



**CANADIAN UTILITIES LIMITED**  
An **ATCO** Company

**2008**  
**ANNUAL**  
**INFORMATION**  
**FORM**

**February 17, 2009**

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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.

## DEFINITIONS OF CERTAIN TERMS

Certain terms used in this AIF 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;

“ASHCOR Technologies” means ASHCOR Technologies Ltd.;

“ATCO Electric” means ATCO Electric Ltd.;

“ATCO Energy Solutions” means ATCO Energy Solutions Ltd.;

“ATCO Frontec” means ATCO Frontec Corp. together with its subsidiaries;

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

“ATCO I-Tek” means ATCO I-Tek Inc.;

“ATCO Midstream” means ATCO Midstream Ltd.;

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

“ATCO Power” means ATCO Power Ltd. together with its subsidiaries;

“ATCO Resources” means ATCO Resources Ltd., a wholly owned subsidiary of ATCO Ltd.;

“ATCO Travel” means ATCO Travel Ltd.;

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

“BPL” means Barking Power Limited;

“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 Canadian Utilities Limited 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;

“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 AUC;

“NGL” means natural gas liquids, such as ethane, propane, butane and pentanes plus, that are extracted from natural gas and sold as distinct products or as a mix;

“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;

“Thames Power” means Thames Power Limited;

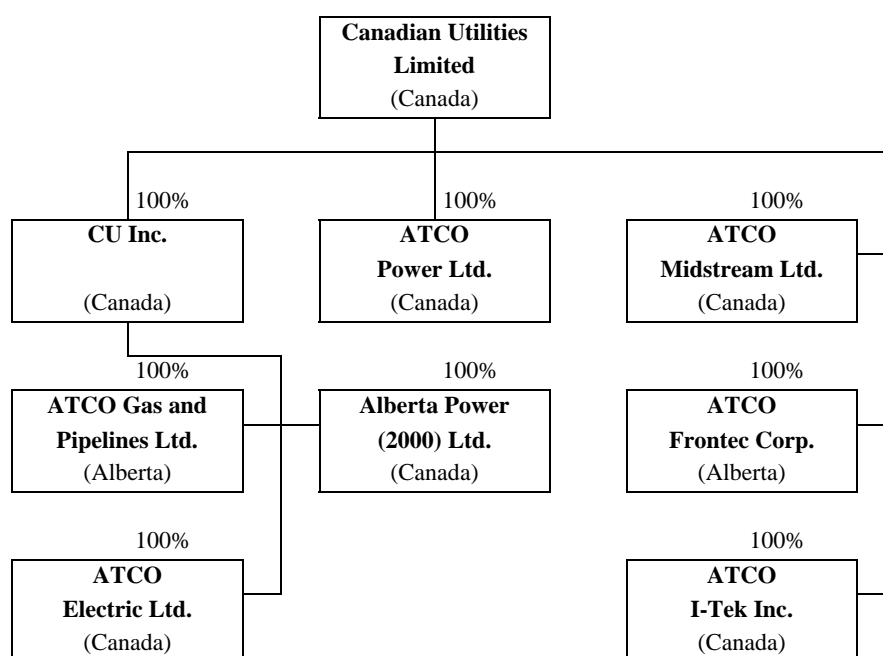
“U.K.” means United Kingdom;

“YECL” means The Yukon Electrical Company Limited.

## CANADIAN UTILITIES LIMITED

Canadian Utilities Limited was incorporated under the laws of Canada on May 18, 1927, and was continued under the Canada Business Corporations Act on August 15, 1979. The common share capital of the Company was reorganized on September 10, 1982. The address of the head office of the Company is 1600, 909 – 11th Avenue S.W., Calgary, Alberta T2R 1N6 and the registered office of the Company is 20th Floor, 10035 – 105 Street, Edmonton, Alberta, T5J 2V6.

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.



## 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, 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 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; and
- the provision of non-regulated projects by ATCO Energy Solutions.

The **Power Generation** Business Group includes:

- the non-regulated supply of electricity and cogeneration steam by ATCO Power;
- the regulated supply of electricity by Alberta Power (2000); and
- the sale of fly ash and other combustion byproducts produced in coal-fired electrical generating plants by ASHCOR Technologies.

The **Global Enterprises** Business Group includes:

- the non-regulated gathering, processing, storage, purchase and sale of natural gas by ATCO Midstream;
- the provision of project management and technical services for customers in the resource, defence and telecommunications sectors by ATCO Frontec;
- the development, operation and support of information systems and technologies, and the provision of billing services, payment processing, credit, collection and call centre services by ATCO I-Tek; and
- the sale of travel services to both business and consumer sectors by ATCO Travel.

The Corporate and Other segment includes commercial real estate owned by the Company in Alberta.

## 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.

### 2008:

- Increased capital expenditures in the Utilities Business Group which increased rate base on which the Company earns a return on equity.
- The Company's Board of Directors has established a special committee of independent directors of the Board to review a transaction that would combine the operations of ATCO Structures, a wholly owned subsidiary of ATCO Ltd., and of ATCO Frontec Corp., a wholly-owned subsidiary of the Company. The mandate of the special committee is to investigate, review, assess and evaluate the proposed transaction with the assistance of independent legal and financial advisors. The proposed transaction is subject to Board of Directors', regulatory and other applicable approvals and there can be no assurance that acceptable terms will be concluded or that this transaction will be completed. It is now expected that the committee will make a recommendation to the Board of Directors in the first six months of 2009.
- In February 2008, the AUC initiated a generic proceeding to determine whether the standardized rate of return methodology and the utility capital structures should be reviewed. A regulatory process has been established by the AUC with a hearing currently scheduled for May 19, 2009, to review the generic return on equity formula as well as to review the capital structure for each of the Alberta utilities.
- On November 24, 2008, ATCO Power announced it will design, build, own and operate a two unit 86 MW natural gas-fired simple cycle generating plant in Karratha, Western Australia. All of the electricity generated will be sold under a 20-year power purchase agreement with Horizon Power, a company owned by the State of Western Australia. The first unit is expected to be completed by January 2010. ATCO Power owns a 100% interest in the plant.
- Changes in market conditions in natural gas liquids and storage operations in ATCO Midstream.
- Volatility in prices received for electricity sold to the Alberta Power Pool by ATCO Power and for electricity sold into the United Kingdom Power Exchange Market by ATCO Power.
- Availability of generating plants in ATCO Power and Alberta Power (2000).
- Increased business activity in ATCO Frontec, primarily due to the contracts with NATO at Kandahar Airfield in Afghanistan.

- On January 30, 2008, the 150 MW Unit 4 at Alberta Power (2000)'s Battle River generating plant experienced an unplanned outage due to a failure in the unit's generator. The unit returned to service on March 27, 2008. Alberta Power (2000) claimed relief under the force majeure provisions of its PPA. On July 11, 2008, the Balancing Pool notified Alberta Power (2000) that it disagreed with Alberta Power (2000)'s claim for relief under the force majeure provisions of the PPA. Unless settlement on the claim can be reached with the PPA counterparty, it is anticipated that this claim will proceed to arbitration.
- On November 13, 2008, the AUC issued a decision on ATCO Gas' 2008 and 2009 general rate application. The decision, among other things, approved the establishment of deferral accounts to defer the impact of temperature fluctuations on ATCO Gas' revenues after January 1, 2008.
- On October 25, 2007, ATCO Power's 1,000 MW Barking generating plant in the U.K. experienced an unplanned outage due to failure in a steam turbine generator. On March 6, 2008, ATCO Power announced that the plant had returned to service. During the first quarter of 2008, \$8.1 million of business interruption and property damage insurance proceeds were recorded.
- On September 16, 2008, ATCO Power announced that it had completed construction of a 45 MW natural gas-fired generating unit at its Valleyview, Alberta, generating plant.
- On April 14, 2008, ATCO Frontec announced that the first phase of the 500-room Creeburn Lake Lodge north of Fort McMurray, Alberta had commenced operations.

**2007:**

- Increased business activity in ATCO Frontec.
- 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 ATCO Power and Alberta Power (2000).
- On October 25, 2007, ATCO Power's 1,000 MW Barking generating plant in the U.K. experienced an unplanned outage due to failure in a steam turbine generator. This outage reduced the plant capacity to approximately 400 MWs during this period. The financial impact of the failure was a decrease to ATCO Power's 2007 earnings of approximately \$8.6 million.

