



An **ATCO** Company

**2004
ANNUAL
INFORMATION
FORM**

February 24, 2005

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DEFINITIONS OF CERTAIN TERMS

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

“AESO” means the Alberta Electric System Operator, formerly the Alberta Power Pool and the Transmission Administrator;

“AEUB” means the Alberta Energy and Utilities Board;

“AGP” means ATCO Gas and Pipelines Ltd.;

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

“ATCO Electric” means ATCO Electric Ltd.;

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

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

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

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

“Corporation” 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);

“km” means kilometre;

“Mmcf” means one million cubic feet and “Bcf” means one billion cubic feet;

“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 AEUB;

“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 arrangement that became effective on January 1, 2001, as part of the process of restructuring the electric utility business in Alberta. The PPA’s are legislatively mandated and approved by the AEUB;

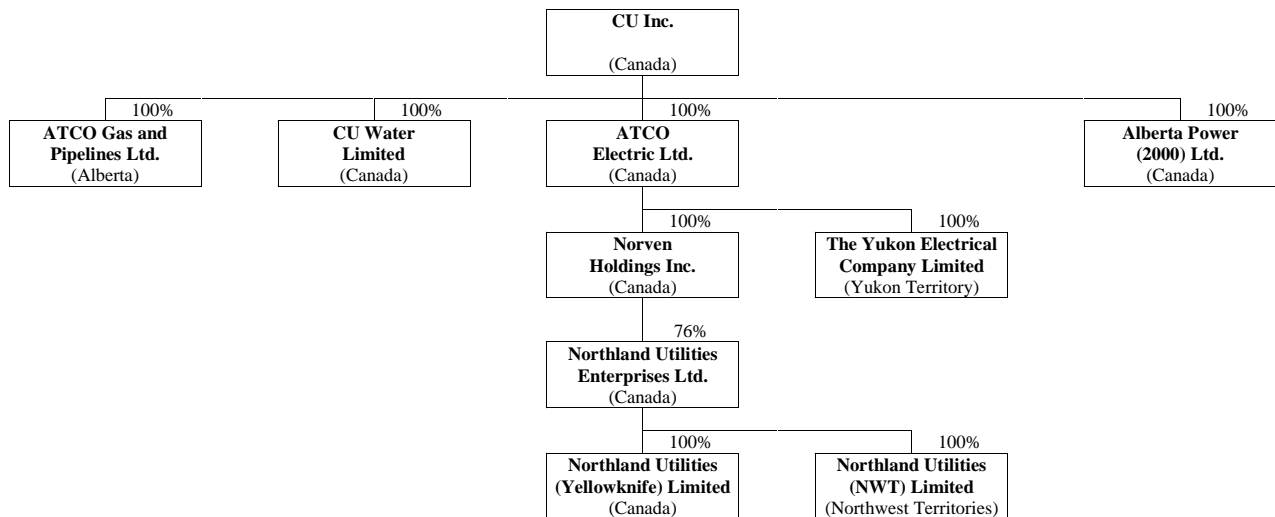
“REA” means Rural Electrification Association. REA’s are constituted under the Rural Utilities Act (Alberta) by groups of persons carrying on farming operations. Each REA purchases electric power for distribution to its members through a distribution system owned by that REA;

“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 Corporation is 1600 ATCO Centre, 909 – 11th Avenue S.W., Calgary, Alberta T2R 1N6.

The following chart includes the names of the principal operating subsidiaries of the Corporation, 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 Corporation.



Note:

(1) CU Inc. owns all of the non-voting shares of the operating subsidiaries, with the exception of the preferred shares which are owned by CU.

BUSINESS OF THE CORPORATION

The Corporation is a holding company. Its principal operating subsidiaries are engaged in regulated natural gas and electric energy operations, primarily in Alberta, and in related non-regulated operations. 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 AEUB until December 31, 2000, but are now governed by legislatively mandated PPA's that were approved by the AEUB. These plants are included in regulated operations primarily because the PPA's 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 PPA's. The plants will become deregulated upon the expiry of the PPA's. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant and December 31, 2020.

The Corporation has two business segments: utilities and power generation. The Corporation's **Utilities** segment includes the regulated distribution of natural gas by ATCO Gas, the regulated

distribution and transmission of electric energy by ATCO Electric and its subsidiaries, NLD, NUY and YECL, the regulated transportation of natural gas by ATCO Pipelines and the regulated transmission and distribution of water by CU Water. This segment was formerly known as Natural Gas and Electric; its composition has remained unchanged.

The **Power Generation** segment consists of the regulated supply of electricity by Alberta Power (2000).

Three Year History

The significant events and conditions affecting the Corporation's business during the past three years are summarized below. A number of these events and conditions are discussed in greater detail elsewhere in this Annual Information Form.

2004:

- In August 2004, ATCO Electric completed construction of a \$99.0 million, 350 kilometre 240 kilovolt transmission line between Fort McMurray and Whitefish Lake.
- In a decision dated July 13, 2004, the AEUB awarded ATCO Pipelines additional revenue with respect to the revenue forecasts of certain industrial customers.
- In July 2004, the AEUB issued its Generic Cost of Capital decision, establishing a standardized approach for determining the rate of return on common equity for each utility company (ATCO Electric, ATCO Gas and ATCO Pipelines) regulated by the AEUB. The decision also established capital structures for each utility company regulated by the AEUB. This resulted in:
 - ATCO Electric obtaining an approved 2004 return on common equity of 9.60% and a common equity ratio of 33% for its transmission operations and 37% for its distribution operations. The impact of this decision was an increase in the common equity that ATCO Electric was allowed to earn a return on by \$23.0 million in 2004.
 - ATCO Pipelines obtaining an approved 2004 rate of return on common equity of 9.60% and a common equity ratio of 43%.
 - ATCO Gas was not impacted by this decision for 2004 as its return on common equity of 9.50% and its common equity ratio of 37% had already been approved by the AEUB in a decision dated October 1, 2003. The Generic Cost of Capital decision approved, among other things, ATCO Gas' common equity ratio of 38% beginning in 2005.
- On May 4, 2004, ATCO Gas and ATCO Electric closed the transfer of their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "DEML"), a subsidiary of Centrica plc for \$90 million. The transfer increased 2004 earnings by \$55.1 million.

