ATCO PIPELINES
SUMMARY OF REVENUE REQUIREMENT
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.	Description	Cross-Reference	2019 Actual	2019 Approved *	Variance to Approved Col.[a]-[b]	
			[a]	[b]	[c] $	[d] %
1	Return on Rate Base	Sch 2	122,598	109,168	13,430	12.3
2	Operating and Maintenance Expense	Sch. 3	62,142	69,988	(7,846)	(11.2)
3	Taxes Other than Income	Sch. 10	17,215	18,109	(894)	(4.9)
4	Depreciation & Amortization Expense	Sch. 4	83,339	81,483	1,856	2.3
5	Income Taxes	Sch. 5	(7,934)	250	(8,184)	(3,274)
6	Total Utility Revenue Requirement		277,360	278,998	(1,638)	(3,276)
	Detailed Revenue					
7	Rate Revenue	Sch. 6	275,905	275,905	0	0.0
8	Franchise Fee Revenue	Sch. 6	3,109	3,093	16	0.5
9	Other Revenues	Sch. 6	(1,654)	0	(1,654)	0.0
10	**Total Revenues**	Sch. 6	277,360	278,998	(1,638)	(0.6)

* 2019 Approved is per AP 2019-2020 GRA Compliance Filing (24817-X0002) and has not been updated for the WARP R&V Decision (24176-D01-2020)

ATCO PIPELINES
SUMMARY OF COST OF CAPITAL
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.		Cross Ref.	Mid Year Capital	Ratios	Mid Year Rate Base	Cost Rate Percentage	Return Component [c]x[d]	Variance to Approved column [e]	
			[a]	[b]	[c]	[d]		[f] $	[g] %
	2019 Actual								
1	Long Term Debt	Sch 2.3	1,197,101	61.15%	1,117,784	4.49	50,189	(816)	(1.6)
2	Preferred Shares	Sch 2.4	36,139	1.85%	33,817	4.31	1,458	(10)	(0.7)
3	Common Equity	Sch 10	716,630	37.00%	676,337	10.49	70,951	14,256	25.1
4	Totals	Sch. 2.1	1,949,870	100.00%	1,827,938	6.71	122,598	13,430	12.3
	2019 Approved								
5	Long Term Debt	Sch 2.3	1,174,760	61.11%	1,101,626	4.63	51,005		
6	Preferred Shares	Sch 2.4	36,139	1.89%	34,071	4.31	1,468		
7	Common Equity		706,130	37.00%	666,996	8.50	56,695		
8	Totals	Sch. 2.1	1,917,029	100.00%	1,802,693	6.06	109,168		

Schedule 2.1

ATCO PIPELINES
SUMMARY OF MID-YEAR RATE BASE
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.		Cross Reference	2019 Actual [a]	2019 Approved [b]	Variance to Approved Col.[a]-[b] [c] $	[d] %	
	Property, Plant and Equipment						
1	Opening Balance		2,758,897				
2	Adjusted Opening Balance		2,786,049	2,751,450	7,447	0.3	**(1)**
3	Capital Expenditures	Sch 4.2	296,852	309,363	(12,511)	(4.0)	**(2)**
4	Inter-company Transfers	Sch 4.1	(6,545)	(2,880)	(3,665)	127.3	**(3)**
5	Adjustments	Sch 4.1	(720)	0	(720)	0.0	
6	Retirements	Sch 4.1	(18,035)	(22,663)	4,628	(20.4)	**(4)**
7	Closing Balance	Sch 4.1	3,057,601	3,035,270	22,331	0.7	
8	**Mid-Year PPE**		**2,921,825**	**2,893,360**	**28,465**	**1.0**	
	Accumulated Depreciation						
9	Opening Balance		784,021				
10	Adjusted Opening Balance		783,913	776,372	7,649	1.0	**(1)**
11	Depreciation Expense	Sch 4	86,938	85,141	1,797	2.1	
12	Retirements	Sch 4.1	(18,035)	(22,663)	4,628	(20.4)	
13	Inter-company Transfers	Sch 4.1	(2,318)	(2,880)	562	(19.5)	
14	Depreciation Capitalized	Sch 4	669	640	29	4.5	**(4)**
15	Adjustments	Sch 4.1	108	0	108	0.0	**(3)**
16	Proceeds on Disposal of Assets	Sch 4.1	467	0	467	0.0	
17	Net Salvage Costs	Sch 4.1	(18,722)	(7,013)	(11,709)	167.0	
18	Closing Balance	Sch 4.1	833,020	829,597	3,423	0.4	**(3)**
19	**Mid-Year Accumulated Depreciation**		**808,467**	**802,985**	**5,482**	**0.7**	**(5)**
20	**Mid-Year Work in Progress (CWIP/RWIP)**	Sch 4.1	**(175,159)**	**(167,557)**	**(7,602)**	**4.5**	
	Contributions in Aid of Construction						
21	Opening Balance		202,263	211,384	(9,121)	(4.3)	
22	Closing Balance		210,281	218,245	(7,964)	(3.7)	
23	**Mid-Year Contributions in Aid of Construction**		**206,272**	**214,815**	**(8,543)**	**(4.0)**	
	Amortization of Contributions						
24	Opening Balance		57,588	57,701	(113)	(0.2)	
25	Closing Balance		60,941	61,359	(418)	(0.7)	
26	**Mid-Year Amortization of Contributions**		**59,265**	**59,530**	**(265)**	**(0.5)**	
	Unapplied Contributions						
27	Opening Balance		1,241	4,704	(3,463)	(73.6)	
28	Closing Balance		4,762	1,843	2,919	158.4	
29	**Mid-Year Unapplied Contributions**		**3,002**	**3,274**	**(272)**	**(8.3)**	
30	**Mid-Year Plant in Service**		**1,794,194**	**1,770,807**	**23,387**	**1.3**	
	Necessary Working Capital						
31	Cash Expenses		1,602	2,362	(760)	(32.2)	
32	Financial Items		13,023	10,896	2,127	19.5	
33	Unamortized Debt and Preferred Discount		6,722	6,504	218	3.4	
34	Materials and Supplies		235	220	15	6.8	
35	Line Pack		3,531	3,561	(30)	(0.8)	
36	Salt Cavern Peaking Working Gas		7,033	8,093	(1,060)	(13.1)	
37	Future Income Tax		(211,569)	(202,904)	(8,665)	4.3	
38	Future Income Tax Regulatory Asset		213,167	203,154	10,013	4.9	
39	Total Adjustments		33,744	31,886	1,858	5.8	
40	Mid-Year Rate Base	Sch 2.0	1,827,938	1,802,693	25,245	1.4	

Notes:

(1) Adjusted opening balance includes opening WARP expenditures net of IT Common Matters disallowed capital.
(2) Please refer to schedule 4.2.
(3) Actuals are higher than 2019 Approved primarily due to the timing of, and higher, UPR transfers.
(4) Actuals are lower than 2019 Approved primarily due to lower Measuring & Regulating Equipment , Compressor Equipment , SCADA and Transmission retirements.
(5) Actuals are higher than 2019 Approved mainly due to changes in schedule for UPR abandonments, and higher than forecast number of general station removals and tap abandonments.

