



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

**2011**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

February 21, 2012

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## Corporate Structure

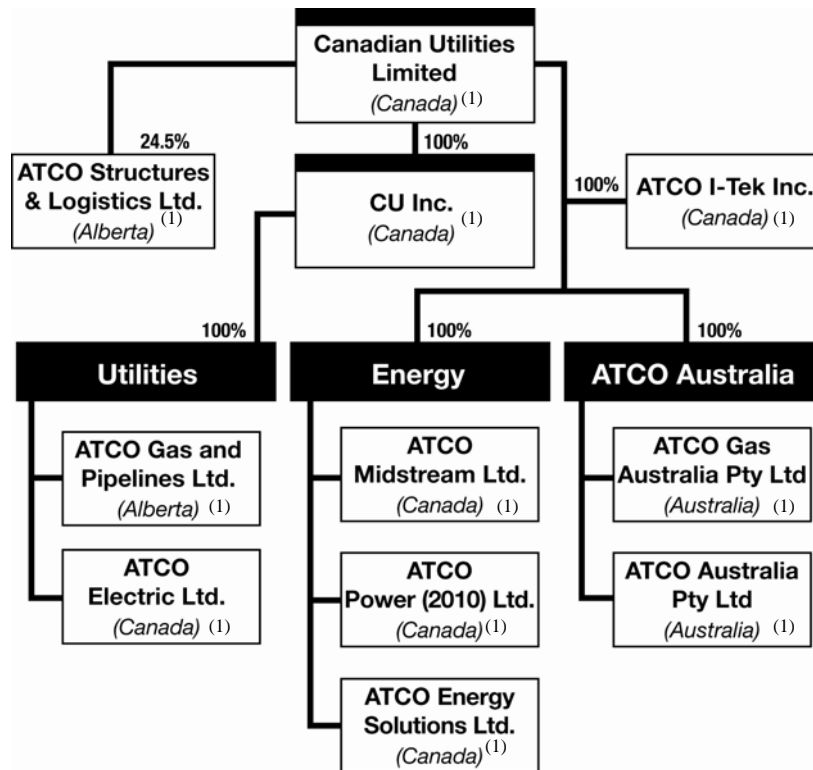
Canadian Utilities Limited was incorporated under the laws of Canada on May 18, 1927, and was continued under the Canada Business Corporations Act on August 15, 1979. The common share capital of the Corporation was reorganized on September 10, 1982. The address of the head office of the Corporation is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

In March 1999, CU Inc. was created as a subsidiary of the Corporation to separate its Alberta-based regulated businesses from its non-regulated businesses and to hold all of the common shares and debt of those regulated subsidiaries. The reorganization was implemented by the transfer of the common shares and debt of the regulated subsidiaries from the Corporation to CU Inc. in return for common shares of CU Inc. As a result of the reorganization, the Corporation's regulated operations in Alberta, which had previously been financed by the Corporation, are now primarily financed by CU Inc.

### INTERCORPORATE RELATIONSHIPS

Alberta-based Canadian Utilities Limited, an ATCO company, with more than 6,700 employees and assets of approximately \$12 billion, delivers service excellence and innovative business solutions worldwide with leading companies engaged in utilities (pipelines, natural gas and electricity transmission and distribution), energy (power generation, natural gas gathering, processing, storage and liquids extraction) and technologies (business systems solutions).

The following chart includes the names of the principal operating subsidiaries of the Corporation, the jurisdictions under the laws of which they are organized, and the percentages of their shares beneficially owned, or controlled or directed, directly or indirectly, by the Corporation.



<sup>(1)</sup> Jurisdiction in which the company was incorporated.

## Business Description

The Corporation operates in the following business segments:

### Utilities Segment

The Utilities segment is focused on the regulated transmission and distribution of natural gas and electricity. Located mainly in Alberta and the Canadian North, this segment serves more than 1.3 million customers. The Utilities segment includes ATCO Electric and its subsidiaries (NLD, NUY and YECL) and the ATCO Gas and ATCO Pipelines divisions of AGP.

