ATCO

May 15, 2020

Alberta Utilities Commission
10055 – 106 Street
Edmonton, Alberta T5J 2Y2

Attention: Executive Director, Rates Division

Dear Sir/Madam:

Re: ATCO Gas
AUC Rule 005
Annual Reporting of Financial and Operational Results

In accordance with the Alberta Utilities Commission Rule 005, please find enclosed the 2019 Annual Reporting of Financial and Operational Results for ATCO Gas.

Please contact the undersigned at (780) 420-7725 if you have any questions regarding this filing.

Yours truly,

Jacqueline Smith, CPA, CMA
Director, Regulatory

ATCO Gas
SUMMARY OF REVENUE REQUIREMENT
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2018 vs. 2017 (Normalized where applicable) #	%
1	Return on Rate Base	Sch. 2 / 10	191,285	195,683	4,398	2.30%
2	Operating and Maintenance Expense	Sch. 3	385,463	415,937	30,474	7.91%
3	Depreciation & Amortization Expense	Sch. 4 / 10	172,777	171,557	(1,220)	(0.71%)
4	Income Taxes	Sch. 5 / 10	18,327	21,780	3,453	18.84%
5	Property and Other Tax Expense		577	602	25	4.33%
6	Sub Total Utility Revenue Requirement		768,429	805,559	37,130	4.83%
7	Flow Through Expenses	Sch. 6 / 10	180,958	203,975	23,017	12.72%
8	**Total Utility Revenue Requirement**	Sch. 6 / 10	**949,387**	**1,009,534**	**60,147**	**6.34%**
	Detailed Revenue					
9	Rate Revenue	Sch. 6	716,271	824,133	107,862	15.06%
10	Franchise Fee Revenue	Sch. 6 / 10	180,958	203,975	23,017	12.72%
11	Interim Rates and AUC Decisions	Sch. 6	29,413	(41,868)	(71,281)	(242.35%)
12	Other Revenue	Sch. 6	22,745	23,294	549	2.41%
13	**Utility Revenue**	Sch. 6 / 10	**949,387**	**1,009,534**	**60,147**	**6.34%**

Guidelines:

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

Variance Explanations

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

ATCO Gas
SUMMARY OF RETURN ON RATE BASE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross Ref.	Actual Current Year End	Actual Previous Year End	Actual Mid-Year Capital	Deemed Ratio	Prorated Rate Base	Cost Rate %	Return $
1	Debt	Sch. 2.3	1,695,464	1,688,700	1,692,082	59.72%	1,629,063	4.86%	79,136
2	Preferred Shares	Sch. 2.4	89,561	89,561	89,561	3.28%	89,561	3.77%	3,377
3	Common Equity		1,045,964	1,027,187	1,036,575	37.00%	1,009,353	11.21%	113,170
4	Mid-Year Invested Capital		2,830,989	2,805,448	2,818,218	100.00%	2,727,977	7.17%	
5	Return on Rate Base	Sch. 1 / 10							195,683
6	No Cost Capital						701		
7	Total Mid-year Rate Base	Sch. 2.1					2,728,678		
8	Return on Common Equity	Line 3						11.21%	113,170
9	Less ECM Earnings							(0.47%)	(4,709)
10	Adjusted ROE[1]							10.75%	108,461

Guidelines:

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

(2) Provide the breakdown of the items making up the difference (including disallowed items etc.).

(3) Common equity is based on the approved equity ratio.

(4) Please complete these schedules using the approved deemed capital structure.

(5) The cost rate for the common equity should be inferred from the return and prorated rate base of common equity.

Note

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

SCHEDULE 2.1

ATCO Gas

SUMMARY OF MID-YEAR RATE BASE

FOR THE YEAR ENDED DECEMBER 31, 2019

($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
	Property, Plant and Equipment					
1	Opening Balance		4,927,586	5,188,401	260,815	5.29%
2	Additions	Sch. 4.1 / 4.2	291,387	295,007	3,620	1.24%
3	Retirements	Sch. 4.1	(30,705)	(35,383)	(4,678)	15.24%
4	Adjustments	Sch. 4.1	133	2,318	2,185	1642.67%
5	Closing Balance	Sch. 4.1	5,188,401	5,450,343	261,942	5.05%
6	**Mid-Year PPE**		5,057,994	5,319,372	261,379	5.17%
	Accumulated Depreciation					
7	Opening Balance		1,769,729	1,908,069	138,340	7.82%
8	Depreciation Expense	Sch. 4	177,665	186,011	8,346	4.70%
9	Retirements	Sch. 4.1	(30,656)	(35,372)	(4,716)	15.38%
10	Proceeds from Disposals of Capitalized Assets	Sch. 4.1	1,974	3,070	1,096	55.53%
11	Removal, Depreciation Capitalized and Other Transfers		(10,643)	(12,903)	(2,260)	21.23%
12	Closing Balance	Sch. 4.1	1,908,069	2,048,876	140,807	7.38%
13	**Mid-Year Accumulated Depreciation**		1,838,899	1,978,473	139,574	7.59%
14	Construction Work in Progress (CWIP) - Mid-Year		(76,080)	(85,493)	(9,413)	12.37%
15	Assets Not In Rate Base - Mid-Year		(4,478)	(8,487)	(4,009)	89.53%
16	Transfers and Other Adjustments - Mid Year		(374)	-	374	(100.00%)
	Contributions in Aid of Construction					
17	Opening Balance	Sch. 4.1	(718,346)	(744,732)	(26,386)	3.67%
18	Closing Balance	Sch. 4.1	(744,732)	(768,566)	(23,834)	3.20%
19	**Mid-Year Contributions in Aid of Construction**		(731,539)	(756,649)	(25,110)	3.43%
	Amortization of Contributions					
20	Opening Balance	Sch. 4.1	210,520	221,484	10,964	5.21%
21	Closing Balance	Sch. 4.1	221,484	234,799	13,315	6.01%
22	**Mid-Year Amortization of Contributions**		216,002	228,142	12,140	5.62%
23	**Mid-Year Utility Plant in Service**		2,622,626	2,718,413	95,787	3.65%
	Necessary Working Capital					
24	Cash Expenses		5,392	(1,875)	(7,267)	(134.77%)
25	Materials and Supplies		2,941	3,429	488	16.59%
26	Prepayments and Deferrals		2,357	3,342	985	41.79%
27	Financial Items		6,711	6,234	(477)	(7.11%)
28	Goods and Services Tax (GST)		(777)	(865)	(88)	11.33%
			16,624	10,265	(6,359)	(38.25%)
29	**Mid Year Rate Base**	Sch. 2	**2,639,250**	**2,728,678**	**89,428**	**3.39%**

Guidelines:

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

Variance Explanations

Cross-Ref	
2	**Additions** see Schedule 4.2.
3/9	**Retirements** are higher than prior year mainly due to an increase in retirements from leasehold improvements and meters, partially offset by lower retirements in the Mains Replacement Programs.
4	**Adjustments and Transfers** are higher than prior year mainly due to asset transfers from ATCO Pipelines for the Urban Pipelines Replacement (UPR) Program from 2019.
8	**Depreciation Expense** refer to Schedule 4.0 for deviations from prior year.
10	**Proceeds from Disposals of Capital Assets** are higher than prior year mainly due to higher proceeds on meter retirements in 2019.
11	**Removal, Depreciation Capitalized and Other Transfers** is higher than prior year mainly due to an increase in removal costs in the Regulating Station Improvements and Line Heater Replacement programs, partially offset by the accumulated depreciation that was transfered from ATCO Pipelines for the Urban Pipelines Replacement (UPR) Program from 2019.
14	**Construction Work in Progress (CWIP)** is higher than prior year primarily due to higher CWIP in Transportation and Heavy Work Equipment, Emergency Supply and IT projects.
15	**Assets Not In Rate Base** are higher mainly due to the reclassification of assets to non-utility as a result of the disallowed information technology costs per Decision 20514-D02-2019.
24	**Cash expenses** are lower mainly due to a decrease in income tax installments.

ATCO Gas

SUMMARY OF DEGREE DAYS, YEAR END CUSTOMERS AND THROUGHPUT

FOR THE YEAR ENDED DECEMBER 31, 2019

Line No.	Description	2018 Actual	2019 Actual	2019 Forecast	Variance 2019 Actual vs. Forecast #	Variance 2019 Actual vs. Forecast %	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
1	10 Year Average Normal Degree Days	4,141	4,141	4,141	-	-	-	-
	Number of Year End Customers							
2	Residential	1,117,109	1,131,342	1,134,600	(3,258)	(0.29%)	14,233	1.27%
3	Commercial	99,363	100,698	100,758	(60)	(0.06%)	1,335	1.34%
4	Industrial	344	346	347	(1)	(0.29%)	2	0.58%
5	Irrigation	3	7	3	4	133.33%	4	133.33%
6	Total Customers	1,216,819	1,232,393	1,235,708	(3,315)	(0.27%)	15,574	1.28%
	Normalized Throughput - TJs							
7	Residential	123,237	125,923	125,985	(62)	(0.05%)	2,686	2.18%
8	Commercial	127,302	130,629	128,962	1,667	1.29%	3,327	2.61%
9	Industrial	13,913	13,688	13,450	238	1.77%	(225)	(1.62%)
10	Irrigation	289	265	264	1	0.38%	(24)	(8.30%)
11	Total Normalized Throughput	264,741	270,505	268,661	1,844	0.69%	5,764	2.18%

Note:
The 2018 throughput is normalized based on the ten year average temperatures ending 2017.
The 2019 throughput is normalized based on the ten year average temperatures ending 2017.
The 2019 customers and throughput forecasts are based on AUC Decision 23894-D01-2018.

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

ATCO Gas
SCHEDULE OF DEBT CAPITAL EMPLOYED
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

2019 Actual

Line No.	Cross-Reference	Description	Series	Issue Date	Maturity Date	Coupon Rate	Principal Amount	Underwriting Discount & Expense	Total Amount	Effective Cost Rate %	Principal Outstanding at Year-End	Carrying Cost	Average Embedded Cost Rate
1		A	11.770%	90/11/28	2020	11.770%	23,738	(26)	23,712	11.904%	23,712	2,823	
2		B	9.920%	91/12/18	2022	9.920%	26,803	(81)	26,722	10.070%	26,722	2,691	
3		C	9.400%	92/12/08	2023	9.400%	43,629	(135)	43,494	9.512%	43,494	4,137	
4		H	5.896%	04/11/18	2034	5.896%	57,000	(240)	56,760	5.940%	56,760	3,372	
5		I	5.183%	05/11/21	2035	5.183%	20,000	(93)	19,907	5.227%	19,907	1,041	
6		J	4.801%	06/11/20	2021	4.801%	20,000	(19)	19,981	4.857%	19,981	970	
7		K	5.032%	06/11/20	2036	5.032%	20,000	(90)	19,910	5.072%	19,910	1,010	
8		L	5.556%	07/11/30	2037	5.556%	65,000	(309)	64,691	5.597%	64,691	3,621	
9		M	5.563%	08/05/26	2028	5.563%	55,000	(203)	54,797	5.619%	54,797	3,079	
10		N	5.580%	08/05/26	2038	5.580%	95,000	(487)	94,513	5.625%	94,513	5,316	
11		O	4.543%	11/06/30	2041	4.543%	114,300	(608)	113,692	4.582%	113,692	5,209	
12		P	4.593%	11/06/30	2061	4.593%	45,700	(275)	45,425	4.626%	45,425	2,101	
13		Q	3.805%	12/09/10	2042	3.805%	97,000	(524)	96,476	3.841%	96,476	3,706	
14		R	3.825%	12/09/11	2062	3.825%	39,000	(239)	38,761	3.854%	38,761	1,494	
15		S	4.722%	13/09/09	2043	4.722%	70,000	(403)	69,597	4.763%	69,597	3,315	
16		T	4.085%	14/09/09	2044	4.085%	130,000	(727)	129,273	4.122%	129,273	5,329	
17		U	3.964%	15/07/27	2045	3.964%	90,000	(565)	89,435	4.004%	89,435	3,581	
18		V	4.211%	15/10/30	2055	4.211%	45,000	(296)	44,704	4.246%	44,704	1,898	
19		X	3.763%	16/11/16	2046	3.763%	140,000	(934)	139,066	3.803%	139,066	5,289	
20		Y	3.548%	17/11/22	2047	3.548%	145,000	(972)	144,028	3.587%	144,028	5,166	
21		Z	3.950%	18/11/21	2048	3.950%	130,000	(904)	129,096	3.988%	129,096	5,148	
22		AA	2.963%	19/09/05	2049	2.963%	233,000	(1,576)	231,424	2.996%	231,424	6,933	
23	Sch. 11	**Current Year-End Balance**					**1,705,170**	**(9,706)**	**1,695,464**		**1,695,464**	**77,229**	**4.56%**
24		Prior Year-End Balance									**1,688,700**	**84,276**	4.99%
25		**Mid-Year Balance**									**1,692,082**	**80,753**	**4.77%**
26		Mid-Year Short Term Debt									-	-	2.25%
27		Bank Charges and Financing									-	1,444	
28		**Mid-Year Balance**									**1,692,082**	**82,197**	**4.86%**
29		Adjustment for Deemed Debt									(63,019)	(3,061)	4.86%
30	Sch. 2	**Deemed Debt**									**1,629,063**	**79,136**	**4.86%**

Guidelines:

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

Note:
In accordance with Commission Direction 4 in Decision 22570-D01-2018, the 2019 actual debt cost rate is 4.90%.

Variance Explanations

Cross-Ref	
22	Series AA- Issued debentures to finance the 2019 capital program and existing rate base.

ATCO Gas
SCHEDULE OF PREFERRED SHARE CAPITAL EMPLOYED
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

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

Guidelines:

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

(2) In any year where there is a new issue, provide a supporting schedule.

(3) Any differences between Forecast and Actual are to be explained in a supporting documentation.

Variance Explanations

N/A

SCHEDULE 2.5

ATCO Gas

RECONCILIATION

FOR THE YEAR ENDED DECEMBER 31, 2019

($000s)

Line No.		2019 Actual
1	Return on Mid-year rate base financed by common equity - Schedule 2.0	113,170
2	Return on book value of common equity - Schedule 10	112,329
3	**Difference**	**841**
	Reconciliation	
4	Common Equity Return of Mid-year rate base financed by common equity	**113,170**
5	Long-Term Debt - Schedule 2.0	79,136
6	Preferred Shares - Schedule 2.0	3,377
7	**Subtotal - Utility Income**	**195,683**
8	Interest and Other Expense	(77,339)
9	Preferred Dividend Requirement	(3,377)
10	AFUDC	5,096
11	Other Income (Expense)	(3,351)
12	Non-Utility Revenue net Expense	(6,886)
13	Income Tax Differences	2,503
14	**Return on book value of common equity as per financial statements**	**112,329**

Guidelines:

(1) Please identify key areas creating the difference between the financial return and the regulated utility return contained in these spreadsheets.

(2) As a rule of thumb, five to six main points causing the variance is recommended but the utilities explanation is not limited to that number.

ATCO Gas

SUMMARY OF OPERATING AND MAINTENANCE EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2019

($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
	Operating & Maintenance Expense					
1	Gas Management		703	641	(62)	(8.83%)
2	Transmission		178,317	196,836	18,519	10.39%
3	Distribution		99,473	108,605	9,132	9.18%
4	General		9,307	9,296	(11)	(0.12%)
5	Sales and Transportation Promotion		5,664	7,220	1,556	27.48%
6	Customer Accounting		22,943	21,217	(1,726)	(7.52%)
7	Administration and General		79,540	88,534	8,994	11.31%
8	**Total Operating & Maintenance Expense**		395,947	432,349	36,402	9.19%
9	Less: Non-Utility O&M	Sch. 10	10,484	16,411	5,927	56.54%
10	**Operating & Maintenance Expense - Net**	Sch. 1	385,463	415,937	30,474	7.91%

Guidelines:

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

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

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

Variance Explanations

Cross - Ref	
2	**Transmission** costs are higher than prior year mainly due to an increase in rates.
3	**Distribution** costs are higher than prior year mainly due to increased costs in work for affiliates, customer service, secondaries services, and operation maintenance services partially offset by a decrease in distribution support costs.
5	**Sales and Transportation Promotion** costs are higher than prior year mainly due to an increase in non-utility sales.
7	**Administration and General** costs are higher than prior year mainly due to an increase in technology costs and higher licence fees.
9	**Non-Utility O&M** costs are higher than prior year mainly due to an increase in non-utility sales, higher licence fees and disallowed information technology costs.

