)
	RATE ACCRUALS REVENUE								
13	Rate Accruals Revenue	Sch. 1	(11,347)	29,413				40,760	(359.21%)
	FRANCHISE REVENUE								
14	Franchise Fee Revenue	Sch 1/10	203,675	180,958				(22,717)	(11.15%)
	OTHER REVENUE								
15	Other Revenue (Please See Below)	Sch. 1	18,587	22,745				4,158	22.37%
16	**TOTAL UTILITY REVENUE**	Sch. 1/10	**1,032,753**	**949,387**				**(83,366)**	**(8.07%)**

ATCO Gas
SUMMARY OF UTILITY REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Description	Cross-Ref.	2017 Actual	2018 Actual	2018 Forecast	2018 Normalized vs. Forecast #	2018 Normalized vs. Forecast %	Variance 2018 vs. 2017 #	Variance 2018 vs. 2017 %
	OTHER REVENUE								
17	ATCO Pipelines		7,094	7,062				(32)	(0.45%)
18	Other Affiliates		1,857	1,642				(215)	(11.58%)
19	Facility Repairs		1,806	1,693				(113)	(6.26%)
20	Reinstatement Fees		5,078	4,800				(278)	(5.47%)
21	Miscellaneous		2,752	7,548				4,796	174.27%
22	Total Other Revenue		**18,587**	**22,745**				**4,158**	**22.37%**

Guidelines:
(1) Variance explanations required for $5 million, or 10% or greater and any difference equal to or greater than $1 million.

Note: The 2018 rate revenue forecast is based on the 2018 delivery rates applied to the PBR approved billing determinant forecast.

Revenue Variance Explanations

Cross-Ref	
2	**Residential Revenue** is lower than prior year primarily due to lower delivery rates and sales per customer in 2018.
4	**Commercial (Apt) Revenue** is lower than prior year primarily due to lower delivery rates and sales per customer in 2018.
6	**Commercial (Non-Apt) Revenue** is lower than prior year primarily due to lower delivery rates and sales per customer in 2018.
8	**Industrial Revenue** is lower than prior year due primarily to lower delivery rates in 2018.
14	**Franchise Fee Revenue** is lower than prior year primarily due to lower delivery rates and gas cost partially offset by higher billed throughput as a result of colder weather in 2018.
21	**Other Misc Revenue** is higher than prior year primarily due to innovation initiatives and higher maintenance services.

ATCO Gas
EXPLANATION OF TRANSACTIONS WITH AFFILIATED COMPANIES
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Affiliate	Nature of Service		2017 Actual	2018 Actual	Var. 2018 to 2017	Var. %
1	**ATCO Ltd. / CUL / CU Inc.**	Rent and Office Services	Revenue	16	4	(12)	(75.00%)
2		Administration, Rent and Aircraft	Expenses	(19,270)	(27,743)	(8,473)	43.97%
3		Licensing fees	Expenses	(1,982)	(2,304)	(322)	16.25%
4		Administration, Rent and Aircraft	Capital	(622)	(11,263)	(10,641)	1710.77%
5	**ATCO Electric Ltd.**	Rent and Office Services	Revenue	600	533	(67)	(11.17%)
6		Customer Services	Revenue	5	11	6	120.00%
7		Contract Services	Expenses	-	(72)	(72)	N/A
8		Rent and Contractor Services	Expenses	(357)	(353)	4	(1.12%)
9		Customer Service	Prepaid Expenses	(297)	-	297	N/A
10		Contract Services	Capital	-	(518)	(518)	N/A
11		Transfer	Capital	(927)	(87)	840	N/A
12	**ATCO Power**	Rent and Office Services	Revenue	141	119	(22)	(15.60%)
13		Contract Services	Revenue	4	3	(1)	(25.00%)
14	**ATCO Structures and Logistics**	Rent and Contractor	Expenses	-	(54)	(54)	N/A
15	**ATCO Energy Solutions**	Contract Services	Revenue	1,075	958	(117)	(10.88%)
16	**ATCO Pipelines**	Contract Services	Revenue	7,094	7,062	(32)	(0.45%)
17		Contract Services and Rent	Expenses	(1,605)	(1,342)	263	(16.39%)
18		Transfer and Contribution	Capital	(3,323)	(3,090)	233	(7.01%)
19	**ATCO Energy**	Contract Services	Revenue	30	20	(10)	(33.33%)
20		Contract Services	Expense	(58)	(41)	17	(29.31%)
21		Transfer	Capital	-	(655)	(655)	N/A
22	**ATCO Investments**	Rent	Expense	(3)	-	3	N/A

Guidelines:
(1) The services provided or received need to be identified by the individual utilities. However, they should show sufficient breakdown to allow for reasonable understanding of operations.
(2) Provide a cross-reference for each item to the relevant schedules where the amounts have been included in this reporting package.
(3) Amounts in this schedule must be reconciled on Schedule 10 to the Audited Financial Statements.
(4) Identify charges in brackets indicating an expense to ABC Utility.

Variance Explanations

Cross-Ref	
2/4	**ATCO LTD -** Administration, Rent and Aircraft is higher than prior year mainly due to an organizational structure change at ATCO to have functions that were formerly imbedded within ATCO Gas to now be part of a corporate shared services model.

ATCO Gas
SUMMARY OF PAYROLL AND MANPOWER STATISTICS
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Description	Cross-Ref.	2017 Actual	2018 Actual	Variance 2018 vs. 2017	Variance %
	Payroll Statistics					
1	Gross Salaries, Wages, & Employee Benefits		208,920	203,992	(4,928)	(2.36%)
	Manpower Statistics					
2	Total Regular Employees (FTEs)		1,480	1,392	(88)	(5.95%)
3	Total Temporary Employees (FTEs)		113	74	(39)	(34.51%)
4	**Total Manpower**		1,593	1,466	(127)	(7.97%)
	Less:					
5	Charged to Non-Regulated		8	9	1	12.50%
6	**Total Manpower - Utility Operations**		1,585	1,457	(128)	(8.08%)
	Manpower Allocation by Division *					
7	Operations		1,413	1,302	(111)	(7.86%)
8	Administration		172	155	(17)	(9.88%)
9	**Total Manpower**		1,585	1,457	(128)	(8.08%)

Guidelines:

(1) Variance explanations required for $5 millon, or 10% or greater and any difference equal to or greater than $1 million.
(2) Please state if FTE is based on an average or upon year end numbers. This should be consistent with the decision.
(3) Add rows as needed to be consistent with the decision.

Variance Explanations

NOTE: Full Time Equivalents (FTEs) are based on year end numbers.

Cross-
Ref

ATCO Gas
SUMMARY OF RESERVE/DEFERRAL ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2018
($000s)

Line No.	Description	Cross-Ref.	Opening Balance	Adds	Amort.	Recoveries	Ending Balance
Regulatory Accounts							
1	Deferred Supplemental Pension		15,578	251	-	-	15,829
2	Deferred Post Employment Benefits		41,291	419	-	-	41,710
3	Regulatory Income Tax Provision		(701)	-	-	-	(701)
			56,168	**670**	**-**	**-**	**56,838**
Approved Deferral Accounts							
4	Deferred AUC and Intervener Costs		(2,584)	4,014	3,630	654	(1,546)
5	Deferred Consumer Advocate Costs		311	851	1,400	(221)	(459)
6	Deferred Production Abandonments		975	2,265	1,400	(203)	1,637
7	Weather Deferral Account		10,230	(18,289)	-	5,013	(3,046)
8	Load Balancing Deferral Account		(5,921)	3,398	-	-	(2,523)
9	Income Tax Deductible Capital Costs		(3,945)	976	-	42	(2,927)
10	Transmission Charges		(15,181)	3,756	-	15,078	3,653
11	Interim 2016 Wood Buffalo Wildfire Deferral		11,074	72	-	-	11,146
			(5,040)	(2,957)	**6,430**	**20,363**	**5,936**
12	**Total Regulatory Accounts**		**51,128**	(2,287)	**6,430**	**20,363**	**62,774**

Guidelines:

(1) The line items should show sufficient breakdown to allow for reasonable understanding of operations. Please state the source of the

(2) Please state the regulated reserve and deferral accounts in this schedule.