- Volatility in prices received for electricity sold to the Alberta Power Pool by ATCO Power and for electricity sold into the United Kingdom Power Exchange Market by ATCO Power.
- 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%.
- Changes in market conditions in natural gas liquids and storage operations in ATCO Midstream.
- In June 2007, ATCO Frontec was awarded five NATO support contracts at the Kandahar Airfield in Afghanistan for up to five years. Specific sectors of responsibility include fire and crash rescue, visiting aircraft services, roads and grounds maintenance, facility maintenance, construction, engineering, equipment and vehicle maintenance, aircraft movement control and terminal transport, accommodation services, supply operations, airfield mechanical transport, delivery of potable water, sewage management, and waste management and disposal.
- 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 \$15.6 million relating to years prior to 2007. An additional increase to earnings of \$0.8 million was recorded relating to the first quarter of 2007. Funds generated by operations increased by \$15.6 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 \$10.9 million in the fourth quarter of 2007. This one-time adjustment resulted in increased earnings of \$10.9 million relating to the change in the future income tax liability as at December 31, 2006. An additional increase to earnings of \$1.5 million was recorded relating to the change in the future income tax liability for the first nine months of 2007. Additionally, in 2007 the British Parliament enacted a 2% reduction in the corporate income tax rate effective April 1, 2008, which impacted ATCO Power's operations in the U.K. This resulted in a further increase in the Company's 2007 earnings of \$4.0 million.
- ATCO Power has long term contracts for the supply of natural gas for certain of its power generation projects. Under the terms of certain of these contracts, the volume of natural gas that ATCO Power is entitled to take is in excess of the natural gas required to generate power. As the excess volume of natural gas can be sold, ATCO Power is required to designate these entire contracts as derivative instruments. ATCO Power recognized a non-current derivative asset of \$59.0 million on January 1, 2007; thereafter, ATCO Power will record mark-to-market

adjustments through earnings as the fair values of these contracts change with changes in future natural gas prices.

- 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.
  
- 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 allowed 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 ATCO Power and Alberta Power (2000).
  
- Volatility in prices received for electricity sold to the Alberta Power Pool by ATCO Power and for electricity sold into the United Kingdom Power Exchange Market by ATCO Power.
  
- 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%.
  
- Changes in market conditions in natural gas liquids and storage operations in ATCO Midstream.
  
- 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 Balancing Pool as income rather than as a sale of an asset. The Company made submissions to the CRA opposing the CRA's position. The impact of the reassessment was 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 would ultimately be resolved in the Company's favour, the Company reduced earnings by \$12.4 million in 2006.

- Federal and provincial governments announced a number of changes to income taxes and rates. As these changes were considered to have been substantively enacted, the Company made an adjustment to income taxes amounting to \$11.8 million in the second quarter of 2006, most of which related to future income taxes. The adjustment increased 2006 earnings by \$11.8 million, of which \$1.9 million related to the Utilities Business Group, \$7.2 million to the Power Generation Business Group, \$2.3 million to the Global Enterprises Business Group and \$0.4 million to Corporate and Other.
- 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.
- On November 24, 2006, the Company announced that its Board of Directors had completed its review of the strategic alternatives available for its gas gathering and processing and natural gas liquids midstream business and reached a decision to retain the business under the Company's current structure. The strategic review, commenced in May 2006, was conducted by the Board of Directors in conjunction with the Company's management and legal and financial advisors. The review involved the evaluation of a number of alternatives, including reorganization into a business trust or newly-created company or a sale to a third party.

## **Operations of the Company**

### **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 2,277,000. Also served are 279 smaller communities as well as rural areas having a combined population of approximately 609,000, located on or in the vicinity of ATCO Pipelines' transmission systems or the natural gas transmission pipelines of other companies. ATCO Gas provides approximately 1,022,000 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>2008</u>      | <u>2007</u>      |
|-------------------|------------------|------------------|
| Residential ..... | 935,269          | 916,875          |
| Commercial.....   | 86,517           | 84,588           |
| Industrial .....  | 351              | 353              |
| Other .....       | 30               | 30               |
| Total.....        | <u>1,022,167</u> | <u>1,001,846</u> |

ATCO Gas owns and operates approximately 37,200 km of distribution mains. In addition, ATCO Gas owns modern service and maintenance facilities in major centres.

In the AUC decision on ATCO Gas' 2008-2009 general rate application issued on November 13, 2008, ATCO Gas received approval to establish deferral accounts deferring the impact of temperature fluctuations on ATCO Gas' revenues commencing January 1, 2008. The deferral account mechanism largely eliminates the impact of temperature on ATCO Gas' earnings.

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

|                   | <u>2008</u>  | <u>2007</u>  |
|-------------------|--------------|--------------|
|                   | (petajoules) |              |
| Residential ..... | 116.5        | 113.2        |
| Commercial.....   | 107.1        | 104.2        |
| Industrial .....  | 14.3         | 14.5         |
| Other .....       | 0.4          | 0.6          |
| Total.....        | <u>238.3</u> | <u>232.5</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 \$191.7 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 2008, approximately 1,140 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 17 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 8,440 km of pipelines, 22 compressor sites and a salt cavern storage peaking facility. The systems have 203 producer receipt points, 56 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>2008</u>      | <u>2007</u>  |
|--|------------------|--------------|
|  | (terajoules/day) |              |
| Contract Demand:                                       |                  |              |
| Producer.....  | 1,354            | 1,470        |
| Industrial.....  | 1,023            | 960          |
| Distribution.....                                      | 107              | 104          |
| Affiliates.....  | 2,550            | 2,609        |
| Total.....   | <u>5,034</u>     | <u>5,143</u> |
| IT/OR/Variable Volumes:                                |                  |              |
| Producer.....  | 154              | 187          |
| Industrial.....  | 295              | 214          |
| Total.....   | <u>449</u>       | <u>401</u>   |
| Total Contract Demand and IT/OR/Variable Volumes ..... | <u>5,483</u>     | <u>5,544</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:

|                            | <u>2008</u>                                   |            | <u>2007</u>                                   |            |
|----------------------------|---|------------|---|------------|
|                            | <b>Millions<br/>of<br/>Kilowatt<br/>Hours</b> | <b>%</b>   | <b>Millions<br/>of<br/>Kilowatt<br/>Hours</b> | <b>%</b>   |
| Industrial.....            | 6,804   | 64         | 7,026   | 65         |
| Commercial.....            | 2,079   | 20         | 2,028   | 19         |
| Residential.....           | 1,200   | 11         | 1,170   | 11         |
| Rural, REAs and other..... | 511   | 5          | 520   | 5          |
| Total.....                 | <u>10,594</u>                                 | <u>100</u> | <u>10,744</u>                                 | <u>100</u> |

The aggregate population of the areas provided with electric utility service by ATCO Electric, NUY, NLD and YECL is approximately 473,400 and service is provided to approximately 228,200 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:

|                             | 2008           |            | 2007           |            |
|-----------------------------|----------------|------------|----------------|------------|
|                             | Number         | %          | Number         | %          |
| Industrial .....            | 11,183         | 5          | 11,083         | 5          |
| Commercial.....             | 30,274         | 13         | 29,912         | 14         |
| Residential .....           | 156,539        | 69         | 152,146        | 68         |
| Rural, REAs and other ..... | 30,168         | 13         | 29,848         | 13         |
| Total .....                 | <u>228,164</u> | <u>100</u> | <u>222,989</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 62,200 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 59 megawatts in Alberta and in the Yukon and Northwest Territories. The maximum peak load demand for these plants during the year ended December 31, 2008, was 30 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. To date, three of these projects have been assigned by the AESO with final approval having been received from the AUC for two projects relating to the construction of 516 kilometres of transmission line with an estimated cost of \$390 million and an anticipated completion by March 31, 2010. As a result of changing economic conditions and completion dates of the remaining distinct projects (post 2010), 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 200 - 500 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 2008 and expires in 2018, one was renewed in 2007 and expires in 2018, and the final one expires in 2014.

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

The utilities anticipate 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.

### ***Regulated (Alberta Power (2000))***

The Sheerness and Battle River 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 8.88% in 2008 and 8.65% for 2007. The rate of return on common equity for 2009 is 8.64%.

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><br>(megawatts) | <b>PPA Purchaser</b>    | <b>PPA Expiry Date</b> |
|----------------------|---------------------------|---------------------------------|--|-------------------------|------------------------|
| <b>Battle River</b>  |                           |                                 |  |                         |                        |
| Unit 3.....          | 1969                      | (1)                             | 150  | ENMAX Corporation       | 2013                   |
| Unit 4.....          | 1975                      | (1)                             | 150  | ENMAX Corporation       | 2013                   |
| Unit 5.....          | 1981                      | (1)                             | 370  | ENMAX Corporation       | 2020                   |
|                      |                           |                                 | 670  |                         |                        |
| <b>Sheerness (3)</b> |                           |                                 |  |                         |                        |
| Unit 1.....          | 1986                      | (1)                             | 190  | TransCanada Energy Ltd. | 2020                   |
| Unit 2.....          | 1990                      | (1)                             | 190  | TransCanada Energy Ltd. | 2020                   |
|                      |                           |                                 | 380  |                         |                        |
| Rainbow .....        | 1968                      | (2)                             | 88   | Merchant                |                        |
| Sturgeon.....        | 1957                      | (2)                             | 18   | Merchant                |                        |
| <b>Total</b>         |                           |                                 | 1,156  |                         |                        |

*Notes:*

(1) Coal-fired steam turbine.

(2) Natural gas turbine.

(3) 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.

