



An **ATCO** Company

**2007  
ANNUAL  
INFORMATION  
FORM**

February 19, 2008

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## FORWARD-LOOKING INFORMATION

Certain statements contained in this Annual Information Form (“AIF”) constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as “anticipate”, “plan”, “estimate”, “expect”, “may”, “will”, “intend”, “should”, and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

In particular, this AIF contains forward-looking information pertaining to, among other things, planned capital expenditures and the impact of changes in government regulation. Actual results could differ materially from those anticipated in this forward-looking information as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Company.

## DEFINITIONS OF CERTAIN TERMS

Certain terms used in this Annual Information Form are defined below:

“AESO” means the Alberta Electric System Operator;

“AGP” means ATCO Gas and Pipelines Ltd.;

“Alberta Power (2000)” means Alberta Power (2000) Ltd.;

“Alberta Power Pool” means the market for electricity in Alberta operated by the AESO;

“ATCO Electric” means ATCO Electric Ltd.;

“ATCO Gas” means the natural gas distribution division of AGP;

“ATCO Pipelines” means the natural gas transmission division of AGP;

“AUC” means the Alberta Utilities Commission and its predecessor, the Alberta Energy and Utilities Board;

“Class A shares” means Class A non-voting shares of the Company;

“Class B shares” means Class B common shares of the Company;

“Company” means CU Inc. and, unless the context otherwise requires, includes its subsidiaries;

“CU” means Canadian Utilities Limited;

“CU Water” means CU Water Limited;

“EUA” means the Electric Utilities Act (Alberta);

“GHG” means any greenhouse gas which has the potential to retain heat in the atmosphere, including water vapour, carbon dioxide, methane, nitrous oxide and hydrofluorocarbons;

“GUA” means the Gas Utilities Act (Alberta);

“km” means kilometre;

“negotiated settlement” means an agreement related to a revenue requirement and/or customer rates for a specific period of time resulting from direct negotiations between a utility and its customers. A negotiated settlement avoids the need for a general rate application for the duration of the agreement. All negotiated settlements must be approved by the AUC;

“NLD” means Northland Utilities (NWT) Limited;

“NUY” means Northland Utilities (Yellowknife) Limited;

“petajoule” means a unit of energy equal to approximately 948.2 billion British thermal units, “terajoule” means a unit of energy equal to approximately 948.2 million British thermal units, and “gigajoule” means a unit of energy equal to approximately 948.2 thousand British thermal units;

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

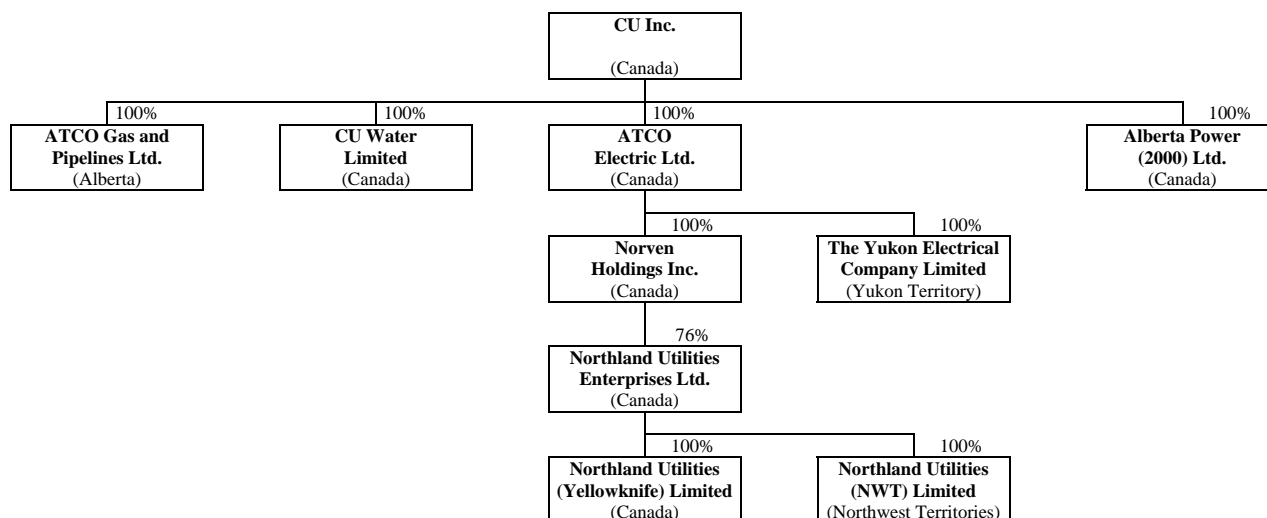
“REA” means Rural Electrification Association. REAs are constituted under the Rural Utilities Act (Alberta) by groups of persons carrying on farming operations. Each REA purchases electric power for distribution to its members through a distribution system owned by that REA;

“YECL” means The Yukon Electrical Company Limited.

## CU INC.

CU Inc. was incorporated under the laws of Canada on March 12, 1999. The address of the principal and registered office of the Company is 1400 ATCO Centre, 909 – 11<sup>th</sup> Avenue S.W., Calgary, Alberta T2R 1N6.

The following chart includes the names of the principal operating subsidiaries of the Company, the jurisdictions under the laws of which they are organized, and the percentages of their shares beneficially owned or over which control or direction is exercised by the Company.



Note:

CU Inc. owns all of the voting and non-voting shares of the operating subsidiaries. Other than the Cumulative Redeemable Preferred Shares, Series 1 of the Company, all of the preferred shares are owned by CU.

## BUSINESS OF THE COMPANY

The Company is a holding company. Its principal operating subsidiaries are engaged in regulated natural gas and electric energy operations, primarily in Alberta. Regulated operations are conducted by ATCO Electric (and its subsidiaries, NLD, NUY and YECL), ATCO Gas and ATCO Pipelines. Included in regulated operations are the generating plants of Alberta Power (2000), which were regulated by the AUC until December 31, 2000, but are now governed by legislatively mandated PPAs that were approved by the AUC. These plants are included in regulated operations primarily because the PPAs are designed to allow the owners of generating plants constructed before January 1, 1996, to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPAs. Each plant will become deregulated upon the earlier of one year after the expiry of its PPA or a decision to continue to operate the plant. For PPAs expiring prior to 2019, Alberta Power (2000) has one year after the expiry of a PPA to determine whether to decommission the generating plant in order to fully recover plant decommissioning costs or to continue to operate the plant and be responsible for decommissioning costs. For PPAs expiring after

2018, decommissioning costs are the responsibility of the plant owner. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant or December 31, 2020.

The Company operates in the following business segments:

The **Utilities** Business Group includes the regulated distribution of natural gas by ATCO Gas, the regulated transmission and distribution of water by CU Water, the regulated transmission of natural gas by ATCO Pipelines, the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical.

The **Power Generation** Business Group includes the regulated supply of electricity by Alberta Power (2000).

### **Three Year History**

The significant events and conditions that have influenced the general development of the Company's business over the past three years are summarized below.