Notes:

Cross-Ref	
4	**Deferred AUC and Intervener Costs** includes AUC administration fees and intervener costs as approved in the Rate Regulation Initiative Decision 2012-237. Amounts collected during the year as approved in Decision 23355-D02-2018.
5	**Deferred Consumer Advocate Costs** as approved in the Rate Regulation Initiative Decision 2012-237. Amounts collected during the year as approved in Decision 23355-D02-2018.
6	**Deferred Production Abandonments** as approved in the UADR Decision 2013-417. Amounts collected during the year as approved in Decision 23355-D02-2018.
7	**Deferred Weather** was approved to continue as a deferral account in the Rate Regulation Initiative Decision 2012-237. The September 1st - December 31st Rider W refund was approved in Decision 23643-D01-2018.
8	**Load Balancing Deferral Account** was approved to continue as a deferral account in the Rate Regulation Initiative Decision 2012-237.
9	**Income Tax Deductible Capital Costs** as approved in the Rate Regulation Initiative Decision 2012-237. Amounts refunded during the year as approved in Decision 23355-D02-2018.
10	**Transmission charges** collected the amounts approved in Rider T Decision 22328-D01-2017 (January - February) and Decision 23273-D01-2018 (March - December).
12	**Interim 2016 Wood Buffalo Fire Deferral** was approved on an interim basis in the 2017 Annual PBR Rates Adjustment Filing Decision 21981-

ATCO Gas
RECONCILIATION OF FINANCIAL REPORTING SCHEDULES TO ADJUSTED EARNINGS EQUIVALENT
FOR THE YEAR ENDED DECEMBER 31, 2018
INCOME STATEMENT ITEMS
($000s)

Line No.	Description	Cross-Reference	Adjusted Earnings Equivalent	ASC 980 and Other Reclassification	Normalization of AUC Decisions [1]	2018 Actual	Non-Utility Adjustments	Utility Income	2017 Utility Income	Variance 2018 vs. 2017	
	Revenues										
1	Total Operating Revenue		912,171	39,363	3,258	954,792	(5,405)	949,387	1,032,753	(83,366)	(8.07%)
2		Sch. 1 / 6	912,171	39,363	3,258	954,792	(5,405)	949,387	1,032,753	(83,366)	(8.07%)
	Operating Expenses										
3	Operation and Maintenance	Sch. 3	414,659	(18,134)		396,525	(10,485)	386,040	411,115	(25,075)	(6.10%)
4	Depreciation and Amortization	Sch. 1 / 4	121,817	53,076		174,893	(2,116)	172,777	154,051	18,726	12.16%
5	Franchise Fees	Sch. 1 / 6	180,958			180,958	-	180,958	203,675	(22,717)	(11.15%)
6			717,434	34,942	-	752,376	(12,601)	739,775	768,841	(29,066)	(5.10%)
	Financing Charges										
7	Interest and Other Expense		76,305			76,305	(76,305)	-	-	-	0.00%
8	Dividends on Equity Preferred Shares		3,377			3,377	(3,377)	-	-	-	0.00%
9	Interest and Other Income		(1,130)			(1,130)	1,130	-	-	-	0.00%
10	Asset Impairment		459	(459)		-	-	-	-	-	0.00%
11			79,011	(459)	-	78,552	(78,552)	-	-	-	0.00%
12	**Net Earnings Before Tax**		115,726	4,880	3,258	123,864	85,748	209,612	263,912	(54,300)	(20.58%)
13	**Income Tax**	Sch. 1 / 5	14,946	783	880	15,828	1,718	18,327	37,262	(18,935)	(50.82%)
14	**Return**	Sch. 1 / 2	100,780	4,097	2,378	108,036	84,030	191,285	226,650	(35,365)	(15.60%)

1) Reflects the 2017 PBR related Capital Tracker

ATCO Gas
RECONCILIATION OF ADJUSTED EARNINGS EQUIVALENT TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
INCOME STATEMENT ITEMS
($000s)

Line No.	Description	Audited Financial Statements	Regulatory Accounts	Contributions Reclass	O&M Reclass	Pension, OPEB, Vacation	Other Fixed Asset Adjustments	AFUDC/ IDC	ASC 980 Impairment	Dividends on Preferred Shares	Future Income Tax	Adjusted Earnings Equivalent
	Revenues											
1	Total Operating Revenue	943,719	(16,628)	(14,920)								912,171
2		943,719	(16,628)	(14,920)	-	-	-	-	-	-	-	912,171
	Operating Expenses											
3	Salaries, Wages and Benefits	90,889		-	(90,889)	-	-	-	-	-	-	-
4	Plant and Equipment Maintenance	59,030		-	(59,030)	-	-	-	-	-	-	-
5	Energy Transmission and Transportation	178,317		-	(178,317)	-	-	-	-	-	-	-
6	Operation and Maintenance			-	413,177	1,482	-	-	-	-	-	414,659
7	Depreciation and Amortization	136,028		(14,920)	-	-	870	-	(161)	-	-	121,817
8	Franchise Fees	180,958		-	-	-	-	-	-	-	-	180,958
9	Property Taxes	578		-	(578)	-	-	-	-	-	-	-
10	Other Expenses	84,363		-	(84,363)	-	-	-	-	-	-	-
11		730,163	-	(14,920)	-	1,482	870	-	(161)	-	-	717,434
12	Operating Profit	213,556	(16,628)	-	-	(1,482)	(870)	-	161	-	-	194,737
	Financing Charges											
13	Interest Income	(19)	(1,111)	-		-	-	-	-	-	-	(1,130)
14	Interest and Other Expense	78,630	(1,232)	-	-	-	-	(1,093)	-		-	76,305
15	Dividends on Equity Preferred Shares	-	-	-	-	-	-	-	-	3,377	-	3,377
16	Asset Impariment	-	-	-	-	-	-	-	459	-	-	459
17		78,611	(2,343)	-	-	-	-	(1,093)	459	3,377	-	79,011
18	**Earnings Before Income Taxes**	134,945	(14,285)	-	-	(1,482)	(870)	1,093	(298)	(3,377)	-	115,726
19	**Income Tax**	37,026	-	-	-	-	-	-	-	-	(22,080)	14,946
20	**Earnings**	97,919	(14,285)	-	-	(1,482)	(870)	1,093	(298)	(3,377)	22,080	100,780

ATCO Gas
RECONCILIATION OF FINANCIAL REPORTING SCHEDULES TO ADJUSTED EARNINGS EQUIVALENT
FOR THE YEAR ENDED DECEMBER 31, 2018
BALANCE SHEET ITEMS
($000s)

Line No.	Description	Cross-Reference	Adjusted Earnings Equivalent	ASC 980 and Other Reclassification	Adjustments	Utility Total	2018 Financial Results Distribution	Retail	Other	Total
	Assets									
	Current Assets									
1	Cash		19,180			19,180	19,180	-	-	19,180
2	Accounts Receivable		196,851	10,450		207,301	207,301	-	-	207,301
3	Inventories		3,470	(11,146)		(7,676)	(7,676)	-	-	(7,676)
4	Accounts Receivable from Parent and Affiliated Corporations		12,894			12,894	12,894	-	-	12,894
5	Current Regulatory Assets	Sch. 9	10,179	(2,737)		7,442	7,442	-	-	7,442
6	Prepaid Expenses		3,322			3,322	3,322	-	-	3,322
7	**Total Current Assets**		245,896	(3,433)	-	242,463	242,463	-	-	242,463
8	Property Plant and Equipment	Sch. 4.1	3,086,056	(328,972)	(4,625)	2,752,459	2,752,459	-	4,625	2,757,084
9	Intangible Assets		105,638	(105,638)		-	-	-	-	-
10	Regulatory Assets	Sch. 9	289,980	(219,658)		70,322	70,322	-	-	70,322
11	Other Assets		12,163			12,163	12,163	-	-	12,163
12	**Total Assets**		**3,739,733**	**(657,701)**	**(4,625)**	**3,077,407**	**3,077,407**	**-**	**4,625**	**3,082,032**
	Liabilities									
	Current Liabilities									
13	Bank Indebtedness		-	-	-	-	-	-	-	-
14	Accounts Payable and Accrued Liabilities		175,741	(5,482)	-	170,259	170,259	-	-	170,259
15	Accounts Payable to Parent and Affiliated Corporations		22,381	-	-	22,381	22,381	-	-	22,381
16	Current Regulatory Liabilities	Sch. 9	-	-		-	-			-
17	**Total Current Liabilities**		198,122	(5,482)	-	192,640	192,640	-	-	192,640
18	Deferred Income Tax Liabilities		273,284	(272,055)	-	1,229	1,229	-	-	1,229
19	Regulatory Liabilities	Sch. 9	441,215	(426,224)	-	14,991	14,991	-	-	14,991
20	Retirement Benefit Obligations		57,538	-	-	57,538	57,538	-	-	57,538
21	Deferred Credits		5	-	-	5	5	-	-	5
22	Long Term Debt	Sch. 2.3	1,697,170	-	(2,757)	1,694,413	1,694,413	-	2,757	1,697,170
23	Equity Preferred Shares	Sch. 2.4	89,561	-	(157)	89,404	89,404	-	157	89,561
24	**Total Liabilities**		2,756,895	(703,761)	(2,914)	2,050,220	2,050,220	-	2,914	2,053,134
	Equity									
25	Class A and B Shares		119,107	-	-	119,107	119,107	-	-	119,107
26	Retained Earnings		863,731	46,060	(1,711)	908,080	908,080	-	1,711	909,791
27	**Total Equity**		982,838	46,060	(1,711)	1,027,187	1,027,187	-	1,711	1,028,898
28	**Total Liabilities and Equity**		**3,739,733**	**(657,701)**	**(4,625)**	**3,077,407**	**3,077,407**	**-**	**4,625**	**3,082,032**