***Non-Regulated (ATCO Power)***

ATCO Power is engaged in the non-regulated supply of electricity and cogeneration steam in Canada, the United Kingdom and Australia. ATCO Power continues to focus its development efforts on independent power production projects in Canada, Australia and the United Kingdom. ATCO Power also manages Alberta Power (2000)'s assets.

ATCO Power's non-regulated independent cogeneration plants and generating plants, with their respective commissioning dates and name plate capacity ratings, are shown below.

| <b>Location</b>                   | <b>Commissioning Date</b> | <b>Name Plate Capacity Rating</b><br>(megawatts) | <b>Ownership</b> | <b>Net Ownership</b><br>(megawatts) |
|-----------------------------------|---------------------------|--|------------------|-------------------------------------|
| <b><i>Canada:</i></b>             |                           |  |                  |                                     |
| McMahon, B.C.                     | 1993                      | 120  | 50.0%            | 60                                  |
| Primrose, Alberta                 | 1998                      | 85   | 40.0%            | 34                                  |
| Poplar Hill, Alberta              | 1998                      | 45   | 80.0%            | 36                                  |
| Rainbow Lake, Alberta             | 1999                      | 90   | 40.0%            | 36                                  |
| Joffre, Alberta                   | 2000                      | 480  | 32.0%            | 154                                 |
| Valleyview, Alberta               |                           |  |                  |                                     |
| Unit 1                            | 2001                      | 45   | 80.0%            | 36                                  |
| Unit 2                            | 2008                      | 45   | 80.0%            | 36                                  |
| Muskeg River, Alberta             | 2003                      | 170  | 56.0%            | 95                                  |
| Cory, Saskatchewan                | 2003                      | 260  | 40.0%            | 104                                 |
| Oldman River, Alberta             | 2003                      | 32   | 60.0%            | 19                                  |
| Scotford, Alberta                 | 2003                      | 170  | 80.0%            | 136                                 |
| Brighton Beach, Ontario           | 2004                      | 580  | 40.0%            | 232                                 |
| <b><i>United Kingdom:</i></b>     |                           |  |                  |                                     |
| Barking, London                   | 1995                      | 1,000  | 25.5%            | 255                                 |
| Heathrow Airport, London          | 1990                      | 14   | 50.0%            | 7                                   |
| <b><i>Australia:</i></b>          |                           |  |                  |                                     |
| Osborne, South Australia          | 1998                      | 180  | 50.0%            | 90                                  |
| Bulwer Island, Queensland         | 2001                      | 33   | 50.0%            | 17                                  |
|                                   |                           | 3,349  |                  | 1,347                               |
| <b><u>Under Construction:</u></b> |                           |  |                  |                                     |
| Karratha, Western Australia       | 2010                      | 86   | 100.0%           | 86                                  |
| Total                             |                           | 3,435  |                  | 1,433                               |

**Note:**

(1) ATCO Power is the operator for each of these generating plants, except for the McMahon and Heathrow generating plants.

## Canada

ATCO Power has a 50% interest in a joint venture with McMahon Power Holdings L.P. The joint venture owns and operates the 120 megawatt McMahon cogeneration plant at Taylor, British Columbia. All of the electricity generated is sold to British Columbia Hydro and Power Authority pursuant to an electricity purchase agreement expiring in 2014. In addition to generating electricity, the plant sells steam to Westcoast Energy Inc.'s adjacent natural gas processing plant.

A joint venture, owned by ATCO Power, Canadian Natural Resources Limited ("CNRL") and ATCO Resources, operates an 85 megawatt cogeneration generating plant (the "Primrose Steam Enhancement Plant") near Bonnyville, Alberta. The joint venture sells electricity and steam to CNRL for use in its heavy oil recovery process. Any excess electricity generated is sold to the Alberta Power Pool or to specific customers. ATCO Power owns a 40% interest in the plant, ATCO Resources owns 10% and CNRL owns 50%.

ATCO Power operates a 45 megawatt natural gas-fired generating plant at Poplar Hill near Grande Prairie, Alberta. Revenues are derived from power sold to the Alberta Power Pool and from transmission support required by the Alberta Power Pool. ATCO Power owns an 80% interest in the plant and ATCO Resources owns 20%.

ATCO Power operates a 90 megawatt natural gas-fired generating plant at Rainbow Lake, Alberta which sells steam and electricity to Husky Energy Inc. ("Husky"). Surplus electricity is sold to the Alberta Power Pool. ATCO Power owns a 40% interest in the plant, ATCO Resources owns 10% and Husky owns 50%.

ATCO Power, EPCOR Power Development (Alberta) Limited Partnership ("EPCOR") and NOVA Chemicals Corporation ("NOVA") are participants in a joint venture which operates a 480 megawatt natural gas-fired cogeneration plant near Joffre, Alberta. ATCO Power is the operator of the facility. NOVA purchases all of the steam and approximately 25% of the electricity produced for use in NOVA's Joffre petrochemical site under an energy purchase agreement expiring in 2020. The balance of the output is sold to the Alberta Power Pool. ATCO Power owns a 32% interest in the plant, ATCO Resources owns 8%, EPCOR owns 40% and NOVA owns 20%.

ATCO Power operates a 90 megawatt two unit natural gas-fired generating plant near Valleyview, Alberta. All of the electricity produced by the plant is sold to the Alberta Power Pool. ATCO Power owns an 80% interest in the plant and ATCO Resources owns 20%. Construction of the second unit was completed in September 2008.

ATCO Power and SaskPower International Inc. ("SPI") are participants in a joint venture which operates a 170 megawatt natural gas-fired cogeneration plant and related facilities at the Athabasca Oil Sands Project ("AOSP") Muskeg River mine near Fort McMurray, Alberta. Pursuant to the terms of the 40 year supply contract which expires at the end of 2042, approximately one-half of the electricity and all of the steam produced by the plant are supplied to AOSP for use in its Muskeg River mine. The balance of the

electricity generated is sold to the Alberta Power Pool. ATCO Power owns a 56% interest in the plant, ATCO Resources owns 14% and SPI owns 30%.

ATCO Power and SPI are participants in a joint venture which operates a 260 megawatt natural gas-fired cogeneration plant at Potash Corporation of Saskatchewan Inc.'s ("Potash Corporation") Cory Mine, located near Saskatoon, Saskatchewan. ATCO Power is the operator of the facility. Pursuant to a contract expiring in 2028, Saskatchewan Power Corporation has agreed to purchase all of the electricity generated by the plant for 25 years. The steam produced at the plant is sold to Potash Corporation. ATCO Power owns a 40% interest in the plant, ATCO Resources owns 10% and SPI owns 50%.

ATCO Power operates a 32 megawatt hydroelectric generating plant at the Oldman River dam near Pincher Creek, Alberta. All of the electricity produced by the plant is sold to the Alberta Power Pool. ATCO Power owns a 60% interest in the plant, ATCO Resources owns 15% and the Piikani Nation of Brockett, Alberta, owns 25%.

ATCO Power operates a 170 megawatt natural gas-fired cogeneration plant at the AOSP upgrader at Scotford, Alberta. Approximately 80% of the electricity and all the thermal energy produced by the plant is supplied to AOSP for use in the upgrader and the balance of the electricity is sold to the Alberta Power Pool. The 40 year contract with AOSP expires in 2043. ATCO Power owns an 80% interest in the plant and ATCO Resources owns 20%.

A partnership formed by ATCO Power and Ontario Power Generation Inc. ("OPG") owns and operates the Brighton Beach power plant, a 580 megawatt natural gas-fired combined cycle generating plant in Windsor, Ontario. Shell Energy North America (Canada) Inc. supplies and pays for the natural gas used at the plant and owns, markets and trades all the electricity produced under contracts expiring in 2024. ATCO Power owns a 40% interest in the plant, ATCO Resources owns 10% and OPG owns 50%.

## United Kingdom

ATCO Power and Balfour Beatty plc, a United Kingdom construction group, each own a 50% equity interest in Thames Power, a London, England based company. Thames Power has a 51% interest in BPL which owns a 1,000 megawatt natural gas-fired combined cycle generating plant at Dagenham in London, England (the "Barking generating plant"). EDF Energy plc ("EDF") and SSE Energy Supply Limited ("SSE") own the remaining 49% interest in BPL. EDF and SSE have entered into long term agreements expiring on September 30, 2010 to purchase 72.5% of the electricity produced at the plant. The remaining 275 megawatts of power is being sold into the United Kingdom electricity market on a merchant basis under a two year marketing agreement expiring at the end of September 2010. The majority of the 275 megawatts has been sold forward under this agreement through the end of March 2009 with smaller volumes sold forward through March 2010. The Barking generating plant is operated by ATCO Power.

ATCO Power has a 50% interest in a joint venture with a subsidiary of EDF. The joint venture owns and operates a facility consisting of a 14 megawatt natural gas turbine, 40 megawatts of boiler capacity and an associated heat distribution system at London's Heathrow Airport. The joint venture has a 15 year energy

services contract, expiring on July 27, 2010, with BAA plc, owner of the Heathrow Airport, for all of the electricity and hot water produced by the facility.