### Energy Segment

The Energy segment, through ATCO Power, owns and operates both regulated and non-regulated generating plants, including coal, natural gas-fired, and hydroelectric generating plants in the U.K. and Canada. ATCO Midstream is involved in non-regulated natural gas gathering, processing, storage and NGL extraction.

## ATCO Australia Segment

The ATCO Australia segment consists of the Corporation's regulated natural gas distribution utility and non-regulated power generation and information technology businesses in Australia. This segment includes the natural gas distribution utility company that serves the city of Perth and surrounding areas as well as three natural gas-fired power generating plants.

## Corporate & Other Segment

The Corporate & Other segment includes ATCO I-Tek, commercial real estate owned by the Corporation in Alberta and the Corporation's 24.5% equity investment in ATCO Structures & Logistics. ATCO I-Tek is engaged in the development, operation and support of information systems and technologies, and the provision of billing, payment processing, credit, collection, and call centre services.

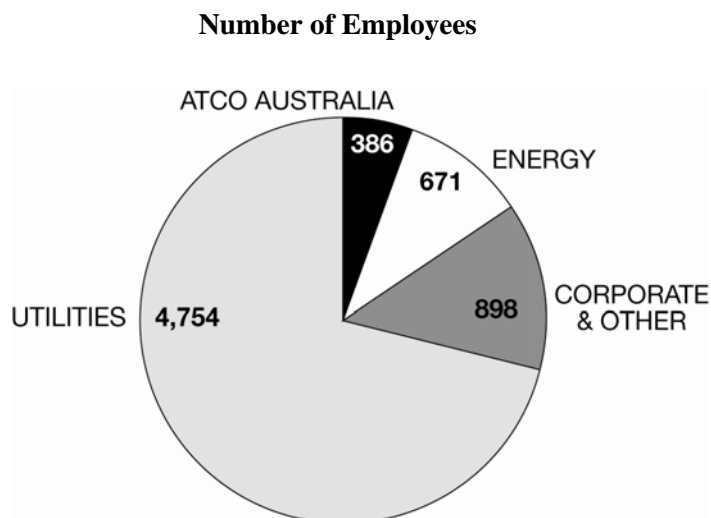
## Comparison of Segmented Revenues

Each segment's contribution to the consolidated revenues of the Corporation is as follows:

(\$ millions)	2011		2010	
	Revenues	%	Revenues	%
Utilities	1,690	56	1,520	56
Energy	1,087	36	941	35
ATCO Australia	175	6	201	8
Corporate & Other and Eliminations	47	2	38	1
Total	2,999	100	2,700	100

## Employee Information

At December 31, 2011, the Corporation had 6,709 employees. The following chart represents the employee numbers of the Corporation:



*Not included in the chart are 132 employees in Energy joint ventures.*

## THREE YEAR SEGMENT HISTORY

Summarized below are major events that have occurred in the Corporation and the significant conditions that have influenced the development of the Corporation during the previous three years.

### Acquisition of WA Gas Networks of Western Australia

As part of the Corporation's expansion in Australia, on July 29, 2011, the Corporation acquired 100 per cent of WA Gas Networks (WAGN) from WestNet Infrastructure Group and the DUET Group (WAGN Acquisition). Included in the acquisition was WestNet Infrastructure Group's information technology division. WAGN is the natural gas distribution utility company that serves the City of Perth and surrounding areas. It connects more than 650,000 customers through 13,100 km of natural gas pipelines and associated infrastructure. The acquisition complements the Corporation's existing portfolio of energy infrastructure assets in Australia. WAGN was subsequently renamed ATCO Gas Australia and the information technology division was rebranded as ATCO I-Tek Australia.

### Utilities

The Utilities segment has grown due to substantial capital expenditures, primarily in ATCO Electric and ATCO Gas, which have increased the asset base on which the Corporation earns a return on equity (ROE). Total capital expenditures in the Utilities segment for the previous three years were approximately \$2.8 billion.