ATCO PIPELINES
SCHEDULE OF DEBT CAPITAL EMPLOYED
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

2019 ACTUAL:

LINE	CROSS REF	ISSUE DATE	MATURITY DATE	COUPON RATE %	PRINCIPAL	UNDERWRITING DISCOUNT AND EXPENSES	TOTAL AMOUNT	EFFECTIVE COST RATE %	CARRYING COSTS	VARIANCE TO APPROVED	VARIANCE %
		Debentures									
1		90-11-28	2020	11.77	11,262	3	11,259	11.91	1,341	0	0.0
2		06-11-20	2021	4.80	39,000	27	38,973	4.85	1,890	0	0.0
3		91-12-18	2022	9.92	13,197	18	13,179	10.15	1,338	0	0.0
4		92-12-08	2023	9.40	16,371	23	16,348	9.51	1,555	0	0.0
5		04-11-18	2034	5.89	21,900	65	21,835	5.94	1,297	0	0.0
6		05-11-21	2035	5.18	69,000	240	68,760	5.23	3,596	0	0.0
7		06-11-20	2036	5.03	39,000	134	38,866	5.07	1,971	0	0.0
8		07-11-30	2037	5.56	20,000	73	19,927	5.60	1,116	0	0.0
9		08-05-26	2038	5.58	30,000	118	29,882	5.62	1,679	0	0.0
10		08-05-26	2028	5.56	20,000	55	19,945	5.61	1,119	0	0.0
11		09-03-06	2039	6.50	4,000	17	3,983	6.55	261	0	0.0
12		09-03-06	2024	6.22	4,000	7	3,993	6.28	251	0	0.0
13		11-10-24	2041	4.54	57,100	261	56,839	4.58	2,603	0	0.0
14		11-10-24	2061	4.59	22,900	121	22,779	4.62	1,052	0	0.0
15		12-09-11	2042	3.81	25,000	118	24,882	3.84	955	0	0.0
16		12-09-11	2062	3.83	10,000	54	9,946	3.85	383	0	0.0
17		12-11-14	2052	3.86	8,000	41	7,959	3.89	310	0	0.0
18		13-09-28	2043	4.72	60,000	295	59,705	4.76	2,842	0	0.0
19		14-09-28	2044	4.09	65,000	321	64,679	4.12	2,665	0	0.0
20		14-10-17	2054	4.09	20,000	113	19,887	4.13	821	0	0.0
21		15-07-27	2045	3.96	100,000	549	99,451	4.00	3,978	0	0.0
22		15-10-30	2055	4.21	20,000	117	19,883	4.24	843	0	0.0
23		16-11-17	2046	3.76	110,000	696	109,304	3.80	4,154	1	0.0
24		17-11-22	2047	3.54	155,000	1,017	153,983	3.58	5,513	0	0.0
25		18-11-21	2048	3.95	120,000	829	119,171	3.99	4,755	702	7.7
26		19-09-05	2049	2.96	215,000	1,375	213,625	3.00	6,409	(2,727)	-5.2
27		Total			1,275,730	6,687	1,269,043		54,697	(2,024)	3
28		Prior Year-End Balance					1,125,159		52,866	702	1.3
29	Sch. 2	Midyear					1,197,101		53,782	(661)	-1.2
30	Sch. 2	Embedded Cost of Debt **(2)**							4.49%		

2019 APPROVED:

LINE	CROSS REF	ISSUE DATE	MATURITY DATE	COUPON RATE %	TOTAL LONG TERM DEBT	UNAMORTIZED COMMISSIONS AND EXPENSES	OUTSTANDING BALANCE	EFFECTIVE COST RATE % (1)	CARRYING COSTS
		Debentures							
31		90-11-28	2020	11.77	11,262	3	11,259	11.91	1,341
32		06-11-20	2021	4.80	39,000	27	38,973	4.85	1,890
33		91-12-18	2022	9.92	13,197	16	13,181	10.15	1,338
34		92-12-08	2023	9.40	16,371	23	16,348	9.51	1,555
35		04-11-18	2034	5.89	21,900	65	21,835	5.94	1,297
36		05-11-21	2035	5.18	69,000	240	68,760	5.23	3,596
37		06-11-20	2036	5.03	39,000	134	38,866	5.07	1,971
38		07-11-30	2037	5.56	20,000	73	19,927	5.60	1,116
39		08-05-26	2038	5.58	30,000	118	29,882	5.62	1,679
40		08-05-26	2028	5.56	20,000	55	19,945	5.61	1,119
41		09-03-06	2039	6.50	4,000	17	3,983	6.55	261
42		09-03-06	2024	6.22	4,000	7	3,993	6.28	251
43		11-10-24	2041	4.54	57,100	261	56,839	4.58	2,603
44		11-10-24	2061	4.59	22,900	121	22,779	4.62	1,052
45		12-09-11	2042	3.81	25,000	118	24,882	3.84	955
46		12-09-11	2062	3.83	10,000	54	9,946	3.85	383
47		12-11-14	2052	3.86	8,000	41	7,959	3.89	310
48		13-09-28	2043	4.72	60,000	295	59,705	4.76	2,842
49		14-09-28	2044	4.09	65,000	321	64,679	4.12	2,665
50		14-10-17	2054	4.09	20,000	113	19,887	4.13	821
51		15-07-27	2045	3.96	100,000	549	99,451	4.00	3,978
52		15-10-30	2055	4.21	20,000	117	19,883	4.24	843
53		16-11-17	2046	3.76	110,000	702	109,298	3.80	4,153
54		17-11-22	2047	3.54	155,000	1,013	153,987	3.58	5,513
55		18-06-30	2048	4.04	100,000	653	99,347	4.08	4,053
56		19-06-30	2049	4.34	210,000	1,419	208,581	4.38	9,136
58		Total			1,250,730	6,555	1,244,175		56,721
59		Prior Year-End Balance					1,105,345		52,164
60		Midyear					1,174,760		54,443
61		Embedded Cost of Debt							4.63%

Note:

In accordance with Commission Direction 4 in Decision 22570-D01-2018, the 2019 actual debt rate cost is 4.55%.

ATCO PIPELINES

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

2019 ACTUAL:

LINE	CROSS REF	SERIES	ISSUE DATE	DIVIDEND RATE	STATED VALUE OF ISSUE (1)	UNDERWRITING DISCOUNT AND EXPENSES	NET PROCEEDS OUTSTANDING	CARRYING COSTS OF ISSUE	VARIANCE TO 2017 APPROVED	VARIANCE %
		Non Retractable								
		Cumulative Redeemable Second Preferred Shares								
1		V	1997	4.60%	11,639	0	11,639	535	0	0
2		1	2007	4.60%	20,000	0	20,000	920	0	0
3		4	2010	2.24%	4,500	0	4,500	101	0	0
4		Total Current Year-End Balance			36,139	0	36,139	1,556	0	-
5		Prior Year-End Balance					36,139	1,556	0	-
6	Sch. 2	Midyear					36,139	1,556	0	-
7	Sch. 2	Embedded Cost of Preferred Shares						4.31%		

2019 APPROVED:

LINE	CROSS REF	SERIES	ISSUE DATE	DIVIDEND RATE	STATED VALUE OF ISSUE (1)	UNDERWRITING DISCOUNT AND EXPENSES	NET PROCEEDS OUTSTANDING	CARRYING COSTS OF ISSUE
		Non Retractable						
		Cumulative Redeemable Second Preferred Shares						
8		V	1997	4.60%	11,639	0	11,639	535
9		1	2007	4.60%	20,000	0	20,000	920
10		4	2010	2.24%	4,500	0	4,500	101
11		Total Current Year-End Balance			36,139	0	36,139	1,556
12		Prior Year-End Balance					36,139	1,556
13	Sch. 2	Midyear					36,139	1,556
14	Sch. 2	Embedded Cost of Preferred Shares						4.31%

Notes:

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

ATCO PIPELINES
SUMMARY OF OPERATING AND MAINTENANCE EXPENSE
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.		Cross-Ref.	2019 Actual [a]	2019 Approved [b]	Variance to Approved Col.[a]-[b] $	[d] %	
	Operating & Maintenance Expense						
1	Underground Storage		1,294	1,177	117	9.9	
2	Transmission		34,551	41,483	(6,932)	(16.7)	**(1)**
3	Administration and General		29,500	29,320	180	0.6	
5	Total Operating & Maintenance Expense		65,345	71,980	(6,635)	(9.2)	
6	Less: Disallowed O&M		3,203	1,992	1,211	60.8	**(2)**
7	Operating & Maintenance Expense - Net	Sch 1	62,142	69,988	(7,846)	(11.2)	

Notes:

(1) Actuals are lower than 2019 Approved mainly due to realignment of workforce as well as efficiencies achieved in leak survey and measurement verification programs. Actuals are also lower due to reduced third party locate requests as a result of new Alberta One Call system and lower costs for third party crossings due to one time contractor savings.