ATCO Gas
SUMMARY OF DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
	Depreciation Expense					
1	Distribution Plant		152,996	161,005	8,009	5.23%
2	General Plant		40,096	29,714	(10,382)	(25.89%)
3	Sub-total	Sch. 4.1	193,092	190,718	(2,374)	(1.23%)
4	Less: Capitalized Depreciation		(4,680)	(4,707)	(27)	0.58%
5	Sub-total	Sch. 2.1	188,412	186,011	(2,401)	(1.27%)
6	**Amortization of Contributions**	Sch. 4.1	(14,920)	(15,395)	(475)	3.18%
	Other					
7	Production Abandonments		1,400	1,400	-	-
	Non-Utility Items					
8	Non-Utility Items		(2,115)	(459)	1,656	(78.28%)
9	**Total Utility Depreciation Expense**	Sch. 1 / 10	**172,777**	**171,557**	**(1,220)**	**(0.71%)**

Guidelines:

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

Variance Explanations

Cross-Ref	
1	**Distribution Plant** is higher than the prior year due to a higher opening depreciable base as well as an increase in depreciation resulting from 2019 capital additions.
2	**General Plant** depreciation is lower than prior year due to the impairment of software programs in 2018.
8	**Non-Utility Items** depreciation is lower than the prior year due to the impairment of software programs in 2018.

SCHEDULE 4.1

ATCO Gas
CAPITAL ASSETS CONTINUITY SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

CAPITAL ASSETS

Line No.	Property Group	Cross-Reference	Balance at '12/31/2018	2019 Additions	2019 Retirements	2019 Transfers	2019 Adjustments	Balance at '12/31/2019
	Distribution							
1	Land		7,268	89	-	-	-	7,358
2	Land Rights		31,074	3,088	-	(272)	-	33,890
3	Structures & Improvements		52,525	3,137	399	14	-	55,278
4	Services & Alterations		1,505,179	70,907	2,644	-	-	1,573,442
5	Regulators & Meters		472,303	19,031	1,123	(1,700)	-	488,511
6	Mains		1,999,222	100,525	4,979	2,127	-	2,096,895
7	Measurement & Regulating Equipment		182,705	20,487	1,290	420	-	202,321
8	Meters		235,716	21,068	8,443	1,467	-	249,808
9	Renewable Energy		3,870	-	-	-	-	3,870
10	**Distribution**		4,489,863	238,332	18,878	2,055	-	4,711,372
	General Plant & Equipment							
11	Franchises		1,258	-	-	-	-	1,258
12	Land		18,405	1	3	-	-	18,403
13	Structures		138,572	4,957	244	-	-	143,285
14	Interco Contributions		242	-	-	-	-	242
15	**General Plant & Equipment**		158,477	4,958	247	-	-	163,188
	Moveable Equipment							
16	Office Furniture & Equipment		19,179	1,375	249	-	-	20,305
17	Transportation Equipment		86,270	5,205	2,593	-	-	88,883
18	Heavy Work Equipment		27,214	452	1,798	-	-	25,869
19	Tools & Work Equipment		27,781	3,620	2,134	-	-	29,266
20	Cogeneration Equipment		4,024	-	-	-	-	4,024
21	Communication Equipment		36,675	1,950	1,189	(111)	-	37,325
22	Stores & Shop and Lab Equipment		18,076	2,924	369	-	-	20,631
23	Leasehold Improvements		23,681	1,339	7,772	-	-	17,248
24	Electronic Data Processing Equipment		6,746	1,854	-	1,217	-	9,817
25	Base Maps		1,969	(1)	155	-	-	1,813
26	Software Development		211,368	14,038	-	(844)	-	224,562
27	**Moveable Equipment**		462,984	32,755	16,258	262	-	479,743
28	**Capital Work in Progress (CWIP)**		77,078	18,962	-	-	-	96,040
29	**Total Capital Assets**	Sch. 2.1 / 4.2	**5,188,401**	**295,007**	**35,383**	**2,318**	**-**	**5,450,343**
30	**Non Utility Assets**		16,310	8	419	38	-	**15,937**
31	**Total Utility Capital Assets**		**5,172,091**	**294,999**	**34,964**	**2,280**	**-**	**5,434,406**
	Contributions							
32	Utility		742,452	26,563	2,324	245	-	766,936
33	Non Utility		1,422	-	-	-	-	1,422
34	Contributions Work in Progress (KWIP)		858	(649)	-	-	-	209
35	**Total Contributions**	Sch 2.1	**744,732**	**25,914**	**2,324**	**245**	**-**	**768,566**

SCHEDULE 4.1

ATCO Gas
CAPITAL ASSETS CONTINUITY SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

ACCUMULATED DEPRECIATION

Line No.	Property Group	Cross-Reference	Balance at '12/31/2018	Depreciation Provision	2019 Retirements	2019 Removals	2019 Salvage	2019 Adjustments	Balance at '12/31/2019
	Distribution								
1	Land		-	-	-	-	-	-	-
2	Land Rights		3,663	324	-	-	-	(27)	3,959
3	Structures & Improvements		11,670	1,372	399	380	-	14	12,278
4	Services & Alterations		623,169	62,479	2,644	5,440	-	-	677,564
5	Regulators & Meters		171,640	14,626	1,123	73	-	(39)	185,031
6	Mains		596,714	57,325	4,979	4,986	40	2,127	646,240
7	Measurement & Regulating Equipment		74,177	7,367	1,290	1,298	-	206	79,163
8	Meters		79,448	17,337	8,443	(94)	2,367	3	90,807
9	Renewable Energy		931	174	-	-	-	-	1,105
10	**Distribution**		1,561,412	161,005	18,878	12,083	2,407	2,284	1,696,147
	General Plant & Equipment								
11	Franchises		844	125	-	-	-	-	968
12	Land		-	-	-	-	-	-	-
13	Structures & Improvements		54,093	4,872	244	237	86	-	58,571
14	**General Plant & Equipment**		54,937	4,997	244	237	86	-	59,539
	Moveable Equipment								
15	Office Furniture & Equipment		9,000	980	249	164	-	-	9,568
16	Transportation Equipment		42,803	5,656	2,584	20	270	0	46,124
17	Heavy Work Equipment		15,305	2,139	1,798	5	275	-	15,916
18	Tools & Work Equipment		10,151	1,836	2,134	-	33	-	9,885
19	Cogeneration Equipment		3,778	23	-	-	-	-	3,800
20	NAIT Fuel Cell		566	-	-	-	-	-	566
21	Communication Equipment		21,373	1,967	1,189	209	-	(14)	21,928
22	Stores, Shop & Lab Equipment		8,910	1,066	369	1	-	-	9,606
23	Electronic Data Processing Equipment		2,529	737	-	-	-	76	3,343
24	Base Maps		1,930	25	155	-	-	-	1,800
25	Leaseholds		19,447	659	7,772	82	-	-	12,252
26	Software Development		158,300	9,628	-	-	-	(29)	167,899
27	**Moveable Equipment**		294,092	24,717	16,250	481	577	34	302,688
28	**Retirements Work in Progress (RWIP)**		(2,372)	-	-	7,126	-	-	(9,498)
29	**Total Accumulated Depreciation**	Sch. 2.1 / 4	**1,908,069**	**190,718**	**35,372**	**19,927**	**3,070**	**2,318**	**2,048,876**
30	**Non Utility Assets**		**6,993**	491	419	-	0	27	7,092
35	**Total Non Utility Accumulated Depreciation**		**6,993**	**491**	**419**	**-**	**0**	**27**	**7,092**
36	**Total Utility Accumulated Depreciation**		**1,901,076**	**190,227**	**34,953**	**19,927**	**3,070**	**2,290**	**2,041,784**
	Contributions								
37	Utility		220,672	15,363	2,324	-	-	245	233,955
38	Non Utility		812	32	-	-	-	-	844
39	**Total Contributions**	Sch 2.1 / 4	**221,484**	**15,395**	**2,324**	**-**	**-**	**245**	**234,799**
40	**Net Property, Plant, and Equipment**	Sch. 11	**2,757,084**						**2,867,700**
41	**Net Property, Plant and Equipment (Non-Utility)**	Sch. 11	**(8,707)**						**(8,266)**
42	**Net Property, Plant, and Equipment (Utility)**	Sch. 11	**2,748,377**						**2,859,433**

Guidelines:

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

ATCO Gas

SUMMARY OF CAPITAL EXPENDITURES

FOR THE YEAR ENDED DECEMBER 31, 2019

($000s)

Line No.	Description	Cross-Reference	2018 Year End	2019 Year End	Variance 2019 vs. 2018	
	Distribution					
1	Extensions		40,004	35,931	(4,073)	(10.18%)
2	Services		38,593	32,168	(6,425)	(16.65%)
3	Meters, Regulators and Installations		34,544	42,097	7,553	21.86%
4	Improvements and MRRP		148,212	123,515	(24,697)	(16.66%)
5	Sub-Total		261,353	233,711	(27,642)	(10.58%)
	Land and Structures					
6	General		4,036	7,481	3,445	85.36%
	Moveable Equipment					
7	General		8,246	28,569	20,323	246.46%
8	Communication and Lab Equipment		889	2,424	1,535	172.72%
9	Software Development		20,147	21,043	896	4.45%
10	Renewable Energy		10	(2)	(12)	(118.10%)
11	Sub-Total		29,292	52,034	22,742	77.64%
12	Change in Inventory Spares		(748)	-	748	(100.00%)
13	Capital Expenditures (IFRS)		293,933	293,227		
14	IDC / AFUDC and Other IFRS Adjustments		(2,546)	1,781		
15	**Capital Expenditures**	Sch. 2.1 / 4.1	**291,387**	**295,007**	**3,620**	**1.24%**

Guidelines:

(1) Asset categories need to be identified by the individual utilities. However, they should show sufficient breakdown to allow for reasonable

(2) Please add line items as needed to give sufficient understanding of the main capital additions in the reporting year.

Variance Explanations

Cross-Ref	
1	**Extensions** expenditures were lower than prior year due to decreased demand for urban residential extensions and urban feeder mains.
2	**Services** expenditures were lower than prior year mainly due to the decreased demand for service installs.
3	**Meters, Regulators and Installations** expenditures were higher than prior year due to increased meter equipment replacement.
4	**Improvements and MRRP** expenditures were lower than prior year mainly due to lower expenditures in the Meter Relocation & Replacement, Steel Mains Replacement, and Urban Pipeline Relocation Programs.
6	**Land and Structures - General** expenditures were higher than prior year due to increased facility renovations and repairs.
7	**Moveable Equipment - General** expenditures were higher than prior year due to higher replacement of trailers, heavy equipment and vehicles.
8	**Communication and Lab Equipment** expenditures were higher than prior year due to increased replacement of communication equipment.

SCHEDULE 5

ATCO Gas

SUMMARY OF UTILITY INCOME TAX

FOR THE YEAR ENDED DECEMBER 31, 2019

($000s)

Line No.	Description	Cross-Reference	2018 Actual Federal	2018 Actual Provincial	2019 Actual Federal	2019 Actual Provincial
1	Net Income Before Tax		119,103	119,103	132,549	132,549
2	Total Flowthrough Differences		(63,297)	(63,072)	(81,574)	(81,377)
3	Total Deferred Differences		6,288	6,288	6,984	6,984
4	Total Differences		(57,009)	(56,784)	(74,590)	(74,393)
5	Taxable Income		62,094	62,319	57,959	58,156
6	Income Tax Rate		15%	12%	15.0%	11.5%
7	Current Tax Payable		9,314	7,478	8,694	6,688
8	Other (Prior Period Adjustments)		(833)	(666)	1,584	1,214
9	Other (Part VI.I Tax)		1,351	-	1,351	-
10	Current Income Tax		9,832	6,812	11,629	7,902
11	Deferred Tax		(943)	(755)	(1,048)	(803)
12	Deferred Tax (Prior Period Adjustments)		-	-	-	-
13	**Corporate Income Tax**	Sch. 10	**8,889**	**6,057**	**10,581**	**7,099**
14	**Income Tax Adjustments**					
15	Non-Utility/Impact of Decisions		1,878	1,503	2,321	1,779
16	Utility Income Tax	Sch. 1	**10,767**	**7,560**	12,902	8,878
17	**Total Federal & Provincial (Utility)**	Sch. 1/10		**18,327**		**21,780**

Line No.	Description	Federal Actual 2019 vs 2018 $	Federal Actual 2019 vs 2018 %	Provincial Actual 2019 vs 2018 $	Provincial Actual 2019 vs 2018 %
18	**Utility Income Tax**	2,135	19.83%	1,318	17.43%

Guidelines:

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

Other Information

ATCO Gas uses a flowthrough tax methodology.
In accordance with Commission Direction 2 in Decision 22570-D01-2018, the unfunded FIT liability is $247.3M for 2019 and $272.5M for 2018, year-over-year change of $(25.2)M which reflects the decrease in the provincial income tax rate.

Variance Explanations

Cross-Ref	
1	**Net Income Before Tax -** see Schedule 10.
2	**Total Flowthrough Differences** are higher than prior year mainly due to higher deductions in 2019.
3	**Total Deferred Differences** are higher than prior year due to changes in the deferral accounts. (see Schedule 9)

ATCO Gas
SUMMARY OF UTILITY REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	2019 Forecast	2019 Normalized vs. Forecast #	2019 Normalized vs. Forecast %	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
	REVENUE CLASSIFICATIONS								
	Residential								
1	Average Number of Customers		1,107,297	1,122,717	1,124,881	(2,164)	(0.19%)	15,420	1.39%
2	Revenue		517,100	586,598	587,758	(1,160)	(0.20%)	69,498	13.44%
	Commercial (Apartment)								
3	Average Number of Customers		9,243	9,277	9,332	(55)	(0.59%)	34	0.37%
4	Revenue		27,878	33,227	33,099	128	0.39%	5,349	19.19%
	Commercial (Non-Apartment)								
5	Average Number of Customers		89,202	90,474	90,503	(29)	(0.03%)	1,272	1.43%
6	Revenue		161,349	191,965	192,767	(802)	(0.42%)	30,616	18.98%
	Industrial								
7	Average Number of Customers		346	343	347	(4)	(1.15%)	(3)	(0.87%)
8	Revenue		9,508	11,900	11,639	261	2.24%	2,392	25.16%
	Irrigation								
9	Average Number of Customers		409	421	374	47	12.57%	12	2.93%
10	Revenue		436	443	452	(9)	(1.99%)	7	1.61%
11	Total Average Number of Customers		1,206,497	1,223,232	1,225,437	(2,205)	(0.18%)	16,735	1.39%
12	Sub-Total Rate Revenue	Sch. 1	716,271	824,133	825,715	(1,582)	(0.19%)	107,862	15.06%
	RATE ACCRUALS REVENUE								
13	Rate Accruals Revenue	Sch. 1	29,413	(41,868)				(71,281)	(242.35%)
	FRANCHISE REVENUE								
14	Franchise Fee Revenue	Sch 1/10	180,958	203,975				23,017	12.72%
	OTHER REVENUE								
15	Other Revenue (Please See Below)	Sch. 1	22,745	23,294				549	2.41%
16	**TOTAL UTILITY REVENUE**	Sch. 1/10	**949,387**	**1,009,534**				**60,147**	**6.34%**
	OTHER REVENUE								
17	ATCO Pipelines		7,062	10,132				3,070	43.47%
18	Other Affiliates		1,642	2,745				1,103	67.19%
19	Facility Repairs		1,693	1,478				(215)	(12.69%)
20	Reinstatement Fees		4,800	3,198				(1,602)	(33.36%)
21	Miscellaneous		7,548	5,740				(1,808)	(23.95%)
22	Total Other Revenue		**22,745**	**23,294**				**549**	**2.41%**

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

Note: The 2019 rate revenue forecast is based on the 2019 delivery rates applied to the PBR approved billing determinant forecast.

Revenue Variance Explanations

Cross-Ref	
2	**Residential Revenue** is higher than prior year primarily due to higher delivery rates and number of customers in 2019.
4	**Commercial (Apt) Revenue** is higher than prior year primarily due to higher delivery rates and sales per customer in 2019.
6	**Commercial (Non-Apt) Revenue** is higher than prior year primarily due to higher delivery rates, number of customers and demand throughput in 2019.
8	**Industrial Revenue** is higher than prior year due primarily to higher delivery rates and demand throughput in 2019.
14	**Franchise Fee Revenue** is higher than prior year primarily due to higher delivery rates, cost of gas and number of customers in 2019.
17	**ATCO Pipelines Revenue** is higher than prior year mainly due to higher distribution support services.
18	**Other Affiliates Revenue** is higher than prior year primarily due to increased ATCO Electric fleet services and ATCO Energy Solutions distribution support.
20	**Reinstatement Fees Revenue** is lower than prior year primarily due to a lower number of reconnects in 2019.
21	**Other Misc Revenue** is lower than prior year primarily due to innovation initiatives in 2018 and lower maintenance services and joint trenching in 2019.