## Australia

ATCO Power has a 50% interest in a joint venture with Origin Energy Limited (“Origin”). The joint venture owns and operates the 180 megawatt Osborne cogeneration plant in Adelaide, South Australia. This joint venture supplies electricity to Flinders Osborne Trading Pty Ltd (“FOT”) under a 20 year electricity purchase agreement expiring in 2018. In addition to generating electricity, the plant provides steam under a 20 year agreement, expiring in 2018, to Penrice Soda Products Pty Ltd. The government of South Australia has guaranteed the obligations of FOT under these agreements.

ATCO Power has a 50% interest in a second joint venture with Origin. The joint venture owns and operates a 33 megawatt natural gas-fired cogeneration plant and other utility infrastructure at BP Amoco plc’s (“BP”) Bulwer Island refinery, near Brisbane, Queensland. All of the power and steam produced by the plant is sold to BP under a 20 year agreement expiring in 2021.

On November 24, 2008, ATCO Power announced it will design, build, own and operate a two unit 86 megawatt natural gas-fired simple cycle generating plant in Karratha, Western Australia (the “Karratha generating plant”). All of the electricity generated will be sold under a 20-year power purchase agreement with Horizon Power, a company owned by the State of Western Australia. The first unit is expected to be completed by January 2010. ATCO Power owns an 100% interest in the plant.

## *ASHCOR Technologies*

ASHCOR Technologies is engaged in the sale of fly ash and other combustion byproducts produced in coal-fired electrical generating plants.

## **Global Enterprises**

### *Non-Regulated Natural Gas Gathering, Processing and Storage*

ATCO Midstream owns and operates non-regulated natural gas gathering and processing facilities in Alberta and the Northwest Territories. ATCO Midstream provides natural gas procurement/load balancing services for other ATCO subsidiaries, management services for ATCO Gas’ storage field at Carbon and markets storage services.

### Natural Gas Liquids Extraction Operations

ATCO Midstream owns a 51.3% interest in the Edmonton Ethane Extraction Plant. Located in south Edmonton, the plant extracts ethane and other natural gas liquids from natural gas flowing into the Edmonton market area. Ethane and natural gas liquids are sold under long term contracts.

ATCO Midstream owns a 12.2% working interest in and operates the Empress Gas Liquids Straddle Plant. Located in southern Alberta near the Saskatchewan border, the plant extracts ethane and other natural gas liquids from natural gas flowing into TransCanada Corporation's main pipeline. Ethane is sold under long term contracts, while natural gas liquids are sold under short term contracts.

ATCO Midstream's natural gas liquids extraction plants, with their respective licensed capacities, are shown below:

| Facility   | NGL<br>Extracted | Licensed<br>Capacity<br>(mmcf/day) | Ownership | Net<br>Ownership<br>(mmcf/day) | Operator |
|--|------------------|------------------------------------|-----------|--------------------------------|----------|
| Edmonton Ethane Extraction Plant...                | (1)              | 390                                | 51.3%     | 200                            | No       |
| Empress Gas Liquids Straddle Plant.                | (1)              | 1,100                              | 12.2%     | 134                            | Yes      |
| Villeneuve Ethane Extraction Plant ..              | (2)              | 40                                 | 100.0%    | 40                             | Yes      |
| Fort Saskatchewan Ethane<br>Extraction Plant ..... | (2)              | 37                                 | 100.0%    | 37                             | Yes      |
|  |                  | <u>1,567</u>                       |           | <u>411</u>                     |          |

Notes:

(1) Ethane and a mixture of propane, butane and pentanes plus.

(2) A mixture of ethane, propane, butane and pentanes plus.

#### Natural Gas Gathering and Processing Operations

ATCO Midstream owns or has a joint venture interest in twelve natural gas gathering and processing facilities, eight of which it operates, and approximately 1,000 km of field gathering lines. Natural gas production from the producing properties connected to ATCO Midstream's natural gas gathering systems is processed by ATCO Midstream and either transported for a fee or purchased and sold under contracts with third parties.

ATCO Midstream's natural gas processing plants, with their respective licensed capacities, are shown below:

| <b>Facility</b>                                   | <b>Licensed<br/>Capacity</b><br>(mmcf/day) | <b>Ownership</b> | <b>Net<br/>Ownership</b><br>(mmcf/day) | <b>Operator</b> |
|---|--|------------------|--|-----------------|
| Carbondale Gas Plant.....                         | 55   | 100.0%           | 55                                     | Yes             |
| Cranberry Gas Plant.....                          | 35   | 100.0%           | 35                                     | Yes             |
| Golden Spike Gas Plant .....                      | 65   | 100.0%           | 65                                     | Yes             |
| Kinsella Gathering and Compression Facility ..... | 5  | 100.0%           | 5                                      | Yes             |
| Nottingham Gas Plant.....                         | 13   | 7.0%             | 1                                      | No              |
| Kisbey Gas Plant.....                             | 2  | 50.0%            | 1                                      | Yes             |
| Northwest Territories Gas Plant.....              | 8  | 33.0%            | 3                                      | No              |
| Puskaskau Gas Plant .....                         | 21   | 41.0%            | 9                                      | No              |
| Watelet Gas Plant.....                            | 20   | 100.0%           | 20                                     | Yes             |
| Widewater Gas Plant.....                          | 10   | 100.0%           | 10                                     | Yes             |
|   | <u>234</u>                                 |                  | <u>204</u>                             |                 |

ATCO Midstream owns and operates the Integrated Gas System west and north of Edmonton. The system comprises approximately 525 km of gathering pipelines and a compression facility, and is connected to other ATCO Midstream processing plants. The system has a total capacity of approximately 100 mmcf/day.

In November 2008, ATCO Midstream announced the purchase of IPL Holdings Inc. ATCO Midstream, Inuvialuit Petroleum Corporation and AltaGas Utility Group Inc. are partners in a joint venture that owns and operates two producing natural gas wells, gas gathering and processing facilities in the Mackenzie delta region of the Northwest Territories and a 50 kilometre pipeline connecting the facilities to the town of Inuvik. Each of the joint venture partners also owns a one-third interest in Inuvik Gas Ltd., the sole distributor of natural gas in Inuvik. Inuvik Gas Ltd. serves more than 850 customers.

#### Natural Gas Storage Operations

ATCO Midstream manages ATCO Gas' natural gas storage facility at Carbon, Alberta. The facility is a natural gas reservoir with a storage capacity of 43.5 petajoules (approximately 40 bcf), and has a maximum injection rate of 400 TJ/day (369 mmcd/day) and a maximum withdrawal rate of 600 TJ/day (550 mmcf/day). The facility is situated at the intersection of pipelines owned by ATCO Pipelines and TransCanada Corporation. Since April 1, 2005, ATCO Midstream has leased the full storage capacity of the facility.

ATCO Midstream provides storage services on a daily to annual basis to financial institutions, marketing companies, pipelines, retail energy providers and producers.

## *Technical Facilities Management*

ATCO Frontec, through its own operations and through a number of joint ventures, focuses on delivery of site support services to various clients active in the resource, defense, and telecommunications sectors.

### Principal Contracts

ARCTEC Alaska, a joint venture between ATCO Frontec and Arctic Slope World Services, has a contract with the United States Air Force to manage and maintain the Alaska Radar System. The contract is extendible on a year to year basis until 2014 at the option of the United States Air Force. The joint venture has managed and maintained the Alaska Radar System since 1994.

ATCO Frontec and Pan Arctic Inuit Logistics Corporation (“Pan Arctic”) have a contract with the Government of Canada to operate and maintain the North Warning System until September 2011. Nasittuq Corporation, a corporation jointly owned by ATCO Frontec and Pan Arctic, operates as agent for the purposes of the North Warning System contract.

In June 2007, ATCO Frontec was awarded five NATO support contracts at the Kandahar Airfield in Afghanistan. Specific sectors of responsibility include fire and crash rescue, visiting aircraft services, roads and grounds maintenance, facility maintenance, pest control, construction, engineering, equipment and vehicle maintenance, aircraft movement control and terminal transport, accommodation services, supply operations, airfield mechanical transport, delivery of potable water, sewage management, and waste management. The contracts will expire in September 2010. The contracts may be extended for an additional two years at the option of NATO.

ATCO Frontec has a contract with NATO to operate and maintain information technology systems at the NATO headquarters in Sarajevo, Bosnia. The contract expires in December 2009.

In December 2007, UQSUQ Corporation, a joint venture between ATCO Frontec and Nunavut Petroleum Corporation, was awarded a five year contract renewal to lease and operate the 79 million litre bulk fuel storage facility, the pipeline distribution system, and the municipal fuel distribution system in Iqaluit, Nunavut. The contract may be extended for an additional five years at the option of government of Nunavut.

ATCO Frontec has a contract with NATO to provide facilities and service support at the Kabul Afghanistan International Airport. The contract includes information technology support, camp support services, equipment and facility maintenance and engineering services. The contract expires in August 2009. The contract may be extended to December 2009 at the option of NATO.