Three Year History - continued

As a result of the transfer, ATCO Gas and ATCO Electric are no longer involved in arranging for the supply and sale of natural gas and electricity to customers, but continue to own the assets and provide transportation and distribution services under AEUB approved rates that provide for a recovery of costs of service and fair return.

2003:

- In a decision dated December 2, 2003, the AEUB approved for ATCO Pipelines, among other things, a rate of return on common equity of 9.50% and a common equity ratio of 43.5% for 2003. The decision also set aside certain transactions with affiliates that will be addressed in a separate proceeding, currently in progress.
- In a decision dated October 2, 2003, the AEUB approved, among other things, a rate of return on common equity of 9.40% and a common equity ratio of 32% for ATCO Electric's transmission operations and 35% for its distribution operations for 2003. These reductions in the common equity ratios reduced the common equity that ATCO Electric was allowed to earn a return on by \$83.0 million for 2003. The decision also set aside certain transactions with affiliates that will be addressed in a separate proceeding, currently in progress.
- In a decision dated October 1, 2003, the AEUB approved for ATCO Gas, among other things, a rate of return on common equity of 9.50% for 2003 and 2004 and a common equity ratio of 37% for 2003 and 2004. The decision also set aside certain transactions with affiliates that will be addressed in a separate proceeding, currently in progress.
- In April 2003, the AEUB determined that it would proceed with a generic cost of capital hearing to focus on the possibility of establishing a standardized approach to determine the rate of return on equity and capital structure for all utilities under the jurisdiction of the AEUB.
- In the first quarter of 2003, ATCO Gas commenced the first phase of a \$278 million project to relocate natural gas meters currently inside homes to the outside. 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 AEUB 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.

Three Year History – continued

2002:

- In December 2002, the Corporation announced that Direct Energy Marketing Limited had agreed to purchase the retail energy businesses of ATCO Gas and ATCO Electric. The transaction was subject to the satisfaction of certain conditions, including the receipt of required regulatory approvals and the Alberta Legislature passing amendments to Alberta's natural gas and electricity legislation that reflect the market refinements announced by the Minister of Energy in August 2002.
- In December 2002, the AEUB issued a decision approving the sale of ATCO Gas' Beaverhill Lake and Fort Saskatchewan natural gas producing properties. The properties, located east of Edmonton, were sold to NCE Petrofund on January 1, 2003 for \$31.5 million. In the decision, the AEUB also approved a settlement to refund \$23 million of the sale proceeds to ATCO Gas' North division customers. The balance of the proceeds were used to recover ATCO Gas' book value investment in the assets and costs of disposition. The sale had no impact on earnings.
- In July 2002, the AEUB issued a decision denying NOVA Gas Transmission Ltd.'s application to construct and operate a natural gas pipeline into the Fort Saskatchewan industrial area, an area currently served by ATCO Pipelines.
- In January 2002, ATCO Gas sold its Viking-Kinsella natural gas producing property, which had a net book value of approximately \$40 million, for \$550 million. In accordance with an AEUB decision, \$385.0 million plus related adjustments for future abandonment and future income taxes of \$20.6 million, for a total of \$405.6 million, was distributed to customers by way of lump sum payments. The Corporation's share of the net proceeds was \$150.5 million, after adjustments, resulting in a gain of \$110.1 million before income taxes of \$42.8 million. This sale increased 2002 earnings by \$67.3 million.

Transfer of the Retail Energy Supply Businesses

On May 4, 2004, ATCO Gas and ATCO Electric closed the transfer of their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "DEML"), a subsidiary of Centrica plc ("Transfer of the Retail Energy Supply Businesses"). Proceeds of the transfer were \$90 million, of which \$45 million was paid at closing, with the remainder to be paid 12 months following closing. Net proceeds, after adjustments related to legal, transition and other deferred costs pertaining to the transfer of the retail energy supply businesses, resulted in a gain of \$63.3 million before income taxes of \$8.2 million. This transfer increased 2004 earnings by \$55.1 million.

The Corporation's revenues and natural gas supply and purchased power costs after May 4, 2004, will be reduced accordingly for 2004 and thereafter. Subsequent to May 4, 2004, ATCO Gas continued to purchase natural gas on behalf of DEML until the transfer of the relevant

ATCO Gas natural gas purchase contracts to DEML was completed in September 2004. There will be no ongoing impact on earnings resulting from the transfer of these businesses as natural gas and electricity have historically been sold to customers on a “no-margin” basis. ATCO Gas and ATCO Electric continue to own and operate the natural gas and electricity distribution systems used to deliver energy.

Under the various transaction agreements, ATCO Gas and ATCO Electric transferred to DEML certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions (the “transferred functions”).

On May 4, 2004, DEML commenced supplying natural gas and electricity at regulated rates to residential, farm, commercial and small industrial customers in the ATCO Gas and ATCO Electric service areas and billing customers for their natural gas and electricity service.

If DEML fails to perform all or part of the transferred functions, ATCO Gas and ATCO Electric will be required under existing legislation to perform such functions in the interim until DEML is able to perform such functions. In certain events (including where DEML fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AEUB to do so), the agreements will terminate and the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and/or ATCO Electric.