ATCO Gas

EXPLANATION OF TRANSACTIONS WITH AFFILIATED COMPANIES

FOR THE YEAR ENDED DECEMBER 31, 2019

($000s)

Line No.	Affiliate	Nature of Service		2018 Actual	2019 Actual	Var. 2019 to 2018	Var. %
1	**ATCO Ltd. / CUL / CU Inc.**	Rent and Office Services	Revenue	4	153	149	3725.00%
2		Administration, Rent and Aircraft	Expenses	(27,743)	(30,382)	(2,639)	9.51%
3		Licensing fees	Expenses	(2,304)	(3,356)	(1,052)	45.66%
4		Administration, Rent and Aircraft	Capital	(11,263)	(10,377)	886	(7.87%)
5	**ATCO Electric Ltd.**	Rent and Office Services	Revenue	533	1,221	688	129.08%
6		Contract Services	Revenue	-	121	121	N/A
7		Customer Services	Revenue	11	-	(11)	N/A
8		Contract Services	Expenses	(72)	-	72	N/A
9		Rent and Contractor Services	Expenses	(353)	(324)	29	(8.22%)
10		Customer Collections	Expenses	-	(516)	(516)	N/A
11		Contract Services	Capital	(518)	(573)	(55)	10.62%
12		Transfer	Capital	(87)	-	87	N/A
13	**ATCO Power**	Rent and Office Services	Revenue	119	-	(119)	N/A
14		Contract Services	Revenue	3	-	(3)	N/A
15	**ATCO Structures and Logistics**	Rent and Contractor	Expenses	(54)	(26)	28	(51.85%)
16	**ATCO Energy Solutions**	Contract Services	Revenue	958	1,202	244	25.47%
17	**ATCO Pipelines**	Contract Services	Revenue	7,062	10,132	3,070	43.47%
18		Contract Services and Rent	Expenses	(1,342)	(1,101)	241	(17.96%)
19		Transfer and Contribution	Capital	(3,090)	(4,476)	(1,386)	44.85%
20	**ATCO Energy**	Contract Services	Revenue	20	22	2	10.00%
21		Contract Services	Expense	(41)	(43)	(2)	4.88%
22		Transfer	Capital	(655)	-	655	N/A
23	**ATCO Investments**	Rent, Parking and Utilities	Expense	-	(3)	(3)	N/A
24	**Northland Utilities Limited - NWT**	Contract Services	Revenue	-	3	3	N/A
25	**Yukon Electrical**	Contract Services	Revenue	-	23	23	N/A

Guidelines:

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

Variance Explanations

Cross-Ref	
3	**ATCO Ltd -** Licencing fees is higher than prior year mainly due to higher allocated licencing fees.
17	**ATCO Pipelines -** Contract Services is higher than prior year mainly due to higher distribution support services.
19	**ATCO Pipelines** - Transfer and Contribution is higher than prior year mainly due to more asset transfers from ATCO Pipelines for the Urban Pipeline Relocation program.

ATCO Gas

SUMMARY OF PAYROLL AND MANPOWER STATISTICS

FOR THE YEAR ENDED DECEMBER 31, 2019

($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2019 vs. 2018	Variance %
Payroll Statistics						
1	Gross Salaries, Wages, & Employee Benefits		203,992	203,875	(117)	(0.06%)
Manpower Statistics						
2	Total Regular Employees (FTEs)		1,392	1,367	(25)	(1.80%)
3	Total Temporary Employees (FTEs)		74	76	2	2.70%
4	**Total Manpower**		1,466	1,443	(23)	(1.57%)
	Less:					
5	Charged to Non-Regulated		9	9	0	-
6	**Total Manpower - Utility Operations**		1,457	1,434	(23)	(1.58%)
Manpower Allocation by Division *						
7	Operations		1,302	1,286	(16)	(1.23%)
8	Administration		155	157	2	1.29%
9	**Total Manpower**		1,457	1,443	(14)	(0.96%)

Guidelines:

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

(2) Please state if FTE is based on an average or upon year end numbers. This should be consistent with the decision.

(3) Add rows as needed to be consistent with the decision.

Variance Explanations

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

Cross-Ref

SCHEDULE 9

ATCO Gas

SUMMARY OF RESERVE/DEFERRAL ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2019

($000s)

Line No.	Description	Cross-Ref.	Opening Balance	Adds	Amort.	Recoveries	Ending Balance
Regulatory Accounts							
1	Deferred Supplemental Pension		15,829	(1,118)	-	-	14,711
2	Deferred Post Employment Benefits		41,710	268	-	-	41,978
3	Regulatory Income Tax Provision		(701)	-	-	-	(701)
			56,838	**(850)**	**-**	**-**	**55,988**
Approved Deferral Accounts							
4	Deferred AUC and Intervener Costs		(1,546)	3,909	3,630	302	(965)
5	Deferred Consumer Advocate Costs		(459)	1,199	1,400	206	(454)
6	Deferred Production Abandonments		1,637	1,368	1,400	(863)	742
7	Weather Deferral Account		(3,046)	(17,964)	-	8,857	(12,153)
8	Load Balancing Deferral Account		(2,523)	(808)	-	-	(3,331)
9	Income Tax Deductible Capital Costs		(2,927)	-	-	2,927	-
10	Transmission Charges		3,653	(6,343)	-	(3,750)	(6,440)
11	2016 Wood Buffalo Wildfire Deferral		11,146	-	-	(11,146)	-
			5,936	**(18,639)**	**6,430**	**(3,467)**	**(22,600)**
12	**Total Regulatory Accounts**		**62,774**	**(19,489)**	**6,430**	**(3,467)**	**33,388**

Guidelines:

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

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

<u>Notes:</u>

Cross-Ref	
4	**Deferred AUC and Intervener Costs** includes AUC administration fees and intervener costs as approved in the Rate Regulation Initiative Decision 2012-237. Amounts collected during the year as approved in Decision 23894-D01-2018.
5	**Deferred Consumer Advocate Costs** as approved in the Rate Regulation Initiative Decision 2012-237. Amounts collected during the year as approved in Decision 23894-D01-2018
6	**Deferred Production Abandonments** as approved in the UADR Decision 2013-417. Amounts collected during the year as approved in Decision 23894-D01-2018.
7	**Deferred Weather** was approved to continue as a deferral account in the Rate Regulation Initiative Decision 2012-237. The September 1st - December 31st Rider W refund was approved in Decision 24665-D01-2019.
8	**Load Balancing Deferral Account** was approved to continue as a deferral account in the Rate Regulation Initiative Decision 2012-237.
9	**Income Tax Deductible Capital Costs** as approved in the Rate Regulation Initiative Decision 2012-237. Amounts refunded during the year as approved in Decision 23894-D01-2018.
10	**Transmission charges** collected the amounts approved in Rider T Decision 23273-D01-2018 (January - February) and Decision 24253-D01-2019 (March - December).
12	**2016 Wood Buffalo Wildfire Deferral** was approved on an interim basis in the 2017 Annual PBR Rates Adjustment Filing Decision 21981-D01-2016. Amounts collected during the year as approved in Decision 23723-D01-2018.

ATCO Gas
RECONCILIATION OF FINANCIAL REPORTING SCHEDULES TO ADJUSTED EARNINGS EQUIVALENT
FOR THE YEAR ENDED DECEMBER 31, 2019
INCOME STATEMENT ITEMS
($000s)

Line No.	Description	Cross-Reference	Adjusted Earnings Equivalent	ASC 980 and Other Reclassification	Normalization of AUC Decisions [1]	2019 Actual	Non-Utility Adjustments	Utility Income	2018 Utility Income	Variance 2019 vs. 2018	
	Revenues										
1	Total Operating Revenue		1,016,247	(2,900)	5,907	1,019,254	(9,720)	1,009,534	949,387	60,147	6.34%
2		Sch. 1 / 6	1,016,247	(2,900)	5,907	1,019,254	(9,720)	1,009,534	949,387	60,147	6.34%
	Operating Expenses										
3	Operation and Maintenance	Sch. 3	431,794	1,154	-	432,948	(16,409)	416,539	386,040	30,499	7.90%
4	Depreciation and Amortization	Sch. 1 / 4	171,901	(147)	-	171,754	(197)	171,557	172,777	(1,220)	(0.71%)
5	Franchise Fees	Sch. 1 / 6	203,975	-	-	203,975	-	203,975	180,958	23,017	12.72%
6			807,670	1,007	-	808,677	(16,606)	792,071	739,775	52,296	19.91%
	Financing Charges										
7	Interest and Other Expense		77,339	-	-	77,339	(77,339)	-	-	-	0.00%
8	Dividends on Equity Preferred Shares		3,377	-	-	3,377	(3,377)	-	-	-	0.00%
9	Interest and Other Income		(1,745)	-	-	(1,745)	1,745	-	-	-	0.00%
10	Asset Impairment		434	(434)	-	-	-	-	-	-	0.00%
11			79,405	(434)	-	78,971	(78,971)	-	-	-	0.00%
12	**Net Earnings Before Tax**		129,172	(3,473)	5,907	131,606	85,857	217,463	209,612	7,851	3.75%
13	**Income Tax**	Sch. 1 / 5	17,680	(769)	1,595	19,277	3,274	21,780	18,327	3,453	18.84%
14	**Return**	Sch. 1 / 2	111,492	(2,704)	4,312	112,329	82,583	195,683	191,285	4,398	2.30%

1) Mainly reflects the 2018 portion of IT Common Matters (Decision 20514-D02-2019).

ATCO Gas
RECONCILIATION OF ADJUSTED EARNINGS EQUIVALENT TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
INCOME STATEMENT ITEMS
($000s)

Line No.	Description	Audited Financial Statements	Regulatory Accounts	Contributions Reclass	O&M Reclass	Pension, OPEB, Vacation	Other Fixed Asset Adjustments	AFUDC/ IDC	ASC 980 Impairment	Dividends on Preferred Shares	Future Income Tax	Adjusted Earnings Equivalent
	Revenues											
1	Total Operating Revenue	1,085,642	(54,000)	(15,395)	-	-	-	-	-	-	-	1,016,247
2		1,085,642	(54,000)	(15,395)	-	-	-	-	-	-	-	1,016,247
	Operating Expenses											
3	Salaries, Wages and Benefits	90,440	-	-	(90,440)	-	-	-	-	-	-	-
4	Plant and Equipment Maintenance	55,246	-	-	(55,246)	-	-	-	-	-	-	-
5	Energy Transmission and Transportation	196,836	-	-	(196,836)	-	-	-	-	-	-	-
6	Operation and Maintenance	-	(15,784)	-	445,738	1,840	-	-	-	-	-	431,794
7	Depreciation and Amortization	132,645	54,845	(15,395)	-	-	(121)	-	(73)	-	-	171,901
8	Franchise Fees	203,975	-	-	-	-	-	-	-	-	-	203,975
9	Property Taxes	602	-	-	(602)	-	-	-	-	-	-	-
10	Other Expenses	102,614	-	-	(102,614)	-	-	-	-	-	-	-
11		782,358	39,061	(15,395)	-	1,840	(121)	-	(73)	-	-	807,670
12	Operating Profit	303,284	(93,061)	-	-	(1,840)	121	-	73	-	-	208,577
	Financing Charges											
13	Interest Income	(453)	(1,292)	-	-	-	-	-	-	-	-	(1,745)
14	Interest and Other Expense	79,263	(13)	-	-	-	-	(1,911)	-		-	77,339
15	Dividends on Equity Preferred Shares	-	-	-	-	-	-	-	-	3,377	-	3,377
16	Asset Impariment	-	-	-	-	-	-	-	434	-	-	434
17		78,810	(1,305)	-	-	-	-	(1,911)	434	3,377	-	79,405
18	**Earnings Before Income Taxes**	224,474	(91,756)	-	-	(1,840)	121	1,911	(361)	(3,377)	-	129,172
19	**Income Tax**	13,074	-	-	-	-	-	-	-	-	4,606	17,680
20	**Earnings**	211,400	(91,756)	-	-	(1,840)	121	1,911	(361)	(3,377)	(4,606)	111,492

ATCO Gas
RECONCILIATION OF FINANCIAL REPORTING SCHEDULES TO ADJUSTED EARNINGS EQUIVALENT
FOR THE YEAR ENDED DECEMBER 31, 2019
BALANCE SHEET ITEMS
($000s)

Line No.	Description	Cross-Reference	Adjusted Earnings Equivalent	ASC 980 and Other Reclassification	Adjustments	Utility Total		2019 Financial Results			
								Distribution	Retail	Other	Total
	Assets										
	Current Assets										
1	Cash		-	-	-	-		-	-	-	-
2	Accounts Receivable		155,115	-	-	155,115		155,115	-	-	155,115
3	Inventories		2,105	-	-	2,105		2,105	-	-	2,105
4	Accounts Receivable from Parent and Affiliated Corporations		3,135	-	-	3,135		3,135	-	-	3,135
5	Current Regulatory Assets	Sch. 9	4,089	(4,089)	-	-		-	-	-	-
6	Prepaid Expenses		3,377	-	-	3,377		3,377	-	-	3,377
7	**Total Current Assets**		167,821	(4,089)	-	163,732		163,732	-	-	163,732
8	Property Plant and Equipment	Sch. 4.1	3,184,121	(316,421)	(8,266)	2,859,433	-	2,859,433	-	8,266	2,867,700
9	Intangible Assets		118,639	(118,639)		-		-	-	-	-
10	Regulatory Assets	Sch. 9	262,739	(205,308)		57,431		57,431	-	-	57,431
11	Other Assets		12,581			12,581		12,581	-	-	12,581
12	**Total Assets**		**3,745,901**	**(644,457)**	**(8,266)**	**3,093,177**		**3,093,177**	**-**	**8,266**	**3,101,444**
	Liabilities										
	Current Liabilities										
13	Bank Indebtedness		18,705	-	-	18,705		18,705	-	-	18,705
14	Accounts Payable and Accrued Liabilities		137,753	(4,089)	-	133,664		133,664	-	-	133,664
15	Accounts Payable to Parent and Affiliated Corporations		25,115	-	-	25,115		25,115	-	-	25,115
16	Current Regulatory Liabilities	Sch. 9	11,047	-		11,047		11,047	-	-	11,047
17	**Total Current Liabilities**		192,620	(4,089)	-	188,531		188,531	-	-	188,531
18	Deferred Income Tax Liabilities		246,204	(246,827)	-	(623)		(623)	-	-	(623)
19	Regulatory Liabilities	Sch. 9	436,311	(423,238)	-	13,073		13,073	-	-	13,073
20	Retirement Benefit Obligations		56,689	-	-	56,689		56,689	-	-	56,689
21	Deferred Credits		20	-	-	20		20	-	-	20
22	Long Term Debt	Sch. 2.3	1,705,170	-	(4,936)	1,700,234		1,700,234	-	4,936	1,705,170
23	Equity Preferred Shares	Sch. 2.4	89,561	-	(271)	89,290		89,290	-	271	89,561
24	**Total Liabilities**		2,726,575	(674,154)	(5,208)	2,047,213		2,047,213	-	5,208	2,052,421
	Equity										
25	Class A and B Shares		119,107	-	-	119,107		119,107	-	-	119,107
26	Retained Earnings		900,219	29,697	(3,059)	926,857		926,857	-	3,059	929,916
27	**Total Equity**		1,019,326	29,697	(3,059)	1,045,964		1,045,964	-	3,059	1,049,023
28	**Total Liabilities and Equity**		**3,745,901**	**(644,457)**	**(8,266)**	**3,093,177**		**3,093,177**	**-**	**8,266**	**3,101,444**

SCHEDULE 11a

ATCO Gas
RECONCILIATION OF ADJUSTED EARNINGS EQUIVALENT TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
BALANCE SHEET ITEMS
($000s)

