ATCO PIPELINES
AUC RULE 005 - REPORT OF FINANCIAL AND OPERATIONAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2018

INDEX OF REPORTING SCHEDULES

ATCO PIPELINES
SUMMARY OF REVENUE REQUIREMENT
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.	Description	Cross-Reference	2018 Actual	2018 Approved	Variance to Approved Col.[a]-[b]	
			[a]	[b]	[c] $	[d] %
1	Return on Rate Base	Sch 2	115,935	105,170	10,765	10.2
2	Operating and Maintenance Expense	Sch. 3	62,106	69,922	(7,816)	(11.2)
3	Taxes Other than Income	Sch. 10	16,345	18,750	(2,405)	(12.8)
4	Depreciation & Amortization Expense	Sch. 4	76,363	76,907	(544)	(0.7)
5	Income Taxes	Sch. 5	(4,647)	(2,523)	(2,124)	84.2
6	Total Utility Revenue Requirement		266,102	268,226	(2,124)	(0.8)
	Detailed Revenue					
7	Rate Revenue	Sch. 6	265,478	265,478	0	0.0
8	Franchise Fee Revenue	Sch. 6	2,777	2,748	29	1.1
9	Other Revenues	Sch. 6	(2,153)	0	(2,153)	0.0
10	**Total Revenues**	Sch. 6	266,102	268,226	(2,124)	(0.8)

Note:

2018 Approved is per Decision 23537-D01-2018 (Errata), PDF p. 16

ATCO PIPELINES
SUMMARY OF COST OF CAPITAL
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.		Cross Ref.	Mid Year Capital	Ratios	Mid Year Rate Base	Cost Rate Percentage	Return Component [c]x[d]	Variance to Approved column [e]	
			[a]	[b]	[c]	[d]	[e]	[f] $	[g] %
	2018 Actual								
1	Long Term Debt	Sch 2.3	1,065,471	60.93%	1,033,998	4.74	49,012	(1,173)	(2.3)
2	Preferred Shares	Sch 2.4	36,139	2.07%	35,128	4.23	1,486	79	5.6
3	Common Equity	Sch 10	647,307	37.00%	627,899	10.42	65,437	11,859	22.1
4	Totals	Sch. 2.1	1,748,917	100.00%	1,697,025	6.83	115,935	10,765	10.2
	2018 Approved								
5	Long Term Debt	Sch 2.3	1,099,637	60.99%	1,039,026	4.83	50,185		
6	Preferred Shares	Sch 2.4	36,139	2.01%	34,242	4.11	1,407		
7	Common Equity		666,636	37.00%	630,332	8.50	53,578		
8	Totals	Sch. 2.1	1,802,412	100.00%	1,703,600	6.17	105,170		

ATCO PIPELINES
SUMMARY OF MID-YEAR RATE BASE
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.		Cross Reference	2018 Actual [a]	2018 Approved [b]	Variance to Approved Col.[a]-[b] [c] $	[d] %	
	Property, Plant and Equipment						
1	Opening Balance		2,554,293				
2	Directive 3 - Weld Repair Costs (Decision 23537-D01-2018)		(7,219)				
3	Adjusted Opening Balance		2,547,074	2,623,333	(76,259)	(2.9)	
4	Capital Expenditures	Sch 4.2	228,348	263,515	(35,167)	(13.4)	**(1)**
5	Inter-company Transfers	Sch 4.1	26	(4,418)	4,444	(100.6)	**(2)**
6	Adjustments	Sch 4.1	(1,394)	0	(1,394)	0.0	
7	Retirements	Sch 4.1	(15,157)	(19,583)	4,426	(22.6)	**(3)**
8	Closing Balance	Sch 4.1	2,758,897	2,862,847	(103,950)	(3.6)	
9	**Mid-Year PPE**		**2,652,986**	**2,743,090**	**(90,104)**	**(3.3)**	
	Accumulated Depreciation						
10	Opening Balance		734,730				
11	Directive 3 - Weld Repair Costs (Decision 23537-D01-2018)		85				
12	Adjusted Opening Balance		734,815	766,853	(32,038)	(4.2)	
13	Depreciation Expense	Sch 4	79,577	80,328	(751)	(0.9)	
14	Retirements	Sch 4.1	(15,157)	(19,583)	4,426	(22.6)	**(3)**
15	Inter-company Transfers	Sch 4.1	4	(4,418)	4,422	(100.1)	**(2)**
16	Depreciation Capitalized	Sch 4.1	733	515	218	42.3	
17	Adjustments	Sch 4.1	(64)	2,053	(2,117)	(103.1)	
18	Proceeds on Disposal of Assets	Sch 4.1	122		122	0.0	**(2)**
19	Net Salvage Costs	Sch 4.1	(16,009)	(8,565)	(7,444)	86.9	**(4)**
20	Closing Balance	Sch 4.1	784,021	817,183	(33,162)	(4.1)	
21	**Mid-Year Accumulated Depreciation**		**759,418**	**792,018**	**(32,600)**	**(4.1)**	
22	**Mid-Year Work in Progress (CWIP/RWIP)**	Sch 4.1	**(94,447)**	**(141,754)**	**47,307**	**(33.4)**	
	Contributions in Aid of Construction						
23	Opening Balance		195,416	186,544	8,872	4.8	
24	Closing Balance		202,263	193,897	8,366	4.3	
25	**Mid-Year Contributions in Aid of Construction**		**198,840**	**190,221**	**8,619**	**4.5**	
	Amortization of Contributions						
26	Opening Balance		54,217	49,172	5,045	10.3	
27	Closing Balance		57,588	52,157	5,431	10.4	
28	**Mid-Year Amortization of Contributions**		**55,903**	**50,665**	**5,238**	**10.3**	
	Unapplied Contributions						
29	Opening Balance		11,983	3,889	8,094	208.1	
30	Closing Balance		1,241	4,029	(2,788)	(69.2)	
31	**Mid-Year Unapplied Contributions**		**6,612**	**3,959**	**2,653**	**67.0**	
32	**Mid-Year Plant in Service**		**1,662,796**	**1,673,722**	**(10,926)**	**(0.7)**	
	Necessary Working Capital						
33	Cash Expenses		1,608	2,542	(934)	(36.7)	
34	Financial Items		11,599	10,037	1,562	15.6	
35	Unamortized Debt and Preferred Discount		5,810	4,407	1,403	31.8	
36	Materials and Supplies		259	67	192	286.6	
37	Line Pack		3,546	3,408	138	4.1	
38	Salt Cavern Peaking Working Gas		7,566	9,787	(2,221)	(22.7)	
39	Future Income Tax		(196,170)	(157,686)	(38,484)	24.4	
40	Future Income Tax Regulatory Asset		200,011	157,316	42,695	27.1	
41	Total Adjustments		34,229	29,878	4,351	14.6	
42	Mid-Year Rate Base	Sch 2.0	1,697,025	1,703,600	(6,575)	(0.4)	

Notes:

(1) Please refer to schedule 4.2.
(2) Actuals are lower than 2018 Approved primarily due to the timing of, and lower, UPR transfers.
(3) Actuals are lower than 2018 Approved primarily due to lower Transmission retirements, which is partially offset by higher actual Underground retirements.
(4) Actuals are higher than 2018 Approved mainly due to higher salvage cost on the South West Calgary Ring Road Relocation project, Paddle River Transmission project and UPR projects.