ATCO Gas
RECONCILIATION OF ADJUSTED EARNINGS EQUIVALENT TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
BALANCE SHEET ITEMS
($000s)

Line No.	Description	Audited Financial Statements	Regulatory Assets / Liabilities	Preferred Share Reclass	Contributions	Debt Expense Amortized	Fixed Asset Adjustments	Adjusted Earnings Equivalent
	Assets							
	Current Assets							
1	Cash	19,180	-	-	-	-	-	19,180
2	Accounts Receivable	175,277	18,066	-	3,508	-	-	196,851
3	Inventories	3,470	-	-	-	-	-	3,470
4	Accounts Receivable from Parent and Affiliated Corporations	12,894	-	-	-	-	-	12,894
5	Current Income Taxes Recoverable	-	-	-	-	-	-	-
6	Current Regulatory Assets	-	10,179	-	-	-	-	10,179
7	Prepaid Expenses	3,322	-	-	-	-	-	3,322
8	**Total Current Assets**	214,143	28,245	-	3,508	-	-	245,896
9	Property Plant and Equipment	3,609,328	-	-	(522,713)	-	(559)	3,086,056
10	Intangible Assets	107,261	-	-	(451)	-	(1,172)	105,638
11	Regulatory Assets	-	289,980	-	-	-	-	289,980
12	Other Assets	1,807	1,886	-	-	8,470	-	12,163
13	**Total Assets**	**3,932,539**	**320,111**	**-**	**(519,656)**	**8,470**	**(1,731)**	**3,739,733**
	Liabilities							
	Current Liabilities							
14	Bank Indebtedness	-	-	-	-	-	-	-
15	Accounts Payable and Accrued Liabilities	175,741	-	-	-	-	-	175,741
16	Accounts Payable to Parent and Affiliated Corporations	22,381	-	-	-	-	-	22,381
17	Current Income Taxes Payable	-	-	-	-	-	-	-
18	Current Regulatory Liabilities	-	-	-	-	-	-	-
19	**Total Current Liabilities**	198,122	-	-	-	-	-	198,122
20	Deferred Income Tax Liabilities	294,187	(20,903)	-	-	-	-	273,284
21	Regulatory Liabilities	-	441,215	-	-	-	-	441,215
22	Retirement Benefit Obligations	75,178	(17,640)	-	-	-	-	57,538
23	Long Term Debt	1,688,700	-	-		8,470	-	1,697,170
24	Other Liabilities	519,744	-	-	(519,739)	-	-	5
25	Equity Preferred Shares	-	-	89,561	-	-	-	89,561
26	**Total Liabilities**	2,775,931	402,672	89,561	(519,739)	8,470	-	2,756,895
	Equity							
27	Equity Preferred Shares	88,318	-	(88,318)	-	-	-	-
28	Class A and B Shares	119,107	-	-	-	-	-	119,107
29	Retained Earnings	949,183	(82,561)	(1,243)	83	-	(1,731)	863,731
30	**Total Equity**	1,156,608	(82,561)	(89,561)	83	-	(1,731)	982,838
31	**Total Liabilities and Equity**	**3,932,539**	**320,111**	**-**	**(519,656)**	**8,470**	**(1,731)**	**3,739,733**

ATCO Gas
SCHEDULE OF PENSION PLAN CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
($Millions)

Line No.

ATCO Gas has provided the following information below in response to Direction 13 from AUC Decision 2010-189 which indicated:

The Commission would also like to establish the ability to monitor contributions into the Pension Plan. In this regard the Commission directs ATCO Utilities in its respective annual Rule 005: Annual Reporting Requirements of Operational and Financial Results (Rule 005) filings to include the following information:

i) The amounts contributed to the Pension Plan on a calendar year basis by each of the ATCO Utilities (broken down by utility) and the amounts contributed by the unregulated companies participating in the Pension Plan collectively. In reporting these contributions, the report should separately identify, amounts contributed as service costs under each of the DB Plan and the DC Plan and amounts contributed in respect of the DB Plan unfunded liability.

2017 Actual

Line No.		Defined Benefit Pension Expense		Defined Contribution Pension Expense	Total
		Service Amount	Special Payment	Service Amount	
1	**ATCO Gas** (Note 1)	7.7	-	7.3	**15.0**
2	**ATCO Unregulated**	3.6	-	5.2	**8.8**

2017 Approved (per ATCO Utilities 2016 Pension Application)

Line No.		Defined Benefit Pension Expense		Defined Contribution Pension Expense	Total
		Service Amount	Special Payment	Service Amount	
3	**ATCO Gas** (Note 2)	7.7	-	Note 4	**7.7**
4	**ATCO Unregulated (Note 3)**	3.6	-	Note 4	**3.6**

Note 1 - The actual defined benefit pension expense, special payment and defined contribution service amount do not include amounts allocated from the ATCO Head Office. This amount includes COLA at 100%.

Note 2 - ATCO Gas' portion of the estimated employer's current service cost as per the Mercer report as at Dec 31, 2017 filed in the AET 2018-2019 GTA, Exhibit 22742-X0572.02(CL), AET Information Responses Round 3 to CCA Part 3 of 3, PDF Page 171.

Note 3 - ATCO Unregulated's portion of the estimated employer's current service cost as per the Mercer report as at Dec 31, 2017 filed in the AET 2018-2019 GTA, Exhibit 22742-X0572.02(CL), AET Information Responses Round 3 to CCA Part 3 of 3, PDF Page 171.

Note 4 - Not available

ii) A reconciliation in respect of the previous calendar year, by utility, of amounts collected through rates in respect of pension funding obligations with amounts contributed to the pension plan including amounts in the deferral account approved in accordance with this Decision.

5 Under Performance Based Regulation, ATCO Gas no longer has deferral account treatment for special payment pension contributions.

iii) Confirmation of the date of any actuarial valuation reports filed with the Superintendent of Pensions since the last Rule 005 filing, and the associated impact of any filings on the pension funding requirements of each of the ATCO Utilities.

6 The Mercer 2015 CU Pension Plan Report was filed with the Superintendent of Pensions on June 2016. The required pension funding contributions for ATCO Gas beginning January 1, 2016 is $10 million for current service.

(a division of ATCO Gas and Pipelines Ltd.)

ATCO GAS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

Independent auditor's report

To the Shareowner of ATCO Gas and Pipelines Ltd.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ATCO Gas, a division of ATCO Gas and Pipelines Ltd. (the Division) as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Division's financial statements comprise:

- the statement of earnings for the year ended December 31, 2018;
- the statement of comprehensive income for the year ended December 31, 2018;
- the balance sheet as at December 31, 2018;
- the statement of changes in equity for the year ended December 31, 2018;
- the statement of cash flows for the year ended December 31, 2018; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Division in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Division's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Division or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Division's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Division's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Division to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
May 14, 2019

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STATEMENT OF EARNINGS

(thousands of Canadian Dollars)	Note	Year Ended December 31 2018	2017
Revenues	5	**943,719**	1,096,335
Costs and expenses			
Salaries, wages and benefits		**(90,424)**	(95,000)
Energy transmission and transportation		**(178,317)**	(208,294)
Plant and equipment maintenance		**(53,995)**	(48,128)
Depreciation and amortization	10, 11	**(136,028)**	(119,705)
Franchise fees		**(180,958)**	(203,675)
Property taxes		**(578)**	(555)
Other	6	**(89,863)**	(85,340)
Operating profit		**213,556**	335,638
Interest income		**269**	1,692
Interest expense	7	**(78,880)**	(76,713)
Net finance costs		**(78,611)**	(75,021)
Earnings before income taxes		**134,945**	260,617
Income taxes	8	**(37,026)**	(70,927)
Earnings for the year		**97,919**	189,690

See accompanying Notes to Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

		Year Ended December 31	
(thousands of Canadian Dollars)	**Note**	**2018**	**2017**
Earnings for the year		**97,919**	189,690
Other comprehensive (loss) income, net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits [(1)]	14	**2,061**	(1,392)
Comprehensive income for the year		**99,980**	188,298

(1) Net of income taxes of $(0.8) million for the year ended December 31, 2018 (2017 - $0.5 million).