#### **2007:**

- Increased capital expenditures in the Utilities Business Group.
- Fluctuations in temperatures affecting ATCO Gas' operations.
- In November 2007, the AUC announced that a generic return on common equity of 8.75% would be applied on rate applications filed for 2008. ATCO Gas and ATCO Pipelines have filed applications for 2008. ATCO Electric's 2008 general tariff application decision included a placeholder rate of return on common equity for 2008, with the generic rate for 2008 replacing the placeholder rate.
- Availability of generating plants in Alberta Power (2000).
- Lower PPA tariffs due to declining rate bases at Alberta Power (2000)'s generating plants and a decline in the return on common equity rate that is based on long term Government of Canada bond yields plus 4.5%. The rate of return on common equity for 2008 is 8.88%.
- In 2003, the federal government announced that the income tax deduction available to corporations that pay taxes on dividends on preferred shares (Part VI.1 tax) would be decreased from 9/4ths of the Part VI.1 tax paid to 9/3rds in 2003, but this change was not enacted by parliament until 2007. Accordingly, the Company recorded a one-time reduction to current income tax expense which resulted in increased earnings of \$5.5 million relating to years prior to 2007. An additional increase to earnings of \$0.3 million was recorded relating to the first quarter of 2007. Funds generated by operations increased by \$5.5 million, offset by a similar reduction in changes in non-cash working capital, leaving the Company's cash position unchanged.
- In 2007, the federal government announced a reduction in corporate tax rates from 19% to 15% by 2012. As a result of these changes, the Company made an adjustment to future income taxes amounting to \$(0.9) million in the fourth quarter of 2007. The adjustment decreased the Company's 2007 earnings by \$0.9 million, all of which related to Alberta Power (2000).

- In September 2007, the AUC issued a decision on ATCO Electric's general tariff application for the 2007 and 2008 test years. Included in this decision were the following:
  - rate of return on common equity of 8.75% for 2008 and 8.51% for 2007;
  - common equity ratio of 33% for transmission operations and 37% for distribution operations
  - the decision also directed ATCO Electric to change its income tax methodology for federal purposes. This change in tax methodology does not affect earnings as ATCO Electric's revenues and income tax expense were reduced by similar amounts. Accordingly, in the third quarter, ATCO Electric recorded a reduction in future income tax liabilities of \$34.4 million and a liability to customers of \$49.3 million, offset by a regulatory asset of \$14.9 million which represents current income tax savings to be realized in future periods. Unrecorded future income tax liabilities increased by \$34.4 million as a result of this decision. In December 2007, ATCO Electric refunded \$16.1 million of the liability to transmission customers, thereby realizing \$5.2 million of current income tax savings, which further reduced revenues, and reduced the future income taxes to be refunded by \$10.9 million, and will be refunding the remaining \$23.5 million balance to distribution customers over a five year period commencing in 2008.
  
- In the fourth quarter of 2007, ATCO Gas successfully appealed previous Canada Revenue Agency ("CRA") reassessments which resulted in an \$8.8 million decrease in income taxes and an increase in interest income (net of tax) of \$0.7 million for an overall increase to the Company's earnings of \$9.5 million. These appeals applied to the 1999 to 2006 taxation years and allow ATCO Gas to treat previously reported capital outlays as current expenditures for income tax purposes.

**2006:**

- Increased capital expenditures in the Utilities Business Group.
- Fluctuations in temperatures affecting ATCO Gas' operations.
- In November 2006, the AUC announced that a generic return on common equity of 8.51% would be applied on rate applications filed for 2007.
- Availability of generating plants in Alberta Power (2000).
- Lower PPA tariffs due to declining rate bases at Alberta Power (2000)'s generating plants and a decline in the return on common equity rate that is based on long term Government of Canada bond yields plus 4.5%.
- In 2006, the CRA issued a reassessment for Alberta Power (2000)'s 2001 taxation year. The CRA's reassessment treats the proceeds received from the sale of the H.R. Milner generating plant to the Alberta Balancing Pool as income rather than as a sale of an asset. The Company has made submissions to the CRA opposing the CRA's position. The impact of the reassessment is a \$12.4 million increase in interest and income tax expense, a \$12.4 million decrease in earnings and a \$28.8 million payment associated with the tax and interest assessed. It is expected that \$16.4 million of this cash payment will be recovered by reducing income taxes payable through higher capital cost allowance claims. Due to the uncertainty as to whether the reassessment will ultimately be resolved in the Company's favour, the Company reduced earnings by \$12.4 million in 2006.
- Federal and provincial governments have recently announced a number of changes to income taxes and rates. As these changes are considered to have been substantively enacted, the Company made an

adjustment to income taxes amounting to \$1.7 million in the second quarter of 2006, most of which relates to future income taxes. The adjustment increased 2006 earnings by \$1.7 million, all of which relates to the Utilities segment.

- In June 2005, as part of their rate applications, ATCO Electric and ATCO Gas submitted a filing to the AUC that addressed certain common matters. ATCO Pipelines was also a party to this filing as the concerns were common to all three utilities. On October 11, 2006, the AUC issued a decision which resulted in no significant impact on earnings. Among other things, the decision upheld ATCO's treatment of pension costs and approved the continued use of preferred shares. In addition, the decision approved minimal changes to head office rent expense and executive compensation.

#### **2005:**

- Fluctuations in temperatures affecting ATCO Gas' operations.
- In November 2005, the AUC announced a generic return on common equity of 8.93% for 2006. In January 2006, the AUC clarified that the generic return on equity determined on an annual basis in accordance with the generic cost of capital decision should apply to each year of the test period in the companies' applications. If no rate applications are filed for a particular year, then there will be no adjustment to the common equity rate of return for that year.
- In November 2005, the AUC approved ATCO Pipelines as the party to manage the acquisition and sale of working gas at its salt cavern storage. Salt cavern working gas had historically been acquired by ATCO Gas and its predecessors.
- In May 2005, ATCO Gas filed a general rate application with the AUC for the 2005, 2006 and 2007 test years requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. In June 2005, ATCO Gas filed an application requesting interim refundable rates pending the AUC's decision on the general rate application. On August 28, 2005, ATCO Gas received a decision from the AUC approving an interim refundable rate increase, to be collected from northern customers, of \$7.0 million. A decision from the AUC was received on January 27, 2006, which resulted in an earnings impact that is not materially different from the earnings based on the interim rates approved by the AUC in August 2005.

## **Utilities**

As a result of the transfer of the retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "Direct Energy"), a subsidiary of Centrica plc in May 2004, ATCO Electric and ATCO Gas are no longer involved in arranging for the supply and sale of electricity and natural gas to customers and are therefore no longer responsible for electric energy or natural gas supply, but continue to own the assets and provide transportation and distribution services under AUC approved rates that provide for a recovery of costs of service and fair return.

### **Natural Gas Distribution**

ATCO Gas is primarily engaged in the business of distributing natural gas throughout Alberta and in the Lloydminster area of Saskatchewan. Although ATCO Gas is the major natural gas distributor in Alberta, certain areas are served by other natural gas utilities.

ATCO Gas' principal markets for the distribution of natural gas are in the communities of Edmonton, Calgary, Airdrie, Camrose, Fort McMurray, Grande Prairie, Lethbridge, Lloydminster, Red Deer, St. Albert and Sherwood Park, which have a combined population of approximately 2,269,000. Also served are 279 smaller communities as well as rural areas having a combined population of approximately 599,000, located on or in the vicinity of ATCO Pipelines' transmission systems or the natural gas transmission pipelines of other companies. ATCO Gas provides approximately 1,002,000 customers with natural gas service, of whom approximately 75% are located in the 11 communities named above.