(2) Actuals are higher than 2019 approved mainly due to higher disallowed hearing costs and higher Administrative support from ATCO Group. Offset partially by lower costs resulting from realignment of workforce, lower severance costs and lower VPP which is subject to deferral.

ATCO PIPELINES
SUMMARY OF DEPRECIATION EXPENSE
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.		Cross-Reference	2019 Actual	2019 Approved	Variance to Approved Col.[a]-[b]		
			[a]	[b]	[c]	[d] %	
	Depreciation Expense						
1	Underground Storage Plant	Sch 4.1	1,807	1,679	128	7.6	
2	Transmission Plant	Sch 4.1	77,874	76,337	1,537	2.0	**(1)**
3	General Plant	Sch 4.1	1,213	1,205	8	0.7	
4	Office Furniture & Equipment	Sch 4.1	248	266	(18)	(6.8)	
5	Machinery & Equipment	Sch 4.1	3,336	2,945	391	13.3	
6	Leasehold Improvements	Sch 4.1	35	10	25	250.0	
7	Software	Sch 4.1	1,885	2,128	(243)	(11.4)	
8	Straight Line (Dedicated)	Sch 4.1	1,209	1,211	(2)	(0.2)	
9	Capitalized Depreciation		(669)	(640)	(29)	4.5	
10	Sub-total	Sch 4.1	86,938	85,141	1,797	2.1	
	Amortization of Contributions						
11	Underground Storage Plant		(4)	(3)	(1)	33.3	
12	Transmission Plant		(3,576)	(3,636)	60	(1.7)	
13	General Plant		0	0	0	0.0	
14	Office Furniture & Equipment		0	0	0	0.0	
15	Machinery & Equipment		0	0	0	0.0	
16	Leasehold Improvements		0	0	0	0.0	
17	Software		0	0	0	0.0	
18	Straight Line (Dedicated)		(19)	(19)	0	0.0	
19	Sub-total		(3,599)	(3,658)	59	(1.6)	
19	Disallowed Items (Please specify)		0	0	0	0.0	
20	Sub-total		0	0	0	0.0	
21	**Net Depreciation Expense - Utility**		83,339	81,483	1,856	2.3	

Notes

(1) Actual Transmission Plant depreciation expense is higher than 2019 approved due to the inclusion of depreciation on WARP capital versus the approved column not including capital that was approved in Decision 24176-D01-2020.

SCHEDULE 4.1

ATCO PIPELINES
CAPITAL ASSETS CONTINUITY SCHEDULE
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

CAPITAL ASSETS

Line No.	Property Group	Cross-Reference	Balance at 12/31/2018	2019 Additions	2019 Retirements	2019 Removals	2019 Transfers	2019 Proceeds	2019 Adjustments	Balance at 12/31/2019
1	Underground Storage Plant		55,314	2,934	(47)	0	0	0	505	58,706
2	Transmission Plant		2,416,878	162,303	(11,737)	0	(6,545)	0	(503)	2,560,396
3	General Plant		38,739	26	(102)	0	0	0	(2)	38,661
4	Office Furniture & Equipment		5,866	69	(716)	0	0	0	0	5,219
5	Machinery & Equipment		32,999	2,887	(1,932)	0	0	0	0	33,954
6	Leasehold Improvements		1,951	532	0	0	0	0	0	2,483
7	Software		15,941	6,359	(571)	0	0	0	0	21,729
8	Straight Line (Dedicated)		110,103	0	(2,930)	0	0	0	0	107,173
9	**Subtotal**		2,677,791	175,110	(18,035)	0	(6,545)	0	0	2,828,321
10	Capital Work in Progress (CWIP)		108,258	121,742	0	0	0	0	(720)	229,280
11	**Total Utility**	Sch 2.1	2,786,049	296,852	(18,035)	0	(6,545)	0	(720)	3,057,601

ACCUMULATED DEPRECIATION

Line No.	Property Group	Cross-Reference	Balance at 12/31/2018	2019 Depreciation Provision	2019 Retirements	2019 Removals	2019 Transfers	2019 Proceeds	2019 Adjustments	Balance at 12/31/2019
12	Underground Storage Plant		36,261	1,807	(47)	(61)	0	0	0	37,960
13	Transmission Plant		625,550	77,874	(11,737)	(18,346)	(2,318)	67	11	671,101
14	General Plant		8,077	1,213	(102)	(5)	0	0	0	9,183
15	Office Furniture & Equipment		2,225	248	(716)	0	0	0	0	1,757
16	Machinery & Equipment		12,817	3,336	(1,932)	(12)	0	400	0	14,609
17	Leasehold Improvements		1,915	35	0	(20)	0	0	0	1,930
18	Software		6,378	1,885	(571)	0	0	0	0	7,692
19	Straight Line (Dedicated)		96,989	1,209	(2,930)	0	0	0	0	95,268
20	**Subtotal**		790,212	87,607	(18,035)	(18,444)	(2,318)	467	11	839,500
21	Removal Work in Progress (RWIP)		(6,299)	0	0	(278)	0	0	97	(6,480)
22	**Total Utility**	Sch 2.1	783,913	87,607	(18,035)	(18,722)	(2,318)	467	108	833,020

SCHEDULE 4.2

ATCO PIPELINES
SUMMARY OF CAPITAL EXPENDITURES
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.		Cross-Ref	2019 Actual	2019 Approved	Variance to Approved Col.[a]-[b]		
			[a]	[b]	[c]	[d] %	
	General Production Transmission						
1	Major Projects		163,628	185,319	(21,691)	(11.7)	**(1)**
2	General		126,032	118,834	7,198	6.1	**(2)**
3	Sub-Total		289,660	304,153	(14,493)	(4.8)	
	Land and Structures						
4	General		1,009	894	115	12.9	
	Moveable Equipment						
5	General		2,249	1,766	483	27.4	
6	Software Development		5,162	2,549	2,613	102.5	**(3)**
7	Sub-Total		7,411	4,315	3,096	71.8	
8	Other		(1,228)				
9	**Capital Expenditures**	Sch 4.1	296,852	309,362	(12,510)	(4.0)	

Notes:

(1) Actuals are lower than 2019 Approved primarily due to delays on the North West Calgary Connector resulting from a non-routine facilities application offset partially by higher expenditures for Pembina-Keephills as a result of favorable construction conditions.

(2) Actuals are higher than 2019 Approved primarily due to carryover work on the East Calgary Lateral and Lloydminster Looping projects, higher construction costs on Stoney Transit Lateral, paritally offset by lower costs for the Lethbridge Urban Pipeline Upgrade as result of a delay in construction start due to land acquisition difficulties.

(3) Actuals are higher than 2019 Approved primarily due to carryover costs on GIS Replacement/ESRI and Oracle Ebusiness upgrade, as well as Work Asset Management.

SCHEDULE 5

ATCO PIPELINES
SUMMARY OF UTILITY INCOME TAX
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.		2019 Actual	2019 Approved	Variance to Approved	
		[a]	[b]	[c] $	[d] %
1	Net Income Before Taxes	64,475	58,413	6,062	10.4
2	**ADDBACK**				
3	Depreciation	83,339	81,483	1,856	2.3
4	Amortization of Debt Discount	283	274	9	3.3
5	Amortization of Pref Exp	0	0	0	0.0
6	Deferral and Reserve Accounts	3,669	(3,570)	7,239	(202.8)
7	Non Deduct Admin	298	316	(18)	(5.7)
8	Other	(719)	0	(719)	0.0
9		86,870	78,503	8,367	10.7
10	**DEDUCT**				
11	Capital Cost Allowance	106,085	98,265	7,820	8.0
12	Abandonments	19,292	7,083	12,209	172.4
13	Debt Costs	974	964	10	1.0
14	Part 6 Tax Deduction	2,040	2,055	(15)	(0.7)
15	Rainbow Decision	26,766	12,754	14,012	109.9
16	Indirect Overhead	22,452	18,050	4,402	24.4
17	Capitalized Pension Funding	2,206	2,564	(358)	(14.0)
18	Total Tax Deductions	179,815	141,735	38,080	26.9
19					
20	Net Income for Tax Purposes	(28,470)	(4,819)	(23,651)	490.8
21	Income Tax Rate	26.50%	27.00%		
22	Current Tax Payable	(7,545)	(1,301)	(6,244)	479.9
23	Part VI.1 Tax	583	587	(4)	(0.7)
24	Current Income Tax	(6,962)	(714)	(6,248)	875.1
25	Deferred Taxes	(972)	964	(1,936)	(200.8)
26	Utility Income Tax	(7,934)	250	(8,184)	(3,273.6)