Centrica plc, DEML’s parent, has provided a \$300 million guarantee supported by a \$235 million letter of credit in respect of DEML’s obligations to ATCO Gas, ATCO Electric and ATCO I-Tek Business Services, an affiliate corporation, in respect of the ongoing relationships contemplated under the transaction agreements. The Centrica guarantee and letter of credit include limits for certain categories of claims, which limits cease to apply if the agreements are terminated. If the amount available to be drawn under the letter of credit at any time falls below \$200 million, the agreements with DEML will terminate and the functions will revert to ATCO Gas and ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and ATCO Electric.

CU has provided a guarantee of ATCO Gas’, ATCO Electric’s and ATCO I-Tek Business Services’ payment and indemnity obligations in respect of the ongoing relationships contemplated under the transaction agreements.

ATCO Gas and ATCO Electric have also agreed not to compete in the regulated and unregulated retail energy business in Alberta for a period of ten years.

In December 2003, the AEUB issued a decision approving the transfer of the retail operations of ATCO Gas and ATCO Electric to DEML. The City of Calgary filed for leave to appeal the AEUB decision, including the allocation of proceeds to ATCO Gas and ATCO Electric. On June 30, 2004, the Alberta Court of Appeal dismissed the City of Calgary’s application for leave to appeal.

Utilities

Natural Gas Distribution

ATCO Gas is primarily engaged in the business of distributing natural gas throughout Alberta and in the Lloydminster area of Saskatchewan. In addition, ATCO Gas stores and purchases natural gas. 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 2,054,000. Also served are 280 smaller communities as well as rural areas having a combined population of approximately 551,000, located on or in the vicinity of ATCO Pipelines' transportation systems or the natural gas transportation pipelines of other companies. ATCO Gas provides approximately 914,000 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>2004</u>		<u>2003</u>	
	<u>Transportation Service</u>	<u>Sales Service (1)</u>	<u>Transportation Service</u>	<u>Total</u>
Residential	834,883	760,508	49,413	809,921
Commercial	79,084	72,707	4,729	77,436
Industrial	359	260	107	367
Other	21	16	-	16
Affiliates	-	27	-	27
Total	<u>914,347</u>	<u>833,518</u>	<u>54,249</u>	<u>887,767</u>

Note:

(1) ATCO Gas no longer has sales service customers at the end of 2004 due to the Transfer of the Retail Energy Supply Businesses.

ATCO Gas owns and operates approximately 34,800 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:

	2004			2003		
	Sales Service (1)	Transportation Service	Total	Sales Service (1)	Transportation Service	Total
						(petajoules)
Residential	55.3	52.0	107.3	103.6	5.7	109.3
Commercial	43.2	54.9	98.1	84.5	15.6	100.1
Industrial	1.8	12.7	14.5	4.1	10.5	14.6
Other	2.3	0.5	2.8	5.8	-	5.8
Affiliates	-	-	-	0.2	-	0.2
Total.....	102.6	120.1	222.7	198.2	31.8	230.0

Note:

(1) Effective May 2004, with the completion of the Transfer of the Retail Energy Supply Businesses, ATCO Gas' existing sales service customers became transportation service customers.

Natural Gas Supply

As a result of the transfer of its retail energy supply business to DEML in May 2004, ATCO Gas is no longer involved in arranging for the supply and sale of natural gas to customers, but will continue to own the assets and provide transportation and distribution services under AEUB approved rates that provide for a recovery of costs of service and fair return.

ATCO Gas has ongoing obligations to purchase fixed quantities of natural gas from various gas producers at market prices that are in effect at the time the quantities are purchased. These obligations relate mostly to storage purchases and operational contracts pertaining to ATCO Gas' natural gas field storage facility at Carbon, Alberta, which was not included in the Transfer of the Retail Energy Supply Businesses to DEML and continues to be subject to AEUB regulation.

In the first quarter of 2003, ATCO Gas commenced the first phase of a \$278 million project to relocate natural gas meters currently inside homes to the outside. 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 AEUB 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 2004, approximately 906 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 approximately 12 commercial water haulers. The operations of CU Water are subject to regulation by the AEUB.

Natural Gas Transportation

ATCO Pipelines is engaged in the business of transporting natural gas throughout Alberta.

ATCO Pipelines owns and operates extensive natural gas transportation systems. The systems consist of approximately 8,330 km of pipelines, 23 compressor sites and a salt cavern peaking facility. The systems have 207 producer receipt points, 78 interconnections with TransCanada Pipelines Limited, four interconnections with Alliance Pipeline and one interconnection with Many Islands Pipelines.

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

	<u>2004</u>	<u>2003</u>
	(terajoules/day)	
Contract Demand:		
Producer	1,253	1,314
Industrial	1,054	1,075
Distribution	89	39
Affiliates	2,210	2,171
Total	<u>4,606</u>	<u>4,599</u>
IT/OR/Variable Volumes:		
Producer	257	209
Industrial	258	231
Distribution	7	18
Total	<u>522</u>	<u>458</u>
Total Contract Demand and IT/OR/Variable Volumes	<u>5,128</u>	<u>5,057</u>

In addition, ATCO Pipelines provides sales service to certain customers. ATCO Pipelines obtains natural gas for these customers from ATCO Gas. The AEUB has approved the conversion, by April 30, 2005, of sales service to transportation service for these customers, at which time it is expected that there will no longer be any remaining sales service customers.