The number of customers served by ATCO Gas as at the end of each of the last two years was as follows:

	<u>2007</u>	<u>2006</u>
Residential .....	916,875	886,999
Commercial .....	84,588	82,490
Industrial.....	353	358
Other .....	30	30
Total.....	<u>1,001,846</u>	<u>969,877</u>

ATCO Gas owns and operates approximately 36,500 km of distribution mains. In addition, ATCO Gas owns modern service and maintenance facilities in major centres.

Revenues and earnings of ATCO Gas are affected by temperature and consequently winter weather can have a significant impact. During a typical year, more than 90% of the earnings of ATCO Gas are generated during the months of January, February, November and December.

The amounts of natural gas distributed by ATCO Gas for each of the last two years were as follows:

	<u>2007</u>	<u>2006</u>
	(petajoules)	
Residential .....	113.2	105.3
Commercial .....	104.2	98.6
Industrial.....	14.5	14.4
Other .....	0.6	0.4
Total.....	<u>232.5</u>	<u>218.7</u>

### ***Natural Gas Supply***

Prior to April 1, 2005, as directed by the AUC, ATCO Gas purchased fixed quantities of natural gas from various gas producers at market prices that were in effect at the time the quantities were purchased. Effective April 1, 2005, as directed by the AUC, ATCO Gas no longer purchases fixed quantities of natural gas related to storage purchases and operational contracts pertaining to its natural gas field storage facility at Carbon, Alberta. ATCO Gas has leased the entire storage capacity of the 43.5 petajoule Carbon facility to ATCO Midstream since April 1, 2005. For additional information related to the leasing of the Carbon natural gas storage facility to ATCO Midstream, refer to the Annual Results of Operations – Segmented Information – Utilities – Regulatory Developments – ATCO Gas

section of the Company's Management's Discussion and Analysis ("MD&A"), which is available at [www.sedar.com](http://www.sedar.com).

In 2003, ATCO Gas commenced a project to relocate natural gas meters located inside homes to the outside. Since inception of the project, the project has cost \$148 million. The project will make the distribution system safer by relocating and replacing aging infrastructure, improve metering accuracy and accessibility, and facilitate more efficient meter reading. The AUC approved a program which will result in meters with underground entries being relocated over 10 years and all other inside meters moved as part of the existing meter recall program. The decision also allows ATCO Gas to move meters at any time if they are deemed unsafe.

### *CU Water*

CU Water is engaged in the transmission and distribution of water. CU Water owns and operates a distribution system to supply water to rural customers and small towns east of Edmonton. At the end of 2007, approximately 1,080 customers were being served directly by CU Water and, in addition, bulk water sales were being made to the towns of Tofield and Viking and to 14 commercial water haulers. The operations of CU Water are subject to regulation by the AUC.

### **Natural Gas Transmission**

ATCO Pipelines is engaged in the business of transporting natural gas throughout Alberta and the operation of a salt cavern storage peaking facility.

ATCO Pipelines owns and operates extensive natural gas transmission systems. The systems consist of approximately 8,400 km of pipelines, 22 compressor sites and a salt cavern storage peaking facility. The systems have 236 producer receipt points, 78 interconnections with TransCanada Pipelines Limited, five interconnections with Alliance Pipeline and one interconnection with Many Islands Pipelines.

ATCO Pipelines' revenues are based primarily on contractual arrangements for access to its transmission systems. Contract demand for access, and interruptible (IT), overrun (OR) and variable volumes for each of the last two years was as follows:

	<u>2007</u>	<u>2006</u>
	(terajoules/day)	
Contract Demand:		
Producer.....	1,470	1,366
Industrial.....	960	966
Distribution.....	104	95
Affiliates.....	2,609	2,605
Total.....	<u>5,143</u>	<u>5,032</u>
IT/OR/Variable Volumes:		
Producer.....	187	244
Industrial.....	214	234
Total.....	<u>401</u>	<u>478</u>
Total Contract Demand and IT/OR/Variable Volumes.....	<u>5,544</u>	<u>5,510</u>

## Electric Distribution and Transmission

ATCO Electric is engaged in the business of transmitting and distributing electric energy to 245 communities as well as rural areas in east-central and northern Alberta. Included are the communities of Drumheller, Lloydminster, Grande Prairie and Fort McMurray as well as the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River. Electric utility service is also provided to one community in British Columbia and to two communities in Saskatchewan. YECL serves 19 communities in the Yukon Territory, including the capital city of Whitehorse, and NUY and NLD serve 9 communities in the Northwest Territories, including the capital city of Yellowknife.

Electricity distributed to the various classes of customers for each of the last two years was as follows:

	2007		2006	
	Millions of Kilowatt Hours	%	Millions of Kilowatt Hours	%
Industrial.....	7,026	65	6,719	65
Commercial .....	2,028	19	1,967	19
Residential .....	1,170	11	1,098	11
Rural, REAs and other.....	520	5	502	5
Total.....	<u>10,744</u>	<u>100</u>	<u>10,286</u>	<u>100</u>

The aggregate population of the areas provided with electric utility service by ATCO Electric, NUY, NLD and YECL is approximately 473,000 and service is provided to approximately 223,000 customers. ATCO Electric has been assigned approximately 65% of the designated service area within Alberta which contains approximately 15% of the existing provincial electrical load and 12% of the existing population.

The number of customers served by ATCO Electric, NUY, NLD and YECL as at the end of each of the last two years was as follows:

	2007		2006	
	Number	%	Number	%
Industrial.....	11,083	5	10,894	5
Commercial .....	29,912	14	29,284	13
Residential .....	152,146	68	146,503	68
Rural, REAs and other.....	29,848	13	29,657	14
Total.....	<u>222,989</u>	<u>100</u>	<u>216,338</u>	<u>100</u>

ATCO Electric, NUY, NLD and YECL own and operate extensive electric transmission and distribution systems. The systems consist of approximately 9,300 km of main transmission lines and 61,700 km of distribution lines. In addition, ATCO Electric delivers power to and operates approximately 12,000 km of REA-owned distribution lines.

ATCO Electric, NUY, NLD and YECL own and operate 28 diesel, natural gas turbine and hydro generating plants having an aggregate nameplate capacity of 60 megawatts in Alberta and in the Yukon and Northwest Territories. The maximum peak load demand for these plants during the year ended December 31, 2007, was 31 megawatts.

In August 2006, the AUC approved the AESO application for increased transmission infrastructure in northwest Alberta. The AESO has approval to assign to the transmission facility owner, ATCO Electric, work consisting of several distinct projects that is expected to result in 725 kilometres of new transmission lines to be constructed by 2011. The first of these projects was assigned by the AESO in June 2007, with final approval received from the AUC on November 23, 2007. This first project consists of the construction of a 226 kilometre transmission line with an estimated cost of \$210 million and anticipated completion by March 31, 2010. As a result of price escalation caused by the change in completion date of the remaining distinct projects (post 2010), coupled with the increasing costs of construction in Alberta, ATCO Electric is unable to estimate the cost of the entire project at this time. In addition to the increased transmission infrastructure in northwestern Alberta, ATCO Electric anticipates that an additional 180 kilometres of transmission line projects will be required in its service area over the next five years.