ATCO Frontec manages, operates and maintains facilities to support the NATO Flying Training Centre in Moose Jaw, Saskatchewan. Services include facilities operation and maintenance, fire and crash rescue services and maintenance of a 1.5 million litre above-ground fuel farm, aircraft refueling, operation and maintenance of the site vehicle refueling point, hazardous materials handling and environmental response

services and operation and maintenance of fire suppression systems. The current contract is in effect until 2020.

ATCO Frontec and the Fort McKay First Nation are partners in a joint venture which owns and operates the Creeburn Lake Lodge, a 500-room lodge north of Fort McMurray, Alberta. Operations commenced in April 2008. The Creeburn Lake Lodge accepts clients on a nightly, weekly or monthly basis.

ATCO Frontec and the Fort McKay First Nation are partners in a second joint venture which operates the Barge Landing Lodge, a 1,148-room accommodation complex north of Fort McMurray, under a services agreement with Suncor Energy Inc. (“Suncor”). The lodge commenced operations in June 2008. In October 2008, a 603-room expansion was completed and opened for operations, under a services agreement with Albian Sands Energy Inc. (“Albian”). The Albian contract will expire in March 2010 unless extended for an additional 12 months at the option of Albian, and the Suncor contract will expire in June 2009.

### ***Technologies***

ATCO I-Tek is engaged in the development, operation and support of information systems and technologies.

ATCO I-Tek provides billing services, payment processing, credit, collection and call centre services to its clients. ATCO I-Tek currently provides such services to Direct Energy for its regulated retail and competitive energy supply businesses in Alberta. In addition, ATCO I-Tek also supplies distribution-related billing and customer care services to ATCO Gas and ATCO Electric. In 2008, ATCO I-Tek’s call centre was named the top customer service provider in the North American energy sector by Service Quality Measurement Group Inc. for the third year in a row.

Direct Energy has entered into a 10 year contract effective May 4, 2004, with ATCO I-Tek to provide billing and call centre services to ensure continued quality customer service. Direct Energy has the ability to terminate this contract after the fifth anniversary upon immediate payment of termination fees which decline over the remaining term of the contract. Based upon current customer counts and service levels and a 10 year contract, revenues are estimated to be between \$400-\$500 million over the term of the contract.

### ***ATCO Travel***

ATCO Travel is engaged in the sale of travel services in both the corporate and leisure travel sectors. There are branch offices located in Calgary, Edmonton and Ottawa.

## **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 AUC orders CU and CU Inc. are 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.

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><br>(\$ Millions) | <u>Rate of Return on Common Equity (2)</u><br>(%) |     | <u>Common Equity Ratio (3)</u><br>(%) |     |
|-----------------------|-------------|-----------------------------|--|---|-----|---------------------------------------|-----|
| <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.....            | 2008        | Nov. 13/08                  | 668.6                                      | 8.75  | (4) | 38.0                                  | (4) |
|                       | 2009        | Nov. 13/08                  | 771.8                                      | 8.75  | (4) | 38.0                                  | (4) |
| South.....            | 2008        | Nov. 13/08                  | 566.1                                      | 8.75  | (4) | 38.0                                  | (4) |
|                       | 2009        | Nov. 13/08                  | 624.4                                      | 8.75  | (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 calculated using 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 yields 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, 8.75% for 2008, and has been set at a placeholder rate of 8.75% for 2009.

## **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.

Specifically identifiable expenditures for pollution abatement and control were approximately \$22.2 million in 2008 and are estimated to be \$33.7 million in 2009.

On March 10, 2008, the government of Canada released details of its draft regulatory framework originally announced on April 26, 2007. Electricity sector companies must achieve an initial GHG reduction in 2010 of 18% from their company-wide emission intensity, with a 2% continuous improvement required annually thereafter. 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. For cogeneration facilities, steam production GHG emissions are subjected to the reduction target and electricity production emissions are compared to a deemed emission target. 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. The government reiterated that it intends to implement fixed emission caps in the 2020 to 2025 time period. A draft regulation has yet to be released.

The federal government also announced plans to set targets to regulate air pollutants (sulphur dioxide, nitrogen oxides, particulate matter, volatile organic compounds and mercury) from industrial sources by 2015. Air pollutant elements will be added to the draft regulations once the regulatory framework for air pollutants has been finalized.

Alberta legislation requires large emitters to reduce GHG emission intensities by 12% starting July 1, 2007. Baseline emission values for Alberta Power (2000)'s and ATCO Power's facilities have been established and compliance reports with compensation for 2007 GHG obligations were submitted to Alberta Environment on March 31, 2008. For Alberta Power (2000)'s coal-fired units, the PPA counterparties have reimbursed Alberta Power (2000) for amounts it paid to Alberta Environment for its 2007 GHG obligations.

Alberta regulation requires coal-fired generating plant operators, including Alberta Power (2000), to monitor mercury emissions and target a capture of at least 70% of the mercury in the coal commencing

January 1, 2011. A full scale test at the Battle River generating plant, Unit 5 is underway to test the mercury control method to ensure the capture objective can be met.

It is anticipated that the PPAs will allow Alberta Power (2000) to recover most of the costs associated with complying with both the federal and Alberta regulations during the PPA term.

Due to lower emissions per unit of output, ATCO Power's gas-fired generating units have minimal exposure to changes in GHG regulations, and therefore it is anticipated that there will not be a material impact from complying with the Alberta regulations.

In November 2008, the federal government signaled its intention to pursue a North America wide emissions trading program. The government has not released details of this proposed emissions trading system and it has remained non-committal as to whether it will continue with the implementation of the legislation. ATCO Power continues to monitor these developments and the impact of complying with the federal regulations.

## **DESCRIPTION OF CAPITAL STRUCTURE**

### **Share Capital**

The authorized share capital of the Company consists of 150,000 Series Preferred Shares issuable in series, an unlimited number of Series Second Preferred Shares issuable in series and an unlimited number of Class A shares and Class B shares. At February 13, 2009, the Company had outstanding:

- no Series Preferred Shares;
- six series of Series Second Preferred Shares totaling 20,400,000 shares (\$510.0 million);
- 83,757,894 Class A Shares; and
- 41,756,926 Class B Shares

### **Series Preferred Shares**

The Series Preferred Shares are entitled, in priority to the Series Second Preferred Shares and the Class A shares and Class B shares, to fixed cumulative preferential cash dividends and, in the event of the liquidation, dissolution or winding-up of the Company, or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, to the amount paid up thereon and accrued and unpaid dividends and, if such action is voluntary, the premiums payable on redemption, if any.

The Series Preferred Shares are subject to redemption on 30 days' notice and are non-voting except upon the failure of the Company to pay dividends on any such shares for a period of 18 months, in which case the holders of all such shares are entitled to one vote per share and to elect at meetings of shareholders at which directors are elected just under one-half of the directors of the Company.

The provisions attaching to the Series Preferred Shares stipulate that no shares ranking junior to the Series Preferred Shares may be retired unless all dividends then payable on the Series Preferred Shares shall have been declared and paid.

Two series of Series Preferred Shares aggregating 65,000 shares have been designated and issued to date, all of which have been redeemed and cancelled.

### **Series Second Preferred Shares**

An unlimited number of Series Second 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 Second Preferred Shares as a class have, among others, provisions to the following effect:

- (i) The Series Second Preferred Shares rank junior to the Series Preferred Shares but 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 Shares and the Class B Shares and any other shares of the Company ranking junior to the Series Second Preferred Shares. The Series Second Preferred Shares may also be given such other preference over the Class A Shares and the Class B Shares and any other junior shares as may be determined for any series authorized to be issued.
- (ii) The Series Second Preferred Shares of each series rank equally with the Series Second Preferred Shares of every other series 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.
- (iii) The holders of the Series Second 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 Second 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 Second Preferred Share held.