Line No.	Description	Audited Financial Statements	Regulatory Assets / Liabilities	Preferred Share Reclass	Contributions	Debt Expense Amortized	Fixed Asset Adjustments	Adjusted Earnings Equivalent
	Assets							
	Current Assets							
1	Cash	-	-	-	-	-	-	-
2	Accounts Receivable	174,268	(21,352)	-	2,199	-	-	155,115
3	Inventories	2,105	-	-	-	-	-	2,105
4	Accounts Receivable from Parent and Affiliated Corporations	3,135	-	-	-	-	-	3,135
5	Current Regulatory Assets	-	4,089	-	-	-	-	4,089
6	Prepaid Expenses	3,377	-	-	-	-	-	3,377
7	**Total Current Assets**	182,885	(17,263)	-	2,199	-	-	167,821
8	Property Plant and Equipment	3,755,253	-	-	(532,815)	-	(38,317)	3,184,121
9	Intangible Assets	120,545	-	-	(700)	-	(1,206)	118,639
10	Regulatory Assets	-	262,739	-	-	-	-	262,739
11	Other Assets	6,463	1,344	-	-	9,706	(4,932)	12,581
12	**Total Assets**	**4,065,146**	**246,820**	**-**	**(531,316)**	**9,706**	**(44,455)**	**3,745,901**
	Liabilities							
	Current Liabilities							
13	Bank Indebtedness	18,705	-	-	-	-	-	18,705
14	Accounts Payable and Accrued Liabilities	137,753	-	-	-	-	-	137,753
15	Accounts Payable to Parent and Affiliated Corporations	25,115	-	-	-	-	-	25,115
16	Current Regulatory Liabilities	-	11,047	-	-	-	-	11,047
17	**Total Current Liabilities**	181,573	11,047	-	-	-	-	192,620
18	Deferred Income Tax Liabilities	286,521	(40,317)	-	-	-	-	246,204
19	Regulatory Liabilities	-	436,311	-	-	-	-	436,311
20	Retirement Benefit Obligations	79,935	(23,246)	-	-	-	-	56,689
21	Long Term Debt	1,695,464	-	-		9,706	-	1,705,170
22	Other Liabilities	536,422	-	-	(531,391)	-	(5,011)	20
23	Equity Preferred Shares	-	-	89,561	-	-	-	89,561
24	**Total Liabilities**	2,779,915	383,795	89,561	(531,391)	9,706	(5,011)	2,726,575
	Equity							
25	Equity Preferred Shares	88,318	-	(88,318)	-	-	-	-
26	Class A and B Shares	119,107	-	-	-	-	-	119,107
27	Retained Earnings	1,077,806	(136,975)	(1,243)	75	-	(39,444)	900,219
28	**Total Equity**	1,285,231	(136,975)	(89,561)	75	-	(39,444)	1,019,326
29	**Total Liabilities and Equity**	**4,065,146**	**246,820**	**-**	**(531,316)**	**9,706**	**(44,455)**	**3,745,901**

ATCO Gas
SCHEDULE OF PENSION PLAN CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
($Millions)

Line No.

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

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

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

2019 Actual

Line No.		Defined Benefit Pension Expense		Defined Contribution Pension Expense	Total
		Service Amount	Special Payment	Service Amount	
1	**ATCO Gas** (Note 1)	7.4	-	7.0	**14.4**
2	**ATCO Unregulated**	4.1	-	6.5	**10.6**

2017 Approved (per ATCO Utilities 2016 Pension Application)

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

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

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

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

Note 4 - Not available

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

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

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

6 The Mercer 2017 CU Pension Plan Report was filed with the Superintendent of Pensions on July 13, 2018. The required pension funding contributions for ATCO Gas beginning January 1, 2018 is $7.8 million for current service.

SCHEDULE 2

ATCO Gas (North)
SUMMARY OF RETURN ON RATE BASE
FOR THE YEAR ENDED DECEMBER 31, 2019

Line No.	Description	Cross Ref.	Mid-Year Capital	Ratio	Prorated Rate Base	Cost Rate %	Return $
1	Debt (Deemed)		877,336	59.72%	877,336	4.86%	42,619
2	Preferred Shares		48,232	3.28%	48,232	3.77%	1,819
3	Common Equity		543,588	37.00%	543,588	10.57%	57,475
4	Mid-Year Invested Capital		1,469,156	100.00%	1,469,156		
5	Return on Rate Base	Sch. 10				**6.937%**	**101,912**
6	No Cost Capital		-				
7	Total Mid-Year Rate Base	Sch. 2.1	**1,469,156**				
8	Return on Common Equity	Line 3				10.57%	57,475
9	Less ECM Earnings					(0.47%)	(2,567)
10	Adjusted ROE[1]					10.10%	54,908

Guidelines:

(1) Variance explanations required for $2 million, or 10% or greater and any difference equal to or greater than $500K.
(2) Provide the breakdown of the items making up the difference (including disallowed items etc.).
(3) Common equity is based on the approved equity ratio.
(4) Please complete these schedules using the approved deemed capital structure.
(5) The cost rate for the common equity should be inferred from the return and prorated rate base of common equity.

Note

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

ATCO Gas (North)
SUMMARY OF MID-YEAR RATE BASE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
	Property, Plant and Equipment					
1	Opening Balance		2,666,380	2,799,708	133,328	5.00%
2	Additions	Sch. 4.1 / 4.2	151,190	162,755	11,565	7.65%
3	Retirements	Sch. 4.1	(17,995)	(16,811)	1,184	(6.58%)
4	Transfers and Adjustments		132	-	(132)	(100.00%)
5	Closing Balance	Sch. 4.1	2,799,707	2,945,651	145,945	5.21%
6	**Mid-Year Property, Plant and Equipment**		2,733,043	2,872,680	139,636	5.11%
	Accumulated Depreciation - Utility					
7	Opening Balance		956,647	1,031,502	74,855	7.82%
8	Depreciation Expense	Sch. 4	96,987	101,046	4,059	4.19%
9	Retirements	Sch. 4.1	(17,996)	(16,803)	1,193	(6.63%)
10	Proceeds from Disposals of Capitalized Assets	Sch. 4.1	1,139	1,764	625	54.83%
11	Removal, Depreciation Capitalized and Other Transfers		(5,275)	(8,162)	(2,887)	54.73%
12	Closing Balance	Sch. 4.1	1,031,502	1,109,347	77,845	7.55%
13	**Mid-Year Accumulated Depreciation**		994,075	1,070,424	76,350	7.68%
14	Construction Work in Progress (CWIP) - Mid-Year		(35,801)	(43,889)	(8,088)	22.59%
15	Assets Not In Rate Base - Mid-Year		(2,197)	(4,317)	(2,120)	96.50%
16	Transfers and Other Adjustments - Mid-Year		(230)	-	230	(100.00%)
	Contributions in Aid of Construction					
17	Opening Balance		(386,710)	(400,330)	(13,620)	3.52%
18	Closing Balance	Sch. 4.1	(400,330)	(411,571)	(11,241)	2.81%
19	**Mid-Year Contributions in Aid of Construction**		(393,520)	(405,950)	(12,430)	3.16%
	Amortization of Contributions					
20	Opening Balance		105,866	110,694	4,828	4.56%
21	Closing Balance	Sch. 4.1	110,694	116,760	6,066	5.48%
22	**Mid-Year Amortization of Contributions**		108,280	113,727	5,447	5.03%
23	**Mid-Year Utility Plant in Service**		1,415,501	1,461,826	46,325	3.27%
	Necessary Working Capital					
24	Cash Expenses		1,952	(2,155)	(4,107)	(210.40%)
25	Materials and Supplies		1,471	1,715	244	16.59%
26	Prepayments and Deferrals		8,809	4,691	(4,118)	(46.75%)
27	Financial Items		3,746	3,512	(234)	(6.25%)
28	Goods and Services Tax (GST)		(389)	(433)	(44)	11.31%
			15,589	7,330	(8,259)	(52.98%)
29	**Mid-Year Rate Base**	Sch. 2	**1,431,090**	**1,469,156**	**38,066**	**2.66%**

Guidelines:
(1) Variance explanations required for $2 million, or 10% or greater and any difference equal to or greater than $500K.
(2) If there was a negotiated settlement in place for the reporting year please state the approved negotiated settlement numbers in the decision column.
(3) Please note the source of the numbers in the decision or negotiated settlement as applicable.

Variance Explanations

Cross-Ref	
2	**Additions** refer to Schedule 4.2.
8	**Depreciation Expense** refer to Schedule 4.0 for deviations from prior year.
10	**Proceeds from Disposals of Capital Assets** are higher than prior year mainly due to higher proceeds on meter retirements in 2019.
11	**Removal, Depreciation Capitalized and Other Transfers** is higher than prior year mainly due to an increase in removal costs in the Regulating Station Improvements and Line Heater Replacement programs.
14	**Construction Work in Progress (CWIP)** is higher than prior year primarily due to higher CWIP in Transportation and Heavy Work Equipment, Emergency Supply and IT projects.
15	**Assets Not In Rate Base** are higher mainly due to the reclassification of assets to non-utility as a result of the disallowed information technology costs per Decision 20514-D02-2019.
24	**Cash expenses** are lower mainly due to a decrease in income tax installments.
26	**Prepayments and deferrals** are lower than the prior year mainly due to activity in the transmission deferral account.

SCHEDULE 2.2

ATCO Gas (North)

SUMMARY OF DEGREE DAYS & YEAR END CUSTOMERS AND THROUGHPUT

FOR THE YEAR ENDED DECEMBER 31, 2019

Line No.	Description	2018 Actual	2019 Actual	2019 Forecast	Variance 2019 Actual vs. Forecast #	Variance 2019 Actual vs. Forecast %	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
1	10 Year Average Normal Degree Days	4,265	4,265	4,265	-	0.00%	0	0.00%
	Number of Year-End Customers							
2	Residential	558,518	565,357	567,773	(2,416)	(0.43%)	6,839	1.22%
3	Commercial	56,365	56,949	57,189	(240)	(0.42%)	584	1.04%
4	Industrial	155	155	158	(3)	(1.90%)	0	0.00%
5	Total Customers	615,038	622,461	625,120	(2,659)	(0.43%)	7,423	1.21%
	Normalized Throughput - TJs							
6	Residential	62,363	63,387	64,644	(1,257)	(1.94%)	1,024	1.64%
7	Commercial	68,894	70,326	69,824	502	0.72%	1,432	2.08%
8	Industrial	5,380	5,270	5,205	65	1.25%	(110)	(2.04%)
9	Total Normalized Throughput	136,637	138,983	139,673	(690)	(0.49%)	2,346	1.72%

Note:

The 2018 throughput is normalized based on the ten year average temperatures ending 2017.

The 2019 throughput is normalized based on the ten year average temperatures ending 2017.

The 2019 customers and throughput forecasts are based on AUC Decision 23894-D01-2018.

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

SCHEDULE 3

ATCO Gas (North)

SUMMARY OF OPERATING AND MAINTENANCE EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2019

($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
	Operating & Maintenance Expense					
1	Gas Management		351	320	(31)	(8.70%)
2	Transmission		92,570	103,692	11,122	12.01%
3	Distribution		58,629	61,933	3,304	5.64%
4	General		4,751	4,913	162	3.41%
5	Sales and Transportation Promotion		2,836	3,610	774	27.30%
6	Customer Accounting		11,723	10,752	(971)	(8.29%)
7	Administration and General		39,764	44,270	4,506	11.33%
8	**Total Operating & Maintenance Expense**		210,624	229,489	18,865	8.96%
9	Less: Non-Utility O&M		5,345	8,350	3,005	56.22%
10	**Operating & Maintenance Expense - Net**	Sch. 10	205,279	221,139	15,860	7.73%

Guidelines:

(1) Variance explanations required for $2 million, or 10% or greater and any difference equal to or greater than $500K.
(2) Global reductions refers to the reduction of fees chargeable as deemed in the rate application decision.
(3) Please add line items as needed to more clearly identify major O&M expenses.

Variance Explanations

Cross - Ref	
2	**Transmission** costs are higher than prior year mainly due to an increase in rates.
3	**Distribution** costs are higher than prior year mainly due to increased costs in work for affiliates, customer service, and operation maintenance services partially offset by a decrease in distribution support costs.
5	**Sales and Transportation Promotion** costs are higher than prior year mainly due to an increase in non-utility sales.
7	**Administration and General** costs are higher than prior year mainly due to an increase in technology costs and higher license fees.
9	**Non-Utility O&M** costs are higher than prior year mainly due to an increase in non-utility sales, higher license fees and disallowed information technology costs**.**

SCHEDULE 4

ATCO Gas (North)
SUMMARY OF DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2019 vs. 2018 #	%
	Depreciation Expense					
1	Distribution Plant		83,456	87,550	4,094	4.91%
2	General Plant		21,298	15,850	(5,448)	(25.58%)
3	Sub-total	Sch. 4.1	104,754	103,400	(1,354)	(1.29%)
4	Less: Capitalized Depreciation		(2,393)	(2,354)	39	(1.63%)
5	Sub-total	Sch. 2.1	102,361	101,046	(1,315)	(1.28%)
6	**Amortization of Contributions**	Sch. 4.1	(7,402)	(7,631)	(229)	3.10%
	Other					
7	Production Abandonments		700	700	-	0.00%
8	**Non-Utility Items**		(1,137)	(211)	925	(81.42%)
9	**Total Utility Depreciation Expense**	Sch. 10	**94,523**	**93,904**	**(619)**	**(0.65%)**

Guidelines:
(1) Variance explanations required for $2 million, or 10% or greater and any difference equal to or greater than $500K.

Variance Explanations

Cross-Ref	
1	**Distribution Plant** is higher than the prior year due to higher opening depreciable base as well as an increase in depreciation resulted from current year additions in 2019.
2	**General Plant** depreciation is lower than prior year due to the impairment of software programs in 2018.
8	**Non-Utility Items** depreciation is lower than the prior year due to the impairment of software programs in 2018.

SCHEDULE 4.1

ATCO Gas (North)
CAPITAL ASSETS CONTINUITY SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

CAPITAL ASSETS

Line No.	Property Group	Cross-Reference	Balance at '12/31/2018	2019 Additions	2019 Retirements	2019 Transfers	2019 Adjustments	Balance at '12/31/2019
	Distribution							
1	Land		3,215	100	-	-	-	3,315
2	Land Rights		26,356	1,756	-	-	-	28,112
3	Structures & Improvements		30,232	1,281	228	-	-	31,285
4	Services & Alterations		892,353	44,209	2,112	-	-	934,450
5	Regulators & Meters		264,379	10,109	717	(1,287)	-	272,484
6	Mains		995,763	48,783	2,406	-	-	1,042,139
7	Measurement & Regulating Equipment		89,043	6,941	409	250	-	95,826
8	Meters		127,473	11,108	4,831	1,054	-	134,805
9	Renewable Energy		962	-	-	-	-	962
10	**Distribution**		2,429,777	124,286	10,703	18	-	2,543,378
	General Plant & Equipment							
11	Franchises		578	-	-	-	-	578
12	Land		8,368	1	-	-	-	8,369
13	Structures & Improvements		79,225	1,619	-	-	-	80,844
14	Interco Contributions		242	-	-	-	-	242
15	**General Plant & Equipment**		88,414	1,620	-	-	-	90,033
	Moveable Equipment							
16	Office Furniture & Equipment		11,346	1,209	99	-	-	12,456
17	Transportation Equipment		48,175	3,265	1,652	-	-	49,788
18	Heavy Work Equipment		16,102	429	941	-	-	15,591
19	Tools & Work Equipment		16,516	3,032	1,390	-	-	18,158
20	Cogeneration Equipment		2,920	-	-	-	-	2,920
21	Communication Equipment		20,424	1,149	914	(81)	-	20,578
22	Stores, Shop Equipment & Lab Equipment		9,526	2,572	233	-	-	11,865
23	Leasehold Improvements		11,653	14	768	-	-	10,899
24	Electronic Data Processing Equipment		3,033	927	-	613	-	4,572
25	Base Maps		1,347	-	111	-	-	1,236
26	Software Development		104,700	6,510	-	(549)	-	110,661
27	**Moveable Equipment**		245,741	19,108	6,108	(18)	-	258,724
28	**Capital Work in Progress (CWIP)**		35,776	17,740	-	-	-	53,516
29	**Total Capital Assets**	Sch. 2.1 / 4.2	**2,799,708**	**162,755**	**16,811**	**(0)**	**-**	**2,945,651**
30	**Non-Utility Assets**		**8,597**	36	28	28	-	**8,634**
31	**Total Utility Capital Assets**		**2,791,110**	**162,718**	**16,784**	**(28)**	**-**	**2,937,017**
	Contributions							
32	Utility		398,990	13,398	1,565	-	-	410,823
33	Non-Utility		665	-	-	-	-	665
34	Contributions Work in Progress (KWIP)		675	(593)	-	-	-	82
35	**Total Contributions**	Sch 2.1	**400,330**	**12,806**	**1,565**	**-**	**-**	**411,571**