### **Franchises**

AGP, ATCO Electric, YECL, NUY and NLD distribute natural gas and electricity in incorporated communities under the authority of franchises or by-laws and in rural areas under approvals, permits or orders issued pursuant to applicable statutes.

In Edmonton, distribution of natural gas is carried on under the authority of an exclusive franchise. In 2004, AGP entered into an agreement with the City of Edmonton for a 10 year renewal of the franchise to November 15, 2015. The franchise renewal is subject to the right of the City of Edmonton, at the end of the renewal period, to purchase all of AGP's assets used in supplying natural gas to the city. The purchase price would be determined by an arbitration process according to the arbitration laws of Alberta. Although the franchise agreement gives the City certain rights of purchase, since 1935 the City has granted renewals for 10 year periods.

In Calgary, distribution of natural gas is carried on under the authority of a municipal by-law. The rights of AGP under this by-law, while not exclusive, are unrestricted as to time. The by-law does not confer any right on the City of Calgary to acquire the facilities used in providing the service.

The franchises under which service is provided in other incorporated communities in Alberta and in the Northwest Territories have been granted for periods of up to 20 years. These franchises are exclusive to AGP, ATCO Electric, NUY or NLD and are renewable by agreement for further periods not exceeding 20 years each in the case of AGP and 10 years in the case of ATCO Electric, NUY and NLD. If any franchise is not renewed, it remains in effect until such time as either party, with the approval of the prevailing regulatory authority, terminates it on six months written notice. Upon termination of a franchise the municipality may purchase the facilities used in connection with that franchise at a price to be agreed upon or, failing agreement, to be fixed by the prevailing regulatory authority. The franchise under which service is provided in the Yukon Territory was granted under the Public Utilities Act (Yukon Territory) and has no set expiry date.

### ***Franchise Renewals***

ATCO Electric has four material franchises, one of which has expired and is currently being renegotiated. Of the remaining franchises, one was renewed in 2007 and expires in 2018, one expires in 2008 and the other expires in 2014.

ATCO Gas has five material franchise agreements which expire between 2012 and 2018.

The Company anticipates that all material franchise agreements currently held will be renewed.

## **Power Generation**

Under the EUA, generation assets constructed after December 31, 1995, are not considered part of utility operations and rates are not regulated by the AUC. All owners of new and existing generating units must sell their surplus electric energy through the Alberta Power Pool.

Power generation operations are conducted by Alberta Power (2000).

The Battle River and Sheerness generating plants of Alberta Power (2000) were regulated by the AUC until December 31, 2000, but are now governed by legislatively mandated PPAs that were approved by the AUC. These plants are included in regulated operations primarily because the PPAs are designed to allow the owners of generating plants constructed before January 1, 1996, to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPAs. Each plant will become deregulated upon the earlier of one year after the expiry of its PPA or a decision to continue to operate the plant. For PPAs expiring prior to 2019, Alberta Power (2000) has one year after the expiry of a PPA to determine whether to decommission the generating plant in order to fully recover plant decommissioning costs or to continue to operate the plant and be responsible for decommissioning costs. For PPAs expiring after 2018, decommissioning costs are the responsibility of the plant owner. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant or December 31, 2020.

Over 99% of the electricity generated by Alberta Power (2000) is sold pursuant to PPAs. Under the PPAs, Alberta Power (2000) is required to make the generating capacity for each generating unit available to the purchaser of the PPA for that unit. In return, Alberta Power (2000) is entitled to recover its forecast fixed and variable costs for that unit from the PPA purchaser, including a return on common equity equal to the long term Government of Canada bond rate plus 4.5% based on a deemed common equity ratio of 45%. Many of the forecast costs will be determined by indices, formulae or other means for the entire period of the PPA. Alberta Power (2000)'s actual results will vary and depend on performance compared to the forecasts on which the PPAs were based. The return on common equity rate used in its PPA tariff calculations for Alberta Power (2000) was 8.65% in 2007 and 8.75% for 2006. The rate of return on common equity for 2008 is 8.88%.

Alberta Power (2000) operated the Rainbow generating plant during 2006 and the electricity generated was sold to the Alberta Power Pool. Alberta Power (2000) had one year after the expiry of the PPA for the Rainbow generating plant (December 31, 2005) to determine whether to decommission the plant in order to fully recover plant decommissioning costs or to continue to operate the plant. In 2007, the AESO and Alberta Power (2000) executed a contract resulting in Alberta Power (2000) continuing to operate the plant and thus be responsible for future decommissioning costs. These costs are included in Alberta Power (2000)'s asset retirement obligation liability. Under the terms of the agreement, the Company makes the plant available for transmission support services and can continue to sell energy into the Alberta Power Pool.

The name plate capacity ratings of Alberta Power (2000)'s generating plants are shown below.

<b>Plant</b>	<b>Commissioning Date</b>	<b>Type of Generating Plant</b>	<b>Name Plate Capacity Rating</b> (megawatts)	<b>PPA Purchaser</b>	<b>PPA Expiry Date</b>
<b>Battle River</b>					
Unit 3 .....	1969	coal-fired steam turbine	150	ENMAX Corporation	2013
Unit 4 .....	1975	coal-fired steam turbine	150	ENMAX Corporation	2013
Unit 5 .....	1981	coal-fired steam turbine	370	ENMAX Corporation	2020
			670		
<b>Sheerness (1)</b>					
Unit 1 .....	1986	coal-fired steam turbine	190	TransCanada Energy Ltd.	2020
Unit 2 .....	1990	coal-fired steam turbine	190	TransCanada Energy Ltd.	2020
			380		
Rainbow.....	1968	natural gas turbine	88	Merchant	
Sturgeon.....	1957	natural gas turbine	18	Merchant	
Total			1,156		

Note:

(1) Alberta Power (2000)'s ownership of the 760 megawatt name plate capacity.

Alberta Power (2000) manages the Sheerness generating plant under long term agreements with TransAlta Cogeneration L.P. for the equal sharing of ownership and cost of electric capacity.

Alberta Power (2000) owns or has committed under long term contracts sufficient coal supplies for the anticipated lives of its Battle River and Sheerness generating plants.

### **BUSINESS RISKS**

The business risks section in the Company's MD&A is hereby incorporated by reference and is available at [www.sedar.com](http://www.sedar.com).

### **GOVERNMENT REGULATION**

Under Alberta legislation, owners of public, electric or gas utilities are required to obtain AUC approval prior to issuing securities, however, through an AUC order CU Inc. is exempt from this requirement.

The utility operations of the Company in Alberta (ATCO Gas, ATCO Electric, ATCO Pipelines and CU Water) are subject to the jurisdiction of the AUC which, among other things, is vested with broad general powers of supervision

with respect to the construction and operation of electric energy and natural gas facilities within the province and broad powers of regulation in respect of rates charged for the delivery of electric energy, natural gas and water.

The regulated operations of the Company in the Yukon Territory (YECL) and the Northwest Territories (NUY and NLD) are subject to regulation similar to that in effect in Alberta by regulatory authorities in those jurisdictions.