ATCO PIPELINES
SCHEDULE OF DEBT CAPITAL EMPLOYED
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

2018 Actual:

LINE	CROSS REF	ISSUE DATE	MATURITY DATE	COUPON RATE %	PRINCIPAL AMOUNT (1)	UNDERWRITING DISCOUNT AND EXPENSES	TOTAL AMOUNT	EFFECTIVE COST RATE %	CARRYING COSTS	VARIANCE TO Approved	VARIANCE %
		Debentures									
1		99-08-13	2019	6.80	55,000	11	54,989	6.85	3,767	0	0.0
2		04-01-23	2019	5.43	15,000	-	15,000	5.49	824	0	0.0
3		90-11-28	2020	11.77	11,262	7	11,255	11.91	1,340	0	0.0
4		06-11-20	2021	4.80	39,000	41	38,959	4.85	1,890	5	0.3
5		91-12-18	2022	9.92	13,197	22	13,175	10.15	1,337	(1)	-0.1
6		92-12-08	2023	9.40	16,371	29	16,342	9.51	1,554	0	0.0
7		04-11-18	2034	5.89	21,900	70	21,830	5.94	1,297	0	0.0
8		05-11-21	2035	5.18	69,000	255	68,745	5.23	3,595	0	0.0
9		06-11-20	2036	5.03	39,000	141	38,859	5.07	1,970	0	0.0
10		07-11-30	2037	5.56	20,000	77	19,923	5.60	1,116	0	0.0
11		08-05-26	2038	5.58	30,000	125	29,875	5.62	1,679	0	0.0
12		08-05-26	2028	5.56	20,000	62	19,938	5.61	1,119	0	0.0
13		09-03-06	2039	6.50	4,000	18	3,982	6.55	261	0	0.0
14		09-03-06	2024	6.22	4,000	9	3,991	6.28	251	0	0.0
15		11-10-24	2041	4.54	57,100	272	56,828	4.58	2,603	0	0.0
16		11-10-24	2061	4.59	22,900	124	22,776	4.62	1,052	0	0.0
17		12-09-11	2042	3.81	25,000	123	24,877	3.84	955	0	0.0
18		12-09-11	2062	3.83	10,000	56	9,944	3.85	383	0	0.0
19		12-11-14	2052	3.86	8,000	42	7,958	3.89	310	0	0.0
20		13-09-28	2043	4.72	60,000	307	59,693	4.76	2,841	0	0.0
21		14-09-28	2044	4.09	65,000	334	64,666	4.12	2,664	0	0.0
22		14-10-17	2054	4.09	20,000	116	19,884	4.13	821	0	0.0
23		15-07-27	2045	3.96	100,000	570	99,430	4.00	3,977	(1)	0.0
24		15-10-30	2055	4.21	20,000	120	19,880	4.24	843	0	0.0
25		16-11-17	2046	3.76	110,000	730	109,270	3.80	4,152	(484)	-10.4
26		17-11-22	2047	3.54	155,000	1,053	153,947	3.58	5,511	(1,987)	-26.5
27		18-11-21	2048	3.95	120,000	857	119,143	3.99	4,754	(213)	-4.3
28		Total			1,130,730	5,571	1,125,159		52,866	(2,681)	(41)
29		Prior Year-End Balance					1,005,782		48,102	(2,469)	-4.9
30	Sch. 2	Midyear					1,065,471		50,484	(2,575)	-4.9
31	Sch. 2	Embedded Cost of Debt **(2)**							4.74%		

2018 Approved:

LINE	CROSS REF	ISSUE DATE	MATURITY DATE	COUPON RATE %	PRINCIPAL AMOUNT (1)	UNDERWRITING DISCOUNT AND EXPENSES	TOTAL AMOUNT	EFFECTIVE COST RATE %	CARRYING COSTS
		Debentures							
32		99-08-13	2019	6.80	55,000	11	54,989	6.85	3,767
33		04-01-23	2019	5.43	15,000	-	15,000	5.49	824
34		90-11-28	2020	11.77	11,262	7	11,255	11.91	1,340
35		06-11-20	2021	4.80	39,000	130	38,870	4.85	1,885
36		91-12-18	2022	9.92	13,197	19	13,178	10.15	1,338
37		92-12-08	2023	9.40	16,371	26	16,345	9.51	1,554
38		04-11-18	2034	5.89	21,900	70	21,830	5.94	1,297
39		05-11-21	2035	5.18	69,000	255	68,745	5.23	3,595
40		06-11-20	2036	5.03	39,000	141	38,859	5.07	1,970
41		07-11-30	2037	5.56	20,000	77	19,923	5.60	1,116
42		08-05-26	2038	5.58	30,000	117	29,883	5.62	1,679
43		08-05-26	2028	5.56	20,000	57	19,943	5.61	1,119
44		09-03-06	2039	6.50	4,000	17	3,983	6.55	261
45		09-03-06	2024	6.22	4,000	8	3,992	6.28	251
46		11-10-24	2041	4.54	57,100	273	56,827	4.58	2,603
47		11-10-24	2061	4.59	22,900	124	22,776	4.62	1,052
48		12-09-11	2042	3.81	25,000	123	24,877	3.84	955
49		12-09-11	2062	3.83	10,000	56	9,944	3.85	383
50		12-11-14	2052	3.86	8,000	42	7,958	3.89	310
51		13-09-09	2043	4.72	60,000	307	59,693	4.76	2,841
52		14-09-28	2044	4.09	65,000	334	64,666	4.12	2,664
53		14-10-17	2054	4.09	20,000	116	19,884	4.13	821
54		15-07-27	2045	3.96	100,000	561	99,439	4.00	3,978
55		15-10-30	2055	4.21	20,000	115	19,885	4.24	843
56		16-09-30	2046	3.72	124,000	713	123,287	3.76	4,636
57		17-06-30	2047	4.16	179,600	1,085	178,515	4.20	7,498
58		18-06-30	2048	4.46	111,000	623	110,377	4.50	4,967
59		Total			1,160,330	5,407	1,154,923		55,547
60		Prior Year-End Balance					1,044,350		50,571
61	Sch. 2	Midyear					1,099,637		53,059
62	Sch. 2	Embedded Cost of Debt							4.83%

Note:

(1) Principal Amount equals Principal Outstanding at year end.
(2) In accordance with Commission Direction 4 in Decision 22570-D01-2018, the 2018 actual debt rate cost is 4.77%.

ATCO PIPELINES
SCHEDULE OF PREFERRED SHARE CAPITAL EMPLOYED
MID YEAR CAPITAL STRUCTURE
(THOUSANDS OF DOLLARS)

2018 Actual:

LINE	CROSS REF	SERIES	ISSUE DATE	DIVIDEND RATE	STATED VALUE OF ISSUE (1)	UNDERWRITING DISCOUNT AND EXPENSES	NET PROCEEDS OUTSTANDING	CARRYING COSTS OF ISSUE	VARIANCE TO Approved	VARIANCE %
		Non Retractable								
		Cumulative Redeemable Second Preferred Shares								
1		V	1997	4.60%	11,639	0	11,639	535	69	0
2		1	2007	4.60%	20,000	0	20,000	920	0	0
3		4	2010	2.24%	4,500	0	4,500	101	0	0
4		Total Current Year-End Balance			36,139	0	36,139	1,556	69	4.6
5		Prior Year-End Balance					36,139	1,504	17	1.1
6	Sch. 2	Midyear					36,139	1,530	43	2.9
7	Sch. 2	Embedded Cost of Preferred Shares						4.23%		

2018 Approved:

LINE	CROSS REF	SERIES	ISSUE DATE	DIVIDEND RATE	STATED VALUE OF ISSUE (1)	UNDERWRITING DISCOUNT AND EXPENSES	NET PROCEEDS OUTSTANDING	CARRYING COSTS OF ISSUE
		Non Retractable						
		Cumulative Redeemable Second Preferred Shares						
8		V	1997	4.00%	11,639	0	11,639	466
9		1	2007	4.60%	20,000	0	20,000	920
10		4	2010	2.24%	4,500	0	4,500	101
11		Total Current Year-End Balance			36,139	0	36,139	1,487
12		Prior Year-End Balance					36,139	1,487
13	Sch. 2	Midyear					36,139	1,487
14	Sch. 2	Embedded Cost of Preferred Shares						4.11%

Notes:

(1) The Stated Value is expressed net of redemptions.

Schedule 3

ATCO PIPELINES
SUMMARY OF OPERATING AND MAINTENANCE EXPENSE
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.		Cross-Ref.	2018 Actual	2018 Approved	Variance to Approved Col.[a]-[b]		
			[a]	[b]	[c]	[d]	
					$	%	
	Operating & Maintenance Expense						
1	Underground Storage		1,277	1,180	97	8.2	
2	Transmission		33,040	40,612	(7,572)	(18.6)	**(1)**
3	Administration and General		30,898	30,267	631	2.1	
5	Total Operating & Maintenance Expense		65,215	72,059	(6,844)	(9.5)	
6	Less: Disallowed O&M		3,109	2,137	972	45.5	**(2)**
7	Operating & Maintenance Expense - Net	Sch 1	62,106	69,922	(7,816)	(11.2)	

Notes:

(1) Actuals are lower than 2018 Approved mainly due to realignment of workforce, reduction in measurement and compliance programs pursuant to completion of assessments led to the extension of program timing, as well as timing of contract resourcing. Actuals are also lower due to reduced third party locate requests, and better contract pricing for right of way aerial surveys and brushing partially offset by increased crossing costs.