See accompanying Notes to Financial Statements.

BALANCE SHEET

(thousands of Canadian Dollars)	Note	December 31 2018	2017
ASSETS			
Current assets			
Short-term advances from parent		**20,000**	–
Accounts receivable and contract assets	15	**175,232**	192,845
Accounts receivable from parent and affiliate companies	25	**2,745**	7,710
Inventories	9	**3,470**	11,686
Prepaid expenses and other current assets		**3,322**	2,893
		204,769	215,134
Non-current assets			
Property, plant and equipment	10	**3,609,328**	3,451,556
Intangibles	11	**107,262**	100,764
Other assets		**1,806**	2,484
Total assets		**3,923,165**	3,769,938
LIABILITIES			
Current liabilities			
Bank indebtedness		**820**	9,261
Accounts payable and accrued liabilities		**156,580**	195,602
Accounts payable to parent and affiliate companies	25	**31,348**	21,633
Long-term debt	13	**225,000**	–
		413,748	226,496
Non-current liabilities			
Deferred income tax liabilities	8	**294,187**	273,043
Retirement benefit obligations	14	**75,178**	76,878
Deferred revenues	15	**519,739**	507,824
Other liabilities		**6**	17
Long-term debt	13	**1,463,700**	1,559,251
Total liabilities		**2,766,558**	2,643,509
EQUITY			
Equity preferred shares	16	**88,318**	88,318
Class A and Class B share owner's equity			
Class A and Class B shares	17	**119,107**	119,107
Retained earnings		**949,182**	919,004
		1,068,289	1,038,111
Total equity		**1,156,607**	1,126,429
Total liabilities and equity		**3,923,165**	3,769,938

See accompanying Notes to Financial Statements.

DIRECTOR

DIRECTOR

STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian Dollars)	**Note**	**Class A and Class B Shares**	**Equity Preferred Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total Equity**
December 31, 2016		119,107	88,318	811,775	–	1,019,200
Earnings for the year		–	–	189,690	–	189,690
Other comprehensive loss		–	–	–	(1,392)	(1,392)
Losses on retirement benefits transferred to retained earnings	14	–	–	(1,392)	1,392	–
Dividends	16,17	–	–	(62,469)	–	(62,469)
Transfer of capital to ATCO Pipelines		–	–	(18,600)	–	(18,600)
December 31, 2017		119,107	88,318	919,004	–	1,126,429
Earnings for the year		**–**	**–**	**97,919**	**–**	**97,919**
Other comprehensive income		**–**	**–**	**–**	**2,061**	**2,061**
Gains on retirement benefits transferred to retained earnings	14	**–**	**–**	**2,061**	**(2,061)**	**–**
Dividends	16,17	**–**	**–**	**(69,802)**	**–**	**(69,802)**
December 31, 2018		**119,107**	**88,318**	**949,182**	**–**	**1,156,607**

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOW

(thousands of Canadian Dollars)	Note	Year Ended December 31 2018	2017
Operating activities			
Earnings for the year		**97,919**	189,690
Adjustments to reconcile earnings to cash flows from operating activities	18	**227,997**	263,296
Changes in non-cash working capital	18	**35,257**	18,571
Cash flows from operating activities		**361,173**	471,557
Investing activities			
Additions to property, plant and equipment		**(258,807)**	(349,907)
Proceeds on disposal of property, plant and equipment		**49**	–
Additions to intangibles		**(26,563)**	(26,175)
Changes in non-cash working capital	18	**(25,995)**	5,620
Other		**(58)**	(1,614)
Cash flows used in investing activities		**(311,374)**	(372,076)
Financing activities			
Issue of long-term debt	13	**130,000**	145,000
Repayment of long-term debt		**–**	(54,000)
Dividends paid on equity preferred shares	16	**(3,377)**	(3,269)
Dividends paid to Class A and Class B share owner	17	**(66,425)**	(59,200)
Interest paid		**(80,616)**	(78,542)
Inter-divisional transfer of capital		**–**	(18,600)
Other		**(940)**	(1,032)
Cash flows used in financing activities		**(21,358)**	(69,643)
Increase in cash position		**28,441**	29,838
Beginning of year		**(9,261)**	(39,099)
End of year	18	**19,180**	(9,261)

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

(Tabular amounts in thousands of Canadian Dollars, except as otherwise noted)

1. THE DIVISION AND ITS OPERATIONS

ATCO Gas ("ATCO Gas") and ATCO Pipelines are divisions of ATCO Gas and Pipelines Ltd. (AGPL). Each division is operated by a separate management group, and each maintains its own books of account. ATCO Gas is engaged in the distribution of natural gas in the Province of Alberta and the Lloydminster area of Saskatchewan. Its registered office and head office is at 4th floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4. AGPL is principally owned by CU Inc. which is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

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

Management authorized these financial statements for issue on May 13, 2019.

BASIS OF MEASUREMENT

The financial statements are prepared on a historic cost basis, except for retirement benefit obligations which are carried at remeasured amounts or fair value. ATCO Gas' significant accounting policies are described in Note 26.

Certain comparative figures have been reclassified to conform to the current presentation.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Canadian dollars, which is ATCO Gas' functional currency.

USE OF ESTIMATES AND JUDGMENTS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, assumptions and estimates are described in Note 22.

3. CHANGE IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS CREDIT LOSSES

ATCO Gas adopted the final component of IFRS 9 *Financial Instruments, Impairments*, on January 1, 2018. This component includes a new expected credit loss model. The new model takes into account an expectation of future events by estimating credit losses based on an assessment of counterparty credit risk. The change results in earlier recognition of bad debt expense.

Impact of adoption of IFRS 9 on financial statements

To determine the amount of expected credit losses, ATCO Gas used default and recoverability probabilities. At January 1, 2018 the total credit loss provision was less than a million, which was determined based on third party average default and recoverability probabilities. There was no credit loss provision recorded on adoption of IFRS 9.

REVENUE RECOGNITION

ATCO Gas adopted IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018, using the full retrospective transition method. Under the full retrospective transition method, the comparative figures for 2017 in ATCO Gas' consolidated financial statements have been restated. Certain practical expedients have been applied.

See Note 26 for accounting policies on revenue recognition.

Practical expedients

Effective January 1, 2017, the IFRS 15 transition date, ATCO Gas elected to use the following practical expedients:

(i) Information on the remaining performance obligations that have an original expected duration of one year or less is not disclosed;

(ii) For periods presented before January 1, 2018, the IFRS 15 adoption date, the information regarding the amount of the transaction price allocated to the remaining performance obligations and an explanation of when ATCO Gas expects to recognize this amount as revenue, are not disclosed;

(iii) Costs to obtain or fulfill a contract with an amortization period of less than a year have been expensed as incurred;

(iv) Where ATCO Gas has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of ATCO Gas's performance to date, revenue is recognized in the amount to which ATCO Gas has a right to invoice. Such performance obligations include the provision of continuous distribution of natural gas services.

Impact of adoption of IFRS 15 on financial statements

As ATCO Gas has utilized the practical expedients noted above, there was no impact on the prior year statement of earnings, balance sheet, statement of changes in equity and statement of cash flow.

4. ADJUSTED EARNINGS

ADJUSTED EARNINGS

Adjusted earnings are earnings for the year after adjusting for:

- the timing of revenues and expenses for rate-regulated activities,
- dividends on equity preferred shares,
- one-time gains and losses,
- significant impairments, and
- items that are not in the normal course of business or a result of day-to-day operations.

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

The reconciliation of adjusted earnings and earnings for the year ended December 31 is shown below.