SCHEDULE 4.1

ATCO Gas (North)
CAPITAL ASSETS CONTINUITY SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

ACCUMULATED DEPRECIATION

Line No.	Property Group	Cross-Reference	Balance at '12/31/2018	Depreciation Provision	2019 Retirements	2019 Removals	2019 Salvage	2019 Adjustments	Balance at '12/31/2019
	Distribution								
1	Land Rights		3,438	274	-	-	-	-	3,711
2	Structures & Improvements		5,989	776	228	47	-	-	6,490
3	Services & Alterations		366,860	37,107	2,112	3,112	-	-	398,743
4	Regulators & Meters		102,396	8,154	717	52	-	(38)	109,742
5	Mains		281,532	28,568	2,406	2,588	17	-	305,123
6	Measurement & Regulating Equipment		38,375	3,387	409	273	-	37	41,118
7	Meters		49,480	9,243	4,831	(55)	1,376	2	55,325
8	Renewable Energy		192	41	-	-	-	-	233
9	**Distribution**		848,261	87,550	10,703	6,017	1,393	1	920,485
	General Plant & Equipment								
10	Franchises		423	57	-	-	-	-	480
11	Land		-	0	-	-	-	-	0
12	Structures & Improvements		28,486	2,707	-	88	-	-	31,105
13	**General Plant & Equipment**		28,909	2,764	-	88	-	-	31,585
	Moveable Equipment								
14	Office Furniture & Equipment		5,806	581	99	155	-	-	6,133
15	Transportation Equipment		24,035	3,170	1,644	12	180	0	25,730
16	Heavy Work Equipment		9,216	1,265	941	4	163	-	9,699
17	Tools & Work Equipment		7,248	1,122	1,390	-	27	-	7,007
18	Cogeneration Equipment		2,673	18	-	-	-	-	2,691
19	NAIT Fuel Cell		566	-	-	-	-	-	566
20	Communication Equipment		10,833	1,090	914	82	-	(10)	10,917
21	Stores, Shop & Lab Equipment		4,354	494	233	-	-	-	4,615
22	Electronic Data Processing Equipment		1,091	346	-	-	-	41	1,478
23	Base Maps		1,347	0	111	-	-	-	1,236
24	Leaseholds & Improvements		9,343	308	768	43	-	-	8,840
25	Software Development		78,365	4,692	-	-	-	(32)	83,024
26	**Moveable Equipment**		154,877	13,086	6,100	296	370	(1)	161,937
28	**Retirements Work in Progress (RWIP)**		(546)			4,115			(4,661)
29	**Total Accumulated Depreciation**	Sch. 2.1 / 4	**1,031,502**	**103,400**	**16,803**	**10,516**	**1,764**	**0**	**1,109,347**
30	**Non-Utility Assets**		**3,988**	221	28	-	0	27	**4,209**
31	**Total Utility Accumulated Depreciation**		**1,027,514**	**103,179**	**16,775**	**10,516**	**1,764**	**(27)**	**1,105,138**
	Contributions								
32	Utility		110,234	7,621	1,565	-	-	-	116,290
33	Non-Utility		460	10	-	-	-	-	470
34	**Total Contributions**	Sch 2.1 / 4	**110,694**	**7,631**	**1,565**	**-**	**-**	**-**	**116,760**
35	**Net Property, Plant, and Equipment**		**1,478,570**						**1,541,494**
36	**Net Property, Plant and Equipment (Non-Utility)**		**(4,404)**						**(4,230)**
37	**Net Property, Plant, and Equipment (Utility)**		**1,474,165**						**1,537,263**

Guidelines:

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

ATCO Gas (North)
SUMMARY OF CAPITAL EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross- Reference	2018 Year End	2019 Year End	Variance 2019 vs. 2018	
	Distribution					
1	Extensions		21,961	15,444	(6,517)	(29.68%)
2	Services		21,437	17,581	(3,856)	(17.99%)
3	Meters, Regulators and Installations		21,045	23,020	1,975	9.38%
4	Improvements and MRRP		71,673	70,380	(1,293)	(1.80%)
5	Sub-Total		136,116	126,425	(9,691)	(7.12%)
	Land and Structures					
6	General		1,509	3,256	1,747	115.79%
	Moveable Equipment					
7	General		5,126	19,968	14,842	289.54%
8	Communication and Lab Equipment		317	1,578	1,261	398.17%
9	Software Development		9,778	10,622	844	8.63%
10	Renewable Energy		10	(2)	(12)	(118.40%)
11	Sub-Total		15,231	32,166	2,093	13.74%
12	Change in Inventory Spares		(460)	-	460	(100.00%)
13	Capital Expenditures (IFRS)		152,396	161,847		
14	IDC / AFUDC and Other IFRS Adjustments		(1,206)	910		
15	**Capital Expenditures**	Sch. 2.1 / 4.1	**151,190**	**162,757**	**11,567**	**7.65%**

Guidelines:

(1) Asset categories need to be identified by the individual utilities. However, they should show sufficient breakdown to allow for reasonable understanding of operations.

(2) Please add line items as needed to give sufficient understanding of the main capital additions in the reporting year.

Variance Explanations

Cross-Ref	
1	**Extensions** expenditures were lower than prior year due to decreased demand for urban residential extensions and urban feeder mains.
2	**Services** expenditures were lower than prior year mainly due to decreased demand for service installs.
6	**Land and Structures - General** expenditures were higher than prior year due to increased facility renovations and repairs.
7	**Moveable Equipment - General** expenditures were higher than prior year due to increased replacement of trailers, heavy work equipment and vehicles.
8	**Communication and Lab Equipment** expenditures were higher than prior year due to increased replacement of communication equipment.

ATCO Gas (North)
SUMMARY OF UTILITY REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	2019 Forecast	Variance 2019 Act vs. Forecast #	Variance 2019 Act vs. Forecast %	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
	REVENUE CLASSIFICATIONS								
	Residential								
1	Average Number of Customers		553,214	561,024	562,601	(1,577)	(0.28%)	7,810	1.41%
2	Revenue		269,665	309,311	311,050	(1,739)	(0.56%)	39,646	14.70%
	Commercial (Apartment)								
3	Average Number of Customers		5,673	5,706	5,697	9	0.16%	33	0.58%
4	Revenue		17,339	20,779	20,619	160	0.78%	3,440	19.84%
	Commercial (Non-Apartment)								
5	Average Number of Customers		50,190	50,796	50,975	(179)	(0.35%)	606	1.21%
6	Revenue		90,144	107,098	107,961	(863)	(0.80%)	16,954	18.81%
	Industrial								
7	Average Number of Customers		156	155	158	(3)	(1.90%)	(1)	(0.64%)
8	Revenue		4,207	5,209	5,196	13	0.25%	1,002	23.82%
9	Total Average Number of Customers		609,233	617,681	619,431	(1,750)	(0.28%)	8,448	1.39%
10	Sub-Total Rate Revenue		381,355	442,397	444,826	(2,429)	(0.55%)	61,042	16.01%
	RATE ACCRUALS REVENUE								
11	Rate Accruals Revenue		16,635	(25,406)				(42,041)	(252.73%)
	FRANCHISE REVENUE								
12	Franchise Fee Revenue		114,392	129,102				14,710	12.86%
	OTHER REVENUE								
13	Other Revenue (Please See Below)		13,160	12,300				(859)	(6.53%)
14	**TOTAL UTILITY REVENUE**	Sch 10	**525,542**	**558,393**				**32,852**	6.25%
	OTHER REVENUE								
15	ATCO Pipelines		3,840	4,786				946	24.65%
16	Other Affiliates		1,229	2,192				963	78.33%
17	Facility Repairs		984	948				(36)	(3.66%)
18	Reinstatement Fees		2,784	1,599				(1,185)	(42.56%)
19	Miscellaneous		4,323	2,775				(1,548)	(35.81%)
20	Total Other Revenue		13,160	12,300				(859)	(6.53%)

Guidelines:
(1) Variance explanations required for $2 million, or 10% or greater and any difference equal to or greater than $500K.

Note: The 2019 rate revenue forecast is based on the 2019 delivery rates applied to the PBR approved billing determinant forecast.

Revenue Variance Explanations

Cross-Ref	
2	**Residential Revenue** is higher than prior year primarily due to higher delivery rates and number of customers in 2019.
4	**Commercial (Apt) Revenue** is higher than prior year primarily due to higher delivery rates and sales per customer in 2019.
6	**Commercial (Non-Apt) Revenue** is higher than prior year primarily due to higher delivery rates, number of customers and demand throughput in 2019.
8	**Industrial Revenue** is higher than prior year primarily due to higher delivery rates in 2019.
11	**Rate Accruals Revenue** is lower due to a timing difference between the issuance of Commission Decisions and the amounts being collected and/or refunded.
12	**Franchise Fee Revenue** is higher than prior year primarily due to higher delivery rates and number of customers in 2019.
15	**ATCO Pipelines Revenue** is higher than prior year mainly due to higher distribution support services.
16	**Other Affiliates Revenue** is higher than prior year primarily due to increased ATCO Electric fleet services and ATCO Energy Solutions distribution support.
18	**Reinstatement Fees Revenue** is lower than prior year primarily due to a lower number of reconnects in 2019.
19	**Other Misc Revenue** is lower than prior year primarily due to innovation initiatives in 2018 and lower maintenance services and joint trenching in 2019.

ATCO Gas (North)

UTILITY INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019
INCOME STATEMENT ITEMS
($000s)

Line No.	Description	Cross-Reference	2019 Utility Total	2018 Utility Total	Variance 2019 vs. 2018	
	Revenues					
1	Total Operating Revenue		558,393	525,542	32,852	6.25%
2		Sch. 6	558,393	525,542	32,852	6.25%
	Operating Expenses					
3	Operation and Maintenance (including property tax)		221,553	205,680	15,873	7.72%
4	Depreciation and Amortization	Sch. 4	93,904	94,523	(619)	(0.65%)
5	Franchise Fees	Sch. 6	129,102	114,392	14,710	12.86%
6			444,559	414,594	29,965	19.92%
7	**Income Tax**		11,922	10,026	1,896	18.91%
8	**Utility Income**	Sch. 2	**101,912**	**100,922**	**991**	**0.98%**

SCHEDULE 2

ATCO Gas (South)
SUMMARY OF RETURN ON RATE BASE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross Ref.	Mid-Year Capital	Ratio	Prorated Rate Base	Cost Rate %	Return $
1	Debt (Deemed)		751,731	59.72%	751,731	4.86%	36,517
2	Preferred Shares		41,327	3.28%	41,327	3.77%	1,558
3	Common Equity		465,764	37.00%	465,764	11.96%	55,695
4	Mid-Year Invested Capital		1,258,822	100.00%	1,258,822		
5	Return on Rate Base	Sch. 10				**7.449%**	**93,770**
6	No Cost Capital		701				
7	Total Mid-Year Rate Base	Sch. 2.1	**1,259,523**				
8	Return on Common Equity	Line 3				11.96%	55,695
9	Less ECM Earnings					(0.46%)	(2,146)
10	Adjusted ROE[1]					11.50%	53,549

Guidelines:

(1) Variance explanations required for $2 million, or 10% or greater and any difference equal to or greater than $500K.
(2) Provide the breakdown of the items making up the difference (including disallowed items etc.).
(3) Common equity is based on the approved equity ratio.
(4) Please complete these schedules using the approved deemed capital structure.
(5) The cost rate for the common equity should be inferred from the return and prorated rate base of common equity.

Note

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

ATCO Gas (South)
SUMMARY OF MID-YEAR RATE BASE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
	Property, Plant and Equipment					
1	Opening Balance		2,261,207	2,388,695	127,488	5.64%
2	Additions	Sch. 4.1 / 4.2	140,197	132,252	(7,945)	(5.67%)
3	Retirements	Sch. 4.1	(12,711)	(18,572)	(5,861)	46.11%
4	Transfers and Adjustments		-	2,318	2,318	N/A
5	Closing Balance	Sch. 4.1	2,388,693	2,504,693	116,000	4.86%
6	**Mid-Year Property, Plant and Equipment**		2,324,950	2,446,694	121,744	5.24%
	Accumulated Depreciation - Utility					
7	Opening Balance		813,082	876,565	63,483	7.81%
8	Depreciation Expense	Sch. 4	80,676	84,965	4,289	5.32%
9	Retirements	Sch. 4.1	(12,662)	(18,569)	(5,907)	46.65%
10	Proceeds from Disposals of Capitalized Assets		835	1,307	472	56.47%
11	Removal, Depreciation Capitalized and Other Transfers		(5,366)	(4,741)	625	(11.66%)
12	Closing Balance	Sch. 4.1	876,565	939,527	62,962	7.18%
13	**Mid-Year Accumulated Depreciation**		844,824	908,046	63,223	7.48%
14	Construction Work in Progress (CWIP) - Mid-Year		(40,281)	(41,605)	(1,324)	3.29%
15	Assets Not In Rate Base - Mid-Year		(2,281)	(4,170)	(1,889)	82.81%
16	Transfers and Other Adjustments - Mid-Year		(144)	-	144	(100.00%)
	Contributions in Aid of Construction					
17	Opening Balance		(331,636)	(344,402)	(12,766)	3.85%
18	Closing Balance	Sch. 4.1	(344,402)	(356,996)	(12,594)	3.66%
19	**Mid-Year Contributions in Aid of Construction**		(338,019)	(350,699)	(12,680)	3.75%
	Amortization of Contributions					
20	Opening Balance		104,654	110,789	6,135	5.86%
21	Closing Balance	Sch. 4.1	110,789	118,039	7,250	6.54%
22	**Mid-Year Amortization of Contributions**		107,722	114,414	6,693	6.21%
23	**Mid-Year Utility Plant in Service**		1,207,123	1,256,588	49,465	4.10%
	Necessary Working Capital					
24	Cash Expenses		3,440	280	(3,160)	(91.86%)
25	Materials and Supplies		1,470	1,714	244	16.60%
26	Prepayments and Deferrals		(6,452)	(1,349)	5,103	(79.09%)
27	Financial Items		2,965	2,722	(243)	(8.20%)
28	Goods and Services Tax (GST)		(388)	(432)	(44)	11.34%
			1,035	2,935	1,900	183.57%
29	**Mid-Year Rate Base**	Sch. 2	**1,208,158**	**1,259,523**	**51,365**	**4.25%**

Guidelines:
(1) Variance explanations required for $2 million, or 10% or greater and any difference equal to or greater than $500K.
(2) If there was a negotiated settlement in place for the reporting year please state the approved negotiated settlement numbers in the decision column.
(3) Please note the source of the numbers in the decision or negotiated settlement as applicable.

Variance Explanations

Cross-Ref	
2	**Additions** refer to Schedule 4.2.
3/9	**Retirements** are higher than prior year mainly due to an increase in retirements from leasehold improvements and meter equipment, partially offset by lower retirements in the Mains Replacement Program and surplus vehicle sales.
4	**Transfers and Adjustments** are higher than prior year mainly due to asset transfers from ATCO Pipelines for the Urban Pipelines Replacement (UPR) Program in 2019.
8	**Depreciation Expense** refer to Schedule 4.0 for deviations from prior year.
11	**Removal, Depreciation Capitalized and Other Transfers** is lower than prior year mainly due to accumulated depreciation that was transfered from ATCO Pipelines for the Urban Pipelines Replacement (UPR) Program from 2019.
14	**Construction Work in Progress (CWIP)** is higher than prior year primarily due to higher CWIP in Transportation and Heavy Work Equipment, Emergency Supply and IT projects.
15	**Assets Not In Rate Base** are higher mainly due to the reclassification of assets to non-utility as a result of the disallowed information technology costs per Decision 20514-D02-2019.
24	**Cash expenses** are lower mainly due to a decrease in income tax installments.
26	**Prepayments and deferrals** are higher than the prior year mainly due to activity in the transmission deferral account.