ATCO PIPELINES
SUMMARY OF SALES REVENUES BY CLASSIFICATION
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.		Cross-Ref	2019 Actual [a]	2019 Approved [b]	Variance to Approved Col.[a]-[b] [c]	[d] %	
1	Total Transportation Revenue		275,905	275,905	0	0.0	
2	Revenue Adjustments		(3,100)	0	(3,100)	0.0	**(1)**
3	Franchise Fee Revenue		3,109	3,093	16	0.5	
4			9	3,093	(3,084)	(99.7)	
	OTHER REVENUE						
5	Other Miscellaneous Revenue		1,446	0	1,446	0.0	**(2)**
6	Total Other Revenue		1,446	0	1,446	0.0	
7	**TOTAL UTILITY REVENUE**		277,360	278,998	(1,638)	(0.6)	

Note:
(1) Actuals are lower than 2019 Approved primarily driven by long term debt rates and VPP.
(2) Actuals are higher than 2019 Approved due to the sale of surplus GHG credits.

ATCO PIPELINES
EXPLANATION OF TRANSACTIONS
WITH AFFILIATED COMPANIES
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.	Affiliate	Nature of Service	2019 Actual	2019 Approved	Variance to Approved $	Variance to Approved %	Recorded As	
1	ATCO Ltd.	License fees	1,166	757	409	54.0	Operating	
2		Administrative Services	5,915	4,101	1,814	44.2	Operating	**(1)**
3		Administrative Services	520	N/A	0	0.0	Capital	
4	Canadian Utilities Limited	Administrative services facilities management	1,264	1,714	(450)	(26.3)	Operating	
5		Administrative services facilities management	433	N/A	0	0.0	Capital	
6		Shared services	2,134	2,452	(318)	100.0	Operating	
7		Shared services	1,846	N/A	0	0.0	Capital	
8	CU Inc.	Administrative Services	87	57	30	52.6	Operating	
9		Shared Services	539	259	280	100.0	Operating	
10		Shared Services	150	N/A	0	0.0	Capital	
11	ATCO Gas	Financial, engineering, operations, corporate, facilities and rent services	263	(2,159)	2,422	(112.2)	Operating	**(2)**
12		Engineering and construction services	8,158	N/A	0	0.0	Capital	
13		Transfer of Assets	(3,867)	N/A	0	0.0	Capital	
14	ATCO Energy Solutions	Fees for purchase/sale of Salt Cavern gas	25	N/A	0	0.0	Operating	
15		Recovery for usage of assets	(1,168)	(1,063)	(105)	9.9	Revenue	
16	ATCO Pipelines S.A. de C.V.	Engineering and construction services	(355)	-	(355)	100.0	Revenue	
17	ABD Consulting S.A. de C.V.	Transfer of Assets	1,772	-	1,772	100.0	Capital	
18	IEIE S.A. de C.V.	Engineering and construction services	(449)	0	(449)	100.0	Revenue	
19	ATCO Investments Solutions	Facilities Management	68	39	29	74.4	Operating	
20	ATCO Energy Ltd.	Administration	14	11	3	100.0	Operating	
21		Distribution service costs	522	0	522	100.0	Operating	
22	ATCO Electric	Administration	-	0	0	100.0	Operating	
23		Contract services	215	-	215	100.0	Capital	
24		Contract services	62	-	62	100.0	Operating	
25		Engineering and construction services	-	0	0	100.0	Revenue	
26		Transfer of Assets	-	N/A	0	0.0	Capital	
27	ATCO Power	Contract services	-	0	0	100.0	Revenue	
28	ATCO Structures & Logistics	Contract services	-	0	0	0.0	Operating	

Notes:
(1) Actuals are higher than 2019 Approved due to higher general and administrative costs.
(2) Actuals are lower than 2019 Approved due to the integration of transmission and distribution engineering function.

ATCO PIPELINES TOTAL
SUMMARY OF PAYROLL AND MANPOWER STATISTICS
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.		Cross-Ref	2019 Actual [a]	2019 Approved [b]	Variance to Approved Col.[a]-[b] $	[e] %
	Payroll Statistics					
1	Gross Salaries & Wages		51,251	58,627	(7,376)	(12.6)
	Manpower Statistics					
2	Total Regular Employees *		404	410	(6)	(1.5)
3	Total Temporary Employees *		34	65	(31)	(47.7)
4	Total Contract Staff		0	0	0	0.0
5	Total Manpower		438	475	(37)	(7.8)
	Less:					
6	Allocated to Non-Regulated		1	0	1	0.0
7	Total Manpower - Utility		437	475	(38)	(8.0)

* Represents filled positions at year-end. Vacancies are not included.

Line No.		Cross-Ref	2019 Actual [a]	2019 Approved [b]	Variance $	Variance %
	Manpower Allocation by Division					
8	Operations and Maintenance		384	416	(32)	(7.7)
9	Administration and General		53	59	(6)	(10.2)
10	Total Manpower - Utility		437	475	(38)	(8.0)

ATCO PIPELINES
SUMMARY OF RESERVE/DEFERRAL ACCOUNTS
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.	List of Reserve/Deferral Accounts	Cross-Ref	2019 Actual Opening Balance	Additions	Amort.	Recoveries	Closing Balance	Variance to 2019 Approved $	%
1	NGTL Directed Growth Deferral		23	(11)	0	0	12	12	0.0
2	Salt Cavern Deferral		2,236	(775)	0	0	1,461	393	36.8
3	Regulatory Expense Reserve - AUC Fees		(206)	3,031	2,685	0	140	38	37.3
4	Regulatory Pension Asset		4,211	(400)	0	0	3,811	(500)	(11.6)
4	IT Benchmarking Asset		739	0	25	0	714	(8)	(1.1)
5	Evergreen I Asset		63	0	10	0	53	(1,293)	(96.1)
6	Evergreen II Asset		1,483	0	137	0	1,346	0	0.0
7	Deferred Financing Charges		6,150	1,354	213	0	7,291	185	2.6
8	Deferred Preferred Share Issue Costs		4	0	1	0	3	3	0.0
9	Future Income Tax Asset		218,429	(10,524)	0	0	207,905	1,925	0.9
10	Total Deferred Assets		233,132	(7,325)	3,071	0	222,736	2,101	1.0
11	Revenue Deferral		0	1,979	0	0	1,979		
12	IT Common Matters Decision		0	2,859	0	0	2,859		
13	Long Term Debt Rate Deferral		1,946	1,345	0	0	3,291		
14	Defined Benefit Pension Deferral		280	59	0	0	339		
15	VPP Deferral		1,451	800	0	0	2,251		
16	Injuries and Damages Reserve		570	29	67	0	532		
17	Regulatory Expense Reserve - Rate Case Costs		(124)	2,099	1,032	0	943		
18	Deferred Income Tax Liability		217,348	(11,557)	0	0	205,791		
19	Negative Salvage Liability		40,394	(4,735)	0	0	35,659		
20	Total Deferred Liabilities		261,865	(7,122)	1,099	0	253,644		