(2) Actuals are higher than 2018 approved mainly due to higher disallowed incentive and hearing costs.

ATCO PIPELINES
SUMMARY OF DEPRECIATION EXPENSE
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.		Cross-Reference	2018 Actual	2018 Approved	Variance to Approved Col.[a]-[b]	
			[a]	[b]	[c] $	[d] %
	Depreciation Expense					
1	Underground Storage Plant	Sch 4.1	2,095	2,512	(417)	(16.6)
2	Transmission Plant	Sch 4.1	71,509	71,033	476	0.7
3	General Plant	Sch 4.1	1,172	1,215	(43)	(3.5)
4	Office Furniture & Equipment	Sch 4.1	265	234	31	13.3
5	Machinery & Equipment	Sch 4.1	2,804	2,975	(171)	(5.8)
6	Leasehold Improvements	Sch 4.1	12	29	(17)	(58.6)
7	Software	Sch 4.1	1,366	1,564	(198)	(12.7)
8	Straight Line (Dedicated)	Sch 4.1	1,244	1,281	(37)	(2.9)
9	Capitalized Depreciation	Sch 4.1	(733)	(515)	(218)	42.3
10	Sub-total	Sch 4.1	79,734	80,328	(594)	(0.7)
	Amortization of Contributions					
11	Underground Storage Plant		(4)	(4)	0	0.0
12	Transmission Plant		(3,364)	(3,389)	25	(0.7)
13	General Plant		0	0	0	0.0
14	Office Furniture & Equipment		0	0	0	0.0
15	Machinery & Equipment		0	0	0	0.0
16	Leasehold Improvements		0	0	0	0.0
17	Software		0	0	0	0.0
18	Straight Line (Dedicated)		(3)	(28)	25	(89.3)
19	Sub-total		(3,371)	(3,421)	50	(1.5)
20	Disallowed Items					
	(Please specify)		0	0	0	0.0
21	Sub-total		0	0	0	0.0
22	**Net Depreciation Expense - Utility**		76,363	76,907	(544)	(0.7)

ATCO PIPELINES
CAPITAL ASSETS CONTINUITY SCHEDULE
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

CAPITAL ASSETS

Line No.	Property Group	Cross-Reference	Balance at 12/31/2017	2018 Additions	2018 Retirements	2018 Removals	2018 Transfers	2018 Proceeds	2018 Adjustments	Balance at 12/31/2018
1	Underground Storage Plant		55,846	1,110	(1,642)	0	0	0	0	55,314
2	Transmission Plant		2,208,366	212,084	(11,968)	0	0	0	(1,033)	2,407,449
3	General Plant		38,486	253	0	0	0	0	0	38,739
4	Office Furniture & Equipment		5,820	46	0	0	0	0	0	5,866
5	Machinery & Equipment		27,639	5,500	(166)	0	26	0	0	32,999
6	Leasehold Improvements		1,951	0	0	0	0	0	0	1,951
7	Software		12,874	5,245	(1,381)	0	0	0	0	16,738
8	Straight Line (Dedicated)		110,104	(1)	0	0	0	0	0	110,103
9	**Subtotal**		2,461,086	224,237	(15,157)	0	26	0	(1,033)	2,669,159
10	Capital Work in Progress (CWIP)		85,988	4,111	0	0	0	0	(361)	89,738
11	**Total Utility**	Sch 2.1	2,547,074	228,348	(15,157)	0	26	0	(1,394)	2,758,897

ACCUMULATED DEPRECIATION

Line No.	Property Group	Cross-Reference	Balance at 12/31/2017	2018 Additions	2018 Retirements	2018 Removals	2018 Transfers	2018 Proceeds	2018 Adjustments	Balance at 12/31/2018
12	Underground Storage Plant		35,867	2,095	(1,642)	(59)	0	0	0	36,261
13	Transmission Plant		582,258	71,509	(11,968)	(16,494)	180	46	(64)	625,467
14	General Plant		6,921	1,172	0	(16)	0	0	0	8,077
15	Office Furniture & Equipment		1,960	265	0	0	0	0	0	2,225
16	Machinery & Equipment		10,108	2,804	(166)	(9)	4	76	0	12,817
17	Leasehold Improvements		1,903	12	0	0	0	0	0	1,915
18	Software		6,921	1,209	(1,381)	0	(180)	0	0	6,569
19	Straight Line (Dedicated)		95,745	1,244	0	0	0	0	0	96,989
20	**Subtotal**		741,683	80,310	(15,157)	(16,578)	4	122	(64)	790,320
21	Removal Work in Progress (RWIP)		(6,868)	0	0	569	0	0	0	(6,299)
22	**Total Utility**	Sch 2.1	734,815	80,310	(15,157)	(16,009)	4	122	(64)	784,021

ATCO PIPELINES
SUMMARY OF CAPITAL EXPENDITURES
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.		Cross-Ref	2018 Actual	2018 Approved	Variance to Approved Col.[a]-[b]		
			[a]	[b]	[c] $	[d] %	
	General Production Transmission						
1	Major Projects		95,728	175,886	(80,158)	(45.6)	**(1)**
2	General		124,451	83,171	41,280	49.6	**(2)**
3	Sub-Total		220,179	259,057	(38,878)	(15.0)	
	Land and Structures						
4	General		312	150	162	108.0	
	Moveable Equipment						
5	General		2,706	2,695	11	0.4	
6	Software Development		5,651	1,613	4,038	250.3	**(3)**
7	Sub-Total		8,357	4,308	4,049	94.0	
8	Other		(500)	0			
9	**Capital Expenditures**	Sch 4.1	228,348	263,515	(35,167)	(13.4)	

Notes:

(1) Actuals are lower than 2018 Approved primarily due to the delayed Facilities Proceeding for Pembina Keephills and UPR re-scoping, consultation process, and construction schedules.

(2) Actuals are higher than 2018 Approved primarily due to several upgrade and replacement projects being accelerated and advanced from future years as well as incremental costs related to the Stoney Lateral Trail project.

(3) Actuals are higher than 2018 Approved primarily due to the Oracle Ebusiness upgrade.

ATCO PIPELINES
SUMMARY OF UTILITY INCOME TAX
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.		2018 Actual	2018 Approved	Variance to Approved	
		[a]	[b]	[c] $	[d] %
1	Net Income Before Taxes	62,276	52,462	9,814	18.7
2	**ADDBACK**				
3	Depreciation	76,363	76,907	(544)	(0.7)
4	Amortization of Debt Discount	209	908	(699)	(77.0)
5	Amortization of Pref Exp	0	0	0	0.0
6	Deferral and Reserve Accounts	(20,218)	(903)	(19,315)	2,139.0
7	Non Deduct Admin	217	297	(80)	(26.9)
8	Other	338	200	138	69.0
9		56,909	77,409	(20,500)	(26.5)
10	**DEDUCT**				
11	Capital Cost Allowance	97,637	102,073	(4,436)	(4.4)
12	Abandonments	21,167	8,565	12,602	147.1
13	Debt Costs	683	538	145	27.0
14	Part 6 Tax Deduction	2,079	2,083	(4)	(0.2)
15	Rainbow Deduction	14,329	9,338	4,991	53.5
16	Indirect Overhead	20,555	17,374	3,181	18.3
17	Capitalized Pension Funding	2,363	2,352	11	0.5
18	Total Tax Deductions	158,813	142,323	16,490	11.6
19					
20	Taxable Income	(39,628)	(12,452)	(27,176)	218.3
21	Income Tax Rate	27.00%	27.00%		
22	Current Tax Payable	(10,700)	(3,362)	(7,338)	218.3
23	Part VI.1 Tax	594	595	(1)	(0.2)
24	Current Income Tax	(10,106)	(2,767)	(7,339)	265.2
25	Deferred Taxes	5,459	244	5,215	2,137.3
26	Utility Income Tax	(4,647)	(2,523)	(2,124)	84.2

ATCO PIPELINES
SUMMARY OF SALES REVENUES BY CLASSIFICATION
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.		Cross-Ref	2018 Actual	2018 Approved	Variance to Approved Col.[a]-[b]		
			[a]	[b]	[c] $	[d] %	
1	Total Transportation Revenue		265,478	265,478	0	0.0	
2	Revenue Adjustments		(2,383)	0	(2,383)	0.0	**(1)**
3	Franchise Fee Revenue		2,777	2,748	29	1.1	
4			394	2,748	(2,354)	(85.7)	
	OTHER REVENUE						
5	Other Miscellaneous Revenue		230	0	230	0.0	
6	Total Other Revenue		230	0	230	0.0	
7	**TOTAL UTILITY REVENUE**		266,102	268,226	(2,124)	(0.8)	

Note:
(1) Actuals are lower than 2018 Approved primarily driven by long term debt rates and VPP.