SCHEDULE 2.2

ATCO Gas (South)

SUMMARY OF DEGREE DAYS & YEAR END CUSTOMERS AND THROUGHPUT

FOR THE YEAR ENDED DECEMBER 31, 2019

Line No.	Description	2018 Actual	2019 Actual	2019 Forecast	Variance 2019 Actual vs. Forecast #	Variance 2019 Actual vs. Forecast %	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
1	10 Year Average Normal Degree Days	4,016	4,016	4,016	-	0.00%	0	0.00%
	Number of Year-End Customers							
2	Residential	558,591	565,985	566,827	(842)	(0.15%)	7,394	1.32%
3	Commercial	42,998	43,749	43,569	180	0.41%	751	1.75%
4	Industrial	189	191	189	2	1.06%	2	1.06%
5	Irrigation	3	7	3	4	133.33%	4	133.33%
6	Total Customers	601,781	609,932	610,588	(656)	(0.11%)	8,151	1.35%
	Normalized Throughput - TJs							
7	Residential	60,874	62,536	61,341	1,195	1.95%	1,662	2.73%
8	Commercial	58,408	60,303	59,138	1,165	1.97%	1,895	3.24%
9	Industrial	8,533	8,418	8,245	173	2.10%	(115)	(1.35%)
10	Irrigation	289	265	264	1	0.38%	(24)	(8.30%)
11	Total Normalized Throughput	128,104	131,522	128,988	2,534	1.96%	3,418	2.67%

Note:

The 2018 throughput is normalized based on the ten year average temperatures ending 2017.
The 2019 throughput is normalized based on the ten year average temperatures ending 2017.
The 2019 customers and throughput forecasts are based on AUC Decision 23894-D01-2018.

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

SCHEDULE 3

ATCO Gas (South)

SUMMARY OF OPERATING AND MAINTENANCE EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2019

($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2019 vs. 2018 #	%
	Operating & Maintenance Expense					
1	Gas Management		351	320	(31)	(8.70%)
2	Transmission		85,747	93,144	7,397	8.63%
3	Distribution		40,846	46,672	5,826	14.26%
4	General		4,556	4,383	(173)	(3.79%)
5	Sales and Transportation Promotion		2,828	3,610	782	27.66%
6	Customer Accounting		11,220	10,465	(755)	(6.73%)
7	Administration and General		39,776	44,265	4,489	11.28%
8	**Total Operating & Maintenance Expense**		185,324	202,860	17,536	9.46%
9	Less: Non-Utility O&M		5,139	8,061	2,922	56.86%
10	**Operating & Maintenance Expense - Net**	Sch. 10	180,185	194,799	14,614	8.11%

Guidelines:

(1) Variance explanations required for $2 million, or 10% or greater and any difference equal to or greater than $500K.

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

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

Variance Explanations

Cross - Ref	
2	**Transmission** costs are higher than prior year mainly due to an increase in rates.
3	**Distribution** costs are higher than prior year mainly due to increased costs in work for affiliates, customer service, secondaries services, and operation maintenance services partially offset by a decrease in distribution support costs.
5	**Sales and Transportation Promotion** costs are higher than prior year mainly due to an increase in non-utility sales.
7	**Administration and General** costs are higher than prior year mainly due to an increase in technology costs and higher license fees.
9	**Non-Utility O&M** costs are higher than prior year mainly due to an increase in non-utility sales, higher license fees and disallowed information technology costs.

SCHEDULE 4

ATCO Gas (South)
SUMMARY OF DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
	Depreciation Expense					
1	Distribution Plant		69,540	73,455	3,915	5.63%
2	General Plant		18,798	13,864	(4,934)	(26.25%)
3	Sub-total	Sch. 4.1	88,338	87,318	(1,020)	(1.15%)
4	Less: Capitalized Depreciation		(2,288)	(2,353)	(65)	2.84%
5	Sub-total	Sch. 2.1	86,050	84,965	(1,085)	(1.26%)
6	**Amortization of Contributions**	Sch. 4.1	(7,518)	(7,764)	(246)	3.27%
	Other					
7	Production Abandonments		700	700	-	0.00%
8	**Non-Utility Items**		(978)	(248)	729	(74.61%)
9	**Total Utility Depreciation Expenses**	Sch. 10	**78,255**	**77,653**	**(601)**	**(0.77%)**

Guidelines:

(1) Variance explanations required for $2 million, or 10% or greater and any difference equal to or greater than $500K.

Variance Explanations

Cross-Ref	
1	**Distribution Plant** is higher than the prior year due to higher opening depreciable base as well as an increase in depreciation resulted from current year additions in 2019.
2	**General Plant** depreciation is lower than prior year due to the impairment of software programs in 2018.
8	**Non-Utility Items** depreciation is lower than the prior year due to the impairment of software programs in 2018.

ATCO Gas (South)
CAPITAL ASSETS CONTINUITY SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

CAPITAL ASSETS

Line No.	Property Group	Cross-Reference	Balance at '12/31/2018	2019 Additions	2019 Retirements	2019 Transfers	2019 Adjustments	Balance at '12/31/2019
	Distribution							
1	Land		4,053	(11)	-	-	-	4,042
2	Land Rights		4,718	1,332	-	(272)	-	5,778
3	Structures & Improvements		22,293	1,856	170	14	-	23,993
4	Services & Alterations		612,827	26,698	532	-	-	638,992
5	Regulators & Meters		207,924	8,922	405	(413)	-	216,027
6	Mains		1,003,459	51,742	2,573	2,127	-	1,054,755
7	Measurement & Regulating Equipment		93,661	13,546	881	169	-	106,495
8	Meters		108,243	9,960	3,612	413	-	115,003
9	Renewable Energy		2,908	-	-	-	-	2,908
10	Distribution		2,060,085	114,046	8,175	2,038	-	2,167,994
	General Plant & Equipment							
11	Franchises		680	-	-	-	-	680
12	Land		10,037	-	3	-	-	10,034
13	Structures & Improvements		59,347	3,338	244	-	-	62,441
14	General Plant & Equipment		70,063	3,338	247	-	-	73,155
	Moveable Equipment							
15	Office Furniture & Equipment		7,833	165	150	-	-	7,849
16	Transportation Equipment		38,096	1,940	941	-	-	39,095
17	Heavy Work Equipment		11,113	23	857	-	-	10,278
18	Tools & Work Equipment		11,264	588	744	-	-	11,108
19	Cogeneration Equipment		1,104	-	-	-	-	1,104
20	Communication Equipment		16,251	800	275	(29)	-	16,747
21	Stores, Shop Equipment & Lab Equipment		8,550	351	136	-	-	8,766
22	Leasehold Improvements		12,028	1,326	7,004	-	-	6,349
23	Electronic Data Processing Equipment		3,713	927	-	604	-	5,245
24	Base Maps		622	(1)	44	-	-	577
25	Software Development		106,668	7,528	-	(295)	-	113,901
26	Moveable Equipment		217,243	13,647	10,150	280	-	221,019
27	Capital Work in Progress (CWIP)		41,303	1,222	-	-	-	42,525
28	Total Capital Assets	Sch. 2.1 / 4.2	**2,388,695**	**132,252**	**18,572**	**2,318**	**-**	**2,504,693**
29	Non-Utility Assets		7,713	(28)	391	10	-	**7,303**
30	**Total Utility Capital Assets**		**2,380,982**	**132,280**	**18,181**	**2,308**	**-**	**2,497,390**
	Contributions							
31	Utility		343,462	13,165	759	245	-	356,113
32	Non-Utility		757	-	-	-	-	757
33	Contributions Work in Progress (KWIP)		183	(57)	-	-	-	126
34	Total Contributions	Sch 2.1	**344,402**	**13,108**	**759**	**245**	**-**	**356,996**

SCHEDULE 4.1

ATCO Gas (South)
CAPITAL ASSETS CONTINUITY SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

ACCUMULATED DEPRECIATION

Line No.	Property Group	Cross-Reference	Balance at '12/31/2018	Depreciation Provision	2019 Retirements	2019 Removals	2019 Salvage	2019 Adjustments	Balance at '12/31/2019
	Distribution								
1	Land		-	-	-	-	-	-	-
2	Land Rights		225	50	-	-	-	(27)	248
3	Structures & Improvements		5,681	596	170	333	-	14	5,788
4	Services & Alterations		256,309	25,371	532	2,328	-	-	278,821
5	Regulators & Meters		69,244	6,472	405	21	-	(1)	75,289
6	Mains		315,182	28,758	2,573	2,398	22	2,127	341,117
7	Measurement & Regulating Equipment		35,803	3,980	881	1,025	-	169	38,045
8	Meters		29,968	8,095	3,612	(39)	991	1	35,482
9	Renewable Energy		740	133	-	-	-	-	872
10	**Distribution**		713,151	73,455	8,175	6,066	1,014	2,283	775,662
	General Plant & Equipment								
11	Franchises		420	68	-	-	-	-	488
12	Land		-	-	-	-	-	-	-
13	Structures & Improvements		25,607	2,165	244	149	86	-	27,466
14	**General Plant & Equipment**		26,027	2,233	244	149	86	-	27,954
	Moveable Equipment								
15	Office Furniture & Equipment		3,194	399	150	9	-	-	3,435
16	Transportation Equipment		18,768	2,486	941	8	89	-	20,394
17	Heavy Work Equipment		6,090	873	857	1	112	-	6,217
18	Tools & Work Equipment		2,902	714	744	-	5	-	2,878
19	Cogeneration Equipment		1,104	5	-	-	-	-	1,110
20	Communication Equipment		10,540	877	275	127	-	(4)	11,011
21	Stores, Shop & Lab Equipment		4,556	572	136	1	-	-	4,992
22	Electronic Data Processing Equipment		1,439	391	-	-	-	36	1,866
23	Base Maps		583	25	44	-	-	-	564
24	Leaseholds & Improvements		10,103	351	7,004	39	-	-	3,411
25	Software Development		79,935	4,936	-	-	-	3	84,875
26	Moveable Equipment		139,215	11,631	10,150	185	206	35	140,751
27	Retirements Work in Progress (RWIP)		(1,826)	-	-	3,011	-	-	(4,837)
28	Total Accumulated Depreciation	Sch. 2.1 / 4	**876,567**	**87,318**	**18,569**	**9,411**	**1,307**	**2,318**	**939,530**
29	**Non-Utility Assets**		**3,004**	270	391	-	-	-	**2,883**
30	Total Utility Accumulated Depreciation		**873,563**	**87,048**	**18,178**	**9,411**	**1,307**	**2,318**	**936,647**
	Contributions								
31	Utility		110,438	7,742	759	-	-	245	117,665
32	Non-Utility	Sch. 4	352	22	-	-	-	-	374
33	Total Contributions	Sch 2.1 / 4	**110,790**	**7,764**	**759**	**-**	**-**	**245**	**118,039**
34	Net Property, Plant, and Equipment		**1,278,515**						**1,326,207**
35	Net Property, Plant and Equipment (Non-Utility)		**(4,304)**						**(4,037)**
36	Net Property, Plant, and Equipment (Utility)		**1,274,212**						**1,322,170**

Guidelines:

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

ATCO Gas (South)
SUMMARY OF CAPITAL EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross- Reference	2018 Year End	2019 Year End	Variance 2019 vs. 2018	
	Distribution					
1	Extensions		18,042	20,487	2,445	13.55%
2	Services		17,156	14,587	(2,569)	(14.97%)
3	Meters, Regulators and Installations		13,500	19,077	5,577	41.31%
4	Improvements and MRRP		76,539	53,134	(23,405)	(30.58%)
5	Sub-Total		125,237	107,286	(17,951)	(14.33%)
	Land and Structures					
6	General		2,526	4,225	1,699	67.25%
	Moveable Equipment					
7	General		3,120	8,601	5,481	175.67%
8	Communication and Lab Equipment		572	847	275	48.07%
9	Software Development		10,369	10,421	52	0.50%
10	Renewable Energy		-	-	-	0.00%
11	Sub-Total		14,061	19,869	327	2.32%
12	Change in Inventory Spares		(288)	-	288	(100.00%)
13	Capital Expenditures (IFRS)		141,536	131,379		
14	IDC / AFUDC and Other IFRS Adjustments		(1,339)	871		
15	**Capital Expenditures**	Sch. 2.1 / 4.1	**140,197**	**132,250**	**(7,947)**	**(5.67%)**

Guidelines:

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

Variance Explanations

Cross-Ref	
1	**Extensions** expenditures were higher than prior year due to increased demand for urban residential extensions and urban feeder mains.
2	**Services** expenditures were lower than prior year mainly due to the decreased demand for service installs.
3	**Meters, Regulators and Installations** expenditures were higher than prior year due to increased meter equipment replacement.
4	**Improvements and MRRP** expenditures were lower than prior year mainly due to lower expenditures in the Meter Relocation & Replacement, Steel Mains Replacement, and Urban Pipeline Relocation Programs.
6	**Land and Structures - General** expenditures were higher than prior year due to increased facility renovations and repairs.
7	**Moveable Equipment - General** expenditures were higher than prior year due to higher replacement of trailers, heavy work equipment and vehicles.

ATCO Gas (South)
SUMMARY OF UTILITY REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
($000s)

Line No.	Description	Cross-Ref.	2018 Actual	2019 Actual	2019 Forecast	Variance 2019 Act vs. Forecast #	Variance 2019 Act vs. Forecast %	Variance 2019 vs. 2018 #	Variance 2019 vs. 2018 %
	REVENUE CLASSIFICATIONS								
	Residential								
1	Average Number of Customers		554,083	561,694	562,279	(585)	(0.10%)	7,611	1.37%
2	Revenue		247,435	277,287	276,708	579	0.21%	29,852	12.06%
	Commercial (Apartment)								
3	Average Number of Customers		3,570	3,571	3,635	(64)	(1.76%)	1	0.03%
4	Revenue		10,539	12,448	12,480	(32)	(0.26%)	1,909	18.11%
	Commercial (Non-Apartment)								
5	Average Number of Customers		39,012	39,678	39,528	150	0.38%	666	1.71%
6	Revenue		71,205	84,867	84,806	61	0.07%	13,662	19.19%
	Industrial								
7	Average Number of Customers		190	188	189	(1)	(0.53%)	(2)	(1.05%)
8	Revenue		5,301	6,691	6,443	248	3.85%	1,390	26.22%
	Irrigation								
9	Average Number of Customers		409	421	374	47	12.57%	12	2.93%
10	Revenue		436	443	452	(9)	(1.99%)	7	1.61%
11	Total Average Number of Customers		597,264	605,552	606,005	(453)	(0.07%)	8,288	1.39%
12	Sub-Total Rate Revenue		334,916	381,736	380,889	847	0.22%	46,820	13.98%
	RATE ACCRUALS REVENUE								
13	Rate Accruals Revenue		12,778	(16,462)				(29,240)	(228.83%)
	FRANCHISE REVENUE								
14	Franchise Fee Revenue		66,566	74,873				8,307	12.48%
	OTHER REVENUE								
15	Other Revenue (Please See Below)		9,586	10,994				1,409	14.69%
16	**TOTAL UTILITY REVENUE**	Sch 10	**423,846**	**451,141**				**27,296**	6.44%
	OTHER REVENUE								
17	ATCO Pipelines		3,222	5,346				2,124	65.92%
18	Other Affiliates		413	554				141	34.04%
19	Facility Repairs		709	530				(179)	(25.21%)
20	Reinstatement Fees		2,016	1,599				(417)	(20.67%)
21	Miscellaneous		3,226	2,965				(260)	(8.07%)
22	Total Other Revenue		9,586	10,994				1,409	14.69%

Guidelines:
(1) Variance explanations required for $2 million, or 10% or greater and any difference equal to or greater than $500K.

Note: The 2019 rate revenue forecast is based on the 2019 delivery rates applied to the PBR approved billing determinant forecast.

Revenue Variance Explanations

Cross-Ref	
2	**Residential Revenue** is higher than prior year primarily due to higher delivery rates and number of customers in 2019.
4	**Commercial (Apt) Revenue** is higher than prior year primarily due to higher delivery rates and sales per customer in 2019.
6	**Commercial (Non-Apt) Revenue** is higher than prior year primarily due to higher delivery rates, number of customers and demand throughput in 2019.
8	**Industrial Revenue** is higher than prior year primarily due to higher delivery rates and demand throughput in 2019.
13	**Rate Accruals Revenue** is lower due to a timing difference between the issuance of Commission Decisions and the amounts being collected and/or refunded.
14	**Franchise Fee Revenue** is higher than prior year primarily due to higher delivery rates, cost of gas and number of customers in 2019.
17	**ATCO Pipelines Revenue** is higher than prior year mainly due to higher distribution support services.