The Utilities earnings are linked to the generic return on equity approved by the AUC for all utilities under the AUC's jurisdiction, including the ATCO Utilities. In addition, the AUC approves equity ratios to reflect the relative differences in risk among the utilities it regulates. In the generic cost of capital decision issued by the AUC on December 8, 2011, ATCO Electric transmission had its approved equity ratio increased by 1% to 37% effective 2011. ATCO Pipelines had its approved equity ratio decreased by 7% to 38% effective 2012 as the AUC considered that there was reduced risk as a result of integration with NOVA Gas Transmission Ltd. (NGTL). The other ATCO Utilities had no changes to their approved equity ratios.

On April 13, 2011, and December 5, 2011, respectively, the AUC issued decisions related to ATCO Electric's and ATCO Gas' general rate applications for 2011 and 2012 approving, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta.

The table below details mid-year rate base, ROE and the common equity ratio for each of the Utilities during the previous three years:

	Year	Date of Decision <sup>(1)</sup>	Mid-Year Rate Base (\$ Millions)		Rate of Return on Common Equity <sup>(2)</sup>		Common Equity Ratio <sup>(3)</sup>	
ATCO Electric								
Transmission	2009	Jul. 2/09	965		9.00%	(4)	36.0%	(4)
	2010	Jul. 2/09	1,275		9.00%	(4)	36.0%	(4)
	2011	Nov. 22/11	1,940		8.75%	(5)	37.0%	(5)
Distribution	2009	Jul. 2/09	973		9.00%	(4)	39.0%	(4)
	2010	Jul. 2/09	1,104		9.00%	(4)	39.0%	(4)
	2011	Nov. 22/11	1,193		8.75%	(5)	39.0%	(5)
ATCO Gas								
	2009	Nov. 13/08	1,387		9.00%	(4)	39.0%	(4)
	2010	Dec. 5/11	1,410	(8)	9.00%	(4)	39.0%	(4)
	2011	Dec. 5/11	1,524		8.75%	(5)	39.0%	(5)
ATCO Pipelines								
	2009	Mar. 18/09	746	(7)	8.75%	(6)	43.0%	(6)
	2010	Oct. 1/10	759		9.00%	(4)	45.0%	(4)
	2011	Dec. 20/11	825	(9)	8.75%	(5)	45.0%	(5)

<sup>(1)</sup> The information shown reflects the most recent amending or varying orders issued subsequent to the original date of decision.

<sup>(2)</sup> Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.

<sup>(3)</sup> The common equity ratio is the percentage of rate base considered to be financed by common equity.

<sup>(4)</sup> The rate of return on common equity and common equity ratio for 2009 and 2010 were approved in the AUC's Generic Cost of Capital decision dated November 12, 2009.

<sup>(5)</sup> The rate of return on common equity and common equity ratio for 2011 were approved in the AUC's Generic Cost of Capital decision dated December 8, 2011.

<sup>(6)</sup> ATCO Pipelines' rate of return on common equity and common equity ratio were approved by the AUC in the 2008/2009 Negotiated Settlement.

<sup>(7)</sup> ATCO Pipelines' mid-year rate base is the forecast amount provided in its 2008-2009 General Rate Application Phase I as refiled on December 18, 2007. This amount was not specifically identified or approved in the 2008/2009 Negotiated Settlement.

<sup>(8)</sup> ATCO Gas' 2011 mid-year rate base is an amount provided in the compliance filing related to its 2011-2012 General Rate Application for which a decision from the AUC was received on December 5, 2011.

<sup>(9)</sup> The 2011 mid-year rate base amount for ATCO Pipelines is the amount provided in its 2011 Final Rates Application adjusted for the AUC's decision dated December 20, 2011.