ATCO PIPELINES
EXPLANATION OF TRANSACTIONS
WITH AFFILIATED COMPANIES
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.	Affiliate	Nature of Service	2018 Actual	2018 Approved	Variance to Approved Col.[a]-[b]		Recorded As	
			[a]	[b]	[c] $	[d] %		
1	ATCO Ltd.	Licensing fees	896	671	225	33.5	Operating	
2		Administrative services	5,198	3,034	2,164	71.3	Operating	**(1)**
3		Administrative Services	235	N/A	0	0.0	Capital	
4	Canadian Utilities Limited	Administrative services facilities management	1,711	1,353	358	26.5	Operating	
5		Administrative services facilities management	206	N/A	0	0.0	Capital	
6		Shared services	157	0	157	100.0	Operating	
7		Shared services	202	N/A	0	0.0	Capital	
8	CU Inc.	Administrative services	64	47	17	36.2	Operating	
9		Shared Services	1,929	0	1,929	100.0	Operating	**(2)**
10		Shared Services	2,206	N/A	0	0.0	Capital	
11	ATCO Gas	Financial, engineering, operations, corporate, facilities and rent services	(3,361)	(590)	(2,771)	469.7	Revenue	**(3)**
12		Engineering and construction services	5,998	N/A	0	0.0	Capital	
13		Transfer of assets	7	N/A	0	0.0	Capital	
14	ATCO Energy Solutions	Fees for purchase/sale of Salt Cavern gas	25	N/A	0	0.0	Operating	
15		Recovery for usage of assets	(692)	(1,309)	617	(47.1)	Revenue	**(4)**
16	ATCO Pipelines S.A. de C.V.	Engineering and construction services	(355)	0	(355)	100.0	Revenue	
17	IEIE S.A. de C.V.	Engineering and construction services	(161)	0	(161)	100.0	Revenue	
17	ATCO Investments Solutions	Facilities management	-	44	(44)	(100.0)	Operating	
18	ATCO Energy Ltd.	Administration	9	0	9	100.0	Operating	
19		Distribution service costs	1,628	N/A	0	0.0	Operating	
19	ATCO Electric	Administration	148	0	148	100.0	Operating	
20		Engineering and construction services	(68)	0	(68)	100.0	Revenue	
21		Transfer of assets	15	N/A	0	0.0	Capital	
22	ATCO Power	Contract services	(5)	0	(5)	100.0	Revenue	
23	ATCO Structures & Logistics	Contract services	19	0	0	0.0	Operating	

Notes:

(1) Actuals are higher than 2018 Approved due to higher general and administrative costs.

(2) Actuals are higher than 2018 Approved due to a change in the organizational structure at ATCO to have functions that were formerly directly embedded within ATCO Pipelines to now be part of a Corporate Shared Services model.

(3) Actuals are higher than 2018 Approved primarily due to increased shop services activity in 2018.

(4) Actuals are lower than 2018 Approved primarily due to a decrease in engineering services activity in 2018.

ATCO PIPELINES TOTAL
SUMMARY OF PAYROLL AND MANPOWER STATISTICS
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.		Cross-Ref	2018 Actual	2018 Approved	Variance to Approved Col.[a]-[b]	
			[a]	[b]	[c] $	[d] %
	Payroll Statistics					
1	Gross Salaries & Benefits		59,258	60,482	(1,224)	(2.0)
	Manpower Statistics					
2	Total Regular Employees *		387	425	(38)	(8.9)
3	Total Temporary Employees *		42	33	9	0.0
4	Total Contract Staff		0	0	0	0.0
5	Total Manpower		429	458	(29)	(6.3)
	Less:					
6	Allocated to Non-Regulated		1	0	1	0.0
7	Total Manpower - Utility		428	458	(30)	(6.6)
	* Represents filled positions at year-end. Vacancies are not included.					
	Manpower Allocation by Division					
8	Operations and Maintenance		375	404	(29)	(7.2)
9	Administration and General		53	54	(1)	(1.9)
10	Total Manpower - Utility		428	458	(30)	(6.6)

ATCO PIPELINES
SUMMARY OF RESERVE/DEFERRAL ACCOUNTS
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.	List of Reserve/Deferral Accounts	Cross-Ref	2018 Actual Opening Balance	Additions	Amort.	Recoveries	Closing Balance	Variance to 2018 Approved $	%
1	NGTL Integration Deferral		6,502	0	0	6,502	0	0	0.0
2	NGTL Directed Growth Deferral		(844)	23	0	(844)	23	23	0.0
3	Salt Cavern Deferral		2,623	1,948	0	2,335	2,236	413	22.7
4	Regulatory Expense Reserve - Rate Case Costs		(674)	798	0	0	124	124	0.0
5	Regulatory Pension Asset		4,126	85	0	0	4,211	(75)	(1.8)
5	IT Benchmarking Asset		765	0	26	0	739	(1)	(0.1)
6	Evergreen I Asset		22	0	(41)	0	63	63	0.0
7	Evergreen II Asset		1,620	0	137	0	1,483	(136)	(8.4)
8	Deferred Financing Charges		5,463	896	209	0	6,150	1,884	44.2
9	Deferred Preferred Share Issue Costs		4	0	0	0	4	4	0.0
10	Future Income Tax Asset		172,692	45,737	0	0	218,429	54,770	33.5
11	Total Deferred Assets		192,299	49,487	331	7,993	233,462	57,069	32.4
12	Revenue Deferral		10,731	(10,731)	0	0	0	0	0.0
13	Urban Pipelines Replacement Deferral		14,036	0	0	14,036	0	0	0.0
14	Long Term Debt Rate Deferral		981	1,389	0	424	1,946	1,946	0.0
15	Defined Benefit Pension Deferral		865	326	0	911	280	280	0.0
16	VPP Deferral		2,953	641	0	2,143	1,451	1,451	0.0
17	Injuries and Damages Reserve		266	304	0	0	570	570	0.0
18	Regulatory Expense Reserve - AUC Fees		19	187	0	0	206	206	0.0
19	Deferred Income Tax Liability		166,091	51,257	0	0	217,348	53,197	32.4
20	Negative Salvage Liability		39,193	1,201	0	0	40,394	(29,407)	(42.1)
21	Total Deferred Liabilities		235,135	44,574	0	17,514	262,195	28,243	12.1

Line No.	List of Reserve/Deferral Accounts	2018 Approved Opening Balance	Additions	Amort.	Recoveries	Closing Balance
22	NGTL Integration Deferral	0	0	0	0	0
23	NGTL Directed Growth Deferral	0	0	0	0	0
24	Salt Cavern Deferral	1,619	204	0	0	1,823
25	Regulatory Expense Reserve - Rate Case Costs	(732)	732	0	0	0
26	Regulatory Pension Asset	4,041	245	0	0	4,286
27	IT Benchmarking Asset	765	0	25	0	740
28	Evergreen I Asset	12	0	12	0	0
29	Evergreen II Asset	1,755	0	136	0	1,619
30	Deferred Financing Charges	4,559	623	916	0	4,266
31	Deferred Preferred Share Issue Costs	0	0	0	0	0
32	Future Income Tax Asset	150,974	12,685	0	0	163,659
33	Total Deferred Assets	162,993	14,489	1,089	0	176,393
34	Revenue Deferral	0	0	0	0	0
35	Urban Pipelines Replacement Deferral	0	0	0	0	0
36	Long Term Debt Rate Deferral	0	0	0	0	0
37	Defined Benefit Pension Deferral	0	0	0	0	0
38	VPP Deferral	0	0	0	0	0
39	Injuries and Damages Reserve	29	(29)	0	0	0
40	Regulatory Expense Reserve - AUC Fees	(62)	62	0	0	0
41	Deferred Income Tax Liability	151,222	12,929	0	0	164,151
42	Negative Salvage Liability	47,466	22,335	0	0	69,801
43	Total Deferred Liabilities	198,655	35,297	0	0	233,952