Electric Distribution and Transmission

ATCO Electric is engaged in the business of distributing and transmitting electric energy to 238 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 nine 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:

	2004		2003	
	Millions of Kilowatt Hours	%	Millions of Kilowatt Hours	%
Industrial.....	6,597	67	6,502	67
Commercial	1,796	18	1,729	18
Residential	1,032	10	982	10
Rural, REAs and other	485	5	555	5
Total.....	9,910	100	9,768	100

The aggregate population of the areas provided with electric utility service by ATCO Electric, NUY, NLD and YECL is approximately 454,000 and service is provided to approximately 206,000 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 13% 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:

	2004		2003	
	Number	%	Number	%
Industrial.....	10,691	5	10,484	5
Commercial	28,068	14	27,386	14
Residential	138,066	67	135,263	67
Rural, REA's and other.....	29,421	14	29,135	14
Total.....	206,246	100	202,268	100

ATCO Electric, NUY, NLD and YECL own and operate extensive electric transmission and distribution systems. The systems consist of approximately 9,200 km of main transmission lines and 58,800 km of distribution lines. In addition, ATCO Electric delivers power to and operates approximately 12,100 km of REA-owned distribution lines.

ATCO Electric, NUY, NLD and YECL own and operate 33 diesel, natural gas turbine and hydro generating plants having an aggregate nameplate capacity of 63 megawatts in Alberta and in the Yukon and Northwest Territories. The maximum peak load demand for these plants during the year ended December 31, 2004, was 33 megawatts.

On August 30, 2004, ATCO Electric completed construction of a \$99.0 million, 350 kilometre 240 kilovolt transmission line between Fort McMurray and Whitefish Lake. The project included three substations and the expansion of an existing substation. Construction was completed in 10 months. Typically, a project of this scale and complexity is constructed over two 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 within the city and its assets outside the city used in supplying natural gas to the city. The purchase price would be the amount of the actual value thereof as a going concern plus 10% of such value. 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.

Power Generation

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

Alberta Power (2000) is engaged in the regulated supply of electricity in Alberta. Alberta Power (2000)'s assets are operated by ATCO Power Ltd. pursuant to management agreements. The generating plants of Alberta Power (2000) were regulated by the AEUB until December 31, 2000, but are now governed by legislatively mandated PPA's that were approved by the AEUB. These plants are included in regulated operations primarily because the PPA's 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 PPA's. The plants will become deregulated upon the expiry of the PPA's. Each PPA is to remain in effect until the earlier of the last day of the life of the related generating plant and December 31, 2020.

Substantially all of the electricity generated by Alberta Power (2000) is sold pursuant to PPA's with EPCOR Utilities Inc. ("EPCOR") (Battle River generating plant); Duke Energy Inc. (Rainbow generating plant); and the Alberta Balancing Pool (Sheerness generating plant). Under the PPA's, 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 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 PPA's are based.

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

<u>Plant</u>	<u>Type of Generating Plant</u>	<u>Name Plate Capacity Rating</u> (megawatts)
Battle River	coal-fired steam turbine	670
Sheerness	coal-fired steam turbine	380 (1)
Rainbow	natural gas turbine	88
Sturgeon	natural gas turbine	18
		<u>1,156</u>

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.

On January 29, 2004, the H.R. Milner generating plant was sold by the Alberta Balancing Pool to a third party and the contract under which Alberta Power (2000) had operated the plant on a cost of service basis since January 2001 was terminated. As part of the sale, Alberta Power (2000) was relieved of all decommissioning and reclamation obligations, including any environmental liabilities.

In August 2004, an arbitration tribunal appointed under the Battle River PPA determined that Alberta Power (2000) was entitled to recover \$10.4 million of availability penalty payments, plus interest, from EPCOR, the counterparty to the Battle River PPA, due to short term curtailed plant production during the first quarter of 2003 caused by unprecedented drought conditions. The \$10.4 million of availability penalty payments plus interest, less costs associated with the arbitration proceedings, was recorded in Alberta Power (2000)'s deferred availability incentive balance sheet account and had no effect on Alberta Power (2000)'s 2004 earnings.

In June and July 2004, the Battle River generating plant's water levels were below those of 2003, which required the Corporation to limit generation to avoid exceeding the environmental license

temperature limitations. The Corporation made force majeure claims for the period June 24, 2004, to July 4, 2004, and the period July 13, 2004 to July 26, 2004. The Corporation claimed \$7 million with respect to these claims and was successful in reaching a negotiated settlement with EPCOR and the Alberta Balancing Pool in December 2004 for \$5.2 million. The remaining \$1.8 million and related costs of \$0.2 million were recorded as a reduction to Alberta Power (2000)'s deferred availability incentive balance sheet account. The settlement had no effect on Alberta Power (2000)'s 2004 earnings.

BUSINESS RISKS

On February 16, 2005, the Kyoto Protocol came into effect. The Corporation is unable to determine what impact, if any, the protocol will have on its operations as the Government of Canada has not yet released its implementation plan. It is anticipated that the Corporation's PPA's relating to its coal-fired generating plants will allow the Corporation to recover any increased costs associated with the implementation of the protocol.

ATCO Electric, ATCO Gas and ATCO Pipelines are regulated primarily by the AEUB, which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The AEUB may approve interim rates, subject to final determination. These subsidiaries are subject to the normal risks faced by companies that are regulated. These risks include the approval by the AEUB of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on rate base. The Corporation's ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process.

Transfer of the Retail Energy Supply Businesses

Although ATCO Gas and ATCO Electric have transferred to DEML certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions, ATCO Gas and ATCO Electric remain legally obligated to perform these functions if DEML fails to perform. If DEML fails to perform all or part of the transferred functions, ATCO Gas and ATCO Electric will be required under existing legislation to perform such functions in the interim until DEML is able to perform such functions. In certain events (including where DEML fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AEUB to do so), the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and/or ATCO Electric. In the event of a reversion of such functions, ATCO Gas and ATCO Electric could incur costs related to commodity procurement, transportation and delivery charges and various regulatory costs.