The provincial and territorial utility boards regulate and approve customer rates based on anticipated energy deliveries as well as the revenue required to recover estimated costs of service, including a fair return on rate base, estimated operating expenses, depreciation and taxes, all in respect of a future test period. Energy deliveries are based on a forecast of economic and business conditions and, in the case of natural gas distribution utility operations, normal temperature, which is defined as the average temperature for the previous 20 years.

Rate base consists of the depreciated cost of utility assets and an allowance for working capital. Return on rate base is designed to meet the cost of interest on long term debt and dividends on preferred shares and to provide the common shareholders with a reasonable opportunity to earn a fair return on their investment. The determination of a fair return to the common shareholders involves an assessment by the regulator of many factors, including returns on alternative investment opportunities of comparable risk and the level of return which will enable a utility to attract the necessary capital to fund its operations.

Particulars of the most recent final decisions made by the AUC respecting general rate applications or negotiated settlements filed by the principal regulated subsidiaries of the Company are as follows:

	<u>Year</u>	<u>Date of Decision (1)</u>	<u>Mid-Year Rate Base</u> (\$ Millions)	<u>Rate of Return on Common Equity (2)</u> (%)		<u>Common Equity Ratio (3)</u> (%)	
<b>ATCO Electric</b>							
Transmission .....	2007	Dec. 21/07	844.2	8.51	(4)	33.0	(4)
	2008	Dec. 21/07	888.4	8.75	(4)	33.0	(4)
Distribution .....	2007	Dec. 21/07	772.0	8.51	(4)	37.0	(4)
	2008	Dec. 21/07	883.7	8.75	(4)	37.0	(4)
<b>ATCO Pipelines</b>							
North .....	2003	Dec. 02/03	351.8	9.50		43.5	
	2004	Dec. 02/03	355.2	9.60	(4)	43.0	(4)
South .....	2003	Dec. 02/03	144.8	9.50		43.5	
	2004	Dec. 02/03	147.6	9.60	(4)	43.0	(4)
<b>ATCO Gas</b>							
North .....	2005	May 15/07	508.9	9.50	(4)	38.0	(4)
	2006	May 15/07	532.8	8.93	(4)	38.0	(4)
	2007	May 15/07	558.3	8.51	(4)	38.0	(4)
South .....	2005	May 15/07	559.6	9.50	(4)	38.0	(4)
	2006	May 15/07	534.2	8.93	(4)	38.0	(4)
	2007	May 15/07	550.6	8.51	(4)	38.0	(4)

Notes:

- (1) The information shown reflects the most recent amending or varying orders issued subsequent to the original date of decision.
- (2) Common equity rate of return is the rate of return on the portion of rate base considered to be financed by common equity.
- (3) The common equity ratio is the percentage of rate base considered to be financed by common equity.
- (4) The rate of return on common equity and common equity ratio were determined by the AUC's generic cost of capital decision dated July 2, 2004.

**Generic Cost of Capital**

The AUC approves rates of return for the debt and preferred share components of rate base based on the actual or forecast weighted average cost of each utility's debt and preferred shares and establishes the capital structure for each utility. On July 2, 2004, the AUC established a standardized approach for determining the rate of return on common equity for each utility regulated by the AUC. This rate of return will be adjusted annually by 75% of the change in long term Government of Canada bond yield as forecast in the November Consensus Forecast, adjusted

for the average difference between the 10 year and 30 year Government of Canada bond yields for the month of October as reported in the National Post. The generic return on equity determined on an annual basis in accordance with the generic cost of capital decision applies to each year of the test period in the utilities' applications. If no rate applications are filed for a particular year, then there will be no adjustment to the common equity rate of return for that year. The rate of return was 8.93% for 2006, 8.51% for 2007 and has been set at 8.75% for 2008.

## **Electric Utilities Act**

### **Transmission**

Under the EUA, wholesale tariffs for transmission must be approved by the AUC. The transmission tariffs allow any owner of a generating unit to have access to the transmission system in Alberta and thus facilitate the sale of its power. The same transmission tariff is charged to each distribution utility or customer directly connected to the transmission system regardless of location.

The equalization of transmission costs is achieved by having each owner of transmission facilities charge its costs to the Alberta Power Pool. The Alberta Power Pool then aggregates these costs and charges a common transmission rate to all who use the transmission system.

The Alberta Power Pool has developed and approved rules as mandated in the Transmission Regulation enacted by the Government of Alberta in 2004. These rules direct that new transmission projects will be assigned to the Transmission Facility Owners based on the service areas of the distribution companies they have been historically affiliated with. Ownership of facilities will change at service area boundaries except where, in the opinion of the Alberta Power Pool, only a small portion of the project is in another service area. All expansions of existing facilities will be assigned to the existing owner.

### **Distribution**

Under the EUA, separate retail rates for distribution must be approved by the AUC. Costs of distribution are not equalized. The distribution utility provides the distribution services for all customers under AUC approved tariffs which provide for the recovery of the cost of service, including a fair return on rate base.

## **Environmental Protection**

The Company's operating subsidiaries and the industries in which they operate are subject to extensive federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, land use activities, and the handling, manufacturing, processing, use, emission and disposal of materials and waste products. In Alberta, protection of the environment is generally governed by the Alberta Environmental Protection and Enhancement Act. The operating subsidiaries have obtained or are obtaining all permits and licenses required by law to carry on their operations.

The Company's operating subsidiaries are committed to preserving and protecting the environment and minimizing the discharge of harmful materials into the environment in accordance with environmental protection laws and regulations. Nevertheless, some risk of unintentional violation of environmental protection laws and the resulting liability to the Company's operating subsidiaries is inherent in particular operations of these subsidiaries, as it is with other companies engaged in similar businesses. There can be no assurance that material costs and liabilities will not be incurred. To mitigate these costs, the Company carries insurance for the operating subsidiaries against third

party claims for bodily injury and property damage arising from a sudden and accidental event or occurrence resulting from an unexpected release of pollutants or contaminants.

The Company's operating subsidiaries do not expect that environmental protection laws and regulations will affect them differently from other companies in the industries in which they operate. Specifically identifiable expenditures for pollution abatement and control were approximately \$31 million in 2007 and are estimated to be \$37 million in 2008.

On April 26, 2007, the federal government released a plan that proposes mandatory GHG emission targets on industry. The proposed plan requires an initial reduction in 2010 of 18% from 2006 levels followed thereafter by annual reductions of an additional 2%. New facilities (2004 or later) are allowed a 3-year grace period after which they must improve emission intensity by 2% per year below the clean fuel standard. Compliance may be achieved by reduction or capture, limited investment in a technology fund, emission credit trading, purchase of offset credits, Kyoto Protocol Clean Development Mechanisms (maximum 10%) and very limited opportunity for early action credits. Specific details on the regulations have yet to be released and will be required to assess the financial impact of the federal framework. It is anticipated that the PPAs will allow the Company to recover most of the costs associated with complying with the new regulations.

On April 20, 2007, and June 27, 2007, respectively, the Government of Alberta approved Bill 3, Climate Change and Emissions Management Amendment Act and the Specified Gas Emitters Regulation Amendment that requires Alberta facilities that emit 100,000 tonnes or more of GHG to reduce facility emission intensities by 12% starting July 1, 2007. Units commissioned before January 1, 2000, or that have less than nine years of commercial operation are required to reduce their emission intensity by 2% per year starting in the fourth year of commercial operation to a maximum of 12% in the ninth year of commercial operation. Cogeneration units with emissions less than a deemed emission target based on a stand-alone natural gas combined cycle unit and conventional boiler will be eligible for credits. It is anticipated that the PPAs will allow the Company to recover most of the costs associated with complying with the new regulations.