SCHEDULE 10

ATCO Gas (South)

UTILITY INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019
INCOME STATEMENT ITEMS
($000s)

Line No.	Description	Cross-Reference	2019 Utility Total	2018 Utility Total	Variance 2019 vs. 2018	
	Revenues					
1	Total Operating Revenue		451,141	423,846	27,296	6.44%
2		Sch. 6	451,141	423,846	27,296	6.44%
	Operating Expenses					
3	Operation and Maintenance (including property tax)		194,987	180,361	14,626	8.11%
4	Depreciation and Amortization	Sch. 4	77,653	78,255	(601)	(0.77%)
5	Franchise Fees	Sch. 6	74,873	66,566	8,307	12.48%
6			347,513	325,181	22,332	19.82%
7	**Income Tax**		9,858	8,301	1,557	18.76%
8	**Return**	Sch. 2	**93,770**	**90,364**	**3,407**	**3.77%**

(a division of ATCO Gas and Pipelines Ltd.)

ATCO GAS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

Independent auditor's report

To the Shareowner of ATCO Gas and Pipelines Ltd.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ATCO Gas, a division of ATCO Gas and Pipelines Ltd., (the Division) as at December 31, 2019 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, 2019;
- the statement of comprehensive income for the year ended December 31, 2019;
- the balance sheet as at December 31, 2019;
- the statement of changes in equity for the year ended December 31, 2019;
- the statement of cash flow for the year ended December 31, 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
May 14, 2020

TABLE OF CONTENTS

STATEMENT OF EARNINGS

(thousands of Canadian Dollars)	Note	2019	2018
		Year Ended December 31	
Revenues	5	**1,085,642**	943,719
Costs and expenses			
Salaries, wages and benefits		**(90,440)**	(90,424)
Energy transmission and transportation		**(196,836)**	(178,317)
Plant and equipment maintenance		**(55,246)**	(53,995)
Depreciation and amortization	10, 11	**(132,645)**	(136,028)
Franchise fees		**(203,975)**	(180,958)
Property taxes		**(602)**	(578)
Other	6	**(102,614)**	(89,863)
Operating profit		**303,284**	213,556
Interest income		**453**	269
Interest expense	7	**(79,263)**	(78,880)
Net finance costs		**(78,810)**	(78,611)
Earnings before income taxes		**224,474**	134,945
Income taxes	8	**(13,074)**	(37,026)
Earnings for the year		**211,400**	97,919

See accompanying Notes to Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

		Year Ended December 31	
(thousands of Canadian Dollars)	**Note**	**2019**	**2018**
Earnings for the year		**211,400**	97,919
Other comprehensive (loss) income, net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits [(1)]	13	**(4,399)**	2,061
Comprehensive income for the year		**207,001**	99,980

(1) Net of income taxes of $1.2 million for the year ended December 31, 2019 (2018 - $(0.8) million).

See accompanying Notes to Financial Statements.

BALANCE SHEET

(thousands of Canadian Dollars)	Note	December 31 2019	2018
ASSETS			
Current assets			
Short-term advances to parent company		–	20,000
Accounts receivable and contract assets	14	**174,268**	175,232
Accounts receivable from parent and affiliate companies	24	**3,135**	2,745
Inventories	9	**2,105**	3,470
Prepaid expenses and other current assets		**3,377**	3,322
		182,885	204,769
Non-current assets			
Property, plant and equipment	10	**3,755,253**	3,609,328
Intangibles	11	**120,545**	107,262
Other assets		**6,463**	1,806
Total assets		**4,065,146**	3,923,165
LIABILITIES			
Current liabilities			
Bank indebtedness		**3,705**	820
Short-term advances from parent company	22	**15,000**	–
Accounts payable and accrued liabilities		**137,753**	156,580
Accounts payable to parent and affiliate companies	24	**25,115**	31,348
Long-term debt	12	**23,738**	225,000
Other liabilities		**1,352**	–
		206,663	413,748
Non-current liabilities			
Deferred income tax liabilities	8	**286,521**	294,187
Retirement benefit obligations	13	**79,935**	75,178
Deferred revenues	14	**531,391**	519,739
Other liabilities		**3,679**	6
Long-term debt	12	**1,671,726**	1,463,700
Total liabilities		**2,779,915**	2,766,558
EQUITY			
Equity preferred shares	15	**88,318**	88,318
Class A and Class B share owner's equity			
Class A and Class B shares	16	**119,107**	119,107
Retained earnings		**1,077,806**	949,182
		1,196,913	1,068,289
Total equity		**1,285,231**	1,156,607
Total liabilities and equity		**4,065,146**	3,923,165

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, 2017		119,107	88,318	919,004	–	1,126,429
Earnings for the year		–	–	97,919	–	97,919
Other comprehensive income		–	–	–	2,061	2,061
Gains on retirement benefits transferred to retained earnings	14	–	–	2,061	(2,061)	–
Dividends	16,17	–	–	(69,802)	–	(69,802)
December 31, 2018		119,107	88,318	949,182	–	1,156,607
Earnings for the year		–	–	**211,400**	–	**211,400**
Other comprehensive loss		–	–	–	**(4,399)**	**(4,399)**
Loss on retirement benefits transferred to retained earnings	14	–	–	**(4,399)**	**4,399**	–
Dividends	16,17	–	–	**(78,377)**	–	**(78,377)**
December 31, 2019		**119,107**	**88,318**	**1,077,806**	–	**1,285,231**

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOW

(thousands of Canadian Dollars)	Note	Year Ended December 31 2019	2018
Operating activities			
Earnings for the year		**211,400**	97,919
Adjustments to reconcile earnings to cash flows from operating activities	17	**228,612**	227,997
Changes in non-cash working capital	17	**(30,521)**	35,257
Cash flows from operating activities		**409,491**	361,173
Investing activities			
Additions to property, plant and equipment		**(257,231)**	(258,807)
Proceeds on disposal of property, plant and equipment		**11**	49
Additions to intangibles		**(23,149)**	(26,563)
Changes in non-cash working capital	17	**(4,925)**	(25,995)
Other		**(4,680)**	(58)
Cash flows used in investing activities		**(289,974)**	(311,374)
Financing activities			
Issue of long-term debt	12	**233,000**	130,000
Repayment of long-term debt	12	**(225,000)**	–
Dividends paid on equity preferred shares	15	**(3,377)**	(3,377)
Dividends paid to Class A and Class B share owner	16	**(75,000)**	(66,425)
Interest paid		**(83,845)**	(80,616)
Other		**(3,180)**	(940)
Cash flows used in financing activities		**(157,402)**	(21,358)
(Decrease) increase in cash position		**(37,885)**	28,441
Beginning of year		**19,180**	(9,261)
End of year	17	**(18,705)**	19,180

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

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

1. THE DIVISION AND ITS OPERATIONS

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

In these non-consolidated financial statements, ATCO Gas is also referred to as "the Company".

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, 2020.

BASIS OF MEASUREMENT

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

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

USE OF ESTIMATES AND JUDGMENTS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, assumptions and estimates are described in Note 21.

3. CHANGE IN ACCOUNTING POLICIES

LEASES

The Company adopted IFRS 16 *Leases* on January 1, 2019, which introduces a new approach to lease accounting. The Company adopted the standard using the modified retrospective approach, which does not require restatement of prior year financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information in these financial statements has not been restated.

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts in existence at January 1, 2019, and is applied to contracts entered into, or modified, on or after January 1, 2019.

Practical expedients

Effective January 1, 2019, the IFRS 16 transition date, the Company elected to use the following practical expedients under the modified retrospective transition approach:

- Leases with lease terms of less than twelve months (short-term leases) and leases of low-value assets (less than $5,000 U.S. dollars) (low-value leases) that have been identified at transition, were not recognized in the non-consolidated balance sheet;
- Right-of-use assets on transition were measured at the amount equal to the lease liabilities at transition, adjusted by the amount of any prepaid or accrued lease payments;
- For certain leases having associated initial direct costs, the Company, at initial measurement on transition, excluded these directs costs from the measurement of the right-of-use assets; and
- Any provision for onerous lease contracts previously recognized at the date of adoption of IFRS 16, has been applied to the associated right-of-use asset recognized upon transition.

The Company's financial statements were not impacted by the adoption of IFRS 16 *Leases* in relation to lessor accounting. Lessors will continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17 *Leases.*

IMPACT OF CHANGES IN ACCOUNTING POLICIES

There was no material impact on the non-consolidated statement of earnings, balance sheet, statement of changes in equity and statement of cash flow resulting from the adoption of IFRS 16 noted above.

4. ADJUSTED EARNINGS

ADJUSTED EARNINGS

Adjusted earnings are earnings for the year after adjusting for:

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

Adjusted earnings are a key measure of earnings 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.

	2019	2018
Adjusted earnings	**120,423**	113,409
Rate-regulated activities	**96,532**	(7,285)
Restructuring costs	**(183)**	(11,582)
IT Common Matters decision	**(8,749)**	–
Dividends on equity preferred shares	**3,377**	3,377
Earnings for the year	**211,400**	97,919

Restructuring costs

In 2018, the Company recorded restructuring and other costs of $11.6 million, after-tax, that were not in the normal course of business. These costs mainly related to staff reductions and associated severance costs.

Rate-regulated activities

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

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

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

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

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

	2019	2018
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**39,693**	37,150
Impact of weather changes on revenue (2)	**13,204**	12,458
Revenues to be billed in future periods		
Deferred income taxes (3)	**18,757**	(28,548)
Regulatory decisions received	**8,749**	(512)
Settlement of regulatory decisions and other items	**16,129**	(27,833)
	96,532	(7,285)

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

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

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

Regulatory decisions received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. The significant decisions impacting adjusted earnings during 2019 are provided below:

Decision	Amount	Description
Information Technology (IT) Common Matters	8,749	In August 2014, the Canadian Utilities sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. In 2015, the Alberta Utilities Commission (AUC) commenced an Information Technology Common Matters proceeding to review the recovery of IT costs by the Alberta Utilities from January 1, 2015 going forward. On June 5, 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Company to reduce the first-year of the Wipro MSA by 13 per cent and to apply a glide path that reduces pricing by 4.61 per cent in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to December 31, 2019 was $8.7 million. Of this amount, $5.3 million relates to the period January 1, 2015 to June 30, 2019 and was recorded in the second quarter of 2019. The remaining $3.4 million was recorded in the second half of 2019.

IT Common Matters decision

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

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

Consistent with the treatment in 2014, the $8.7 million reduction recognized in 2019, along with future impacts associated with this decision, will be excluded from adjusted earnings.

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:

	2019	2018
Distribution services	**848,504**	682,278
Customer contributions (*Note 14*)	**15,395**	14,920
Franchise Fees	**203,132**	178,040
Other	**5,556**	19,438
	1,072,587	894,676
Intercompany revenue	**13,055**	49,043
	1,085,642	943,719

6. OTHER COSTS AND EXPENSES

Other costs and expenses mainly 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.

	2019	2018
Long-term debt	**77,552**	79,288
Credit facility and standby charges	**1,180**	720
Retirement benefits net interest expense	**1,534**	1,490
Amortization of deferred financing charges	**471**	389
Other	**1,711**	870
	82,448	82,757
Less: interest capitalized *(Note 10,11)*	**(3,185)**	(3,877)
	79,263	78,880

Borrowing costs capitalized to property, plant and equipment during 2019 were calculated by applying a weighted average interest rate of 4.8 per cent to expenditures on qualifying assets (2018 - 5.0 per cent).

8. INCOME TAXES

IMPACT OF CHANGE IN INCOME TAX RATE

In May 2019, the Alberta government passed Bill 3, the Job Creation Tax Cut, which will reduce the Alberta provincial corporate tax rate from 12 per cent to 8 per cent in a phased approach between July 1, 2019 and January 1, 2022.

As a result of this change the Company made an adjustment in 2019 to deferred income taxes of $46 million.

As the tax rate change came into effect on July 1, 2019, the combined federal and Alberta statutory Canadian income tax rate for 2019 is 26.5 per cent. Prior to the change, the combined federal and Alberta statutory Canadian income tax rate for 2019 was 27.0 per cent.

INCOME TAX EXPENSE

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

The components of income tax expense are summarized below.

	2019	2018
Current income tax expense		
Expenses for the year	**16,733**	18,143
Adjustment in respect of prior years	**2,799**	(1,499)
	19,532	16,644
Deferred income tax expense		
Reversal of temporary differences	**42,051**	18,920
Change in income taxes resulting from decrease in provincial corporate tax rate	**(46,342)**	–
Adjustment in respect of prior years	**(2,167)**	1,462
	(6,458)	20,382
	13,074	37,026

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

		2019		2018
Earnings before income taxes	**224,474**	**%**	134,945	%
Income taxes, at statutory rates	**59,486**	**26.5**	36,435	27.0
Part VI.I tax net of transfer benefit	**98**	–	74	0.1
Change in income taxes resulting from decrease in provincial corporate tax rate	**(46,342)**	**(20.6)**	–	–
Other	**(168)**	**(0.1)**	517	0.4
	13,074	**5.8%**	37,026	27.5%

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, 2017	260,452	27,207	(20,697)	6,081	273,043
Charge (credit) to earnings	24,327	1,755	(303)	(5,397)	20,382
Charge to other comprehensive income	–	–	762	–	762
December 31, 2018	284,779	28,962	(20,238)	684	294,187
Charge (credit) to earnings	**27,927**	**3,670**	**(140)**	**8,427**	**39,884**
Credit to other comprehensive income	–	–	**(1,207)**	–	**(1,207)**
Change in income taxes resulting from decrease in provincial corporate tax rate	**(43,691)**	**(4,525)**	**3,258**	**(1,384)**	**(46,342)**
Other	–	–	–	**(1)**	**(1)**
December 31, 2019	**269,015**	**28,107**	**(18,327)**	**7,726**	**286,521**

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

9. INVENTORIES

Inventories at December 31 are comprised of:

	2019	2018
Raw materials and consumables	**2,105**	3,066
Work-in-progress	–	404
	2,105	3,470

For the year ended December 31, 2019, inventories recognized as an expense were $1.4 million (2018 - $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:

	Distribution Plant	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost					
December 31, 2017	4,421,671	184,059	49,550	27,701	4,682,981
Additions	199	655	277,739	–	278,593
Transfers	264,561	3,833	(268,477)	83	–
Retirements and disposals	(28,742)	(1,624)	–	(367)	(30,733)
December 31, 2018	4,657,689	186,923	58,812	27,417	4,930,841
Additions	**6,489**	–	**267,063**	–	**273,552**
Transfers	**247,279**	**6,361**	**(255,015)**	**1,375**	–
Retirements and disposals	**(27,115)**	**(8,019)**	–	**(249)**	**(35,383)**
December 31, 2019	**4,884,342**	**185,265**	**70,860**	**28,543**	**5,169,010**
Accumulated depreciation					
December 31, 2017	1,144,248	72,973	–	14,204	1,231,425
Depreciation	114,126	5,259	–	1,387	120,772
Retirements and disposals	(28,742)	(1,575)	–	(367)	(30,684)
December 31, 2018	1,229,632	76,657	–	15,224	1,321,513
Depreciation	**120,961**	**5,448**	–	**1,207**	**127,616**
Retirements and disposals	**(27,107)**	**(8,016)**	–	**(249)**	**(35,372)**
December 31, 2019	**1,323,486**	**74,089**	–	**16,182**	**1,413,757**
Net book value					
December 31, 2018	3,428,057	110,266	58,812	12,193	3,609,328
December 31, 2019	**3,560,856**	**111,176**	**70,860**	**12,361**	**3,755,253**

The additions to property, plant and equipment included $2.1 million of interest capitalized during construction for the year ended December 31, 2019 (2018 - $2.3 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, 2017	225,512	26,760	1,256	253,528
Additions	22,652	3,911	–	26,563
Retirements	(9,950)	–	–	(9,950)
December 31, 2018	238,214	30,671	1,256	270,141
Additions	**20,083**	**3,122**	–	**23,205**
December 31, 2019	**258,297**	**33,793**	**1,256**	**293,346**
Accumulated amortization				
December 31, 2017	148,719	3,325	720	152,764
Amortization	9,702	289	124	10,115
December 31, 2018	158,421	3,614	844	162,879
Amortization	**9,470**	**327**	**125**	**9,922**
December 31, 2019	**167,891**	**3,941**	**969**	**172,801**
Net book value				
December 31, 2018	79,793	27,057	412	107,262
December 31, 2019	**90,406**	**29,852**	**287**	**120,545**

The additions to intangibles included $1.1 million of interest capitalized during construction for the year ended December 31, 2019 (2018 - $1.6 million).