Centrica plc, DEML's parent, has provided a \$300 million guarantee, supported by a \$235 million letter of credit in respect of DEML's obligations to ATCO Gas, ATCO Electric and ATCO I-Tek Business Services in respect of the ongoing relationships contemplated under the transaction agreements. However, there can be no assurance that the coverage under these

agreements will be adequate to cover all of the costs that could arise in the event of a reversion of such functions.

CU has provided a guarantee of ATCO Gas', ATCO Electric's and ATCO I-Tek Business Services' payment and indemnity obligations in respect of the ongoing relationships contemplated under the transaction agreements.

As a result of the agreements with DEML, ATCO Gas and ATCO Electric are no longer involved in arranging for the supply and sale of natural gas and electricity to customers, but will continue to own the assets and provide transportation and distribution services under AEUB approved rates that provide for a recovery of costs of service and fair return

In December 2003, the AEUB issued a decision approving the transfer of the retail operations of ATCO Gas and ATCO Electric to DEML. The City of Calgary filed for leave to appeal the AEUB decision, including the allocation of proceeds to ATCO Gas and ATCO Electric. On June 30, 2004, the Alberta Court of Appeal dismissed the City of Calgary's application for leave to appeal.

Late Payment Penalties on Utility Bills

As a result of recent decisions of the Supreme Court of Canada in *Garland vs. Consumers' Gas Co.*, the imposition of late payment penalties on utility bills has been called into question. The Corporation is unable to determine at this time the impact, if any, that these decisions will have on the Corporation.

Alberta Power (2000)

Included in regulated operations are the generating plants of Alberta Power (2000), which were regulated by the AEUB until December 31, 2000, but are now governed by legislatively mandated PPA's that were approved by the AEUB. These plants are included in regulated operations primarily because the PPA's 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 PPA's. The plants will become deregulated upon the expiry of the PPA's. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant and December 31, 2020.

Substantially all the electricity generated by Alberta Power (2000) is sold pursuant to PPA's. Under the PPA's, 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 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 PPA's were based.

Under the terms of the PPA's, the Corporation is subject to an incentive/penalty regime related to generating unit availability. Incentives are paid to the Corporation by the PPA counterparties for availability in excess of predetermined targets, whereas penalties are paid by the Corporation to the PPA counterparties when the availability targets are not achieved.

Accumulated incentives in excess of accumulated penalties are deferred. For any of the individual PPA's, should accumulated incentives plus estimated future incentives exceed accumulated penalties plus estimated future penalties, the excess will be amortized to revenues on a straight-line basis over the remaining term of the PPA's. Should accumulated penalties plus estimated future penalties exceed accumulated incentives plus estimated future incentives, the shortfall will be expensed in the year the shortfall occurs.

At December 31, 2004, the Corporation had recorded \$46.1 million of deferred availability incentives.

Fuel costs in Alberta Power (2000) are mostly for coal supply. To protect against volatility in coal prices, Alberta Power (2000) owns or has sufficient coal supplies under long term contracts for the anticipated lives of its Battle River and Sheerness coal-fired generating plants. These contracts are at prices that are either fixed or indexed to inflation.

In August 2004, an arbitration tribunal appointed under the Battle River PPA determined that Alberta Power (2000) was entitled to recover \$10.4 million of availability penalty payments, plus interest, from EPCOR, the counterparty to the Battle River PPA, due to short term curtailed plant production during the first quarter of 2003 caused by unprecedented drought conditions. The \$10.4 million of availability penalty payments plus interest, less costs associated with the arbitration proceedings, was recorded in Alberta Power (2000)'s deferred availability incentive balance sheet account and had no effect on Alberta Power (2000)'s 2004 earnings.

In June and July 2004, the Battle River generating plant's water levels were below those of 2003, which required the Corporation to limit generation to avoid exceeding the environmental license temperature limitations. The Corporation made force majeure claims for the period June 24, 2004, to July 4, 2004, and the period July 13, 2004 to July 26, 2004. The Corporation claimed \$7 million with respect to these claims and was successful in reaching a negotiated settlement with EPCOR and the Alberta Balancing Pool in December 2004 for \$5.2 million. The remaining \$1.8 million and related costs of \$0.2 million were recorded as a reduction to Alberta Power (2000)'s deferred availability incentive balance sheet account. The settlement had no effect on Alberta Power (2000)'s 2004 earnings.

Contingencies

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

Hedging

In conducting its business, the Corporation uses various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

The Corporation designates each derivative instrument as a hedge of specific assets or liabilities on the balance sheet or specific firm commitments or anticipated transactions. The Corporation also assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of the hedged items.

Payments or receipts on derivative instruments that are designated and effective as hedges are recognized concurrently with, and in the same financial category as, the hedged item.

If a derivative instrument is terminated or ceases to be effective as a hedge prior to maturity, the gain or loss at that date is deferred and recognized in income concurrently with the hedged item. Subsequent changes in the value of the derivative instrument are reflected in income. If the designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, the gain or loss at that date on such derivative instrument is recognized in income.

Insurance Coverage

A number of U.S. insurance companies are the subject of lawsuits and investigations into their business and accounting practices by the Attorney General of the State of New York and the U.S. Securities and Exchange Commission. Certain of these insurers provide a portion of the Corporation's insurance coverage. The Corporation is unable at this time to determine what impact, if any, these investigations may have on the ability of the insurers mentioned to pay any corporate insurance claims which may arise.

GOVERNMENT REGULATION

Under Alberta legislation, owners of public, electric or gas utilities are required to obtain AEUB approval prior to issuing securities. CU Inc. is considered to be an owner, but has obtained from the AEUB an order which exempts it from this requirement.