	2018	2017
Adjusted earnings	**113,409**	144,867
Rate-regulated activities	**(7,285)**	41,127
Restructuring costs	**(11,582)**	427
Dividends on equity preferred shares	**3,377**	3,269
Earnings for the year	**97,919**	189,690

Rate-regulated activities

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

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

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

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

	2018	2017
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**37,150**	31,242
Impact of weather changes on revenue (2)	**12,458**	–
Revenues to be billed in future periods		
Deferred income taxes (3)	**(28,548)**	(18,886)
Impact of weather changes on revenue (2)	**–**	(3,851)
Regulatory decisions received	**(512)**	(5,282)
Settlement of regulatory decisions and other items (4)	**(27,833)**	37,904
	(7,285)	41,127

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

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

(3) Income taxes are billed to customers when paid by ATCO Gas.

(4) ATCO Gas recorded a decrease in earnings for the period of $11.3 million related to the net refund of previously over-collected transmission costs.

Regulatory decisions received

Under rate-regulated accounting, ATCO Gas recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. There were no significant regulatory decisions impacting adjusted earnings during 2018, the significant decisions impacting 2017 are provided below.

	Decision	Timing	Amount	Description
1.	2017 Annual Performance-Based Regulation Rate Adjustment Filing	December 2016	(4,023)	The 2017 Annual Performance-Based Regulation Rate Adjustment Filing Decision included approval of incremental funding for ATCO Gas' forecast Capital Tracker programs for 2017.

Restructuring costs

In 2018, ATCO Gas recorded restructuring costs of $11.6 million, after-tax. These costs were primarily related to severance costs associated with staff reductions.

5. REVENUES

The Company disaggregates revenues based on the revenue streams. The disaggregation of revenues by revenue streams for the year ended December 31 are shown below:

	2018	2017
Distribution services	**682,278**	818,711
Customer contributions (*Note 15*)	**14,920**	14,295
Franchise Fees	**178,040**	204,812
Other	**19,438**	19,635
	894,676	1,057,453
Intercompany revenue	**49,043**	38,882
Total Revenues	**943,719**	1,096,335

6. OTHER COSTS AND EXPENSES

Other costs and expenses include rent, utilities and goods and services such as professional fees, contractor costs, technology related expenses, advertising and other general and administrative expenses.

7. INTEREST EXPENSE

Interest expense primarily arises from interest on long-term debentures. The components of interest expense are summarized below.

	2018	2017
Long-term debt	**79,288**	77,090
Credit facility and standby charges	**720**	1,049
Retirement benefits net interest expense	**1,490**	1,490
Amortization of deferred financing charges	**389**	380
Other	**870**	455
	82,757	80,464
Less: interest capitalized *(Note 10,11)*	**(3,877)**	(3,751)
	78,880	76,713

Borrowing costs capitalized to property, plant and equipment during 2018 were calculated by applying an interest rate of 5.0 per cent to expenditures on qualifying assets (2017 - 5.0 per cent).

8. INCOME TAXES

INCOME TAX EXPENSE

ATCO Gas does not file an income tax return. Its divisional share of the income tax provision is calculated as if it was a legal entity.

The components of income tax expense are summarized below.

	2018	2017
Current income tax expense		
Expenses for the year	**18,143**	45,276
Adjustment in respect of prior years	**(1,499)**	(137)
	16,644	45,139
Deferred income tax expense		
Reversal of temporary differences	**18,920**	25,668
Adjustment in respect of prior years	**1,462**	120
	20,382	25,788
	37,026	70,927

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

		2018		2017
Earnings before income taxes	**134,945**	**%**	260,617	%
Income taxes, at statutory rates	**36,435**	**27.0**	70,367	27.0
Part VI.I tax net of transfer benefit	**74**	**0.1**	72	–
Other	**517**	**0.4**	488	0.2
	37,026	**27.5%**	70,927	27.2%

DEFERRED INCOME TAXES

The changes in deferred income tax liabilities are as follows:

	Property, Plant and Equipment	Intangibles	Retirement Benefit Obligations	Other	Total
December 31, 2016	244,529	21,710	(19,733)	1,262	247,768
Charge (credit) to earnings	15,923	5,497	(449)	4,817	25,788
Credit to other comprehensive income	–	–	(515)	–	(515)
Other	–	–	–	2	2
December 31, 2017	260,452	27,207	(20,697)	6,081	273,043
Charge (credit) to earnings	**24,327**	**1,755**	**(303)**	**(5,397)**	**20,382**
Charge to other comprehensive income	**–**	**–**	**762**	**–**	**762**
December 31, 2018	**284,779**	**28,962**	**(20,238)**	**684**	**294,187**

ATCO Gas does not expect its deferred income tax liabilities to reverse within the next twelve months.

9. INVENTORIES

Inventories at December 31 are comprised of:

	2018	2017
Raw materials and consumables	**3,066**	9,010
Work-in-progress	**404**	2,676
	3,470	11,686

For the year ended December 31, 2018, inventories recognized as an expense were $1.3 million (2017 - $1.9 million). There were no write-downs to net realizable value in 2018 (2017 - $0.1 million).

10. PROPERTY, PLANT AND EQUIPMENT

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

	Distribution Plant	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost					
December 31, 2016	4,119,361	179,440	38,371	26,581	4,363,753
Additions	321,006	4,088	34,529	1,599	361,222
Transfers	22,188	1,151	(23,350)	11	–
Retirements and disposals	(40,884)	(620)	–	(490)	(41,994)
December 31, 2017	4,421,671	184,059	49,550	27,701	4,682,981
Additions	**199**	**655**	**277,739**	**–**	**278,593**
Transfers	**264,561**	**3,833**	**(268,477)**	**83**	**–**
Retirements and disposals	**(28,742)**	**(1,624)**	**–**	**(367)**	**(30,733)**
December 31, 2018	**4,657,689**	**186,923**	**58,812**	**27,417**	**4,930,841**
Accumulated depreciation					
December 31, 2016	1,074,781	68,513	–	13,485	1,156,779
Depreciation	110,351	5,080	–	1,209	116,640
Retirements and disposals	(40,884)	(620)	–	(490)	(41,994)
December 31, 2017	1,144,248	72,973	–	14,204	1,231,425
Depreciation	**114,126**	**5,259**	**–**	**1,387**	**120,772**
Retirements and disposals	**(28,742)**	**(1,575)**	**–**	**(367)**	**(30,684)**
December 31, 2018	**1,229,632**	**76,657**	**–**	**15,224**	**1,321,513**
Net book value					
December 31, 2017	3,277,423	111,086	49,550	13,497	3,451,556
December 31, 2018	**3,428,057**	**110,266**	**58,812**	**12,193**	**3,609,328**

The additions to property, plant and equipment included $2.3 million of interest capitalized during construction for the year ended December 31, 2018 (2017 - $2.0 million).

11. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights. A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Other	Total
Cost				
December 31, 2016	203,903	22,111	1,273	227,287
Additions	21,625	4,650	–	26,275
Disposals	(16)	(1)	(17)	(34)
December 31, 2017	225,512	26,760	1,256	253,528
Additions	**22,652**	**3,911**	–	**26,563**
Disposals	**(9,950)**	–	–	**(9,950)**
December 31, 2018	**238,214**	**30,671**	**1,256**	**270,141**
Accumulated amortization				
December 31, 2016	138,494	3,080	614	142,188
Amortization	10,241	246	123	10,610
Disposals	(16)	(1)	(17)	(34)
December 31, 2017	148,719	3,325	720	152,764
Amortization	**9,702**	**289**	**124**	**10,115**
Disposals	–	–	–	–
December 31, 2018	**158,421**	**3,614**	**844**	**162,879**
Net book value				
December 31, 2017	76,793	23,435	536	100,764
December 31, 2018	**79,793**	**27,057**	**412**	**107,262**

The additions to intangibles included $1.6 million of interest capitalized during construction for the year ended December 31, 2018 (2017 - $1.8 million).

12. LEASES

Operating leases

ATCO Gas has entered into long-term operating leases for office premises and equipment. During the year ended December 31, 2018, $3.1 million was recognized as an expense for these operating leases (2017 - $5.8 million).