The Alberta government implemented a mercury emission regulation in March 2006. The regulation requires coal-fired plant operators, including Alberta Power (2000), to monitor mercury emissions and capture at least 70% of the mercury in the coal starting January 1, 2011. It is anticipated that the PPAs will allow the Company to recover most of the costs associated with complying with the new regulation.

## **DESCRIPTION OF CAPITAL STRUCTURE**

### **Share Capital**

The authorized share capital of the Company consists of:

- an unlimited number of Series Preferred Shares issuable in series; and
- an unlimited number of Class A Shares and Class B Shares.

At February 15, 2008 the Company had outstanding:

- 4,600,000 Series Preferred Shares;
- 3,286,124 Class A Shares; and
- 2,014,076 Class B Shares.

All of the Class A and Class B Shares are owned by CU.

## Series Preferred Shares

An unlimited number of Series Preferred Shares are issuable in series, each series consisting of such number of shares and having such provisions attaching thereto as may be determined by the directors. The Series Preferred Shares as a class have, among others, provisions to the following effect.

The Series Preferred Shares are, with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Company, entitled to preference over the Class A non-voting shares and the Class B common shares and any other shares of the Company ranking junior to the Series Preferred Shares. The Series Preferred Shares may also be given such other preference over the Class A non-voting shares and the Class B common shares and any other junior shares as may be determined for any series authorized to be issued.

The holders of the Series Preferred Shares are not entitled as such (except as provided in any series) to any voting rights nor to receive notice of or to attend shareholders' meetings unless dividends on the Series Preferred Shares of any series are in arrears to the extent of eight quarterly dividends or four half-yearly dividends, as the case may be, whether or not consecutive. Until all arrears of dividends have been paid, such holders will be entitled to receive notice of and to attend all shareholders' meetings at which directors are to be elected (other than separate meetings of holders of another class of shares) and to one vote in respect of each Series Preferred Share held.

The class provisions attaching to the Series Preferred Shares may be amended with the written approval of all the holders of the Series Preferred Shares outstanding or by at least two-thirds of the votes cast at a meeting of the holders of such shares duly called for the purpose and at which a quorum is present.

The following Series Preferred Shares are currently outstanding:

	<b>Stated Value</b>	<b>Redemption Dates</b>	<b>2007</b>	
	(dollars)		<b>Shares</b>	<b>Amount</b>
				(millions of dollars)
<b>Cumulative Redeemable Preferred Shares</b>				
4.60% Series 1 (2)	\$25.00	(1)	4,600,000	115.0

Note:

(1) *The Series 1 preferred shares are redeemable at the option of the Corporation commencing on June 1, 2012, at the stated value plus a 4% premium per share for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding twelve month period until June 1, 2016.*

On April 18, 2007, the Company issued \$115.0 million Cumulative Redeemable Preferred Shares, Series 1 at a price of \$25.00 per share for cash. The dividend rate was fixed at 4.60%. The net proceeds of the issue were used in part to redeem the \$91.8 million of outstanding Cumulative Redeemable Second Preferred Shares Series Q, R and S of ATCO Electric, ATCO Gas and ATCO Pipelines on May 18, 2007.

## Class A Shares and Class B Shares

The owners of the Class A Shares and the Class B Shares are entitled to share equally, on a share-for-share basis, in all dividends declared by the Company on either of such classes of shares as well as the remaining property of the Company upon dissolution. The owners of the Class B Shares are entitled to vote and to exchange at any time each share held for one Class A Share.

In the event an offer to purchase Class B Shares is made to all owners of Class B Shares, and is accepted and taken up by the owners of a majority of such shares pursuant to such offer, then provided an offer is not made to the owners of Class A Shares on the same terms and conditions, the Class A Shares shall be entitled to the same voting rights as the Class B Shares. The two classes of shares rank equally in all other respects.

## DIVIDENDS

Cash dividends declared during the past three years for all series of preferred shares are as follows:

	Year Ended December 31		
	2007	2006	2005
	(\$ per share)		
<b>Cash dividends declared per share:</b>			
<b>Series Preferred Shares:</b>			
Series 1 (1) .....	0.71	-	-

Note:

(1) Issued April 18, 2007.

## CREDIT RATINGS

The current credit ratings on the Company's securities are as follows:

	DBRS (1)	S&P (2)
Debtures .....	A (high)	A
Commercial paper .....	R-1 (low)	A-1 (mid)
Preferred Shares .....	Pfd-2 (high)	P-2 (high)

Notes:

(1) DBRS Limited ("DBRS") maintains a stable trend on the above securities.

(2) Standard and Poor's ("S&P") maintains a stable trend on the above securities.

## Long Term Debt Credit Ratings

An A rating by DBRS is the third highest of ten categories. Long term debt rated A is of satisfactory credit quality. Protection of interest and principal is substantial with a higher degree of strength than that of B rated entities. A is a respectable rating. Entities in this category are considered to be more susceptible to adverse economic conditions

and have greater cyclical tendencies than higher-rated securities. “High” and “low” grades may be used to indicate the relative standing of a credit within a particular rating category.

An A rating by S&P is the third highest of eleven categories. Obligations rated A by S&P are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories, however, the obligor’s capacity to meet its financial commitment on the obligations is still strong. The addition of a plus or minus sign shows relative standing within the rating categories.

### **Commercial Paper Credit Ratings**

An R-1 (low) rating by DBRS is the third highest of ten categories and is granted to short-term debt of satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is more favourable than with lower rating categories. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry.

An A-1 (mid) rating by S&P is the second highest of eight categories in its Canadian commercial paper ratings scale and is granted where the obligor’s capacity to meet its financial commitment on the obligation is strong.

### **Preferred Share Credit Ratings**

A Pfd-2 rating by DBRS is the second highest of six categories granted by DBRS for preferred shares and is granted to companies presenting satisfactory credit quality where protection of dividends and principal is still substantial, but earnings, the balance sheet and coverage ratios are not as strong as Pfd-1 rated companies. “High” and “low” grades may be used to indicate the relative standing of a credit within a particular rating category.

A P-2 rating by S&P is the second highest of eight categories S&P uses in its Canadian preferred share rating scale and is granted where the obligor’s capacity to meet its financial commitments is considered adequate, but adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet its financial commitment on the obligation. “High”, “mid” and “low” grades may be used to indicate the relative standing of a credit within a particular rating category.

### **Credit Ratings Generally**

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

## DIRECTORS AND EXECUTIVE OFFICERS

Set out below is information with respect to the directors and officers of the Company.