The utility operations of the Corporation in Alberta (ATCO Gas, ATCO Electric, ATCO Pipelines and CU Water) are subject to the jurisdiction of the AEUB 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 AEUB approves 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 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 AEUB 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.

The EUA and the Gas Utilities Act grant the AEUB specific authority to approve customer rates that provide incentives for efficiencies that result in cost savings or other benefits that can be shared in an equitable manner between a utility and its customers. Final determination of such customer rates requires the approval of the AEUB.

The regulated operations of the Corporation 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.

Particulars of the most recent final decisions made by the AEUB respecting general rate applications or negotiated settlements filed by the principal regulated subsidiaries of the Corporation 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> (%)	
ATCO Electric							
Transmission	2003	Oct. 02/03	672.0	9.40		32.0	
	2004	Oct. 02/03	748.0	9.60	(4)	33.0	(4)
Distribution	2003	Oct. 02/03	558.5	9.40		35.0	
	2004	Oct. 02/03	584.8	9.60	(4)	37.0	(4)
ATCO Pipelines							
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)
ATCO Gas							
North	2003	Oct. 01/03	442.2	9.50		37.0	
	2004	Oct. 01/03	465.8	9.50		37.0	
South	2003	Oct. 01/03	510.6	9.50		37.0	
	2004	Oct. 01/03	534.6	9.50		37.0	

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 for 2004 for ATCO Electric and ATCO Pipelines was determined by the AEUB's generic cost of capital decision dated July 2, 2004.

Generic Cost of Capital

In July 2004, the AEUB issued its generic cost of capital decision. The decision established a standardized approach for each utility company regulated by the AEUB for determining the rate of return on common equity based upon a return of 9.60% on common equity. This rate of return will be adjusted annually by 75% of the change in long term Canada bond yield as forecast in the November Consensus Forecast, adjusted for the average difference between the 10 year and 30 year Canada bond yields for the month of October as reported in the National Post. This adjustment mechanism is the same as the National Energy Board uses in determining its formula based rate of return. The AEUB will undertake a review of this mechanism for the year 2009 or if the rate of return resulting from the formula is less than 7.6% or greater than 11.6%. The

AEUB also noted that any party, at any time, could petition for a review of the adjustment formula if that party can demonstrate a material change in facts or circumstances.

The decision also established the appropriate capital structure for each utility regulated by the AEUB. The AEUB determined that any proposed changes to the approved capital structure which result from a material change in the investment risk of a utility will be addressed at utility specific rate applications.

In November 2004, the AEUB announced a generic return on common equity of 9.50% for 2005. The AEUB also announced that the 2005 generic return on equity would only apply to utilities which file rate applications in 2005. If no rate applications are filed, then existing return on common equity rates will continue to apply.

Gas Utilities Act

Under the Gas Utilities Act, the customers served by ATCO Gas have the choice of purchasing their natural gas supplies at a regulated rate provided by DEML or directly from retailers, subject to certain conditions.

As a result of the transfer of its retail energy supply business to DEML in May 2004, ATCO Gas is no longer involved in arranging for the supply and sale of natural gas to customers, but continues to own the assets and provide transportation and distribution services under AEUB approved rates that provide for a recovery of costs of service and fair return.

Electric Utilities Act

The EUA provides the framework for a new structure in Alberta's electric utility industry and introduces competition into the electric utility business. As of January 1, 2001, new generation was completely deregulated and retail competition was introduced. In August 2002, the Government of Alberta announced further changes to utility legislation in order to improve the environment for retail competition in the Province. Amendments to the Electric Utilities Act and Gas Utilities Act received Royal Assent in March 2003 and were proclaimed in force in June 2003. These changes were designed to bring customer choice for both gas and electricity into closer alignment, as well as to move towards consistent regulatory treatment of investor-owned and municipally-owned utilities.

ATCO Electric continues to have the responsibility to provide the regulated rate tariff to the residential, farm and small commercial customers in its designated service area who do not choose an energy retailer. As a result of the transfer of its retail energy supply business to DEML in May 2004, ATCO Electric is no longer involved in arranging for the supply and sale of electricity to customers and is therefore no longer at risk for electric energy supply. ATCO Electric continues to own the assets and provide transportation and distribution services under AEUB approved rates that provide for a recovery of costs of service and fair return.

It is anticipated that ATCO Electric's transmission and distribution activities will continue to be regulated by the AEUB and Alberta Power (2000)'s generation activities will continue to be regulated via legislatively mandated PPA's approved by the AEUB.

New 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 AEUB. All owners of new and existing generating units must sell their surplus electric energy through the AESO.

Existing Generation

The EUA provided for the equalization of costs of "existing generation" that was in service at December 31, 1995. On January 1, 2001, existing generation became subject to legislatively mandated PPA's approved by the AEUB. The PPA's 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 PPA's. The plants will become deregulated upon the expiry of the PPA's. Each PPA is to remain in effect until the earlier of the last day of the life of the related generating plant and December 31, 2020.

Transmission

Under the EUA, separate wholesale tariffs for transmission must be approved by the AEUB. 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 AESO. The AESO then aggregates these costs and charges a common transmission rate to all who use the transmission system.

Certain transmission expansion projects were to be procured by the AESO through a competitive bid process. The project costs were to be charged to the AESO through contracts between the winning bidder and the AESO. In August of 2002, following consultation with interested parties, the Alberta Department of Energy suspended this competitive bid process for awarding transmission expansion and subsequently eliminated the process in its recent transmission policy paper. The projects previously awarded under this process have been assigned to regulated entities at the direction of the Government of Alberta.