13. LONG-TERM DEBT

Long-term debt outstanding at December 31 is as follows:

	Effective Interest Rate	2018	2017
Debentures - unsecured	4.985% (2017 - 5.069%)	**1,697,170**	1,567,170
(interest is the average effective interest rate weighted by principal amounts outstanding)			
Less: deferred financing charges		**(8,470)**	(7,919)
		1,688,700	1,559,251
Less: amounts due within one year		**(225,000)**	–
		1,463,700	1,559,251

Debenture issuances

During 2018, ATCO Gas issued $130 million of 3.95 per cent debentures maturing on November 23, 2048 (2017 - $145 million of 3.548 per cent debentures maturing on November 22, 2047).

14. RETIREMENT BENEFITS

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

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2018.

Information about ATCO Gas' participation in the group benefit plans is as follows:

	2018		2017	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Defined benefit plans cost	**9,218**	**2,535**	12,125	2,634
Defined contribution plans cost	**7,352**	–	6,906	–
Total cost	**16,570**	**2,535**	19,031	2,634
Less: capitalized	**8,285**	**1,268**	9,524	1,317
Net cost recognized	**8,285**	**1,267**	9,507	1,317
Accrued benefit obligations				
Beginning of year	24,278	52,600	21,893	51,410
Defined benefit plan cost	**9,218**	**2,535**	12,125	2,634
Benefit payments	**(1,229)**	**(1,663)**	(1,172)	(1,944)
Contributions to defined benefit plans	**(7,738)**	–	(9,976)	–
Actuarial (gains) losses	**(678)**	**(2,145)**	1,408	500
End of year	**23,851**	**51,327**	24,278	52,600

Weighted average assumptions

The significant assumptions used to determine the benefit plan cost and accrued benefit obligation were as follows:

	2018		2017	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	**3.60%**	**3.60%**	3.90%	3.90%
Average compensation increase for the year	**2.50%**	**n/a**	1.50%	n/a
Accrued benefit obligations				
Discount rate at December 31	**3.80%**	**3.80%**	3.60%	3.60%
Long-term inflation rate	**2.00%**	**n/a**	2.00%	n/a
Health care cost trend rate:				
Drug costs [(1)]	**n/a**	**5.30%**	n/a	5.43%
Other medical costs	**n/a**	**4.50%**	n/a	4.50%
Dental costs	**n/a**	**4.00%**	n/a	4.00%

(1) ATCO Gas uses a graded drug cost trend rate which assumes a rate of 4.50 per cent in 2024.

Defined benefit plan funding

An actuarial valuation for funding purposes as of December 31, 2017 was completed in 2018 for the registered defined benefit pension plans. The estimated contribution for 2019 is $8 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2020.

15. BALANCES FROM CONTRACTS WITH CUSTOMERS

Balances from contracts with customers are comprised of trade accounts receivable and contract assets, trade accounts receivable from parent and affiliate companies and customer contributions.

ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

At December 31, trade accounts receivable and contract assets are included in accounts receivable and contract assets:

	2018	2017
Trade accounts receivable and contract assets	**172,576**	192,845
Other accounts receivable	**2,656**	–
	175,232	192,845

At December 31, trade accounts receivable from parent and affiliate companies are included in accounts receivable from parent and affiliate companies:

	2018	2017
Trade accounts receivable from parent and affiliate companies	**2,745**	7,710

The significant changes in trade accounts receivable and contract assets are as follows:

	Trade accounts receivable and contract assets
December 31, 2016	177,720
Revenue from satisfied performance obligations	1,057,453
Other items not included in revenue	(150)
Payments received	(1,042,178)
December 31, 2017	192,845
Revenue from satisfied performance obligations	**935,006**
Other items not included in revenue	**(10)**
Payments received	**(955,265)**
December 31, 2018	**172,576**

CUSTOMER CONTRIBUTIONS

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

Changes in customer contributions balance are summarized below.

	2018	2017
Beginning of year	507,824	487,599
Receipt of customer contributions	**26,835**	34,520
Amortization	**(14,920)**	(14,295)
End of year	**519,739**	507,824

16. EQUITY PREFERRED SHARES

EQUITY PREFERRED SHARES TO CU INC.

Authorized and issued

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

	2018		2017	
Issued	**Shares**	**Amount**	**Shares**	**Amount**
Cumulative Redeemable Preferred Shares				
4.60% Series 1	**1,360,000**	**34,000**	1,360,000	34,000
2.243% Series 4	**1,260,000**	**31,500**	1,260,000	31,500
Issuance costs		**(1,227)**		(1,227)
		64,273		64,273

Rights and privileges

Preferred shares	Redemption Amount [1]	Quarterly Dividend [2]	Reset Premium [3]	Date Redeemable/ Convertible	Convertible To
Series 1	25.00	0.2875	Does not reset	Currently redeemable	Not convertible
Series 4	25.00	0.1401875	1.36%	June 1, 2021 [4]	Series 5 [5]

(1) Plus accrued and unpaid dividends.

(2) Cumulative, payable quarterly as and when declared by the Board.

(3) Dividend rate will reset on the date redeemable/convertible and every five years thereafter at a rate equal to the Government of Canada yield plus the reset premium noted.

(4) Redeemable by ATCO Gas or convertible by the holder on the date noted and every five years thereafter.

(5) If converted, holders will be entitled to receive quarterly floating rate dividends equal to the Government of Canada Treasury Bill yield plus the reset premium noted. Holders have the option to convert back to the original preferred shares series on subsequent redemption dates.

EQUITY PREFERRED SHARES TO CANADIAN UTILITIES LIMITED

Authorized and issued

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

	2018		2017	
Issued	**Shares**	**Amount**	**Shares**	**Amount**
Perpetual Cumulative Second Preferred Shares				
4.60% Series V [1]	**962,422**	**24,060**	962,422	24,060
Issuance Costs		**(15)**		(15)
		24,045		24,045

(1) On October 3, 2017, the annual dividend rate for the Series V Preferred Shares was reset to 4.60 per cent for the next five years. The first payment at the new dividend rate was made on January 3, 2018. Prior to October 3, 2017, the annual dividend rate was 4.00 per cent.

Rights and Privileges

The Series V Perpetual Cumulative Second Preferred Shares are redeemable at the option of ATCO Gas at the stated value plus accrued and unpaid dividends.

DIVIDENDS

Cash dividends declared and paid per share are as follows:

(dollars per share)	2018	2017
4.60% Series 1	**1.1500**	1.1500
2.243% Series 4	**0.56075**	0.56075
4.60% Series V	**1.1500**	1.0000

The payment of dividends is at the discretion of the Board and depends on the financial condition of ATCO Gas and other factors.

On January 10, 2019, ATCO Gas declared first quarter eligible dividends of $0.28750 per Series 1 Preferred Share and $0.1401875 per Series 4 Preferred Share.

17. CLASS A AND CLASS B SHARES

The number and dollar amount of outstanding Class A non-voting and Class B common shares at December 31, 2018 is shown below.

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2018 and 2017	**2,882,633**	**74,067**	**1,745,518**	**45,040**	**4,628,151**	**119,107**

Class A and B shares have no par value.

ATCO Gas declared and paid cash dividends of $14.35 per Class A non-voting share and Class B common share during 2018 (2017 - $12.79).The payment of dividends is at the discretion of the Board and depends on the financial condition of ATCO Gas and other factors.

TRANSFER OF CAPITAL TO ATCO PIPELINES

On December 8, 2017, ATCO Pipelines received $18.6 million from ATCO Gas. This transfer of funds was accounted for as transfer of capital.

18. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities are summarized below.

	2018	2017
Depreciation and amortization	**136,028**	119,705
Income taxes	**37,026**	70,927
Contributions by utility customers for extensions to plant	**26,835**	34,520
Amortization of customer contributions	**(14,920)**	(14,295)
Net finance costs	**78,611**	75,021
Income taxes paid	**(35,704)**	(24,543)
Interest received	**488**	1,804
Other	**(367)**	157
	227,997	263,296

CHANGES IN NON-CASH WORKING CAPITAL

The changes in non-cash working capital are summarized below.

	2018	2017
Operating activities		
Accounts receivable and contract assets	**17,613**	(15,125)
Accounts receivable from parent and affiliate companies	**4,951**	(7,177)
Inventories	**1,817**	(317)
Prepaid expenses and other current assets	**(429)**	(464)
Accounts payable and accrued liabilities	**2,058**	42,106
Accounts payable to parent and affiliate companies	**9,247**	(454)
Other	**–**	2
	35,257	18,571
Investing activities		
Inventories	**(3,976)**	(877)
Accounts payable and accrued liabilities	**(22,019)**	6,497
	(25,995)	5,620

CASH POSITION

Cash position in the statement of cash flow at December 31 is comprised of:

	2018	2017
Short-term advances from parent company	**20,000**	–
Bank indebtedness	**(820)**	(9,261)
	19,180	(9,261)

19. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Short-term advances from parent, accounts receivable and contract assets, accounts receivable from parent and affiliate companies, bank indebtedness,accounts payable and accrued liabilities and accounts payable to parent and affiliate companies	Assumed to approximate carrying value due to their short-term nature.
Long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on ATCO Gas' current borrowing rate for similar borrowing arrangements (Level 2).