The following Series Second Preferred Shares are currently outstanding:

|   | <b>Stated<br/>Value</b> | <b>Redemption<br/>Dates (1)</b> | <b>Shares</b> | <b>Amount</b>            |
|---|-------------------------|---------------------------------|---------------|--------------------------|
|   | (dollars)               |                                 |               | (millions of<br>dollars) |
| Cumulative Redeemable Second Preferred Shares |                         |                                 |               |                          |
| 5.8% Series W (2)                             | \$25.00                 | See below                       | 6,000,000     | 150.0                    |
| 6.0% Series X (3)                             | \$25.00                 | See below                       | 6,000,000     | 150.0                    |
| Perpetual Cumulative Second Preferred Shares  |                         |                                 |               |                          |
| 4.35% Series O (4)                            | \$25.00                 | December 2, 2011                | 1,600,000     | 40.0                     |
| 4.35% Series T (4)                            | \$25.00                 | December 2, 2011                | 1,600,000     | 40.0                     |
| 4.35% Series U (4)                            | \$25.00                 | December 2, 2011                | 800,000       | 20.0                     |
| 4.70% Series V (4)                            | \$25.00                 | October 3, 2012                 | 4,400,000     | 110.0                    |
|   |                         |                                 |               | <u>510.0</u>             |

Notes:

- (1) *The preferred shares, except for the Series W and X, are redeemable on the dates specified above at the option of the Company at the stated value per share plus accrued and unpaid dividends.*
- (2) *The Series W preferred shares are redeemable commencing on March 1, 2008 at the stated value per share plus a 4% premium for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding 12 month period until March 1, 2012.*
- (3) *The Series X preferred shares are redeemable commencing June 1, 2008 at the stated value per share plus a 4% premium for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 1% in each succeeding 12 month period until June 1, 2012.*
- (4) *The dividends payable on the Series O, T, U and V preferred shares are fixed until the redemption dates specified above, at which time a new dividend rate may be established by negotiations between the Company and the owners of the shares.*

**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.

If a take-over bid is made for the Class B shares, which would result in the offeror owning more than 50% of the outstanding Class B shares and which would constitute a change in control of the Company, owners of Class A shares are entitled, for the duration of the bid, to exchange their Class A shares for Class B shares and to tender such Class B shares pursuant to the terms of the take-over bid. Such right of exchange is conditional upon the completion of the take-over bid giving rise to the right of exchange, and

if the take-over bid is not completed, then the right of exchange shall be deemed never to have existed. In addition, owners of Class A shares are entitled to exchange their shares for Class B shares of the Company if ATCO Ltd., the present controlling share owner of the Company, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B shares of the Company. In either case, each Class A share is exchangeable for one Class B share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

## DIVIDENDS

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

|   | <b>Year Ended December 31</b> |             |             |
|---|-------------------------------|-------------|-------------|
|   | <b>2008</b>                   | <b>2007</b> | <b>2006</b> |
|   | (\$ per share)                |             |             |
| <b>Cash dividends declared per share:</b> |                               |             |             |
| <b>Series Second Preferred Shares:</b>    |                               |             |             |
| Series O (1) .....                        | 1.09                          | 1.13        | 1.26        |
| Series Q (2) .....                        | -                             | 0.68        | 1.48        |
| Series R (2) .....                        | -                             | 0.61        | 1.33        |
| Series S (2) .....                        | -                             | 0.77        | 1.65        |
| Series T (1) .....                        | 1.09                          | 1.09        | 1.26        |
| Series U (1) .....                        | 1.09                          | 1.09        | 1.26        |
| Series V (3) .....                        | 1.18                          | 1.28        | 1.31        |
| Series W .....                            | 1.45                          | 1.45        | 1.45        |
| Series X .....                            | 1.50                          | 1.50        | 1.50        |
| <br>Class A and Class B Shares .....      | <br>1.33                      | <br>1.25    | <br>1.40    |

Notes:

- (1) *The dividend was reset to \$1.09 (from 5.05% to 4.35%) for dividend periods commencing between December 2, 2006 and December 2, 2011.*
- (2) *Redeemed May 18, 2007.*
- (3) *The dividend was reset to \$1.18 (from 5.25% to 4.70%) for dividend periods commencing between October 3, 2007 and October 3, 2012.*

It is the policy of the Company to pay dividends quarterly on its Class A and Class B shares. For the first quarter of 2008, the quarterly dividend payment on the Company's Class A and Class B shares was increased by \$0.0175 to \$0.3325 per share. The Company has increased its annual common share dividend each year since its inception as a holding company in 1972. The matter of an increase in the quarterly dividend is addressed by the Board of Directors in the first quarter of each year. For the first quarter of 2009, the quarterly dividend payment has been increased by \$0.02 to \$0.3525 per share. The

payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Company and other factors.

## CREDIT RATINGS

The current credit ratings on the Company's and CU Inc.'s securities are as follows:

|                                    | DBRS (1)     | S&P (2)    |
|------------------------------------|--------------|------------|
| <b>Canadian Utilities Limited:</b> |              |            |
| Debtentures .....                  | A            | A          |
| Commercial paper.....              | R-1 (low)    | A-1 (mid)  |
| Preferred shares .....             | Pfd-2 (high) | P-2 (high) |
| <b>CU Inc.:</b>                    |              |            |
| Debtentures .....                  | 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, but the degree of strength is less than that of higher rated entities. While 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. Each rating category is denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category.

An A rating by S&P is the third highest of ten 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 and Short Term Debt 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. Preferred shares rated Pfd-2 are of satisfactory credit quality. Protection of dividends and principal is substantial, but earnings, the balance sheet, and coverage ratios are not as strong as higher rated companies. Each rating category is denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the 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. An obligation rated P-2 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. A plus (+) or minus (-) sign shows relative standing within a 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 OFFICERS

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

| <b>Name,<br/>Province or State and<br/>Country of Residence</b> | <b>Position</b>  | <b>Principal Occupation</b>   | <b>Periods<br/>Served as a<br/>Director of<br/>the Company</b> |
|---|--|---|--|
| C.J. Ackroyd<br>Alberta, Canada                                 | Vice President,<br>Marketing &<br>Communications         | Vice President, Marketing &<br>Communications, Canadian<br>Utilities Limited and ATCO<br>Ltd.         |  |
| R.T. Booth (2)<br>Alberta, Canada                               | Director   | Partner, Bennett Jones LLP<br>(barristers and solicitors)   | 1998 to date   |
| R.A. Cerkiewicz<br>Alberta, Canada                              | Vice President,<br>Business Analysis                     | Vice President, Business<br>Analysis, Canadian Utilities<br>Limited and ATCO Ltd.                     |  |
| L.M. Charlton (3) (4)<br>Alberta, Canada                        | Director   | Corporate Director  | 2006 to date   |
| D.A. Dodge (5)<br>Ontario, Canada                               | Director   | Senior Advisor, Bennett<br>Jones LLP (barristers and<br>solicitors)                                   | 2008 to date   |
| O.G. Edmondson<br>Alberta, Canada                               | Group Vice President,<br>Business Development<br>Finance | Group Vice President,<br>Business Development<br>Finance, Canadian Utilities<br>Limited and ATCO Ltd. |  |
| D.M. Ellard (3) (4)<br>Alberta, Canada                          | Director   | Corporate Director  | 2008 to date   |
| C. Gear<br>Alberta, Canada                                      | Assistant Corporate<br>Secretary                         | Assistant Corporate<br>Secretary, Canadian Utilities<br>Limited and ATCO Ltd.                         |  |

| <b>Name,<br/>Province or State and<br/>Country of Residence</b> | <b>Position</b>  | <b>Principal Occupation</b>  | <b>Periods<br/>Served as a<br/>Director of<br/>the Company</b> |
|---|--|--|--|
| I.D. Hargrave<br>Alberta, Canada                                | Vice President, Project<br>Development                           | Vice President, Project<br>Development, Canadian<br>Utilities Limited and ATCO<br>Ltd.                           |  |
| L.A. Heathcott (5)<br>Alberta, Canada                           | Director   | Chairman of the Board,<br>Akita Drilling Ltd. and<br>President & Chief Executive<br>Officer, Spruce Meadows      | 2000 to date   |
| K.P. Hunt<br>Alberta, Canada                                    | Vice President, Risk &<br>Pension                                | Vice President, Risk &<br>Pension, Canadian Utilities<br>Limited and ATCO Ltd.                                   |  |
| E.M. Kiefer<br>Alberta, Canada                                  | Group Vice President,<br>Human Resources &<br>Corporate Services | Group Vice President,<br>Human Resources &<br>Corporate Services,<br>Canadian Utilities Limited<br>and ATCO Ltd. |  |
| S.W. Kiefer<br>Alberta, Canada                                  | Managing Director,<br>Utilities & Chief<br>Information Officer   | Managing Director, Utilities<br>& Chief Information Officer,<br>Canadian Utilities Limited<br>and ATCO Ltd.      |  |
| R.C. Neumann<br>Alberta, Canada                                 | Vice President,<br>Internal Audit                                | Vice President, Internal<br>Audit, Canadian Utilities<br>Limited and ATCO Ltd.                                   |  |
| R.J. Normand (3) (4)<br>Alberta, Canada                         | Director   | Corporate Director   | 2008 to date   |
| M.R.P. Rayfield (5)<br>Ontario, Canada                          | Director   | Vice Chairman, Investment<br>& Corporate Banking, BMO<br>Capital Markets   | 2004 to date   |