Name, Province or State and Country of Residence	Position	Principal Occupation	Periods Served as a Director of the Company
W.L. Britton, Q.C. Alberta, Canada	Director & Vice Chairman of the Board	Vice Chairman of the Board, Canadian Utilities Limited and ATCO Ltd.	1999 to date
B.K. French (2) Alberta, Canada	Director	President, Karusel Management Ltd. (property management and management consultants)	1999 to date
C.S. McConnell Alberta, Canada	Treasurer	Treasurer, Canadian Utilities Limited and ATCO Ltd.	
C. Gear Alberta, Canada	Assistant Corporate Secretary	Assistant Corporate Secretary, Canadian Utilities Limited and ATCO Ltd.	
H.M. Neldner (2) Alberta, Canada	Director	Corporate Director	2000 to date
N.C. Southern Alberta, Canada	Director, President & Chief Executive Officer	President & Chief Executive Officer, Canadian Utilities Limited and ATCO Ltd.	1999 to date
R. D. Southern, C.B.E., C.C., LL.D. (3) Alberta, Canada	Director & Chairman of the Board	Chairman of the Board, Canadian Utilities Limited and ATCO Ltd.	1999 to date
P. Spruin Alberta, Canada	Corporate Secretary	Corporate Secretary, Canadian Utilities Limited and ATCO Ltd.	
K.M. Watson Alberta, Canada	Senior Vice President & Chief Financial Officer	Senior Vice President & Chief Financial Officer, Canadian Utilities Limited and ATCO Ltd.	
S.R. Werth Alberta, Canada	Senior Vice President & Chief Administration Officer	Senior Vice President & Chief Administration Officer, Canadian Utilities Limited and ATCO Ltd.	

<b>Name, Province or State and Country of Residence</b>	<b>Position</b>	<b>Principal Occupation</b>	<b>Periods Served as a Director of the Company</b>
P.G. Wright Alberta, Canada	Vice President, Finance & Controller	Vice President, Finance & Controller, Canadian Utilities Limited and ATCO Ltd.	

*Notes:*

- (1) All directors hold office until their successors are elected or appointed.
- (2) Member of the Audit Committee.
- (3) R.D. Southern was a director of Canadian Airlines Corporation when it filed for protection under the Companies' Creditors Arrangement Act on March 24, 2000.

All of the directors and officers have been engaged for the last five years in the indicated principal occupations, or in other capacities with the companies or firms referred to, or with affiliates or predecessors thereof, with the exception of Ms. C. Gear who was Deputy Company Secretary of LogicaCMG plc (global information technology company).

## **Executive Compensation**

### **Summary Compensation Table**

The summary compensation table sets out information concerning the compensation during the last three fiscal years of the Chief Executive Officer and the Chief Financial Officer of the Company and the three other executive officers of the Company and its subsidiaries employed at December 31, 2007, who had the highest individual aggregate salary and bonuses during 2007 (the "Named Executive Officers"). This information reflects all compensation received by the Named Executive Officers from the Company and its subsidiaries for their services as executive officers in all capacities.

### ***Consolidated Total Compensation of Named Executive Officers***

N.C. Southern, K.M. Watson, M.M. Shaw, S.W. Kiefer, and S.R. Werth also served in 2007 in similar senior executive positions with ATCO Ltd., and Canadian Utilities Limited. The salary and bonus amounts for these officers of ATCO Ltd., Canadian Utilities Limited, and CU Inc. are determined annually on a consolidated basis. These officers do not receive separate salaries or bonuses for serving these corporations. The amounts reported reflect the total compensation provided to these officers for their contribution to CU Inc. and its subsidiaries.

### ***Formula for Apportionment of Salaries of Named Executive Officers***

CU Inc.'s share of the consolidated amount of total compensation is based on a number of considerations, including:

- the portion of the consolidated assets of ATCO Ltd. that the assets of CU Inc. represent;
- the estimated portion of each executive officer's time anticipated to be spent performing services as an executive officer of CU Inc. and its subsidiaries; and
- decisions of the Alberta Utilities Commission.

For 2007, CU Inc. paid 66.9% (66.3% in 2006 and 65.7% in 2005) of the consolidated salary and bonus amounts paid to the Named Executive Officers by ATCO Ltd. and its subsidiaries. The amounts paid by the Company are set out in the following table.

Name and Principal Occupation (1)	Year Ended Dec. 31	Annual Compensation			Long Term Compensation (\$)	All Other Compensation (\$)
		Salary (2) (\$)	Bonus (2) (\$)	Other Annual Compensation (3) (\$)		
<b>N.C. Southern</b>	2007	669,000 (2)	802,800 (2)	Nil	Nil	10,035 (6)
President & Chief	2006	663,000 (2)	663,000 (2)	Nil	Nil	6,630 (4)
Executive Officer	2005	657,000 (2)	657,000 (2)	Nil	Nil	Nil
<b>K.M. Watson</b>	2007	254,220 (2)	254,220 (2)	Nil	Nil	1,204 (6)
Senior Vice President &	2006	218,790 (2)	228,735 (2)	Nil	Nil	796 (4)
Chief Financial Officer	2005	197,100 (2)	243,090 (2)	Nil	Nil	Nil
<b>M.M. Shaw</b>	2007	311,085 (2)	311,085 (2)	Nil	Nil	17,595 (7)
Managing Director, Global	2006	291,720 (2)	291,720 (2)	Nil	Nil	15,382 (6)
Enterprises	2005	275,940 (2)	367,920 (2)	Nil	Nil	11,826 (5)
<b>S.W. Kiefer</b>	2007	311,085 (2)	311,085 (2)	Nil	Nil	4,415 (6)
Managing Director,	2006	291,720 (2)	291,720 (2)	Nil	Nil	2,586 (4)
Utilities	2005	256,230 (2)	289,080 (2)	Nil	Nil	Nil
<b>S. R. Werth</b>	2007	240,840 (2)	240,840 (2)	Nil	Nil	602 (6)
Senior Vice President &	2006	215,475 (2)	225,420 (2)	Nil	Nil	398 (4)
Chief Administration	2005	203,670 (2)	236,520 (2)	Nil	Nil	Nil
Officer						

Notes:

- (1) All Named Executive Offices hold the same offices for ATCO Ltd, Canadian Utilities Limited and CU Inc.
- (2) The amounts shown under salary and bonus were paid by CU Inc. and reflect 66.9% (66.3% in 2006 and 65.7% in 2005) of the Named Executive Officers' total salary and bonus in 2007. The balance of the salary and bonus was paid by ATCO Ltd. (10% in 2007, 11% in 2006, and 11% in 2005) and Canadian Utilities Limited (23.1% in 2007, 22.7% in 2006, and 23.3% in 2005).
- (3) The value of perquisites and other personal benefits received by each Named Executive Officer was less than the lesser of \$50,000 and 10% of the total of his or her annual salary and bonus, and therefore is reported as nil in accordance with National Instrument 51-102.
- (4) Represents the employer contribution to the Employee Share Purchase Plan.
- (5) Represents the allocation from Canadian Utilities Limited of 65.7% in 2005 of the contribution to M.M Shaw's defined contribution pension.
- (6) Represents an allocation for 2006 from Canadian Utilities Limited of 66.3% of the contribution to M.M. Shaw's defined contribution pension (\$12,597) and the amount of the employer contribution to the Employee Share Purchase Plan (\$2,785)
- (7) Represents an allocation for 2007 from Canadian Utilities Limited of 66.9% of the contribution to M.M. Shaw's defined contribution pension (\$13,380) and the amount of the employer contribution to the Employee Share Purchase Plan (\$4,215).