The fair value of long-term debt is as follows:

			2018		2017
Recurring Measurements	Note	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities					
Long-term debt	13	**1,688,700**	**1,809,969**	1,559,251	1,781,558

20. RISK MANAGEMENT

FINANCIAL RISKS

ATCO Gas is exposed to a variety of risks associated with the use of financial instruments: credit risk and liquidity risk. ATCO Gas' Board is responsible for understanding the principal risks of ATCO Gas' business, achieving a proper balance between risks incurred and the potential return to the share owner, and confirming there are controls in place to effectively monitor and manage those risks with a view to the long-term viability of ATCO Gas. The Board reviews significant risks associated with future performance, growth and lost opportunities identified by management that could materially affect ATCO Gas' ability to achieve its strategic or operational targets. The Board is also responsible for confirming that management has procedures in place to mitigate identified risks.

The source of risk exposure and how each is managed is outlined below.

CREDIT RISK

Credit risk is the risk of financial loss due to a counterparties inability to discharge their contractual obligations to ATCO Gas. ATCO Gas is exposed to credit risk on accounts receivable and contract assets and accounts receivable from parent and affiliate companies. The exposure to credit risk represents the total carrying amount of these financial instruments in the balance sheet.

The majority of ATCO Gas' accounts receivable credit risk is reduced by financial security provided by Direct Energy and by retailers in accordance with provisions contained with Natural Gas Billing Regulation A.R. 185/2003, and ATCO Gas' ability under the Regulation to request recovery through customers rates any losses from retailers beyond that covered by the retailer security provided. At December 31, 2018, ATCO Gas held $122 million in letters of credit for certain counterparty receivables (2017 - $97 million).

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. The provision for impairment of credit losses was $0.2 million in 2018 and 2017. At December 31, 2018 and 2017, ATCO Gas had $1.8 million of trade receivables past due greater than 30 days. No other impairments have been identified within accounts receivable.

ATCO Gas has also entered into guarantee arrangements with Centrica plc. relating to the retail energy supply functions performed by Direct Energy (see Note 23).

LIQUIDITY RISK

Liquidity risk is the risk that ATCO Gas will not be able to meet its financial obligations associated with its financial liabilities that are settled in cash or another financial asset. Liquidity risk arises from ATCO Gas' general funding needs and in the management of its assets, liabilities and capital structure. Cash flow from operations provides a substantial portion of ATCO Gas' cash requirements. Additional cash requirements are met with the use of existing cash balances, obtaining advances from the parent company and issuance of long-term debt and Class A and B shares. Short term advances from the parent company provide flexibility in the timing and amounts of long term financing.

Line of credit

ATCO Gas has a line of credit available of $10.0 million (2017 - $10.0 million). The credit line enables ATCO Gas to obtain financing for general business purposes. At December 31, 2018 and 2017, no amounts were used under the line of credit.

Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2018, of ATCO Gas' financial liabilities based on the contractual undiscounted cash flows.

	2019	2020	2021	2022	2023	2024 and thereafter
Bank indebtedness	820	–	–	–	–	–
Accounts payable and accrued liabilities	156,580	–	–	–	–	–
Accounts payable to parent and affiliate companies	31,348	–	–	–	–	–
Long-term debt:						
Principal	225,000	23,738	20,000	26,803	43,629	1,358,000
Interest expense	75,380	69,761	67,096	64,248	60,847	1,184,712
	489,128	93,499	87,096	91,051	104,476	2,542,712

21. CAPITAL DISCLOSURES

ATCO Gas' objective when managing capital is to remain within the capital structure approved by the AUC, which, through the generic cost of capital decisions established the capital structure for ATCO Gas. In August 2018, ATCO Gas received the 2018 Generic Cost of Capital decision. The decision established a common equity ratio of 37.0 per cent in 2018 to 2020, consistent with what was previously approved. The capitalization involves the use of long term debt and preferred share financings; the AUC approved the continued use of the latter in a decision issued in 2006.

ATCO Gas includes share owner's equity, preferred shares, and long term debt, as adjusted in accordance with the Financial Accounting Standards Board (FASB) standards (see Note 3 and 26), in its determination of capitalization. In maintaining or adjusting its capital structure, ATCO Gas may adjust the dividends paid to the share owner, issue or purchase Class A and Class B shares, and issue or redeem preferred shares and long-term debt.

22. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Significant judgments and estimates made by ATCO Gas are outlined below.

SIGNIFICANT ACCOUNTING JUDGMENTS

Impairment of financial assets

The impairment loss allowance for financial assets is based on assumptions about risk of default and expected loss rates. ATCO Gas makes judgments in making these assumptions and selecting the inputs to the impairment calculation based on ATCO Gas' past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Impairment of long-lived assets

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

Property, plant and equipment and intangibles

ATCO Gas makes judgments to: assess the nature of the costs to be capitalized and the time period over which they are capitalized in the purchase or construction of an asset; evaluate the appropriate level of componentization where an asset is made up of individual components for which different depreciation and amortization methods and useful lives are appropriate; and determine the useful lives over which assets are depreciated and amortized.

Income taxes

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

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

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

Useful lives of property, plant and equipment and intangibles

Useful lives are estimated based on current facts and past experience taking into account the anticipated physical life of the asset, and the potential for technological obsolescence.

Impairment of long-lived assets

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

Retirement benefits

ATCO Gas, together with Canadian Utilities Limited and its subsidiary companies, consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Key assumptions used to determine the retirement benefit cost and obligation are shown in Note 14.

Income taxes

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

23. CONTINGENCIES

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

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

In 2004, ATCO Gas and its affiliate, 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.

24. COMMITMENTS

In addition to commitments disclosed elsewhere in the financial statements, ATCO Gas has entered into a number of operating leases, services agreements and agreements to purchase capital assets. Approximate future undiscounted payments under these agreements are as follows:

	2019	2020	2021	2022	2023	2024 and thereafter
Operating leases	2,733	2,616	1,718	369	327	102
Purchase obligations:						
Transmission services agreements	213,446	228,504	222,733	218,855	217,134	197,938
Information technology services	28,386	28,386	28,386	28,386	28,386	28,386
Capital expenditures	12,392	–	–	–	–	–
Other	5,311	–	–	–	–	–
	262,268	259,506	252,837	247,610	245,847	226,426

25. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH RELATED PARTIES

During the year, ATCO Gas entered into the following transactions with related parties:

Entity	Relationship	Transaction	Recorded As	2018	2017
ATCO Pipelines	Division of AGPL	Contract services	Revenues	**7,062**	7,094
		Negative salvage from asset transfers	Revenues	–	1,083
		Contract services	Plant and equipment maintenance	**1,342**	1,593
		Rent and contract services	Other expenses	–	12
		Transfer of assets	Property, plant and equipment	**(7)**	4,033
		Contract services	Property, plant and equipment	**3,083**	2,448
		Contribution	Deferred revenues	–	2,075
ATCO Electric Ltd.	Affiliate	Rent and office services	Revenues	**533**	600
		Customer services	Revenues	**11**	5
		Contract services	Plant and equipment maintenance	**72**	–
		Rent and contractor	Other expenses	**353**	324
		Shared office services	Other expenses	–	33
		Customer services	Prepaid expenses	–	297
		Transfer of assets	Property, plant and equipment	**87**	927
		Contract Services	Property, plant and equipment	**518**	–
ATCO Power	Affiliate	Rent and office services	Revenues	**119**	141
		Contract services	Revenues	**3**	4
ATCO Structures and Logistics Ltd.	Affiliate	Contract services	Other expenses	**54**	–
ATCO Energy Solutions Ltd.	Affiliate	Contract services	Revenues	**958**	1,075
ATCO Energy Ltd.	Affiliate	Contract services	Revenues	**20**	30
		Retail services	Revenues	**40,331**	28,843
		Distribution service costs	Other expenses	**2,171**	2,043
		Contract services	Other expenses	**41**	58
		Transfer of assets	Property, plant and equipment	**655**	–
ATCO Ltd. / CUL / CU Inc.	Parent	Contract services	Revenues	**4**	–
		Administration, rent and aircraft	Property, plant and equipment	**11,263**	622
		Administration, rent and aircraft	Other expenses	**27,743**	19,270
		Licensing fees	Other expenses	**2,304**	1,982
		Interest income	Interest income	**398**	133
		Long term, short term interest expense and guarantee fees	Interest expense	**79,538**	77,340

Affiliate companies are subsidiaries of ATCO Gas' parent or ultimate parent.