## **Eastern Alberta Transmission Line (EATL) Project**

In 2009, the Alberta government deemed ATCO Electric's EATL project to be Critical Transmission Infrastructure (CTI) and the AESO directed ATCO Electric to: (i) prepare a facility application to build and operate a new 500kV high voltage direct current transmission line along a corridor on the east side of the province between Edmonton and Calgary, and (ii) undertake pre-construction activities, including engineering and ordering of long lead-time materials, to achieve a mid to late 2014 in-service date.

On March 29, 2011, ATCO Electric filed its facility application with the AUC, with an estimated project cost, excluding capitalized interest during construction, of \$1.6 billion. On October 21, 2011, the AUC, in response to a request from the Alberta government, suspended the regulatory process for both the EATL project and the Western Alberta Transmission Line (WATL) project, pending a government review of its approach to these two CTI projects in the province. On December 6, 2011, the Alberta government announced its appointment of a four-person independent panel of experts to review plans for EATL and WATL as well as to consider and recommend appropriate changes to the associated legislation. On February 13, 2012, the government released the Critical Transmission Review Committee's (CTRC) report in which the CTRC confirmed that the AESO's plans for EATL were reasonable and that the project should proceed as planned. The government has indicated that it will respond to the CTRC's report by the end of February. The achievement of an in-service date in 2014 for EATL is dependent upon the government deciding to proceed with the project and the timing of receiving final regulatory approvals from the AUC.

## **Carbon Natural Gas Storage Facility**

ATCO Gas owned a 43.5 petajoule natural gas storage facility located at Carbon, Alberta (Carbon Facility). Since April 1, 2005, ATCO Gas had leased the entire storage capacity of the Carbon Facility to ATCO Midstream. As a result of numerous regulatory and legal proceedings, ATCO Gas received approval from the AUC to remove the Carbon Facility from regulation effective April 1, 2005.

On March 29, 2011, ATCO Gas received approval from the AUC for the internal transfer of the Carbon Facility from ATCO Gas to ATCO Midstream, which was completed on June 1, 2011.

## **ATCO Pipelines' Integration Application**

ATCO Pipelines and NGTL entered into an agreement with respect to natural gas transmission service that will allow ATCO Pipelines and NGTL to utilize their physical assets under a single rates and services structure with a single commercial interface for Alberta customers. Each company will separately manage assets within distinct operating territories in Alberta. This integration will end duplicate tolling and operational activities and result in more efficient regulatory processes.

The AUC issued a decision on May 27, 2010, approving the integration, but requested ATCO Pipelines to submit subsequent applications to address the specific details of: (i) the transition of ATCO Pipelines' customers to NGTL, and (ii) the asset swap between ATCO Pipelines and NGTL in order to establish

operating areas. On April 20, 2011, the AUC approved ATCO Pipelines' application to address the transition of customers, which took place on October 1, 2011. An application to address the asset swap was submitted to the AUC on February 15, 2012.

## **Energy**

The results of the Energy segment are significantly influenced by generating plant availability, Spark Spreads and volatility in the Alberta and U.K. electricity markets relating to power generation activities, and by seasonal differences (summer/winter) in the price of natural gas (Storage Price Differentials) relating to storage operations and Frac Spreads relating to NGL extraction operations.

Generating plant availability and graphs summarizing the market spot prices for Alberta and U.K. Spark Spreads, Storage Price Differentials and Frac Spreads are shown in the Annual Results of Operations - Segmented Information – Energy section of the MD&A.

In the U.K., the revenue contract for the 1,000 MW Barking power plant, of which ATCO Power's share is 255 MW, expired on September 30, 2010. A new tolling contract for 178 MW (45 MW ATCO Power) of the plant's capacity was entered into for a one-year term commencing October 1, 2010, with the remaining 822 MW of the plant's capacity (210 MW ATCO Power) being sold into the merchant market. As of October 1, 2011, all of ATCO Power's Barking generating plant capacity was exposed to market prices for electricity, natural gas and emissions allowances.

## **ATCO Australia**

Commencing January 1, 2011, the Corporation added a new business segment, ATCO Australia, to report its Australian-based utility and power generation operations. The Australian power generation operations were previously reported in the Energy segment.