ATCO PIPELINES
RECONCILIATION OF FINANCIAL REPORTING SCHEDULES TO AUDITED FINANCIAL STATEMENTS
INCOME SUMMARY
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.		Cross-Reference	2018 Financial Statements	Adjustments	2018 Utility Total
			[a]	[b]	[c]
1	**Total Revenue**	Sch 6	257,029	9,073	266,102
	Less:				
	Operating Expenses				
2	Operation and Maintenance	Sch 3	88,467	(26,361)	62,106
3	Depreciation and Amortization	Sch 4	62,541	13,822	76,363
4	Taxes Other than Income		16,345	-	16,345
5			167,353		154,814
	Financing Charges and Other				
6	Interest Expense	Sch 2	48,404	608	49,012
7	Other Expense		2,157	(2,157)	0
8	Interest and Other Income		(4,937)	4,937	0
9			45,624		49,012
10	**Net Earnings Before Tax**		44,052		62,276
11	Less:				
12	Income Taxes	Sch. 5	11,994	(16,641)	(4,647)
13	**Net Earnings after Tax**		32,058		66,923
14	Dividends on Preferred Shares	Sch 2	0	(1,486)	(1,486)
15	**Earnings attributable to Common Shares**		32,058		65,437
16	Opening Retained Earnings		439,156		
			471,214		
17	Dividends on Common Shares		4,000		
18	Dividends on Preferred Shares		1,556		
20	Other		0		
21	OCI		(386)		
22	**Closing Retained Earnings**		466,044		

ATCO PIPELINES
RECONCILIATION OF FINANCIAL REPORTING SCHEDULES TO AUDITED FINANCIAL STATEMENTS
BALANCE SHEET
FOR YEAR ENDED DECEMBER 31, 2018
(THOUSANDS OF DOLLARS)

Line No.		Cross-Reference	2018 Financial Statements	Adjustments	2018 Utility Total
			[a]	[b]	[c]
	ASSETS				
	Current Assets				
1	Cash and short term advance to parent corporation		-	-	-
2	Accounts receivable		22,097	710	22,807
3	Accounts receivable from affiliates		6,424	-	6,424
4	Inventories		8,256	3,531	11,787
5	Income taxes recoverable		15,639	-	15,639
6	Regulatory assets		-	2,259	2,259
7	Prepaid expenses and other		4,650	-	4,650
8			57,066		63,566
9	**Property, Plant and Equipment (Including Intangible Assets)**		2,038,133	(136,031)	1,902,102
10	**Regulatory Assets**		-	225,049	225,049
11	**Deferred Financing Charges**		6,150	4	6,154
12	**Other Assets**		71	-	71
13			2,101,420		2,196,942
	LIABILITIES AND CAPITALIZATION				
	Current Liabilities				
14	Bank indebtedness and short term advance from parent corporation		23,649	-	23,649
15	Accounts payable and accrued liabilities		34,787	57	34,844
16	Income and other taxes payable		-	-	-
17	Regulatory liabilities		-	3,677	3,677
19	Future income taxes		-	-	-
20	Long-term debt		70,000	-	70,000
21	Accounts payable to parent and affiliate corporations		17,320	-	17,320
22			145,756		149,490
23	**Future income taxes**		159,097	58,251	217,348
24	**Regulatory liabilities**		-	41,170	41,170
25	**Other Deferred Credits**		158,841	(147,343)	11,498
26			317,938		270,016
	Capitalization				
27	Long-term debt		1,060,730	-	1,060,730
28	Equity preferred shares		35,726	413	36,139
29	Class A and Class B shares		75,226	-	75,226
30	Retained earnings		466,044	139,297	605,341
31			1,637,726		1,777,436
32			2,101,420		2,196,942

ATCO PIPELINES TOTAL
SCHEDULE OF PENSION PLAN CONTRIBUTIONS
FOR YEAR ENDED DECEMBER 31, 2018
(MILLIONS OF DOLLARS)

ATCO Pipelines 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.

2018 Actual		Defined Benefit Pension Expense		Defined Contribution Pension Expense	**Total**
		Service Amount	Special Payment	Service Amount	
ATCO Pipelines (Note 1)	**Total**	1.8	-	1.9	**3.7**
ATCO Unregulated (Note 1)	**Total**	3.6	-	5.2	**8.8**

2018 Approved		Defined Benefit Pension Expense		Defined Contribution Pension Expense	**Total**
		Service Amount	Special Payment	Service Amount	
ATCO Pipelines (Note 2)	**Total**	2.1	-	2.4	**4.5**
ATCO Unregulated (Note 3)	**Total**	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.

Note 2 - Per ATCO Utilities Pension Decision, Table 5, Decision 21831-D01-2017.

Note 3 - Per the Dec 31, 2017 Mercer report filed with the Pension Administrator on July 13, 2018.

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.

2018 Reconciliation	
2018 Pension Costs as per ATCO Pipelines 2017/18 GRA application	**4.5**
2018 Pension contributions - Actual costs incurred	**3.6**
Difference	**0.9**

Accordingly the deferral account should be calculated as the annual difference between the amounts collected in rates in respect of the special payments and the special payment amounts actually paid by ATCO Utilities pursuant to the Pension Valuation(s) accepted by the Superintendent of Pensions that were in force during such year.

ATCO Pipeline's Pension deferral in 2018	
2018 Pension Costs as per ATCO Pipelines 2017/18 GRA application - DB only	**2.1**
2018 Pension costs - Actual Cash Payments	**1.8**
Deferral account	**0.3**

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.

The Mercer 2017 CU Pension Plan Report was filed with the Superintendent of Pensions in July, 2018.

(a division of ATCO Gas and Pipelines Ltd.)

ATCO PIPELINES

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 Pipelines, 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

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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

		Year Ended December 31	
(thousands of Canadian Dollars)	**Note**	**2018**	**2017**
Revenues	5	**257,029**	269,387
Costs and expenses			
Salaries, wages and benefits		**(27,146)**	(26,760)
Plant and equipment maintenance		**(29,289)**	(24,698)
Depreciation and amortization	10,11	**(62,541)**	(56,120)
Franchise fees		**(2,777)**	(2,970)
Property and other taxes		**(13,568)**	(13,327)
Other	6	**(32,032)**	(28,900)
		(167,353)	(152,775)
Operating profit		**89,676**	116,612
Interest expense	7	**(45,624)**	(38,759)
Earnings before income taxes		**44,052**	77,853
Income taxes	8	**(11,994)**	(21,102)
Earnings for the year		**32,058**	56,751

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		**32,058**	56,751
Other comprehensive income (loss), net of income taxes			
Item that will not be reclassified to earnings:			
Re-measurement of retirement benefits (1)	13	**386**	(328)
Comprehensive income for the year		**32,444**	56,423

(1) Net of income taxes of $(0.1) million for the year ended December 31, 2018 (2017 - $0.1 million).

See accompanying Notes to Financial Statements.

BALANCE SHEET

(thousands of Canadian Dollars)	Note	December 31 2018	2017
ASSETS			
Current assets			
Cash		–	15,261
Accounts receivable and contract assets	14	**22,097**	22,962
Accounts receivable from parent and affiliate companies	14, 24	**6,424**	6,143
Inventories	9	**8,256**	9,467
Income taxes recoverable		**15,639**	4,475
Prepaid expenses and other current assets		**4,650**	4,858
		57,066	63,166
Non-current assets			
Property, plant and equipment	10	**1,920,060**	1,768,125
Intangibles	11	**118,073**	93,025
Other assets		**71**	78
Total assets		**2,095,270**	1,924,394
LIABILITIES			
Current liabilities			
Bank indebtedness		**1,649**	–
Short-term advances from parent company		**22,000**	–
Accounts payable and accrued liabilities		**34,787**	65,554
Accounts payable to parent and affiliate companies	24	**17,320**	15,242
Long-term debt	12	**70,000**	–
		145,756	80,796
Non-current liabilities			
Deferred income tax liabilities	8	**159,097**	131,991
Retirement benefit obligations	13	**14,856**	15,024
Deferred revenues	14	**143,966**	141,199
Other liabilities		**19**	9
Long-term debt	12	**1,054,580**	1,005,267
Total Liabilities		**1,518,274**	1,374,286
EQUITY			
Equity preferred shares to parent company	15	**35,726**	35,726
Class A and Class B share owner's equity			
Class A and Class B shares	16	**75,226**	75,226
Retained Earnings		**466,044**	439,156
		541,270	514,382
Total equity		**576,996**	550,108
Total liabilities and equity		**2,095,270**	1,924,394