12. LONG-TERM DEBT

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

	Effective Interest Rate	2019	2018
Debentures - unsecured	4.550% (2018 - 4.985%)	**1,705,170**	1,697,170
(interest is the average effective interest rate weighted by principal amounts outstanding)			
Less: deferred financing charges		**(9,706)**	(8,470)
		1,695,464	1,688,700
Less: amounts due within one year		**(23,738)**	(225,000)
		1,671,726	1,463,700

Debenture issuances

During 2019, ATCO Gas issued $233 million of 2.963 per cent debentures maturing on September 7, 2049 (2018 - $130 million of 3.95 per cent debentures maturing on November 23, 2048).

During 2019, ATCO Gas repaid $105 million of 5.432 per cent debentures and $120 million of 6.8 per cent debentures.

13. RETIREMENT BENEFITS

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

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2019.

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

		2019		2018
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Defined benefit plans cost	**7,804**	**2,416**	9,218	2,535
Defined contribution plans cost	**6,700**	**–**	7,352	–
Total cost	**14,504**	**2,416**	16,570	2,535
Less: capitalized	**7,252**	**1,208**	8,285	1,268
Net cost recognized	**7,252**	**1,208**	8,285	1,267
Accrued benefit obligations				
Beginning of year	23,851	51,327	24,278	52,600
Defined benefit plan cost	**7,804**	**2,416**	9,218	2,535
Benefit payments	**(1,560)**	**(2,147)**	(1,229)	(1,663)
Contributions to defined benefit plans	**(7,362)**	**–**	(7,738)	–
Actuarial (gains) losses	**2,370**	**3,236**	(678)	(2,145)
End of year	**25,103**	**54,832**	23,851	51,327

Weighted average assumptions

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

		2019		2018
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	**3.80%**	**3.80%**	3.60%	3.60%
Average compensation increase for the year	**2.50%**	**n/a**	2.50%	n/a
Accrued benefit obligations				
Discount rate at December 31	**3.10%**	**3.10%**	3.80%	3.80%
Long-term inflation rate	**2.00%**	**n/a**	2.00%	n/a
Health care cost trend rate:				
Drug costs (1)	**n/a**	**5.17%**	n/a	5.30%
Other medical costs	**n/a**	**4.00%**	n/a	4.50%
Dental costs	**n/a**	**4.00%**	n/a	4.00%

(1) ATCO Gas uses a graded drug cost trend rate, which assumes a 5.17 per cent rate per annum, grading down to 4.00 per cent in and after 2040.

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 2020 is $7.4 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:

	2019	2018
Trade accounts receivable and contract assets	**173,191**	172,576
Other accounts receivable	**1,077**	2,656
	174,268	175,232

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

	2019	2018
Trade accounts receivable from parent and affiliate companies	**3,135**	2,745

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

	Trade accounts receivable and contract assets
December 31, 2017	192,845
Revenue from satisfied performance obligations	935,006
Other items not included in revenue	(10)
Payments received	(955,265)
December 31, 2018	172,576
Revenue from satisfied performance obligations	**1,057,192**
Payments received	**(1,056,577)**
December 31, 2019	**173,191**

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.

	2019	2018
Beginning of year	519,739	507,824
Receipt of customer contributions	**27,047**	26,835
Amortization	**(15,395)**	(14,920)
End of year	**531,391**	519,739

15. EQUITY PREFERRED SHARES

EQUITY PREFERRED SHARES TO CU INC.

Authorized and issued

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

	2019		2018	
Issued	**Shares**	**Amount**	**Shares**	**Amount**
Cumulative Redeemable Preferred Shares				
4.60% Series 1	**1,360,000**	**34,000**	1,360,000	34,000
2.243% Series 4	**1,260,000**	**31,500**	1,260,000	31,500
Issuance costs		**(1,227)**		(1,227)
		64,273		64,273

Rights and privileges

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

(1) Plus accrued and unpaid dividends.

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

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

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

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

EQUITY PREFERRED SHARES TO CANADIAN UTILITIES LIMITED

Authorized and issued

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

	2019		2018	
Issued	**Shares**	**Amount**	**Shares**	**Amount**
Perpetual Cumulative Second Preferred Shares				
4.60% Series V	**962,422**	**24,060**	962,422	24,060
Issuance Costs		**(15)**		(15)
		24,045		24,045

Rights and Privileges

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

DIVIDENDS

Cash dividends declared and paid per share are as follows:

(dollars per share)	2019	2018
4.60% Series 1	**1.1500**	1.1500
2.243% Series 4	**0.56075**	0.56075
4.60% Series V	**1.1500**	1.0000

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

On December 19, 2019, ATCO Gas declared first quarter eligible dividends of $0.28750 per Series 1 Preferred Share, $0.1401875 per Series 4 Preferred Share, and $0.28750 per Series V 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, 2019 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, 2019 and 2018	**2,882,633**	**74,067**	**1,745,518**	**45,040**	**4,628,151**	**119,107**

Class A and B shares have no par value.

ATCO Gas declared and paid cash dividends of $16.21 per Class A non-voting share and Class B common share during 2019 (2018 - $14.35). The payment and amount of dividends is at the discretion of the Board and depends on the financial condition of ATCO Gas and other factors.

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.

	2019	2018
Depreciation and amortization	**132,645**	136,028
Income taxes	**13,074**	37,026
Contributions by utility customers for extensions to plant	**27,047**	26,835
Amortization of customer contributions	**(15,395)**	(14,920)
Net finance costs	**78,810**	78,611
Income taxes paid	**(5,823)**	(35,704)
Interest received	**622**	488
Other	**(2,368)**	(367)
	228,612	227,997

CHANGES IN NON-CASH WORKING CAPITAL

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

	2019	2018
Operating activities		
Accounts receivable and contract assets	**(1,234)**	17,613
Accounts receivable from parent and affiliate companies	**9,807**	4,951
Inventories	**1,365**	1,817
Prepaid expenses and other current assets	**(55)**	(429)
Accounts payable and accrued liabilities	**(27,353)**	2,058
Accounts payable to parent and affiliate companies	**(13,051)**	9,247
	(30,521)	35,257
Investing activities		
Accounts receivable and contract assets	**2,199**	–
Inventories	**(1,941)**	(3,976)
Accounts payable and accrued liabilities	**(5,183)**	(22,019)
	(4,925)	(25,995)

CASH POSITION

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

	2019	2018
Short-term advances to parent company	**–**	20,000
Short-term advances from parent company	**(15,000)**	–
Bank indebtedness	**(3,705)**	(820)
	(18,705)	19,180

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

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

			2019		2018
Recurring Measurements	**Note**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Liabilities					
Long-term debt	12	**1,695,464**	**1,997,191**	1,688,700	1,809,969

19. RISK MANAGEMENT

FINANCIAL RISKS

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

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

CREDIT RISK

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

The majority of ATCO Gas' accounts receivable credit risk is reduced by financial security provided by Direct Energy and by retailers in accordance with provisions contained with Natural Gas Billing Regulation A.R. 185/2003, and ATCO Gas' ability under the Regulation to request recovery through customers rates any losses from retailers beyond that covered by the retailer security provided. At December 31, 2019, ATCO Gas held $89 million in letters of credit for certain counterparty receivables (2018 - $122 million).

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. The provision for impairment of credit losses was $0.2 million in 2019 and 2018. At December 31, 2019, ATCO Gas had $4.8 million of trade receivables past due greater than 30 days (2018 - $1.8 million). No other impairments have been identified within accounts receivable.

ATCO Gas has also entered into guarantee arrangements with Centrica plc. relating to the retail energy supply functions performed by Direct Energy (see Note 22).

LIQUIDITY RISK

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

Line of credit

ATCO Gas has a line of credit available of $10.0 million (2018 - $10.0 million). The credit line enables ATCO Gas to obtain financing for general business purposes. At December 31, 2019 and 2018, 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, 2019, of ATCO Gas' financial liabilities based on the contractual undiscounted cash flows.

	2020	2021	2022	2023	2024	2025 and thereafter
Bank indebtedness	3,705	–	–	–	–	–
Short-term advances from parent company	15,000	–	–	–	–	–
Accounts payable and accrued liabilities	137,753	–	–	–	–	–
Accounts payable to parent and affiliate companies	25,115	–	–	–	–	–
Long-term debt:						
Principal	23,738	20,000	26,803	43,629	–	1,591,000
Interest expense	76,665	74,000	71,151	67,751	66,380	1,295,807
	281,976	94,000	97,954	111,380	66,380	2,886,807

20. CAPITAL DISCLOSURES

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

ATCO Gas includes share owner’s equity, preferred shares, and long term debt, as adjusted in accordance with the Financial Accounting Standards Board (FASB) standards (see Note 4 and 26), in its determination of capitalization. In maintaining or adjusting its capital structure, ATCO Gas may adjust the dividends paid to the share owner, issue or purchase Class A and Class B shares, and issue or redeem preferred shares and long-term debt.

21. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Significant judgments and estimates made by ATCO Gas 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 Gas’ overall business strategy, significant negative industry or economic trends, or adverse decisions by regulators. Events indicating an impairment may be clearly identifiable or based on an accumulation of individually insignificant events over a period of time. ATCO Gas continually monitors its operating facilities and the markets and business environment in which it operates. Judgments and assessments about conditions and events are made in order to conclude whether a possible impairment exists.

Property, plant and equipment and intangibles

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

Income taxes

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

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

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

Impairment of financial assets

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

Useful lives of property, plant and equipment and intangibles

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

Impairment of long-lived assets

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

Retirement benefits

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

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

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

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

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

23. COMMITMENTS

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

	2020	2021	2022	2023	2024	2025 and thereafter
Purchase obligations:						
Transmission services agreements	221,378	226,065	228,690	227,115	188,265	21,210
Information technology services	29,100	29,491	30,309	30,309	30,309	
Capital expenditures	21,092	–	–	–	–	–
Other	5,582	–	–	–	–	–
	277,152	255,556	258,999	257,424	218,574	21,210

24. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH RELATED PARTIES

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

Entity	Relationship	Transaction	Recorded As	2019	2018
ATCO Pipelines	Division of AGPL	Contract services	Revenues	**10,132**	7,062
		Contract services	Plant and equipment maintenance	**1,101**	1,342
		Transfer of assets	Property, plant and equipment	**3,867**	(7)
		Contract services	Property, plant and equipment	**609**	3,083
ATCO Electric Ltd.	Affiliate	Rent and fleet services	Revenues	**1,221**	533
		Customer services	Revenues	**–**	11
		Contract services	Revenues	**121**	–
		Contract services	Plant and equipment maintenance	**–**	72
		Rent and contractor	Other expenses	**324**	353
		Customer collections	Operating expenses	**516**	–
		Transfer of assets	Property, plant and equipment	**–**	87
		Contract services	Property, plant and equipment	**573**	518
Northland Utilities Limited - NWT	Affiliate	Contract services	Revenues	**3**	–
Yukon Electrical	Affiliate	Contract services	Revenues	**23**	–
ATCO Power	Affiliate	Rent and office services	Revenues	**–**	119
		Contract services	Revenues	**–**	3
ATCO Structures and Logistics Ltd.	Affiliate	Rent	Rent, Parking and Utilities	**26**	–
		Contract services	Other expenses	**–**	54
ATCO Energy Solutions Ltd.	Affiliate	Contract services	Revenues	**1,202**	958
ATCO Energy Ltd.	Affiliate	Contract services	Revenues	**22**	20
		Retail services	Revenues	**60,364**	40,331
		Distribution service costs	Other expenses	**2,342**	2,171
		Contract services	Office services	**43**	41
		Transfer of assets	Property, plant and equipment	**–**	655
ATCO Investments Ltd.	Affiliate	Rent	Rent, Parking and Utilities	**3**	–
ATCO Ltd. / CUL / CU Inc.	Parent	Contract services	Revenues	**153**	4
		Administration, rent and aircraft	Property, plant and equipment	**10,377**	11,263
		Administration, rent and aircraft	Other expenses	**30,382**	27,743
		Licensing fees	Other expenses	**3,356**	2,304
		Interest income	Interest income	**–**	398
		Long term, short term interest expense and guarantee fees	Interest expense	**78,058**	79,538

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

ATCO Gas incurred $0.1 million (2018 - $0.2 million) in advertising and promotion expenses from an entity related through common control.

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

RELATED PARTY LOANS AND BALANCES

Balances	Recorded As	2019	2018
Receivables from related parties (1)	Accounts receivable from parent and affiliate companies	**3,135**	2,745
Payables to related parties (1)	Accounts payable to parent affiliate companies	**25,115**	31,348
Short-term advances (2)	Short-term advances from parent company	**15,000**	–
Short-term advances (2)	Short-term advances to parent company	**–**	20,000
Long-term advances *(Note 12)*	Long-term debt to parent company	**1,695,464**	1,688,700
Equity preferred shares *(Note 15)*	Equity preferred shares to parent company	**88,318**	88,318

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

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

25. SUBSEQUENT EVENTS

At the end of 2019, a novel strain of coronavirus (the COVID-19) was reported. The World Health Organization has since declared the outbreak to constitute a global pandemic. The COVID-19 outbreak is disrupting financial and commodity markets, supply chains, and affecting production and sales across different industries in private and public sectors. At this point, the extent to which the COVID-19 may impact the Company's operations, its financial position and performance is uncertain, and will depend on further developments, including the duration and spread of the outbreak, and its impact on the Company's customers, suppliers and employees.

26. ACCOUNTING POLICIES

RATE REGULATION

Nature and economic effects of rate regulation

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

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

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

Specifically, the PBR formula incorporates the following factors:

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

PBR also includes mechanisms to allow ATCO Gas to:

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

Financial statement effects of rate regulation

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

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

REVENUE RECOGNITION

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

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

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

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

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

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

Natural gas distribution

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

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

Franchise fees

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

SHORT-TERM EMPLOYEE BENEFITS

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

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

INCOME TAXES

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

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

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

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

CASH

Cash consists of cash at bank less outstanding cheques.

INVENTORIES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

	Useful Life	Average Useful Life	Average Depreciation Rate
Gas distribution plant and equipment	10 to 57 years	42 years	2.4%
Buildings	10 to 42 years	29 years	3.4%
Other plant, equipment and machinery	1 to 42 years	23 years	4.3%

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 Gas amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and no longer than 98 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

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

LEASES

The Company as a lessee

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A right-of-use asset representing the right to use the underlying asset with a corresponding lease liability is recognized when the leased asset becomes available for use by the Company.

The right-of-use asset is recognized at cost and is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term on a straight-line basis. The cost of the right-of-use asset is based on the following:

- the amount of initial recognition of related lease liability;
- adjusted by any lease payments made on or before inception of the lease;
- increased by any initial direct costs incurred; and
- decreased by lease incentives received and any costs to dismantle the leased asset.

The lease term includes consideration of an option to extend or to terminate if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liabilities are initially recognized at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Subsequent to recognition, lease liabilities are measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in future lease payments arising mainly from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option.

The payments related to short-term leases and low-value leases are recognized as other expenses over the lease term in the consolidated statements of earnings.

Prior to January 1, 2019, when the Company had purchased goods or services as a lessee, and the lease was an operating lease, rental payments were expensed on a straight-line basis over the life of the lease. Contingent rents were recognized in earnings in the period in which they were incurred. Contingent rent was that portion of lease payments that was not fixed in amount but varied based on a future factor, such as the amount of use or production.

The Company as a lessor

A finance lease exists when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Amounts due from lessees under finance leases are recorded as finance lease receivables. They are initially recognized at amounts equal to the present value of the minimum lease payments receivable. Payments that are part of the leasing arrangement are divided between a reduction in the finance lease receivable and finance lease income. Finance lease income is recognized so as to produce a constant rate of return on the Company's investment in the lease and is included in revenues.

PROVISIONS

ATCO Gas recognizes provisions when:

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

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

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

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

CONTINGENCIES

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

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

Amortized cost

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

Fair value through profit or loss

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

Transaction costs

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

Offsetting financial instruments

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

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

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

Derecognition of financial instruments

Financial assets are derecognized:

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

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

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

Fair value hierarchy

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

The hierarchy is as follows:

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

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

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

RETIREMENT BENEFITS

ATCO Gas participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the registered defined benefit plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, ATCO Gas is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 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 Gas does not have any liability to the Group Plan other than the minimum funding requirements of its subsidiaries. In the event of a withdrawal from the Group Plan or the termination of the Group Plan, the companies will still be required to contribute to the Group Plan where such contributions are required under pension regulations.

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At December 31, 2019, there are no new or amended standards and interpretations that need to be adopted in future periods and will have a significant impact on the Company.