The ATCO Australia segment grew significantly in 2011 with the WAGN Acquisition on July 29, 2011. This acquisition followed the 2010 completion of the two-unit 86 MW natural gas-fired generating plant located in Karratha, Western Australia. Total assets deployed in ATCO Australia were approximately \$1.3 billion at December 31, 2011.

The results of the ATCO Australia segment are influenced by growth in customer base and the regulatory environment in the natural gas distribution utility business and by generating plant availability in the power generation business.

## **Other Events**

On January 1, 2011, ATCO, the Corporation's parent, transferred its wholly owned subsidiary, ATCO Resources Ltd., to ATCO Power, a wholly owned subsidiary of the Corporation in exchange for Class A non-voting and Class B common shares of the Corporation.

On July 1, 2009, the Corporation and its parent, ATCO, formed ATCO Structures & Logistics by combining ATCO Frontec, a wholly owned subsidiary of the Corporation, with ATCO Structures and ATCO Noise Management, both wholly owned subsidiaries of ATCO. As a result of this transaction, the Corporation and ATCO have direct ownership interests of 24.5% and 75.5%, respectively, in ATCO Structures & Logistics.

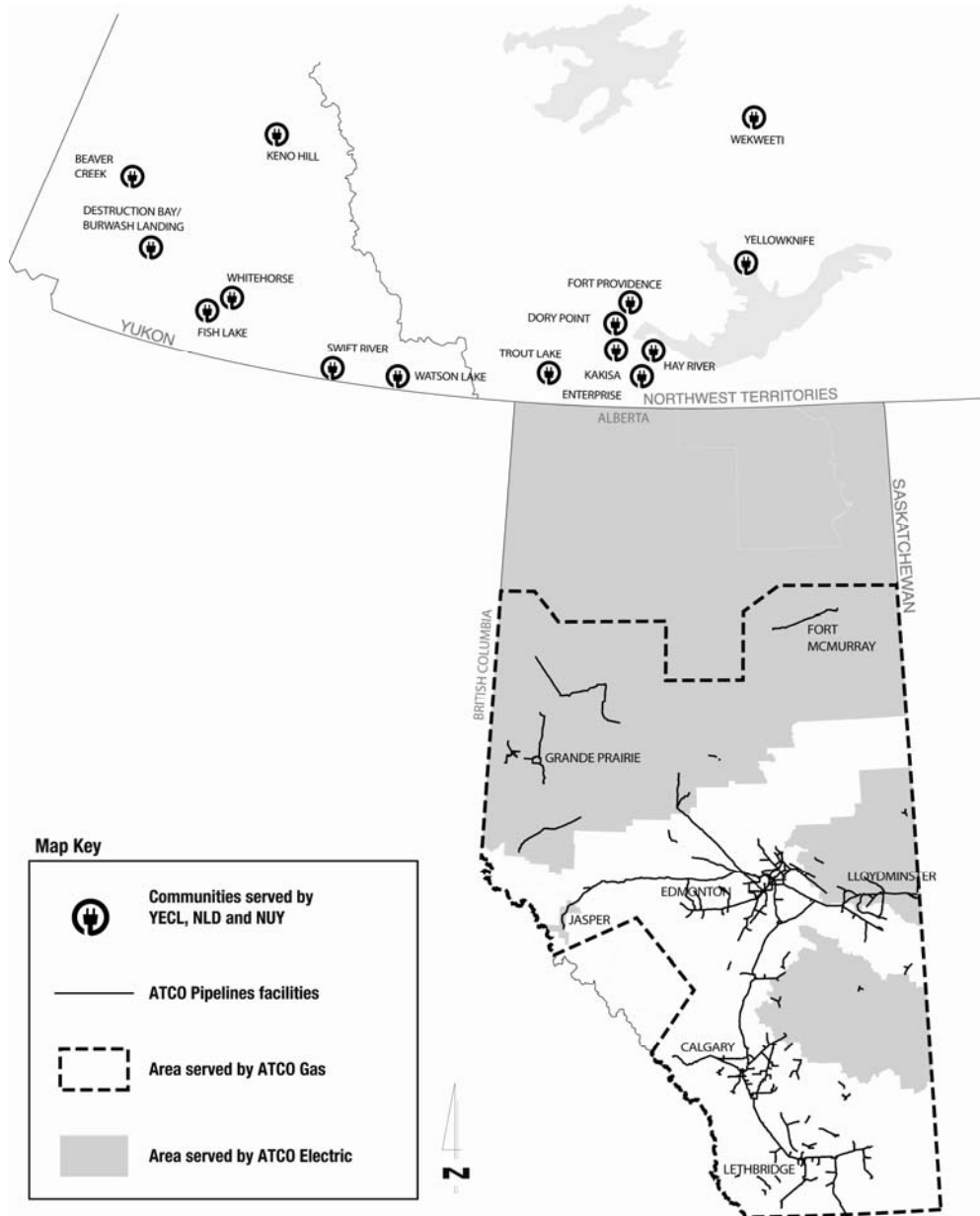
## DETAILED BUSINESS SEGMENT DESCRIPTION