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		75,226	35,726	365,637	–	476,589
Earnings for the year		–	–	56,751	–	56,751
Other comprehensive loss		–	–	–	(328)	(328)
Loss on retirement benefits transferred to retained earnings	13	–	–	(328)	328	–
Dividends	15	–	–	(1,504)	–	(1,504)
Transfer of capital from ATCO Gas	16	–	–	18,600	–	18,600
December 31, 2017		75,226	35,726	439,156	–	550,108
Earnings for the year		**–**	**–**	**32,058**	**–**	**32,058**
Other comprehensive income		**–**	**–**	**–**	**386**	**386**
Gains on retirement benefits transferred to retained earnings	13	**–**	**–**	**386**	**(386)**	**–**
Dividends	15, 16	**–**	**–**	**(5,556)**	**–**	**(5,556)**
December 31 2018		**75,226**	**35,726**	**466,044**	**–**	**576,996**

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		**32,058**	56,751
Adjustments to reconcile earnings to cash flows from operating activities	17	**126,819**	127,047
Changes in non-cash working capital	17	**10,461**	1,722
Cash flows from operating activities		**169,338**	185,520
Investing activities			
Additions to property, plant and equipment		**(206,054)**	(281,141)
Proceeds on disposal of property, plant and equipment		**(2)**	159
Additions to intangibles		**(28,466)**	(9,189)
Changes in non-cash working capital	17	**(37,739)**	4,697
Other		**(105)**	6,990
Cash flows used in investing activities		**(272,366)**	(278,484)
Financing activities			
Issue of long-term debt	12	**120,000**	155,000
Repayment of long-term debt		**–**	(10,000)
Dividends paid on equity preferred shares	15	**(1,556)**	(1,504)
Dividends paid to Class A and Class B share owner		**(4,000)**	–
Interest paid		**(49,429)**	(43,428)
Transfer of capital from ATCO Gas	16	**–**	18,600
Other		**(897)**	(1,100)
Cash flows from financing activities		**64,118**	117,568
(Decrease) Increase in cash position		**(38,910)**	24,604
Beginning of year		**15,261**	(9,343)
End of year	17	**(23,649)**	15,261

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 Pipelines ("ATCO Pipelines") and ATCO Gas are divisions of ATCO Gas and Pipelines Ltd. (AGP). Each division is operated by a separate management group, and each maintains its own books of account. ATCO Pipelines is engaged in the transmission of natural gas in the Province of Alberta. Its head office and registered office is at 4th floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4. ATCO Gas and Pipelines Ltd. 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 Pipelines' significant accounting policies are described in Note 25.

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 Pipelines' 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 21.

3. CHANGE IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS CREDIT LOSSES

ATCO Pipelines 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 consolidated financial statements

To determine the amount of expected credit losses, ATCO Pipelines 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 Pipelines 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 Pipelines's consolidated financial statements have been restated. Certain practical expedients have been applied.

See Note 25 for accounting policies on revenue recognition.

Practical expedients

Effective January 1, 2017, the IFRS 15 transition date, ATCO Pipelines 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 Pipelines 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 Pipelines has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of ATCO Pipelines's performance to date, revenue is recognized in the amount to which ATCO Pipelines has a right to invoice. Such performance obligations include the provision of continuous transmission of natural gas services.

Impact of adoption of IFRS 15 on financial statements

As ATCO Pipelines has utilized the practical expedients noted above, there was no impact on the prior year consolidated 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 is a key measure used by the Chief Operating Decision Maker (CODM) to assess 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	**72,930**	67,329
Rate-regulated activities	**(40,093)**	(11,783)
Dividends on equity preferred shares	**1,556**	1,504
Restructuring costs	**(2,335)**	(299)
Earnings for the year	**32,058**	56,751

Rate-regulated activities

There is currently no specific guidance under IFRS for rate-regulated entities that ATCO Pipelines is eligible to adopt. In the absence of this guidance, ATCO Pipelines does not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, ATCO Pipelines 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 Pipelines 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 Pipelines' 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.

Restructuring costs

In 2018, ATCO Pipelines recorded restructuring costs of $2.3 million (2017 - $0.3 million), after tax. These costs were primarily related to staff reduction and associated severance costs.

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

	Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1.	Revenues to be billed in future periods	Deferred income taxes.	ATCO Pipelines recognizes revenues associated with recoverable costs in advance of future billings to customers.	ATCO Pipelines recognizes costs when they are incurred, but does not recognize their recovery until changes to customer rates are made and collected through future billings.
2.	Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	ATCO Pipelines recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	ATCO Pipelines does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
3.	Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	ATCO Pipelines 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 Pipelines 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
Revenues to be billed in future periods		
Deferred income taxes (1)	**(26,460)**	(24,131)
Settlement of decisions and other items (2)	**(13,633)**	12,348
	(40,093)	(11,783)

(1) Income taxes are billed to customers when paid by ATCO Pipelines.

(2) In 2018, the Company recorded \$14.8 million in settlement of decisions. This includes \$7.8 million in relation to settlement of final 2017 General Rate Application and \$7.0 million in relation to settlement of 2015 and 2016 deferral balances.

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
Transmission services	**245,306**	257,059
Customer contributions	**3,373**	3,256
Franchise fees	**2,777**	2,969
	251,456	263,284
Intercompany revenue	**5,573**	6,103
Total Revenues	**257,029**	269,387

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	**48,404**	43,520
Other	**2,157**	1,575
	50,561	45,095
Less: interest capitalized *(Note 10)*	**(4,937)**	(6,336)
	45,624	38,759

Borrowing costs capitalized to property, plant and equipment during 2018 were calculated by applying an interest rate of 4.8 per cent to expenditures on qualifying assets (2017 - 4.8 per cent).

8. INCOME TAXES

INCOME TAX EXPENSE

ATCO Pipelines 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	**(15,400)**	(4,420)
Adjustment in respect of prior years	**431**	(107)
	(14,969)	(4,527)
Deferred income tax expense		
Reversal of temporary differences	**27,394**	25,522
Adjustment in respect of prior years	**(431)**	107
	26,963	25,629
	11,994	21,102

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

	2018		2017	
Earnings before income taxes	**44,052**	**%**	77,853	%
Income taxes, at statutory rates	**11,894**	**27.0**	21,020	27.0
Part VI.I tax net of transfer benefit	**34**	**0.1**	33	–
Other	**66**	**0.1**	49	0.1
	11,994	**27.2**	21,102	27.1

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	95,980	13,451	(3,793)	835	106,473
Charge (credit) to earnings	22,940	2,662	(161)	188	25,629
Charge to other comprehensive income	–	–	(121)	–	(121)
Other	–	–	–	10	10
December 31, 2017	118,920	16,113	(4,075)	1,033	131,991
Charge (credit) to earnings	**27,135**	**–**	**208**	**(380)**	**26,963**
Credit to other comprehensive income	**–**	**–**	**143**	**–**	**143**
December 31, 2018	**146,055**	**16,113**	**(3,724)**	**653**	**159,097**

ATCO Pipelines 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
Natural gas and fuel in storage	**7,103**	8,614
Raw materials and consumables	**1,153**	853
	8,256	9,467

For the year ended December 31 2018, inventories recognized as an expense were $2.1 million (2017 - $1.3 million).