ATCO Gas incurred $0.2 million (2017 - $0.1 million) in advertising and promotion expenses from an entity related through common control.

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

RELATED PARTY LOANS AND BALANCES

Balances	Recorded As	2018	2017
Receivables from related parties (1)	Accounts receivable from parent and affiliate companies	**2,745**	7,710
Payables to related parties (1)	Accounts payable to parent affiliate companies	**31,348**	21,633
Short-term advances (2)	Short-term advances from parent company	**20,000**	–
Long-term advances *(Note 13)*	Long-term debt to parent company	**1,463,700**	1,559,251
Equity preferred shares *(Note 16)*	Equity preferred shares to parent company	**88,318**	88,318

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

(2) Short-term advances are obtained in the normal course of business and are generally due within 30 days or less from the date of the transaction. The interest rates are based on the Bank of Canada overnight rate plus an applicable spread.

26. ACCOUNTING POLICIES

RATE REGULATION

Nature and economic effects of rate regulation

ATCO Gas is regulated by the Alberta Utilities Commission (AUC). The AUC administers acts and regulations covering such matters as rates, financing, and service area.

ATCO Gas is under a form of rate regulation called Performance Based Regulation (PBR).

The current PBR period applies for a period of five years from 2018 to 2022. PBR allows distribution utilities the opportunity to recover prudently incurred costs of providing regulatory services and generate a fair return on investment. Under PBR, revenue is determined by a formula that adjusts customer rates for inflation and expected productivity improvements over a five year period.

Specifically, the PBR formula incorporates the following factors:

- Estimated annual inflation for input prices (I Factor)
- Less an offset to reflect expected productivity improvements during the PBR plan period (X Factor)

PBR also includes mechanisms to allow ATCO Gas to:

- Recover capital expenditures not recoverable through the PBR formula that meet certain criteria (K Factor)
- Recover from or refund to customers amounts outside of management's ability to control, that are material, should not have significantly influenced the I Factor, are prudently incurred, are recurring and could vary greatly from year to year (Y Factor) or are unforeseen and unlikely to recur (Z Factor).

Financial statement effects of rate regulation

In the absence of a rate-regulated standard under IFRS that ATCO Gas is eligible to adopt, ATCO Gas does not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, ATCO Gas records revenues in earnings when amounts are billed to customers consistent with the rate design approved by the AUC (see revenue recognition accounting policy below).

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

REVENUE RECOGNITION

Revenue is allocated to the respective performance obligations based on relative transaction prices, and is recognized as goods and services are delivered to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for the goods transferred or services delivered. The amount of revenue recognized reflects the time value of money where a significant financing component has been identified.

Contract modifications are accounted for prospectively or as a cumulative catch-up adjustment depending on the nature of the change.

Where the amount of goods and services delivered to the customer corresponds directly to the amount invoiced, the Company recognizes revenue equal to what it has the right to invoice.

Where the Company arranges for another party to provide a specified good or service (that is, it does not control the specified good or service provided by another party before that good or service is transferred to the customer), only revenues net of payments to the other party for the goods or services provided are recognized.

Non-cash considerations received from the Company's customers are included in the amount of revenue recognized and measured at fair value.

Costs incurred directly to obtain or fulfill a contract are capitalized and amortized to expense over the life of the contract.

Natural gas distribution

Revenue from distribution of electricity and natural gas is recognized when the services are provided to the customer based on metered consumption, which is adjusted periodically to reflect differences between estimated and actual consumption. Distribution of regulated and non-regulated natural gas is based on tariff-approved rates established by the Natural Gas Exchange and rates stipulated in the contracts, respectively. ATCO Gas recognizes revenue in an amount that corresponds directly with the services delivered and the amount invoiced.

Customer contributions for extensions to plant are recognized as revenue over the life of the related asset.

Franchise fees

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

SHORT-TERM EMPLOYEE BENEFITS

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

Termination benefits are recognized as an expense in salaries, wages and benefits at the earlier of when ATCO Gas can no longer withdraw the offer of those benefits and when ATCO Gas recognizes costs for a restructuring that includes the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

INCOME TAXES

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

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

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

Deferred income tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or of other assets and liabilities in a transaction, other than a business combination, that does not affect accounting or taxable earnings. Deferred income tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

CASH

Cash consists of cash at bank less outstanding cheques.

INVENTORIES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

	Useful Life	Average Useful Life	Average Depreciation Rate
Gas distribution plant and equipment	10 to 57 years	42 years	2.4%
Buildings	10 to 42 years	29 years	3.4%
Other plant, equipment and machinery	11 to 42 years	28 years	5.1%

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

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. ATCO Gas amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and no longer than 98 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

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

PROVISIONS

ATCO Gas recognizes provisions when:

(i) there is a current legal or constructive obligation as a result of a past event,

(ii) a probable outflow of economic benefits will be required to settle the obligation; and

(iii) a reliable estimate of the obligation can be made.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized in interest expense.

CONTINGENCIES

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

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

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

FINANCIAL INSTRUMENTS

ATCO Gas classifies financial assets when they are first recognized as amortized cost or fair value through profit or loss. Classification is determined based on ATCO Gas' business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured at amortized cost if the financial asset is:

(i) held for the purpose of collecting contractual cash flows, and

(ii) the contractual cash flows of the financial asset solely represent payments of principle and interest.

All other financial assets are classified as fair value through profit or loss.

Financial liabilities are classified as amortized cost or fair value through profit or loss.

Amortized cost

Financial instruments classified as amortized cost are initially measured at fair value and subsequently measured at their amortized cost using the effective interest method.

Fair value through profit or loss

Financial instruments classified as fair value through profit or loss are initially measured at fair value with subsequent changes in fair value recognized in earnings.

Transaction costs

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet:

(i) if there is a legally enforceable right to offset the recognized amounts, and

(ii) if ATCO Gas intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Derecognition of financial instruments

Financial assets are derecognized:

(i) when the right to receive cash flows from the financial assets has expired or been transferred, and

(ii) ATCO Gas has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the obligation is discharged, canceled, or expired.

Fair value hierarchy

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

The hierarchy is as follows:

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

At each reporting date, ATCO Gas assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, an impairment loss is recognized in earnings.

Impairment losses on financial assets carried at amortized cost are calculated as the difference between the amortized cost and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses on financial assets carried at amortized cost may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. The revised recoverable amount cannot exceed the carrying amount had no impairment charge been recognized in previous periods.

From January 1, 2018, ATCO Gas applies the expected credit loss allowance matrix based on historical credit loss experience, aging of financial assets, default probabilities, forward-looking information specific to the counterparty, and industry-specific economic outlooks.

For accounts receivable and contract assets, ATCO Gas estimates credit loss allowances at initial recognition and throughout the life of the receivable.

RETIREMENT BENEFITS

ATCO Gas participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the registered defined benefit plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, ATCO Gas is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 2015.

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

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new or amended standards or interpretations issued by the IASB or IFRIC do not need to be adopted in the current period. Standards issued, but not yet effective, which ATCO Gas anticipates may have a material effect on the consolidated financial statements or note disclosures are described below.

Standard	Description	Effective Date
IFRS 16 *Leases*	This standard replaced IAS 17 *Leases* and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize right-of-use assets and lease liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance, however, the new standard may change the accounting treatment of certain components of lessor contracts and sub-leasing arrangements. ATCO Gas is in the process of finalizing its calculations using the modified retrospective approach effective January 1, 2019, without restatement of comparative information. ATCO Gas has elected to use certain practical expedients: • Leases of low-value assets and short-term leases that have a lease term of twelve months or less will not be recognized in the consolidated balance sheet on January 1, 2019. Payments on these leases will continue to be recognized as a lease expense generally on a straight-line basis over the lease term; and • Right-of-use assets will be measured with an equivalent value recorded for the related lease liabilities. The adoption of the new standard is not expected to have a significant impact on ATCO Gas.	Effective for annual periods on or after January 1, 2019.