The Corporation's operations in each of its business segments are described below.

### Utilities

The activities of the Utilities segment are conducted primarily through ATCO Electric, ATCO Gas and ATCO Pipelines within western Canada as shown in the following map:

#### Location of Utilities Segment Operations



## **Government Regulation**

ATCO Electric, ATCO Gas and ATCO Pipelines are regulated primarily by the AUC, which administers acts and regulations covering such matters as rates, financing, and service area. These utilities are subject to a cost of service regulatory mechanism under which the AUC establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair return on utility investment, or rate base. Rate base for each utility is the aggregate of the AUC approved investment in property, plant and equipment and intangible assets, less accumulated depreciation and amortization, reserves for future removal and site restoration, and unamortized contributions by utility customers for extensions to plant, plus an allowance for working capital. The utilities earn a return on rate base intended to meet the cost of the debt and preferred share components of rate base and to provide share owners with a fair return on the common equity component of rate base. The 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 and to maintain financial integrity.

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

The competitive conditions in the areas and industries in which the Utilities segment participates are limited and are, therefore, subject to regulation by the relevant authorities. In this regulated environment, the ability to grow is generally subject to additional approved capital expenditures within existing operating areas or the ability to secure additional regulated areas for operation.

### **ATCO Electric**

ATCO Electric is engaged in the regulated 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. ATCO Electric is headquartered in Edmonton and has 38 offices throughout its service area. 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. NUY and NLD serve 9 communities in the Northwest Territories, including the capital city of Yellowknife.

The population of the principal markets for electric utility service by ATCO Electric, NUY, NLD and YECL is approximately 514,000 and service is provided to approximately 240,000 customers. ATCO Electric has been assigned approximately 65% of the designated service area within Alberta which contains approximately 14% of the existing provincial electrical load and 13% of the existing population.

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

	2011		2010	
	Number	%	Number	%
Industrial	11,411	5	11,311	5
Commercial	31,666	13	31,342	13
Residential	166,383	69	164,004	69
Rural, REAs and other	30,545	13	30,502	13
<b>Total</b>	<b>240,005</b>	<b>100</b>	<b>237,159</b>	<b>100</b>

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

	2011		2010	
	GWh	%	GWh	%
Industrial	6,557	62	6,630	63
Commercial	2,237	21	2,156	20
Residential	1,289	12	1,239	12
Rural, REAs and other	513	5	507	5
<b>Total</b>	<b>10,596</b>	<b>100</b>	<b>10,532</b>	<b>100</b>

ATCO Electric, NUY, NLD and YECL own and operate extensive electric transmission and distribution systems. The systems consist of approximately 10,000 km of main transmission lines and 64,000 km of distribution lines. In addition, ATCO Electric delivers power to and operates approximately 10,000 km of REA-owned distribution lines.