Line No.	List of Reserve/Deferral Accounts	2019 Approved Opening Balance	Additions	Amort.	Recoveries	Closing Balance
21	NGTL Directed Growth Deferral	46	0	0	46	0
22	Salt Cavern Deferral	1,013	810	0	755	1,068
23	Regulatory Expense Reserve - Rate Case Costs	139	995	1,032	0	102
24	Regulatory Pension Asset	4,224	87	0	0	4,311
25	IT Benchmarking Asset	754	0	32	0	722
26	Evergreen II Asset	1,483	0	137	0	1,346
27	Deferred Financing Charges	5,902	1,478	274	0	7,106
28	Future Income Tax Asset	201,058	4,922	0	0	205,980
29	Total Deferred Assets	214,619	8,292	1,475	801	220,635
30	Long Term Debt Rate Deferral	1,833	0	0	1,833	0
31	Defined Benefit Pension Deferral	269	0	0	269	0
32	VPP Deferral	1,176	0	0	1,176	0
33	Injuries and Damages Reserve	422	(143)	67	0	212
34	Regulatory Expense Reserve - AUC Fees	205	(2,787)	(2,685)	0	103
35	Deferred Income Tax Liability	200,327	5,884	0	0	206,211
36	Negative Salvage Liability	43,671	13,943	0	0	57,614
37	Total Deferred Liabilities	247,903	16,897	(2,618)	3,278	264,140

Schedule 10

ATCO PIPELINES
RECONCILIATION OF FINANCIAL REPORTING SCHEDULES TO AUDITED FINANCIAL STATEMENTS
INCOME SUMMARY
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.		Cross-Reference	2019 Financial Statements	Adjustments	2019 Utility Total
			[a]	[b]	[c]
1	**Total Revenue**	Sch 6	297,494	(20,134)	277,360
	Less:				
	Operating Expenses				
2	Operation and Maintenance	Sch 3	92,861	(30,719)	62,142
3	Depreciation and Amortization	Sch 4	67,483	15,856	83,339
4	Taxes Other than Income		17,215	-	17,215
5			177,559		162,696
	Financing Charges and Other				
6	Interest Expense	Sch 2	52,438	(2,249)	50,189
7	Other Expense		2,177	(2,177)	0
8	Interest and Other Income		(5,400)	5,400	0
9			49,215		50,189
10	**Net Earnings Before Tax**		70,720		64,475
11	Less:				
12	Income Taxes	Sch. 5	(8,124)	190	(7,934)
13	**Net Earnings after Tax**		78,844		72,409
14	Dividends on Preferred Shares	Sch 2	0	(1,458)	(1,458)
15	**Earnings attributable to Common Shares**		78,844		70,951
16	Opening Retained Earnings		466,044		
			544,888		
17	Dividends on Common Shares		0		
18	Dividends on Preferred Shares		1,556		
20	Other		0		
21	OCI		919		
22	**Closing Retained Earnings**		542,413		

Schedule 11

ATCO PIPELINES
RECONCILIATION OF FINANCIAL REPORTING SCHEDULES TO AUDITED FINANCIAL STATEMENTS
BALANCE SHEET
FOR YEAR ENDED DECEMBER 31, 2019
(THOUSANDS OF DOLLARS)

Line No.		Cross-Reference	2019 Financial Statements	Adjustments	2019 Utility Total
			[a]	[b]	[c]
	ASSETS				
	Current Assets				
1	Cash and short term advance to parent corporation		-	-	-
2	Accounts receivable		28,871	3,961	32,832
3	Accounts receivable from affiliates		7,845	-	7,845
4	Inventories		7,287	4,153	11,440
5	Income taxes recoverable		9,262	-	9,262
6	Regulatory assets		-	1,473	1,473
7	Prepaid expenses and other		3,042	-	3,042
8			56,307		65,894
9	**Property, Plant and Equipment (Including Intangible Assets)**		2,257,772	(146,871)	2,110,901
10	**Regulatory Assets**		0	213,969	213,969
11	**Deferred Financing Charges**		7,291	3	7,294
12	**Other Assets**		45	-	45
13			2,321,415		2,398,103
	LIABILITIES AND CAPITALIZATION				
	Current Liabilities				
14	Bank indebtedness and short term advance from parent corporation		16,168		16,168
15	Accounts payable and accrued liabilities		38,237	61	38,298
16	Income and other taxes payable		-		-
17	Regulatory liabilities		-	10,719	10,719
19	Future income taxes		-		-
20	Long-term debt		11,262		11,262
21	Accounts payable to parent and affiliate corporations		17,102		17,102
22			82,769		93,549
23	**Future income taxes**		159,559	46,232	205,791
24	**Regulatory liabilities**		-	37,134	37,134
25	**Other Deferred Credits**		161,254	(149,974)	11,280
26			320,813		254,205
	Capitalization				
27	Long-term debt		1,264,468	(2,863)	1,261,605
28	Equity preferred shares		35,726	326	36,052
29	Class A and Class B shares		75,226	(1,732)	73,494
30	Retained earnings		542,413	136,785	679,198
31			1,917,833		2,050,349
32			2,321,415		2,398,103

ATCO PIPELINES TOTAL
SCHEDULE OF PENSION PLAN CONTRIBUTIONS
FOR YEAR ENDED DECEMBER 31, 2019
(MILLIONS OF DOLLARS)

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

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

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

2019 Actual		Defined Benefit Pension Expense		Defined Contribution Pension Expense	**Total**
		Service Amount	Special Payment	Service Amount	
ATCO Pipelines (Note 1)	**Total**	1.7	-	1.8	**3.5**
ATCO Unregulated (Note 1)	**Total**	4.1	-	6.5	**10.6**

2019 Approved		Defined Benefit Pension Expense		Defined Contribution Pension Expense	**Total**
		Service Amount	Special Payment	Service Amount	
ATCO Pipelines (Note 2)	**Total**	2.1	-	2.4	**4.5**
ATCO Unregulated (Note 3)	**Total**	3.6	-	Note 4	**3.6**

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

Note 2 - ATCO Electric'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 3 - ATCO Electric'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.

2019 Reconciliation	
2019 Pension Costs as per ATCO Pipelines 2019-2020 GRA application	**4.5**
2019 Pension contributions - Actual costs incurred	**3.5**
Difference	**1.0**

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

ATCO Pipeline's Pension deferral in 2019	
2019 Pension Costs as per ATCO Pipelines 2019-2020 GRA application - DB only	**2.1**
2019 Pension costs - Actual Cash Payments	**1.7**
Deferral account	**0.4**

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

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

(a division of ATCO Gas and Pipelines Ltd.)

ATCO PIPELINES

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 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 Pipelines, 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

PricewaterhouseCoopers LLP
Stantec Tower, 10220 103 Avenue NW, Suite 2200, Edmonton, Alberta, Canada T5J 0K4
T: +1 780 441 6700, F: +1 780 441 6776

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

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STATEMENT OF EARNINGS

(thousands of Canadian Dollars)	Note	Year Ended December 31 2019	2018
Revenues	5	**297,494**	257,029
Costs and expenses			
Salaries, wages and benefits		**(25,087)**	(27,146)
Plant and equipment maintenance		**(41,369)**	(29,289)
Depreciation and amortization	10,11	**(67,483)**	(62,541)
Franchise fees		**(3,109)**	(2,777)
Property and other taxes		**(14,106)**	(13,568)
Other	6	**(26,405)**	(32,032)
		(177,559)	(167,353)
Operating profit		**119,935**	89,676
Interest income		**103**	–
Interest expense	7	**(49,318)**	(45,624)
Net finance costs		**(49,215)**	(45,624)
Earnings before income taxes		**70,720**	44,052
Income tax recovery (expense)	8	**8,124**	(11,994)
Earnings for the year		**78,844**	32,058

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		**78,844**	32,058
Other comprehensive (loss) income, net of income taxes			
Item that will not be reclassified to earnings:			
Re-measurement of retirement benefits [1]	13	**(919)**	386
Comprehensive income for the year		**77,925**	32,444

(1) Net of income taxes of $0.3 million for the year ended December 31, 2019 (2018 - $(0.1) million).

See accompanying Notes to Financial Statements.