10. PROPERTY, PLANT AND EQUIPMENT

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

	Utility Transmission	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost					
December 31, 2016	1,896,358	5,715	148,342	58,780	2,109,195
Additions	–	–	286,572	1,488	288,060
Transfers	335,160	–	(346,256)	11,096	–
Retirements and disposals	(50,097)	–	–	(1,874)	(51,971)
Transfer to affiliate	(9,353)	–	–	348	(9,005)
December 31, 2017	2,172,068	5,715	88,658	69,838	2,336,279
Additions	**–**	**–**	**211,724**	**–**	**211,724**
Transfers	**197,648**	**–**	**(203,632)**	**5,984**	**–**
Retirements and disposals	**(13,609)**	**–**	**–**	**(162)**	**(13,771)**
Transfer to affiliate	**–**	**–**	**–**	**26**	**26**
December 31 2018	**2,356,107**	**5,715**	**96,750**	**75,686**	**2,534,258**
Accumulated depreciation					
December 31, 2016	548,480	–	–	20,199	568,679
Depreciation	49,332	–	–	4,226	53,558
Retirements and disposals	(50,097)	–	–	(1,874)	(51,971)
Transfer to affiliate	(2,260)	–	–	148	(2,112)
December 31, 2017	545,455	–	–	22,699	568,154
Depreciation	**55,239**	**–**	**–**	**4,583**	**59,822**
Retirements and disposals	**(13,609)**	**–**	**–**	**(162)**	**(13,771)**
Transfer to affiliate	**–**	**–**	**–**	**(7)**	**(7)**
December 31 2018	**587,085**	**–**	**–**	**27,113**	**614,198**
Net book value					
December 31, 2017	1,626,613	5,715	88,658	47,139	1,768,125
December 31, 2018	**1,769,022**	**5,715**	**96,750**	**48,573**	**1,920,060**

The additions to property, plant and equipment included $4.9 million of interest capitalized during construction for the year ended December 31 2018 (2017 - $6.3 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	22,109	89,899	3,688	115,696
Additions	490	8,699	–	9,189
Disposals	(8,902)	(769)	–	(9,671)
December 31, 2017	13,697	97,829	3,688	115,214
Additions	**17,576**	**10,891**	–	**28,467**
Disposals	**(2,038)**	–	–	**(2,038)**
December 31 2018	**29,235**	**108,720**	**3,688**	**141,643**
Accumulated amortization				
December 31, 2016	14,082	12,801	1,714	28,597
Amortization	1,895	1,191	78	3,164
Disposals	(8,902)	(670)	–	(9,572)
December 31, 2017	7,075	13,322	1,792	22,189
Amortization	**1,328**	**1,382**	**78**	**2,788**
Disposals	**(1,407)**	–	–	**(1,407)**
December 31 2018	**6,996**	**14,704**	**1,870**	**23,570**
Net book value				
December 31, 2017	6,622	84,507	1,896	93,025
December 31 2018	**22,239**	**94,016**	**1,818**	**118,073**

12. LONG-TERM DEBT

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

	Effective Interest Rate	2018	2017
Debentures - unsecured	4.900% (2017 - 5.002%)	**1,130,730**	1,010,730
(interest is the average effective interest rate weighted by principal amounts outstanding)			
Less: deferred financing charges		**(6,150)**	(5,463)
		1,124,580	1,005,267
Less: amounts due within one year		**(70,000)**	–
		1,054,580	1,005,267

Debenture issuances

During 2018, ATCO Pipelines issued $120 million of 3.95 per cent debentures maturing on November 23, 2048 (2017 - $155 million of 3.548 per cent debentures maturing on November 22, 2047).

13. RETIREMENT BENEFITS

ATCO Pipelines, 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 the ATCO Pipelines' 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	**2,256**	**479**	3,074	483
Defined contribution plans cost	**1,939**	**–**	2,092	–
Total cost	**4,195**	**479**	5,166	483
Less: Capitalized	**2,265**	**259**	2,738	256
Net cost recognized	**1,930**	**220**	2,428	227
Accrued benefit obligations				
Beginning of year	6,300	8,724	5,606	8,439
Defined benefit plan cost	**2,256**	**479**	3,074	483
Benefit payments	**(416)**	**(204)**	(392)	(284)
Contributions to defined benefit plans	**(1,754)**	**–**	(2,351)	–
Actuarial (gains) losses	**(176)**	**(353)**	363	86
End of year	**6,210**	**8,646**	6,300	8,724

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 (4)	**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 Pipelines 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 $1.8 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2020.

14. 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	**20,830**	21,599
Other accounts receivable	**1,267**	1,363
	22,097	22,962

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	**6,424**	6,143

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

	Trade accounts receivable and contract assets
December 31, 2016	20,429
Revenue from satisfied performance obligations	259,699
Payments received	(258,529)
December 31, 2017	21,599
Revenue from satisfied performance obligations	**248,083**
Other items not included in revenue	**15**
Payments received	**(248,867)**
December 31, 2018	**20,830**

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	141,199	131,667
Receipt of customer contributions	**6,140**	12,788
Amortization	**(3,373)**	(3,256)
End of year	**143,966**	141,199

15. 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	**800,000**	**20,000**	800,000	20,000
2.243% Series 4 (1)	**180,000**	**4,500**	180,000	4,500
Issuance costs		**(406)**		(406)
		24,094		24,094

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 Pipelines 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)	**465,578**	**11,640**	465,578	11,640
Issuance costs		**(8)**		(8)
		11,632		11,632

(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 Pipelines at anytime, 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	**0.5608**	0.5608
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 Pipelines and other factors.

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

16. 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, 2017 and 2018	**1,448,849**	**42,315**	**908,720**	**32,911**	**2,357,569**	**75,226**

Class A and B shares have no par value.

The Company declared and paid cash dividends of $1.70 per Class A non-voting share and Class B common share during 2018 (2017 - nil). The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

TRANSFER OF CAPITAL FROM ATCO GAS

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

17. 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	**62,541**	56,120
Income taxes	**11,994**	21,102
Contributions by utility customers for extensions to plant	**6,140**	12,788
Amortization of customer contributions	**(3,373)**	(3,256)
Net finance costs	**45,624**	38,759
Income taxes recovered	**3,805**	2,143
Other	**88**	(609)
	126,819	127,047

CHANGES IN NON-CASH WORKING CAPITAL

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

	2018	2017
Operating activities		
Accounts receivable	**1,277**	(2,533)
Accounts receivable from parent and affiliate companies	**(281)**	1,056
Inventories	**1,480**	774
Prepaid expenses and other current assets	**2,021**	(175)
Accounts payable and accrued liabilities	**3,734**	(521)
Accounts payable to parent and affiliate companies	**1,485**	3,111
Other	**745**	10
	10,461	1,722
Investing activities		
Accounts Receivable	**(412)**	–
Inventories	**(269)**	(202)
Prepaid expenses	**(1,813)**	–
Accounts payable and accrued liabilities	**(35,245)**	4,899
	(37,739)	4,697

CASH POSITION

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

	2018	2017
Cash	**–**	15,261
Bank indebtedness	**(1,649)**	–
Short-term advances from parent company *(Note 24)*	**(22,000)**	–
	(23,649)	15,261

18. 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	
Cash, accounts receivable and contract assets, accounts receivable from parent and affiliate companies, bank indebtedness, short-term advances from parent company, 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 the ATCO Pipelines' current borrowing rate for similar borrowing arrangements (Level 2).

The fair values of the ATCO Pipelines' long-term debt at December 31 are as follows:

			2018		2017
Recurring Measurements	Note	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities					
Long-term debt	12	**1,124,580**	**1,192,793**	1,005,267	1,139,355

19. RISK MANAGEMENT

FINANCIAL RISKS

ATCO Pipelines is exposed to a variety of risks associated with the use of financial instruments: credit risk and liquidity risk. Its Board is responsible for understanding the principal risks of ATCO Pipelines' 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 Pipelines. The Board reviews significant risks associated with future performance, growth and lost opportunities identified by management that could materially affect ATCO Pipelines' 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 counterparty's inability to discharge their contractual obligations to ATCO Pipelines. It is exposed to credit risk on its cash, 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 consolidated balance sheet.

The Company manages its credit risk on cash by investing in instruments issued by credit-worthy financial institutions and in short-term instruments issued by the federal government.

ATCO Pipelines has a concentration of credit risk with a single counterparty. This risk is minimized as the counterparty is NOVA Gas Transmission Ltd., a subsidiary of TransCanada, which is a large, credit-worthy counterparty.

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days, where the Company believes there is a high probability of a customer default, additional credit allowances are recorded. At December 31, 2018 and 2017, the expected credit loss allowance was less than $1 million.

LIQUIDITY RISK

Liquidity risk is the risk that ATCO Pipelines 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 Pipelines' general funding needs and in the management of its assets, liabilities and capital structure. Cash flow from operations provides a substantial portion of ATCO Pipelines' 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 Pipelines has a line of credit available of $5.0 million (2017 - $5.0 million). The credit line enables it 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 Pipelines' financial liabilities based on the contractual undiscounted cash flows.