| <b>Name,<br/>Province or State and<br/>Country of Residence</b> | <b>Position</b>  | <b>Principal Occupation</b>  | <b>Periods<br/>Served as a<br/>Director of<br/>the Company</b> |
|---|--|--|--|
| R.J. Routs (5)<br>The Hague, South<br>Holland, Netherlands      | Director   | Corporate Director   | 2008 to date   |
| M.M. Shaw<br>Alberta, Canada                                    | Managing Director,<br>Global Enterprises                             | Managing Director, Global<br>Enterprises, Canadian<br>Utilities Limited and<br>Managing Director, Global<br>Enterprises & ATCO Ltd.<br>Corporate Development,<br>ATCO Ltd. |  |
| J.W. Simpson (2) (3)<br>(4)<br>California, U.S.A.               | Lead Director  | Corporate Director   | 2004 to date   |
| N.C. Southern<br>Alberta, Canada                                | Director, Deputy<br>Chair, President &<br>Chief Executive<br>Officer | Deputy Chair, President &<br>Chief Executive Officer,<br>Canadian Utilities Limited<br>and ATCO Ltd.   | 1990 to date   |
| R.D. Southern,<br>C.B.E., C.C., LL.D.<br>(6)<br>Alberta, Canada | Director & Chairman  | Chairman, Canadian Utilities<br>Limited and ATCO Ltd.  | 1977 to 1979<br>1980 to date                                   |
| P. Spruin<br>Alberta, Canada                                    | Vice President,<br>Corporate Secretary &<br>Administration           | Vice President, Corporate<br>Secretary & Administration,<br>Canadian Utilities Limited<br>and ATCO Ltd.  |  |
| R.J. Urwin (3)<br>London, England                               | Director   | Corporate Director   | 2007 to date   |
| K.M. Watson<br>Alberta, Canada                                  | Senior Vice President<br>& Chief Financial<br>Officer                | Senior Vice President &<br>Chief Financial Officer,<br>Canadian Utilities Limited<br>and ATCO Ltd.   |  |

| <b>Name,<br/>Province or State and<br/>Country of Residence</b> | <b>Position</b>  | <b>Principal Occupation</b>   | <b>Periods<br/>Served as a<br/>Director of<br/>the Company</b> |
|---|--|---|--|
| S.R. Werth<br>Alberta, Canada                                   | Senior Vice President<br>& Chief<br>Administration Officer | Senior Vice President &<br>Chief Administration<br>Officer, Canadian Utilities<br>Limited and ATCO Ltd. |  |
| C.M. Widdoes<br>Alberta, Canada                                 | Vice President, HR<br>Services                             | Vice President, HR Services,<br>Canadian Utilities Limited<br>and ATCO Ltd.                             |  |
| C.W. Wilson (2)<br>Colorado, U.S.A.                             | Director   | Corporate Director  | 2000 to date   |
| P.G. Wright<br>Alberta, Canada                                  | Vice President,<br>Finance, Controller &<br>Treasurer      | Vice President, Finance,<br>Controller & Treasurer,<br>Canadian Utilities Limited<br>and ATCO Ltd.      |  |

**Notes:**

- (1) All directors hold office until the close of the annual meeting of shareholders of the Company or until their successors are elected or appointed.
- (2) Member of the Corporate Governance – Nomination, Compensation and Succession Committee.
- (3) Member of the Audit Committee.
- (4) Member of the Risk Review Committee.
- (5) Member of the Pension Fund Committee.
- (6) 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 Mr. Ackroyd, who was Director of Advertising, The Calgary Sun (a newspaper); Ms. Charlton, who has been a Business Consultant since 2005 and prior thereto was Vice President, Chief Operating Officer, Investors' Petroleum Consultants Ltd. (an oil and gas consulting and management company); Mr. Dodge, who was Governor and Chairman, Bank of Canada until 2008; Ms. Gear, who was Deputy Company Secretary, LogicaCMG plc (a global information technology company); Mr. Normand, who was President and Chief Executive Officer, Alberta Treasury Branches (a financial institution) until 2008; Mr. Routs, who was Executive Director Downstream, Royal Dutch Shell plc from 2004 to 2008, and prior thereto was Group Managing Director of Oil Products and Chemicals, Royal Dutch Petroleum Company; Mr. Simpson, who was Vice President, Middle East & North Africa,

Business Development, Chevron Texaco Corporation (an oil company) from 2003 to 2004; Dr. Urwin, who was Chairman, Alfred McAlpine plc (a business services firm) from 2007 to 2008 and prior thereto was Group Chief Executive of National Grid plc (an international gas and electric utility); and Ms. Widdoes, who was Practice Leader, Human Capital Group, Watson Wyatt Worldwide (a consulting firm) from 2004 to 2006, and prior thereto was Practice Leader, Total Rewards at Towers Perrin (a consulting firm).

At December 31, 2008, 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 approximately 78.1% of the outstanding Class B common shares of the Company.

## **AUDIT COMMITTEE**

### **Audit Committee Charter**

#### **Canadian Utilities Limited Audit Committee Mandate**

##### *Purpose*

The purpose of this mandate is to establish the terms of reference of the Audit Committee (the “Committee”) of the Company. The Committee is appointed by the Board of Directors (the “Board”) of the Company. The Committee is responsible for contributing to the effective stewardship of the Company by assisting the Board in fulfilling its oversight of:

- (i) the integrity of the Company’s financial statements;
- (ii) the Company’s compliance with applicable legal and regulatory requirements;
- (iii) the independence, qualifications and appointment of the Company’s external auditor;
- (iv) the performance of the Company’s internal auditor and external auditor;
- (v) the accounting and financial reporting processes of the Company; and
- (vi) audits of the financial statements of the Company.

##### *Composition*

The Board shall elect annually from among its members an Audit Committee comprised of not less than 3 directors. Each member of the Committee must be:

- a director of the Company;
- independent (within the meaning of sections 1.4 and 1.5 of National Instrument 52-110 - *Audit Committees*); and
- financially literate (within the meaning of section 1.6 of National Instrument 52-110 - *Audit Committees*).

In order to be considered to be an independent director for the purposes of membership on the Committee, a director must have been determined by the Board to be independent in accordance with all applicable regulatory requirements.

The Board will appoint one member of the Committee as Chairman. Any member of the Committee may be removed or replaced at any time by the Board, and a member shall cease to be a member of the Committee upon ceasing to be independent.

### ***Meetings***

The Committee shall meet at least four times per year and whenever deemed necessary by the Chairman of the Committee or at the request of a Committee member or the Company's external or internal auditor. The Committee Chairman shall prepare and/or approve an agenda in advance of each meeting. Reasonable notification of meetings, which may be held in person, by telephone or other communication device, shall be sent to the members of the Committee, the external auditor and any additional attendees as determined by the Chairman. The external auditor has the right to appear before and be heard at any meeting of the Committee. Upon the request of the external auditor, the Chairman of the Committee shall convene a meeting of the Committee to consider any matters which the auditor believes should be brought to the attention of the directors or shareholders of the Company. Meetings will be scheduled to permit timely review of Committee materials. A majority of the Committee will constitute a quorum. Minutes of each meeting will be prepared by the person designated by the Committee to act as secretary and will be kept by the Corporate Secretarial Department.

### ***Reporting***

The Committee shall report to the Board on such matters and questions relating to the financial position of the Company as the Board may from time to time refer to the Committee. A summary of all meetings will be provided to the Board by the Committee Chairman. Supporting schedules and information reviewed by the Committee will be available for examination by any director upon request. The external auditor and the Vice President, Internal Audit shall report directly to the Committee. The Committee is expected to maintain free and open communication with the Company's external auditor, internal auditor and management. This communication shall include private sessions, at least annually, with each of these parties.

### ***Responsibilities and Authority***

The Committee relies on the expertise and knowledge of management, and the internal and external auditors in carrying out its oversight responsibilities. Management of the Company is responsible for determining that the Company's financial statements are complete, accurate and in accordance with generally accepted accounting principles. The external auditor is responsible for auditing the Company's financial statements.

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall have the authority to retain independent counsel, accountants or other outside advisors as it determines necessary to permit it to carry out its duties, to set and pay the compensation for any advisors employed by the Committee, and to communicate directly with the internal and external auditors.

The Committee shall:

- Recommend to the Board:
  - (a) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company;
  - (b) the compensation of the external auditor; and
  - (c) the approval of the Company's annual financial statements, AIF and MD&A.
- Be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditors regarding financial reporting.
- Pre-approve all non-audit services to be provided to the Company or its subsidiary entities by the external auditor of the Company. The Committee may delegate to one or more of its members the authority to grant pre-approvals, and any pre-approvals so granted must be presented in writing to the Committee at the next regularly scheduled meeting. The Committee will ensure that relevant policies and procedures are in place to manage this process and comply with all applicable regulatory requirements.
- Review the Company's annual and interim financial statements, AIF, annual and interim MD&A and annual and interim earnings press releases before this information is publicly disclosed.
- If delegated by the Board, approve the interim financial statements, interim MD&A and interim earnings press releases before this information is publicly disclosed.
- Be satisfied that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements, and periodically assess the adequacy of such procedures. This would include an annual review of the Company's Disclosure Policy.
- Monitor the application of the procedures established by the Committee for:
  - (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing matters; and

(b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

- Be satisfied that the Company has implemented appropriate systems of internal control over financial reporting and that these systems are operating effectively;
- Be satisfied that the internal audit function has been effectively carried out and the internal auditor has adequate resources;
- Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company;
- Review and reassess annually the adequacy of this Mandate and recommend any proposed changes to the Board for approval.

The members of the Committee, for the purpose of performing their duties, have the right to inspect all the books and records of the Company and its subsidiary entities and to discuss such books and records in any manner relating to the financial position of the Company and its subsidiary entities with the officers, employees and external auditors of the Company and its subsidiary entities.