BALANCE SHEET

(thousands of Canadian Dollars)	Note	December 31 2019	2018
ASSETS			
Current assets			
Accounts receivable and contract assets	14	**28,871**	22,097
Accounts receivable from parent and affiliate companies	14, 24	**7,845**	6,424
Inventories	9	**7,287**	8,256
Income taxes recoverable		**9,262**	15,639
Prepaid expenses and other current assets		**3,042**	4,650
		56,307	57,066
Non-current assets			
Property, plant and equipment	10	**2,131,833**	1,920,060
Intangibles	11	**125,939**	118,073
Other assets		**45**	71
Total assets		**2,314,124**	2,095,270
LIABILITIES			
Current liabilities			
Bank indebtedness		**168**	1,649
Short-term advances from parent company		**16,000**	22,000
Accounts payable and accrued liabilities		**38,237**	34,787
Accounts payable to parent and affiliate companies	24	**17,102**	17,320
Long-term debt	12	**11,262**	70,000
Other current liabilities		**25**	–
		82,794	145,756
Non-current liabilities			
Deferred income tax liabilities	8	**159,559**	159,097
Retirement benefit obligations	13	**15,814**	14,856
Deferred revenues	14	**145,379**	143,966
Long-term debt	12	**1,257,177**	1,054,580
Other liabilities		**36**	19
Total Liabilities		**1,660,759**	1,518,274
EQUITY			
Equity preferred shares to parent company	15	**35,726**	35,726
Class A and Class B share owner's equity			
Class A and Class B shares	16	**75,226**	75,226
Retained Earnings		**542,413**	466,044
		617,639	541,270
Total equity		**653,365**	576,996
Total liabilities and equity		**2,314,124**	2,095,270

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		75,226	35,726	439,156	–	550,108
Earnings for the year		–	–	32,058	–	32,058
Other comprehensive income		–	–	–	386	386
Gains on retirement benefits transferred to retained earnings	13	–	–	386	(386)	–
Dividends	15	–	–	(5,556)	–	(5,556)
December 31, 2018		75,226	35,726	466,044	–	576,996
Earnings for the year		**–**	**–**	**78,844**	**–**	**78,844**
Other comprehensive loss		**–**	**–**	**–**	**(919)**	**(919)**
Loss on retirement benefits transferred to retained earnings	13	**–**	**–**	**(919)**	**919**	**–**
Dividends	15, 16	**–**	**–**	**(1,556)**	**–**	**(1,556)**
December 31, 2019		**75,226**	**35,726**	**542,413**	**–**	**653,365**

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		**78,844**	32,058
Adjustments to reconcile earnings to cash flows from operating activities	17	**124,741**	126,819
Changes in non-cash working capital	17	**(9,749)**	10,461
Cash flows from operating activities		**193,836**	169,338
Investing activities			
Additions to property, plant and equipment		**(275,993)**	(206,054)
Proceeds on disposal of property, plant and equipment		**1,085**	(2)
Additions to intangibles		**(11,511)**	(28,466)
Changes in non-cash working capital	17	**6,984**	(37,739)
Other		**5,027**	(105)
Cash flows used in investing activities		**(274,408)**	(272,366)
Financing activities			
Issue of long-term debt	12	**215,000**	120,000
Repayment of long-term debt	12	**(70,000)**	–
Dividends paid on equity preferred shares	15	**(1,556)**	(1,556)
Dividends paid to Class A and Class B share owner		**–**	(4,000)
Interest paid		**(53,896)**	(49,429)
Other	6	**(1,495)**	(897)
Cash flows from financing activities		**88,053**	64,118
Increase (decrease) in cash position		**7,481**	(38,910)
Beginning of year		**(23,649)**	15,261
End of year	17	**(16,168)**	(23,649)

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

In these non-consolidated financial statements, ATCO Pipelines 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 Pipelines' 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 Pipelines' functional currency.

USE OF ESTIMATES AND JUDGMENTS

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

3. CHANGE IN ACCOUNTING POLICIES

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 non-consolidated 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 non-consolidated 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*.

Sub-surface Rights

In June 2019, the IFRS Interpretations Committee, acting on a request for interpretation, concluded that a pipeline sub-surface arrangement is, or contains, a lease under IFRS 16. A pipeline sub-surface arrangement is an agreement with a landowner to lay an underground pipeline in exchange for consideration. It contains a lease because the underground space is physically distinct from the landowner’s land, and the owner of the pipeline has exclusive use of the underground space.

The Company has assessed the impact of the interpretation on its pipeline sub-surface arrangements. Based on the analysis performed, the impact on the consolidated financial statements is not significant.

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

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

	2019	2018
Adjusted earnings	**76,319**	72,930
Rate-regulated activities	**3,432**	(40,093)
IT Common Matters decision	**(2,646)**	–
Dividends on equity preferred shares	**1,556**	1,556
Restructuring costs	**183**	(2,335)
Earnings for the year	**78,844**	32,058

Restructuring costs

In 2018, the Company recorded restructuring and other costs of $2.3 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 Pipelines is eligible to adopt. In the absence of this guidance, ATCO Pipelines does not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, ATCO Pipelines recognizes revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meets the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

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

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

	Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1.	Revenues to be billed in future periods	Deferred income taxes.	ATCO Pipelines recognizes revenues associated with recoverable costs in advance of future billings to customers.	ATCO Pipelines recognizes costs when they are incurred, but does not recognize their recovery until changes to customer rates are made and collected through future billings.
2.	Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	ATCO Pipelines recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	ATCO Pipelines does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
3.	Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	ATCO Pipelines recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	ATCO Pipelines recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

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

	2019	2018
Revenues to be billed in future periods		
Deferred income taxes [(1)]	**(375)**	(26,460)
Regulatory decisions received (see below)	**1,671**	–
Settlement of decisions and other items	**2,136**	(13,633)
	3,432	(40,093)

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

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	2,646	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 $2.6 million. Of this amount, $1.8 million relates to the period January 1, 2015 to June 30, 2019 and was recorded in the second quarter of 2019. The remaining $0.8 million was recorded in the second half of 2019.
Weld Assessment and Repair Program (WARP)	(975)	On May 3, 2016, ATCO Pipelines filed a voluntary self-disclosure letter with the AUC and the Alberta Energy Regulator, which disclosed that a radiographic inspector had failed to identify or flag for remedial action the presence of rejectable defects within pre-fabrication welds. Initially the AUC denied recovery of 100% of weld inspection costs as well as 93.63% of any incremental repair costs arising from the improper inspections. Through a Review and Variance process, the AUC subsequently issued a favorable decision on January 10, 2020 allowing the WARP costs to be included in its opening rate base for 2017 and capital costs for subsequent years. The commission found that following the discovery of deficient radiographic inspections, ATCO Pipelines exercised good judgment, made reasonable decisions and took prudent actions taking into account the best interest of its customers, based on the information that it knew or ought to have known at the time. The increase in adjusted earnings resulting from the decision was estimated to be $1 million and was recorded in the fourth quarter of 2019. ATCO Pipelines is currently in the process of filing a General Rate Application which will include WARP in the 2021 opening rate base along with the settlement for the revenue requirement related to 2017 to 2020.

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, Canadian 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 $2.6 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 is shown below:

	2019	2018
Transmission services	**278,042**	245,306
Customer contributions	**3,598**	3,373
Franchise fees	**3,109**	2,777
Other services rendered	**10,687**	–
	295,436	251,456
Intercompany revenue	**2,058**	5,573
	297,494	257,029

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	**52,438**	48,404
Other	**2,280**	2,157
	54,718	50,561
Less: interest capitalized *(Note 10)*	**(5,400)**	(4,937)
	49,318	45,624

Borrowing costs capitalized to property, plant and equipment during 2019 were calculated by applying a weighted average interest rate of 4.5 per cent to expenditures on qualifying assets (2018 - 4.8 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 $25 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 Pipelines does not file an income tax return. Its divisional share of the income tax provision is calculated as if it was a legal entity.

The components of income tax expense are summarized below.