## Pension and Retirement Arrangements

The Named Executive Officers participate in the Retirement Plan for Employees of Canadian Utilities Limited and Participating Companies (the “CU Plan”). The CU Plan comprises two components: defined benefit (“DB”) and defined contribution (“DC”).

The DB component provides a benefit of 1.4% of average salary up to the average YMPE under the Canada Pension Plan (\$41,460 in 2007) and 2.0% of additional average salary. Average salary is the average of the highest 5 consecutive years of base salary, excluding bonuses. Early retirement reductions apply upon retirement prior to age 62 or prior to age and service totaling 90 years. Benefits are paid for the life of the member, with 60% continuing for the life of the member’s spouse following the death of the member. Ad hoc benefit increases equal to 100% of inflation to a maximum of 3% per annum have historically been provided annually to pensions in payment.

The DC component provides an employer paid contribution of 10% of base salary. A range of investment options are provided to the members. Retirement benefits depend upon the member’s account balance at retirement.

Participation in the CU Plan (DB or DC) is non-contributory for the Named Executive Officers.

N.C. Southern, K.M. Watson, S.W. Kiefer and S.R. Werth participate in the DB component; M.M. Shaw participates in the DC component. M.M. Shaw participated in the DB component prior to January 1, 1998.

Pension benefits and contributions under the CU Plan are subject to limits imposed by the Income Tax Act (Canada). Benefits in excess of these limits that would otherwise be payable to the Named Executive Officers upon retirement are provided by Canadian Utilities Limited under an unfunded supplemental arrangement. All supplemental pension benefits are provided on a DB basis. For the purpose of supplemental pension benefit calculations, service is limited to 35 years and any DC service under the CU Plan is deemed to be DB service. No benefits are payable under the supplemental arrangements upon termination prior to age 55, or upon death prior to retirement.

### *Pension Plan Table*

The following table sets forth the annual pension payable to K.M. Watson, S.W. Kiefer, S.R. Werth and M.M. Shaw at normal retirement age 65, inclusive of all registered pension plans and supplemental arrangements.

Remuneration (\$)	Years of Service				
	15	20	25	30	35
200,000	56,300	75,000	93,800	112,500	131,300
300,000	86,300	115,000	143,800	172,500	201,300
400,000	116,300	155,000	193,800	232,500	271,300
500,000	146,300	195,000	243,800	292,500	341,300
600,000	176,300	235,000	293,800	352,500	411,300
700,000	206,300	275,000	343,800	412,500	481,300
800,000	236,300	315,000	393,800	472,500	551,300

*Note:*

(1) For purposes of this table, the DC retirement pension under the CU Plan is assumed to be equal to the DB retirement pension payable for the same service. The actual DC retirement pension will be equal to the pension that can be purchased with the member's DC account balance upon retirement.

*Years of Credited Service Under the CU Plan as at December 31, 2007*

<b>Named Executive Officer</b>	<b>Credited Service</b>
N.C. Southern .....	12.00
K.M. Watson .....	29.75
M.M. Shaw .....	21.00
S.W. Kiefer .....	24.00
S. R. Werth .....	26.67

**Employment Agreement for N.C. Southern, President & Chief Executive Officer**

*Term of Agreement*

CU has an employment agreement with N.C. Southern extending to February 1, 2008, and continuing from year to year thereafter. The amount of salary and the value of benefits paid in 2007 under this agreement have been included in the Summary Compensation Table above.

*Termination of Agreement*

Employment of the executive officer may be terminated by the Company on notice equal to the greater of two years and the remaining term of the agreement or payment in lieu of notice, and may be terminated by the executive officer on 90 days notice.

*Retiring Allowance*

Pursuant to her employment agreement with the Company, N.C. Southern is eligible upon retirement to receive a pension of 70% of the average of the highest five years of income, including salary and bonuses, during the last ten years of employment prior to retirement.

The pension payable to N.C. Southern under her employment agreement is inclusive of the pension payable under the CU Plan. The pension is payable on the same terms as the CU Plan pension in respect of post-retirement survivor benefits and ad hoc indexing.

*Disability and Life Insurance*

N.C. Southern's employment agreement provides for the payment of certain benefits upon the death or total disability of the executive officer prior to retirement or termination. The amount of such benefits is based on the executive officer's salary and is determined in accordance with formulas that take into account amounts payable to the executive officer under the group life insurance policies and disability income programs of CU.

## Directors' Compensation

In 2007, non-employee directors of the Company were paid an annual retainer of \$5,000 for acting as directors and \$800 for attending each meeting of the Board.

## SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

At December 31, 2007, the directors and officers of the Company, as a group, beneficially owned, directly or indirectly (via corporate holdings or otherwise), or exercised control or direction over all of the outstanding Class B common shares of the Company.

## VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The Company has 2,014,076 Class B common shares issued and outstanding, all of which are owned by CU. ATCO Ltd. directly or indirectly owns approximately 74.6% of the voting securities of CU. R.D. Southern controls ATCO Ltd.

## MARKETS FOR THE SECURITIES OF THE COMPANY

The Company's Cumulative Redeemable Preferred Shares, Series 1 are listed on the Toronto Stock Exchange.

The following table sets forth the high and low prices and the volume of shares traded on the Toronto Stock Exchange during 2007 for the Company's listed shares.

	Cumulative Redeemable Preferred Shares, Series 1		
	High \$	Low \$	Volume
April (1) .....	25.10	24.75	159,987
May .....	25.10	23.75	187,998
June .....	24.10	22.75	346,999
July .....	23.64	23.01	105,350
August .....	23.64	22.00	56,649
September .....	23.25	21.27	69,500
October .....	21.61	21.01	407,221
November .....	21.55	20.36	128,408
December .....	21.44	20.06	163,400

Note:

(1) Issued April 18, 2007.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Cumulative Redeemable Preferred Shares, Series 1 is CIBC Mellon Trust Company at its principal offices in Calgary and Toronto. The trustee and transfer agent for the debentures of the Company is CIBC Mellon Trust Company at its principal offices in Calgary and Toronto for debentures issued since 1999, and Calgary, Vancouver, Toronto and Montreal for debentures issued prior to 1999.

## **AUDITOR**

The auditor of the Company is PricewaterhouseCoopers LLP.

## **EXPERTS**

PricewaterhouseCoopers LLP has prepared the auditor's report with respect to the Company's annual financial statements. PricewaterhouseCoopers LLP is independent in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

## **EMPLOYEE RELATIONS**

At December 31, 2007, the Corporation had 3,786 employees. Approximately 2,710 employees are members of four employee associations and are covered by seven collective agreements. All of the agreements will expire over the period December 31, 2008 to December 31, 2009.

## **ADDITIONAL INFORMATION**

Additional financial information is provided in the Company's comparative financial statements and MD&A for the financial year ended December 31, 2007.

Information relating to ATCO Ltd. or CU may be obtained upon request from the Corporate Secretary of each corporation at 1400 ATCO Centre, 909 – 11<sup>th</sup> Avenue S.W., Calgary, Alberta T2R 1N6 (telephone (403) 292-7500 or fax (403) 292-7623). Corporate information is also available on ATCO's website: [www.atco.com](http://www.atco.com) and CU's website: [www.canadian-utilities.com](http://www.canadian-utilities.com). Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).