The Committee will inquire into any other matters referred to it by the Board.

### **Composition of the Audit Committee**

The following are the members of the Company's Audit Committee, all of whom are independent and financially literate:

- L.M. Charlton
- D.M. Ellard
- R.J. Normand
- J.W. Simpson
- R.J. Urwin

### **Relevant Education and Experience**

L.M. Charlton Ms. Charlton has a Bachelor of Commerce degree in Finance. Ms. Charlton has held positions of increasing financial responsibility ranging from Financial Analyst to Chief Financial Officer during her 22 year career at Investors' Petroleum Consultants Ltd. In April 2006, Ms. Charlton completed the Institute of Corporate Directors "Financial Literacy for Directors and Executives Course".

D.M. Ellard Mr. Ellard has an M.B.A. with a major in Finance from the University of Alberta. He has held several senior executive positions with the Company and ATCO Ltd. where he was responsible for financial performance.

- R.J. Normand Mr. Normand has an M.B.A. and a B.A. (Economics) and has completed studies leading to the Fellow of the Institute of Canadian Bankers designation. Over the past 30 years, Mr. Normand has filled senior executive roles in the financial and banking sectors, most recently as President and Chief Executive Officer of Alberta Treasury Branches.
- J.W. Simpson Mr. Simpson graduated from an Executive Accounting/Finance Program at M.I.T.'s Sloan School of Business. During Mr. Simpson's career at Chevron Corporation various financial positions reported to him. In his capacity as General Manager the accounting department reported to him and as President of Chevron Canada the Vice President Finance directly reported to Mr. Simpson. In addition, Mr. Simpson was Chairman of the Internal Audit Committee of Chevron Canada.
- R.J. Urwin Dr. Urwin has been the Chief Executive Officer of major public companies since 1990. He was the Chief Executive Officer of the National Grid plc from 2001 until his retirement in 2006, and was responsible for compliance with the U.S. Sarbanes-Oxley requirements. Dr. Urwin has been a member of the Audit Committees of a series of public UK companies and is currently on the Audit Committee of Utilico Investment Trust plc.

### **Pre-Approval Policies and Procedures**

The Audit Committee and the Board of Directors of the Company have adopted a policy for approval of external auditor services. The policy prohibits the external auditor from providing specified services to the Company and its subsidiaries.

The engagement of the external auditor for a range of services defined in the policy has been pre-approved by the Audit Committee. If an engagement of the external auditor is contemplated for a particular service that is neither prohibited nor covered under the range of pre-approved services, such engagement must be pre-approved. The Audit Committee has delegated the authority to grant such pre-approval to the Chairman of the Audit Committee.

Services provided by the external auditor are subject to an engagement letter. The policy mandates that the Audit Committee receive regular reports of all new pre-approved engagements of the external auditor.

## External Auditor Service Fees

The aggregate fees incurred by the Company and its subsidiaries for professional services provided by PricewaterhouseCoopers LLP for each of the past two years were as follows:

|                              | <u>2008</u>    | <u>2007</u> |
|------------------------------|----------------|-------------|
|                              | (\$ millions ) |             |
| Audit fees (1) .....         | 1.8            | 1.6         |
| Audit Related fees (2) ..... | 0.3            | 0.1         |
| Tax fees (3) .....           | 0.7            | 0.2         |
| All other fees.....          | 0.1            | 0.1         |
| Total .....                  | <u>2.9</u>     | <u>2.0</u>  |

### Notes:

- (1) *Audit fees are the aggregate professional fees paid to the external auditor for the audit of the annual consolidated financial statements and other regulatory audits and filings.*
- (2) *Audit-related fees are the aggregate fees paid to the external auditor for services related to special purpose audits and audit services including consultations regarding financial reporting and accounting standards.*
- (3) *Tax fees are the aggregate fees paid to the external auditor for tax compliance, tax advice, tax planning and advisory services relating to the preparation of corporate tax, capital tax and sales tax returns.*

## MARKETS FOR THE SECURITIES OF THE COMPANY

The Company's Class A shares, Class B shares and Cumulative Redeemable Second Preferred Shares, Series W and X are listed on the Toronto Stock Exchange. The Perpetual Cumulative Second Preferred Shares Series O, T, U and V are not listed.

The following table sets forth the high and low prices and the volume of shares traded on the Toronto Stock Exchange during 2008 for the Company's listed shares.

|                | Class A Shares |        |           | Class B Shares |        |         |
|----------------|----------------|--------|-----------|----------------|--------|---------|
|                | High<br>\$     | Low \$ | Volume    | High<br>\$     | Low \$ | Volume  |
| January.....   | 51.24          | 45.00  | 2,292,385 | 51.00          | 45.50  | 28,705  |
| February.....  | 51.80          | 41.55  | 3,991,028 | 51.75          | 42.00  | 18,630  |
| March.....     | 45.60          | 39.32  | 3,302,869 | 45.40          | 39.80  | 19,753  |
| April.....     | 45.13          | 40.69  | 2,971,384 | 45.00          | 40.85  | 26,311  |
| May.....       | 47.00          | 42.78  | 3,402,749 | 46.98          | 44.00  | 152,335 |
| June.....      | 48.00          | 43.36  | 4,225,215 | 47.50          | 43.40  | 148,713 |
| July.....      | 46.84          | 41.10  | 3,813,703 | 46.10          | 41.40  | 18,304  |
| August.....    | 46.13          | 42.01  | 3,317,803 | 45.66          | 41.55  | 35,327  |
| September..... | 43.75          | 35.50  | 5,151,022 | 43.20          | 36.01  | 943,766 |
| October.....   | 43.23          | 33.11  | 4,192,492 | 42.50          | 33.04  | 30,288  |
| November.....  | 43.30          | 38.51  | 5,345,576 | 43.00          | 39.00  | 21,837  |
| December.....  | 42.00          | 37.78  | 2,282,640 | 41.79          | 36.01  | 28,096  |

|                | Cumulative Redeemable Second Preferred Shares |        |         |            |        |         |
|----------------|---|--------|---------|------------|--------|---------|
|                | Series X                                      |        |         | Series W   |        |         |
|                | High<br>\$                                    | Low \$ | Volume  | High<br>\$ | Low \$ | Volume  |
| January.....   | 26.14   | 25.11  | 35,179  | 26.30      | 25.51  | 37,971  |
| February.....  | 25.89   | 25.43  | 24,721  | 25.80      | 25.65  | 39,836  |
| March.....     | 25.71   | 24.40  | 31,456  | 25.78      | 25.00  | 43,565  |
| April.....     | 25.39   | 25.02  | 31,492  | 25.77      | 25.28  | 105,187 |
| May.....       | 25.36   | 24.90  | 39,460  | 25.70      | 25.07  | 54,955  |
| June.....      | 25.35   | 24.90  | 70,479  | 25.98      | 24.70  | 76,481  |
| July.....      | 25.29   | 23.00  | 60,659  | 25.34      | 23.75  | 79,712  |
| August.....    | 24.68   | 23.76  | 38,369  | 25.50      | 24.60  | 39,358  |
| September..... | 24.45   | 24.30  | 229,817 | 25.20      | 24.15  | 145,055 |
| October.....   | 23.50   | 20.00  | 62,646  | 24.95      | 20.35  | 67,946  |
| November.....  | 23.39   | 19.50  | 77,649  | 23.25      | 19.00  | 48,240  |
| December.....  | 22.40   | 19.01  | 117,993 | 22.00      | 19.45  | 122,313 |

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Class A Shares and Class B Shares is CIBC Mellon Trust Company at its principal offices in Calgary, Vancouver, Toronto and Montreal. The transfer agent and registrar for the Cumulative Redeemable Second Preferred Shares, Series W and X is CIBC Mellon Trust Company at its principal offices in Calgary, Toronto and Montreal. The transfer agent and registrar for the Perpetual Cumulative Second Preferred Shares Series O, T, U and V is the Company at its principal office in Calgary. The trustee and transfer agent for the debentures of the Company is CIBC Mellon Trust Company at its principal offices in Calgary and Toronto.

## 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 INFORMATION

At December 31, 2008, the Company and its joint ventures had the following numbers of employees:

|  | <u>Number</u>       |
|--|---------------------|
| Utilities.....                           | 4,091               |
| Global Enterprises.....                  | 2,100               |
| Power Generation.....                    | 572                 |
| Other .....                              | 132                 |
| Sub Total.....                           | <u>6,895</u>        |
| Joint Ventures – Global Enterprises..... | 711                 |
| Joint Ventures – Power Generation .....  | 215                 |
| Sub Total.....                           | <u>926</u>          |
| Total .....                              | <u><u>7,821</u></u> |

Approximately 4,060 employees are members of four employee associations and ten unions and are covered by twenty collective agreements. All of the agreements will expire over the period March 31, 2009 to November 15, 2011.

## **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's management proxy circular dated March 3, 2008. Additional financial information is provided in the Company's financial statements and MD&A for the financial year ended December 31, 2008.

Information relating to ATCO Ltd. or CU Inc. 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 the Company'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).