	2019	2018
Current income tax expense		
Expenses for the year	**(9,295)**	(15,400)
Adjustment in respect of prior years	**453**	431
	(8,842)	(14,969)
Deferred income tax expense		
Reversal of temporary differences	**26,226**	27,394
Change in income taxes resulting from decrease in provincial corporate tax rate	**(25,450)**	–
Adjustment in respect of prior years	**(58)**	(431)
	718	26,963
	(8,124)	11,994

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

	2019		2018	
Earnings before income taxes	**70,720**	**%**	44,052	%
Income taxes, at statutory rates	**18,741**	**26.5**	11,894	27.0
Part VI.I tax net of transfer benefit	**45**	**0.1**	34	0.1
Change in income taxes resulting from decrease in provincial corporate tax rate	**(25,450)**	**(36.0)**	–	–
Effect of tax rate change on remaining earnings	**(1,807)**	**(2.6)**	–	–
Other	**347**	**0.5**	66	0.1
	(8,124)	**(11.5)**	11,994	27.2

DEFERRED INCOME TAXES

The changes in deferred income tax liabilities are as follows:

	Property, Plant and Equipment	Intangibles	Retirement Benefit Obligations	Other	Total
December 31, 2017	118,920	16,113	(4,075)	1,033	131,991
Charge (credit) to earnings	27,135	–	208	(380)	26,963
Credit to other comprehensive income	–	–	143	–	143
December 31, 2018	146,055	16,113	(3,724)	653	159,097
Charge to earnings	**23,722**	**1,014**	**45**	**1,387**	**26,168**
Credit to other comprehensive income	**–**	**–**	**(256)**	**–**	**(256)**
Change in income taxes resulting from decrease in provincial corporate tax rate	**(21,039)**	**(4,750)**	**591**	**(252)**	**(25,450)**
December 31, 2019	**148,738**	**12,377**	**(3,344)**	**1,788**	**159,559**

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

9. INVENTORIES

Inventories at December 31 are comprised of:

	2019	2018
Natural gas and fuel in storage	**7,222**	7,103
Raw materials and consumables	**65**	1,153
	7,287	8,256

For the year ended December 31, 2019, inventories recognized as an expense were $0.1 million (2018 - $2.1 million).

10. PROPERTY, PLANT AND EQUIPMENT

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

	Utility Transmission	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost					
December 31, 2017	2,172,068	5,715	88,658	69,838	2,336,279
Additions	–	–	211,724	–	211,724
Transfers	197,648	–	(203,632)	5,984	–
Retirements and disposals	(13,609)	–	–	(162)	(13,771)
Transfer to affiliate	–	–	–	26	26
December 31, 2018	2,356,107	5,715	96,750	75,686	2,534,258
Additions	**–**	**–**	**282,405**	**–**	**282,405**
Transfers	**158,873**	**–**	**(160,736)**	**1,863**	**–**
Retirements and disposals	**(16,433)**	**–**	**–**	**(2,747)**	**(19,180)**
Transfer to affiliate	**(6,489)**	**–**	**–**	**–**	**(6,489)**
December 31, 2019	**2,492,058**	**5,715**	**218,419**	**74,802**	**2,790,994**
Accumulated depreciation					
December 31, 2017	545,455	–	–	22,699	568,154
Depreciation	55,239	–	–	4,583	59,822
Retirements and disposals	(13,609)	–	–	(162)	(13,771)
Transfer to affiliate	–	–	–	(7)	(7)
December 31, 2018	587,085	–	–	27,113	614,198
Depreciation	**59,463**	**–**	**–**	**5,070**	**64,533**
Retirements and disposals	**(15,240)**	**–**	**–**	**(2,747)**	**(17,987)**
Transfer to affiliate	**(1,583)**	**–**	**–**	**–**	**(1,583)**
December 31, 2019	**629,725**	**–**	**–**	**29,436**	**659,161**
Net book value					
December 31, 2018	1,769,022	5,715	96,750	48,573	1,920,060
December 31, 2019	**1,862,333**	**5,715**	**218,419**	**45,366**	**2,131,833**

The additions to property, plant and equipment included $5.4 million of interest capitalized during construction for the year ended December 31, 2019 (2018 - $4.9 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	13,697	97,829	3,688	115,214
Additions	17,576	10,891	–	28,467
Retirements	(2,038)	–	–	(2,038)
December 31, 2018	29,235	108,720	3,688	141,643
Additions	**4,187**	**7,268**	**–**	**11,455**
Retirements	**(581)**	**(275)**	**–**	**(856)**
December 31, 2019	**32,841**	**115,713**	**3,688**	**152,242**
Accumulated amortization				
December 31, 2017	7,075	13,322	1,792	22,189
Amortization	1,328	1,382	78	2,788
Retirements	(1,407)	–	–	(1,407)
December 31, 2018	6,996	14,704	1,870	23,570
Amortization	**2,081**	**1,430**	**78**	**3,589**
Retirements	**(581)**	**(275)**	**–**	**(856)**
December 31, 2019	**8,496**	**15,859**	**1,948**	**26,303**
Net book value				
December 31, 2018	22,239	94,016	1,818	118,073
December 31, 2019	**24,345**	**99,854**	**1,740**	**125,939**

12. LONG-TERM DEBT

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

	Effective Interest Rate	2019	2018
Debentures - unsecured	4.487% (2018 - 4.900%)	**1,275,730**	1,130,730
(interest is the average effective interest rate weighted by principal amounts outstanding)			
Less: deferred financing charges		**(7,291)**	(6,150)
		1,268,439	1,124,580
Less: amounts due within one year		**(11,262)**	(70,000)
		1,257,177	1,054,580

Debenture issuances

During 2019, ATCO Pipelines issued $215 million of 2.963 per cent debentures maturing on September 7, 2049 (2018 - $120 million of 3.95 per cent debentures maturing on November 23, 2048).

During 2019, the Company repaid $15 million of 5.432 per cent debentures and $55 million of 6.8 per cent debentures.

13. RETIREMENT BENEFITS

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

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

Information about the ATCO Pipelines' 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	**1,839**	**432**	2,256	479
Defined contribution plans cost	**1,769**	**–**	1,939	–
Total cost	**3,608**	**432**	4,195	479
Less: Capitalized	**1,984**	**237**	2,265	259
Net cost recognized	**1,624**	**195**	1,930	220
Accrued benefit obligations				
Beginning of year	6,210	8,646	6,300	8,724
Defined benefit plan cost	**1,839**	**432**	2,256	479
Benefit payments	**(558)**	**(249)**	(416)	(204)
Contributions to defined benefit plans	**(1,683)**	**–**	(1,754)	–
Actuarial (gains) losses	**617**	**560**	(176)	(353)
End of year	**6,425**	**9,389**	6,210	8,646

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) The Company 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 $1.7 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	**26,135**	20,830
Other accounts receivable	**2,736**	1,267
	28,871	22,097

At December 31, accounts receivable from parent company are as follows:

	2019	2018
Accounts receivable from parent company	**7,845**	6,424

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

	Trade accounts receivable and contract assets
December 31, 2017	21,599
Revenue from satisfied performance obligations	248,083
Other items not included in revenue	15
Payments received	(248,867)
December 31, 2018	20,830
Revenue from satisfied performance obligations	**282,695**
Other items not included in revenue	–
Payments received	**(277,390)**
December 31, 2019	**26,135**

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	143,966	141,199
Receipt of customer contributions	**5,011**	6,140
Amortization	**(3,598)**	(3,373)
End of year	**145,379**	143,966

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

Rights and privileges

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

(1) Plus accrued and unpaid dividends.

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

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

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

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

EQUITY PREFERRED SHARES TO CANADIAN UTILITIES LIMITED

Authorized and issued

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

	2019		2018	
Issued	**Shares**	**Amount**	**Shares**	**Amount**
Perpetual Cumulative Second Preferred Shares				
4.60% Series V	**465,578**	**11,640**	465,578	11,640
Issuance costs		**(8)**		(8)
		11,632		11,632

Rights and Privileges

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

DIVIDENDS

Cash dividends declared and paid per share are as follows:

(dollars per share)	**2019**	**2018**
4.60% Series 1	**1.1500**	1.1500
2.243% Series 4	**0.5608**	0.5608
4.60% Series V	**1.1500**	1.0000

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

On December 19, 2019, ATCO Pipelines 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, 2018 and 2019	**1,448,849**	**42,315**	**908,720**	**32,911**	**2,357,569**	**75,226**

Class A and B shares have no par value.