Distribution

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

Environmental Protection

The Corporation'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 Corporation'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 Corporation'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, CU 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 Corporation'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 \$23.4 million in 2004 and are estimated to be \$17.4 million in 2005. Costs of compliance with existing laws and regulations are not expected to have a material impact on the earnings of the Corporation or the competitive position of the operating subsidiaries.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Corporation 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 24, 2005, the Corporation had outstanding:

- no Series Preferred Shares;
- 134 Class A shares; and
- 76 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 Corporation, entitled to preference over the Class A non-voting shares and the Class B common shares and any other shares of the Corporation 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.

Class A Non-Voting and Class B Common 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 Corporation on either of such classes of shares as well as the remaining property of the Corporation 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.

CREDIT RATINGS

The current credit ratings on the Corporation’s securities are as follows:

	DBRS (1)	S&P (2)
Debentures.....	A (high)	A
Commercial paper.....	R-1 (low)	A-1 (mid)
Preferred shares	Pfd-2 (high)	Not rated

Notes:

(1) Dominion Bond Rating Service 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 and is granted to debt securities of satisfactory credit quality where protection of interest and principal is still substantial, but earnings, the balance sheet and coverage ratios are not as strong as higher rated companies. “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 12 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 not normally as favourable as with higher rating categories, but these considerations are still respectable. 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.

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 Corporation.

Name, Province or State and Country of Residence	Position	Principal Occupation	Periods Served as a Director of the Corporation
W.L. Britton, Q.C. Alberta, Canada	Director and Vice Chairman of the Board	Director and Vice Chairman of the Board	March 12, 1999 to date
B.K. French (2) Alberta, Canada	Director	President, Karusel Management Ltd. (property management and management consultants)	March 12, 1999 to date
C.S. McConnell Alberta, Canada	Treasurer	Treasurer, Canadian Utilities Limited and ATCO Ltd.	
H.M. Neldner (2) Alberta, Canada	Director	Corporate Director	July 27, 2000 to date
N.C. Southern Alberta, Canada	Director, President and Chief Executive Officer	President and Chief Executive Officer, Canadian Utilities Limited and ATCO Ltd.	March 12, 1999 to date
R. D. Southern, C.B.E., O.C., LL.D. Alberta, Canada	Director and Chairman of the Board	Chairman of the Board, Canadian Utilities Limited and ATCO Ltd.	March 12, 1999 to date
P. Spruin Alberta, Canada	Corporate Secretary	Corporate Secretary, Canadian Utilities Limited and ATCO Ltd.	
K.M. Watson Alberta, Canada	Director, Senior Vice President and Chief Financial Officer	Senior Vice President and Chief Financial Officer, Canadian Utilities Limited and ATCO Ltd.	November 19, 2004 to date
S.R. Werth Alberta, Canada	Senior Vice President and Chief Administration Officer	Senior Vice President and Chief Administration Officer, Canadian Utilities Limited and ATCO Ltd.	

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

Notes:

- (1) *The directors hold office until their successors are elected or appointed.*
(2) *Member of the Audit Committee.*

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. P. Spruin, who was a corporate consultant and prior thereto was Corporate Secretary, IPEC Ltd.

Executive Compensation

The Corporation is a holding company and does not carry on an active business. The officers of the Corporation do not receive any remuneration or other compensation from the Corporation for serving as executive officers of the Corporation. Certain of the executive officers of the Corporation are also executive officers of CU, and a portion of their compensation in such capacities is payable by the subsidiaries of the Corporation. The following information discloses the compensation of the executive officers of the Corporation payable by the Corporation and its subsidiaries.

Summary Compensation Table

The following 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 Corporation and the three other executive officers of the Corporation and its subsidiaries employed at December 31, 2004, who had the highest individual aggregate salary and bonuses during 2004 (the "Named Executive Officers"). This information reflects all compensation received by the Named Executive Officers from the Corporation and its subsidiaries for their services as executive officers in all capacities.

Name and Principal Position	Year Ended Dec. 31	Annual Compensation			Long Term Compensation (\$)	All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (1) (\$)		
N.C. Southern (2) President and Chief Executive Officer	2004	510,850 (8)	Nil (8)	Nil	Nil	Nil
	2003	458,960 (8)	172,110 (8)	Nil	Nil	Nil
	2002	448,000 (8)	22,400 (8)	Nil	Nil	Nil
S.W. Kiefer (3) Managing Director, Utilities	2004	210,350 (8)	60,100 (8)	Nil	Nil	Nil
	2003	172,110 (8)	75,298 (8)	Nil	Nil	Nil
	2002	144,000 (8)	92,880 (8)	Nil	Nil	Nil
M.M. Shaw (4) Managing Director, Global Enterprises	2004	240,400 (8)	Nil (8)	Nil	Nil	9,917 (10)
	2003	215,138 (8)	43,028 (8)	Nil	Nil	8,892 (10)
	2002	90,000 (9)	Nil (9)	Nil	Nil	8,640 (10)
J.A. Campbell (5) Senior Vice President Finance and Chief Financial Officer	2004	225,375 (8)	Nil (8)	Nil	Nil	Nil
	2003	286,850 (8)	107,569 (8)	Nil	Nil	Nil
	2002	304,000 (8)	15,200 (8)	Nil	Nil	Nil
W.A. Kmet (6) Vice President	2004	210,350 (8)	Nil (8)	Nil	Nil	Nil
	2003	186,453 (8)	Nil (8)	Nil	Nil	Nil
	2002	192,000 (8)	Nil (8)	Nil	Nil	Nil
K.M. Watson (7) Senior Vice President and Chief Financial Officer	2004	147,746 (8)	Nil (8)	Nil	Nil	Nil
	2003	114,740 (8)	43,028 (8)	Nil	Nil	Nil
	2002	115,200 (8)	5,760 (8)	Nil	Nil	Nil

Notes:

- (1) The value of perquisites and 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.
- (2) N.C. Southern also serves as Chief Executive Officer of ATCO Ltd. and CU.
- (3) S.W. Kiefer also serves as Managing Director, Utilities Business Group of ATCO Ltd. and CU.
- (4) M.M. Shaw also serves as Managing Director, Global Enterprises Business Group of ATCO Ltd. and CU.
- (5) J.A. Campbell also served as Senior Vice President, Finance and Chief Financial Officer of ATCO Ltd. and CU. Mr. Campbell retired effective October 2, 2004.
- (6) W.A. Kmet also served as Vice President of CU and as Managing Director, Global Enterprises of ATCO Ltd. Mr. Kmet retired effective January 1, 2005.
- (7) K.M. Watson was appointed as Senior Vice President and Chief Financial Officer effective October 1, 2004. Mrs. Watson also serves as Senior Vice President and Chief Financial Officer of ATCO Ltd. and CU.
- (8) Represents an allocation for 2004 from ATCO Ltd. of 60.10% of the consolidated salaries of the Named Executive Officers. The allocation from ATCO Ltd. of consolidated salaries of the Named Executive Officers in 2003 was 57.37% and in 2002 was 64%.
- (9) Represents an allocation for 2002 from the Logistics & Energy Services Business Group of 30% of the consolidated salary of M.M. Shaw.
- (10) Represents an allocation for 2004 from CU of 60.10% of the contribution to M.M. Shaw's defined contribution pension. The allocation from CU of the contribution to M.M. Shaw's defined contribution pension in 2003 was 57.7% and in 2002 was 64%.

Pension and Retirement Arrangements

The Named Executive Officers participate in The Retirement Plan for Employees of CU and Participating Companies (the "Plan"). J.A. Campbell retired effective October 2, 2004, and is receiving a pension from the Plan.

CU has undertaken to provide J.A. Campbell, K.M. Watson, S.W. Kiefer and M.M. Shaw pensions under a supplemental arrangement to compensate for limitations on defined benefit pension benefits or on defined contribution pension contributions imposed by the Income Tax Act. The supplemental arrangement, when included with the pension payable under the Plan, the estimated Canada Pension Plan ("CPP") integration amount, and any amounts payable under pension plans or supplemental arrangements of CU's affiliates, provides a pension based on 2% of the average salary, excluding bonuses, during the last five years of employment multiplied by the number of years of credited service up to a maximum of 35 years. Effective October 2, 2004, J.A. Campbell is receiving a pension under this supplemental arrangement.

Pension Plan Table

The following table sets forth the annual pension payable to J.A. Campbell, K.M. Watson, S.W. Kiefer, and M.M. Shaw at normal retirement age 65, inclusive of all registered pension plans and supplemental arrangements and the estimated CPP integration amount based on 2% of the average salary, excluding bonuses, during the last five years of employment multiplied by the number of years of credited service up to a maximum of 35 years (1).

Remuneration (\$)	Years of Service				
	15	20	25	30	35
200,000	60,000	80,000	100,000	120,000	140,000
250,000	75,000	100,000	125,000	150,000	175,000
300,000	90,000	120,000	150,000	180,000	210,000
400,000	120,000	160,000	200,000	240,000	280,000
500,000	150,000	200,000	250,000	300,000	350,000
600,000	180,000	240,000	300,000	360,000	420,000

Note:

(1) For purposes of the supplemental arrangement, the calculation of annual pension payable assumes that the amount payable under the Plan is the same regardless of whether a participant elects the defined benefit or defined contribution provisions of the Plan. For participants of the defined contribution provisions, the actual pension payable at retirement will vary depending on the value of their investment account at retirement.

The number of years of accredited service under the Plan, as at December 31, 2004, for the executive officers is as follows:

Named Executive Officer	Years of Credited Service
N.C. Southern	9.00
J.A. Campbell	14.92
K.M. Watson	26.75
S.W. Kiefer	21.00
M.M. Shaw	18.00

Employment Agreement

CU has an employment agreement with N.C. Southern extending to February 1, 2006, and continuing from year to year thereafter. The amount of salary and the value of benefits paid under this agreement have been included in the Summary Compensation Table above. Employment of the executive officer may be terminated by CU 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.

Pursuant to her employment agreement with CU, N.C. Southern is eligible upon retirement to receive a pension of 70% of the average of the highest 5 years of income, including salary and bonuses, during the last 10 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 Plan.

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 2004, non-employee directors of the Corporation 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, 2004, the directors and officers of the Corporation, as a group, beneficially owned, directly or indirectly (via corporate holdings or otherwise), or exercised control or direction over all of the outstanding shares of the Corporation.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The Corporation has 76 Class B common shares issued and outstanding, all of which are owned by CU. ATCO Ltd. directly or indirectly owns approximately 74% of the voting securities of CU. R.D. Southern controls ATCO Ltd.

MARKETS FOR THE SECURITIES OF THE CORPORATION

None of the Corporation's shares are listed on any exchange or similar market for securities.

TRANSFER AGENT AND REGISTRAR

The trustee and transfer agent for the debentures of the Corporation is CIBC Mellon Trust Company at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal.

AUDITOR

The auditor of the Corporation is PricewaterhouseCoopers LLP.

EMPLOYEE RELATIONS

At December 31, 2004, the Corporation had 3,200 employees. Approximately 2,400 employees are members of five employee associations and are covered by seven collective agreements. These agreements will expire over the period December 31, 2005, to December 31, 2007.

ADDITIONAL INFORMATION

Additional financial information is provided in the Corporation's comparative financial statements for the financial year ended December 31, 2004.

Information relating to ATCO Ltd. or CU may be obtained upon request from the Corporate Secretary of the respective corporation at 1400 ATCO Centre, 909 – 11th 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 and CU's website: www.canadian-utilities.com. Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.