	2019	2020	2021	2022	2023	2024 and thereafter
Accounts payable and accrued liabilities	34,787	–	–	–	–	–
Accounts payable to parent and affiliate companies	17,320	–	–	–	–	–
Long-term debt:						
Principal	70,000	11,262	39,000	13,197	16,371	980,900
Interest expense	50,419	47,954	46,542	43,886	42,531	850,786
	172,526	59,216	85,542	57,083	58,902	1,831,686

20. CAPITAL DISCLOSURES

ATCO Pipelines' 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 Pipelines.
In August 2018, ATCO Pipelines received the 2018 Generic Cost of Capital decision. The decision established a common equity ratio of 37.0 per cent for 2018, 2019 and 2020.

ATCO Pipelines 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 4 and 25), in its determination of capitalization. In maintaining or adjusting its capital structure, ATCO Pipelines 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.

21. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

SIGNIFICANT ACCOUNTING JUDGMENTS

Impairment of long-lived assets

Indicators of impairment are considered when evaluating whether or not an asset is impaired. Factors which could indicate an impairment exists include: significant underperformance relative to historical or projected operating results, significant changes in the way in which an asset is used or in ATCO Pipelines' 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 Pipelines 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 Pipelines makes judgments to: assess the nature of the costs to be capitalized and the time period over which they are capitalized in the purchase or construction of an asset; evaluate the appropriate level of componentization where an asset is made up of individual components for which different depreciation and amortization methods and useful lives are appropriate; distinguish major overhauls to be capitalized from repair and maintenance activities to be expensed; and determine the useful lives over which assets are depreciated and amortized.

Income taxes

ATCO Pipelines 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

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 Pipelines continually monitors its long-lived assets and the markets and business environment in which it operates for indications of asset impairment. Where necessary, ATCO Pipelines 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 Pipelines, 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 13.

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.

22. CONTINGENCIES

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

23. COMMITMENTS

In addition to commitments disclosed elsewhere in the financial statements, ATCO Pipelines has entered into a number of operating leases and an agreement for information technology services. Approximate future undiscounted payments under these agreements are as follows:

	2019	2020	2021	2022	2023	2024 and thereafter
Operating leases (1)	570	570	427	–	–	–
Purchase obligations:						
Information technology services	4,197	4,197	4,197	4,197	4,197	4,197
	4,767	4,767	4,624	4,197	4,197	4,197

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

24. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH RELATED PARTIES

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

Entity	Relationship	Transaction	Recorded As	2018	2017
ATCO Ltd. / CUL / CU Inc.	Parent	Interest on long-term advances	Interest Expense	**49,543**	44,174
		Administrative services, rent and aircraft	Other expenses	**9,059**	5,234
		Administrative services, rent and aircraft	Property, plant and equipment	**2,849**	458
		Licensing fees	Other expenses	**896**	617
ATCO Gas	Division of AGPL	Engineering services, mechanical services, communications operations, office services, operations	Other expenses	**5**	32
		Engineering services, mechanical services, communications operations, office services, operations	Plant and equipment maintenance	**1,058**	1,199
		Contract services, net of asset transfers	Revenues	**4,425**	2,970
		Engineering and construction services	Property, plant and equipment	**5,998**	6,938
		Transfer of assets	Property, plant and equipment	**7**	4,033

Entity	Relationship	Transaction	Recorded As	2018	2017
ATCO Electric	Affiliate	Contract services	Revenues	**68**	24
		Contract services	Other expenses	**136**	113
		Contract services	Plant and equipment maintenance	**12**	19
		Transfer of assets	Property, plant and equipment	**15**	215
ATCO Energy Solutions Ltd.	Affiliate	Contract services	Revenues	**692**	2,389
		Salt cavern gas purchase	Other expenses	**25**	25
ATCO Power	Affiliate	Contract services	Revenues	**5**	—
ATCO Structures and Logistics Ltd.	Affiliate	Contract services	Other Expenses	**19**	—
ATCO Pipelines S.A. de C.V.	Affiliate	Contract services	Revenues	**355**	472
ABD Consulting S.A. de C.V.	Affiliate	Contract services	Other expenses	**—**	6
IEIE S.A. de C.V.	Affiliate	Contract services	Revenues	**161**	242
ATCO Energy Ltd	Affiliate	Contract services	Revenues	**—**	4
		Contract services	Other expenses	**9**	14
		Distribution service costs	Other expenses	**1,628**	1,422
ATCO Investments Ltd.	Affiliate	Rent	Other expenses	**—**	38

Affiliate companies are subsidiaries of ATCO Pipeline's parent or ultimate parent.

ATCO Pipelines incurred $0.1 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.

RELATED PARTY LOANS AND BALANCES

Balances	Recorded As	2018	2017
Receivables from related parties (1)	Accounts receivable from parent company	**6,424**	6,143
Payables to related parties (1)	Accounts payable to parent company	**17,320**	15,242
Short-term advances (2)	Short-term advances from parent company	**22,000**	–
Long-term advances *(Note 12)*	Long-term debt	**1,124,580**	1,005,267
Equity preferred shares *(Note 15)*	Equity preferred shares	**35,726**	35,726

(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.

25. ACCOUNTING POLICIES

RATE REGULATION

Nature and economic effects of rate regulation

ATCO Pipelines is regulated by the Alberta Utilities Commission ("AUC") and is subject to a cost of service regulatory mechanism under which the regulator establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

Rate base for ATCO Pipelines is the aggregate of the regulator approved investment in property, plant and equipment and intangible assets, less accumulated depreciation and amortization, reserves for future removal and site restoration, and unamortized contributions by utility customers for extensions to plant, plus an allowance for working capital. ATCO Pipelines earns a return on rate base intended to meet the cost of the debt and preferred share components of rate base and to provide share owners with a fair return on the common equity component of rate base.

The AUC approves rates of return for the debt and preferred share components of rate base based on the historical and forecast weighted average cost of the ATCO Pipelines' debt and preferred shares and establishes the capital structure for ATCO Pipelines.

Under the cost of service methodology, ATCO Pipelines seeks approval for its revenue requirement either through submission of general rate applications to the AUC or a negotiated settlement process with interested parties. In the latter case, the AUC monitors the negotiated settlement process and any agreement that is reached is subject to the AUC's approval. The AUC may approve interim rates or approve the recovery of costs on a placeholder basis, subject to final determination.

Financial statement effects of rate regulation

In the absence of a rate-regulated standard under IFRS that ATCO Pipelines is eligible to adopt, ATCO Pipelines does not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, ATCO Pipelines 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, ATCO Pipelines recognizes revenue equal to what it has the right to invoice.

Where ATCO Pipelines 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 ATCO Pipelines' 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 transmission

Revenue from natural gas transmission services is recognized when service is provided to customers and is measured in proportion to the amount it has the right to invoice under the contract.

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 the utilities in Canada for the exclusive right to provide service in their community. These costs are charged to customers through rates approved by the regulator. Franchise fees do not represent a separate performance obligation to a customer and are recovered through utility transmission and distribution prices. The recovery is part of the provision of continuous electricity and natural gas transmission and distribution service performance obligation. Franchise fees invoiced to customers are recognized as revenues.

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 Pipelines can no longer withdraw the offer of those benefits and when it 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 Pipelines 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.

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 Pipelines 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 Pipelines 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 transmission equipment	3 to 80 years	41 years	2.5%
Other plant, equipment and machinery	7 to 31 years	15 years	6.3%

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 Pipelines amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and between 74 and 80 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 Pipelines 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 Pipelines. 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 Pipelines classifies financial assets when they are first recognized as amortized cost or fair value through profit or loss. Classification is determined based on ATCO Pipelines' 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 Pipelines' 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 Pipelines 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 Pipelines has transferred substantially all the risks and rewards of ownership.

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

Fair value hierarchy

ATCO Pipelines 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 Pipelines 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 Pipelines and recognizing the disposal of an asset on the day it is delivered by ATCO Pipelines. Any gain or loss on disposal is also recognized on that day.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

At each reporting date, ATCO Pipelines 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 Pipelines 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 Pipelines estimates credit loss allowances at initial recognition and throughout the life of the receivable.

RETIREMENT BENEFITS

ATCO Pipelines 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 Pipelines 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, 2017.

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 Pipelines does not have any liability to the Group Plan other than its minimum funding requirements. 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 Pipelines 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 Pipelines 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 Pipelines, 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 Pipelines 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.

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are translated at the exchange rate on the date of the transaction.

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 Pipelines 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 Pipelines is in the process of finalizing its calculations using the modified retrospective approach effective January 1, 2019, without restatement of comparative information. The Company 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 Pipelines.	Effective for annual periods on or after January 1, 2019.