The Company declared and paid cash dividends of nil per Class A non-voting share and Class B common share during 2019 (2018 - $1.70). The payment and amount of dividends is at the discretion of the Board and depends on the financial condition of the Company 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	**67,483**	62,541
Income taxes	**(8,124)**	11,994
Contributions by utility customers for extensions to plant	**5,011**	6,140
Amortization of customer contributions	**(3,598)**	(3,373)
Net finance costs	**49,215**	45,624
Income taxes recovered	**15,218**	3,805
Other	**(464)**	88
	124,741	126,819

CHANGES IN NON-CASH WORKING CAPITAL

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

	2019	2018
Operating activities		
Accounts receivable	**(7,546)**	1,277
Accounts receivable from parent and affiliate companies	**2,178**	(281)
Inventories	**(68)**	1,480
Prepaid expenses and other current assets	**(205)**	2,021
Accounts payable and accrued liabilities	**598**	3,734
Accounts payable to parent and affiliate companies	**(3,963)**	1,485
Other	**(743)**	745
	(9,749)	10,461
Investing activities		
Accounts Receivable	**772**	(412)
Inventories	**801**	(269)
Prepaid expenses	**1,814**	(1,813)
Accounts payable and accrued liabilities	**3,597**	(35,245)
	6,984	(37,739)

CASH POSITION

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

	2019	2018
Bank indebtedness	**(168)**	(1,649)
Short-term advances from parent company *(Note 24)*	**(16,000)**	(22,000)
	(16,168)	(23,649)

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

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

			2019		2018
Recurring Measurements	Note	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities					
Long-term debt	12	**1,257,177**	**1,469,548**	1,124,580	1,192,793

19. RISK MANAGEMENT

FINANCIAL RISKS

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

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

CREDIT RISK

Credit risk is the risk of financial loss due to a counterparty's inability to discharge their contractual obligations to ATCO Pipelines. It is exposed to credit risk on its cash, accounts receivable and contract assets, and accounts receivable from parent and affiliate companies. The exposure to credit risk represents the total carrying amount of these financial instruments in the consolidated balance sheet.

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

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

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days, where the Company believes there is a high probability of a customer default, additional credit allowances are recorded. At December 31, 2019 and 2018, the expected credit loss allowance was less than $1 million.

LIQUIDITY RISK

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

Line of credit

ATCO Pipelines has a line of credit available of $5.0 million (2018 - $5.0 million). The credit line enables it 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 Pipelines' financial liabilities based on the contractual undiscounted cash flows.

	2020	2021	2022	2023	2024	2025 and thereafter
Bank indebtedness	168	–	–	–	–	–
Short-term advances from parent company	16,000					
Accounts payable and accrued liabilities	38,237	–	–	–	–	–
Accounts payable to parent and affiliate companies	17,102	–	–	–	–	–
Long-term debt:						
Principal	11,262	39,000	13,197	16,371	4,000	1,191,900
Interest expense	54,324	52,913	50,256	48,901	48,184	966,366
	137,093	91,913	63,453	65,272	52,184	2,158,266

20. CAPITAL DISCLOSURES

ATCO Pipelines' objective when managing capital is to remain within the capital structure approved by the AUC, which, through the generic cost of capital decisions established the capital structure for ATCO Pipelines. In August 2018, ATCO Pipelines received the 2018 Generic Cost of Capital decision. The decision established a common equity ratio of 37.0 per cent for 2018, 2019 and 2020.

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

21. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

SIGNIFICANT ACCOUNTING JUDGMENTS

Impairment of long-lived assets

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

Property, plant and equipment and intangibles

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

Income taxes

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

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Useful lives of property, plant and equipment and intangibles

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

Impairment of long-lived assets

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

Retirement benefits

ATCO Pipelines, together with Canadian Utilities Limited and its subsidiary companies, consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Key assumptions used to determine the retirement benefit cost and obligation are shown in Note 13.

Income taxes

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

22. CONTINGENCIES

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

23. COMMITMENTS

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

	2020	2021	2022	2023	2024
Purchase obligations:					
Operating and maintenance agreements	2,354	–	–	–	–
Information technology services	4,303	4,361	4,481	4,481	4,481
Capital expenditures	50,533	–	–	–	–
	57,190	4,361	4,481	4,481	4,481

24. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH RELATED PARTIES

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

Entity	Relationship	Transaction	Recorded As	2019	2018
ATCO Ltd. / CUL / CU Inc.	Parent	Interest on long-term advances	Interest Expense	**53,310**	49,543
		Administrative services, rent and aircraft	Other expenses	**9,899**	9,059
		Administrative services, rent and aircraft	Property, plant and equipment	**2,949**	2,849
		Licensing fees	Other expenses	**1,166**	896
ATCO Gas	Division of AGPL	Engineering services, mechanical services, communications operations, office services, operations	Other expenses	**–**	5
		Engineering services, mechanical services, communications operations, office services, operations	Plant and equipment maintenance	**1,972**	1,058
		Contract services, net of asset transfers	Revenues	**1,709**	4,425
		Engineering and construction services	Property, plant and equipment	**8,158**	5,998
		Transfer of assets	Property, plant and equipment	**3,867**	7
ATCO Electric	Affiliate	Contract services	Revenues	**–**	68
		Contract services	Other expenses	**62**	136
		Contract services	Plant and equipment maintenance	**–**	12
		Contract services	Property, plant and equipment	**215**	–
		Transfer of assets	Property, plant and equipment	**–**	15
ATCO Energy Solutions Ltd.	Affiliate	Contract services	Revenues	**1,168**	692
		Salt cavern gas purchase	Other expenses	**25**	25

Entity	Relationship	Transaction	Recorded As	2019	2018
ATCO Power	Affiliate	Contract services	Revenues	**–**	5
ATCO Structures and Logistics Ltd.	Affiliate	Contract services	Other expenses	**–**	19
ATCO Pipelines S.A. de C.V.	Affiliate	Contract services	Revenues	**355**	355
		Transfer of assets	Property, plant and equipment	**1,772**	–
IEIE S.A. de C.V.	Affiliate	Contract services	Revenues	**449**	161
ATCO Energy Ltd	Affiliate	Contract services	Other expenses	**14**	9
		Distribution service costs	Other expenses	**1,679**	1,628
ATCO Investments Ltd.	Affiliate	Rent	Other expenses	**68**	–

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

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

These transactions are in the normal course of business and are measured at the exchange amount.

RELATED PARTY LOANS AND BALANCES

Balances	Recorded As	2019	2018
Receivables from related parties [(1)]	Accounts receivable from parent and affiliate companies	**7,845**	6,424
Short-term advances [(2)]	Short-term advances from parent company	**16,000**	22,000
Payables to related parties [(1)]	Accounts payable to parent and affiliate companies	**17,102**	17,320
Long-term advances *(Note 12)*	Long-term debt	**1,268,439**	1,124,580
Equity preferred shares *(Note 15)*	Equity preferred shares	**35,726**	35,726

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

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

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

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

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

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

Financial statement effects of rate regulation

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

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

REVENUE RECOGNITION

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

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

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

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

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

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

Natural gas transmission

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

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

Franchise fees

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

SHORT-TERM EMPLOYEE BENEFITS

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

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

INCOME TAXES

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

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

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

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 Pipelines and the cost can be measured reliably.

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

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

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

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

	Useful Life	Average Useful Life	Average Depreciation Rate
Gas transmission equipment	4 to 58 years	41 years	2.5%
Other plant, equipment and machinery	4 to 30 years	15 years	6.8%

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

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. ATCO Pipelines amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and not longer than 80 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

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

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 Pipelines recognizes provisions when:

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

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

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

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

CONTINGENCIES

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

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

Amortized cost

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

Fair value through profit or loss

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

Transaction costs

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

Offsetting financial instruments

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

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

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

Derecognition of financial instruments

Financial assets are derecognized:

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

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

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

Fair value hierarchy

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

The hierarchy is as follows:

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

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

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

RETIREMENT BENEFITS

ATCO Pipelines participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the registered defined benefit plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, ATCO Pipelines is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 2017.

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

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

FOREIGN CURRENCY TRANSLATION

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

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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.