ATCO Electric, NUY, NLD and YECL own and operate 28 diesel, natural gas turbine and hydro generating plants having an aggregate nameplate capacity of 60 MW in Alberta and in the Yukon and Northwest Territories. The maximum peak load demand for these plants during the year ended December 31, 2011, was 29 MW.

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

The franchises under which service is provided in incorporated communities in Alberta and in the Northwest Territories have been granted for periods of up to 20 years. These franchises are exclusive to ATCO Electric, NUY or NLD and are renewable by agreement for further periods. 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.

Under the EUA, wholesale tariffs for transmission of electricity 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 AESO. The AESO then aggregates these costs and charges a common transmission rate to all who use the transmission system.

The AESO has developed and approved rules as mandated in the Transmission Regulation as amended from time to time. These rules stipulate 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 AESO, only a small portion of the project is in another service area. The rule applies to all transmission projects except those projects deemed as “critical” by the Government of Alberta.

The Electric Statutes Amendment Act enacted in 2009 creates a category of transmission projects known as Critical Transmission Infrastructure (CTI). A key feature of CTI is that these projects will not necessarily be assigned to the Transmission Facility Owners based on service area. Instead, CTI ownership may be determined through a competitive process or through assignment by the Minister of Energy. CTI facilities do not include all future transmission projects, but are limited to projects which the Government of Alberta determines are critical to the safe, reliable and economic operation of the interconnected electric system. An important feature of CTI is that the government, rather than the AUC, has the authority to approve the need for the facilities. The Act names certain immediately required CTI projects, including the EATL project on the east side of the province which has been assigned to ATCO Electric. The CTRC has recommended that the legislation be amended such that the need for future CTI is considered under the authority of the AUC. See discussion of the Alberta Government’s review in the Eastern Alberta Transmission Line (EATL) Project sub-section of the Three Year Segment History section of this document.

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

## ATCO Gas

ATCO Gas is engaged in the business of distributing natural gas throughout Alberta and in the Lloydminster area of Saskatchewan. ATCO Gas serves more than one million customers in nearly 300 Alberta communities and is headquartered in Edmonton, with more than 60 district offices across the province. ATCO Gas provides service to municipal, residential, business and industrial customers.

ATCO Gas' principal markets for the distribution of natural gas are in the communities of Edmonton, Calgary, Airdrie, Fort McMurray, Grande Prairie, Lethbridge, Lloydminster, Red Deer, Spruce Grove, St. Albert and Sherwood Park, which have a combined population of approximately 2,384,000. Also served are 279 smaller communities as well as rural areas having a combined population of approximately 635,000. As of December 31, 2011, approximately 75% of ATCO Gas' customers were 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:

	2011		2010	
	Number	%	Number	%
Residential	984,343	92	968,459	92
Commercial	89,564	8	88,547	8
Industrial	351	-	353	-
Other	3	-	10	-
Total	1,074,261	100	1,057,369	100

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

	2011		2010	
	PJ	%	PJ	%
Residential	119.7	48	115.5	49
Commercial	113.4	46	107.9	45
Industrial	14.0	6	13.9	6
Other	0.2	-	0.1	-
Total	247.3	100	237.4	100

ATCO Gas owns and operates more than 38,000 km of distribution mains. In addition, ATCO Gas owns service and maintenance facilities in major centres in Alberta.

ATCO Gas distributes natural gas 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. ATCO Gas currently has 166 franchise agreements with communities throughout Alberta.

In Edmonton, distribution of natural gas is carried on under the authority of an exclusive franchise. In 2010, ATCO Gas entered into an agreement with the City of Edmonton for a 20 year renewal of the franchise to July 21, 2030. The franchises under which service is provided in other incorporated communities in Alberta have been granted for periods of up to 20 years. All franchises are exclusive to ATCO Gas and are renewable by agreement for further periods not exceeding 20 years. 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.

In Calgary, distribution of natural gas is carried on under the authority of a municipal by-law. The rights of ATCO Gas 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.

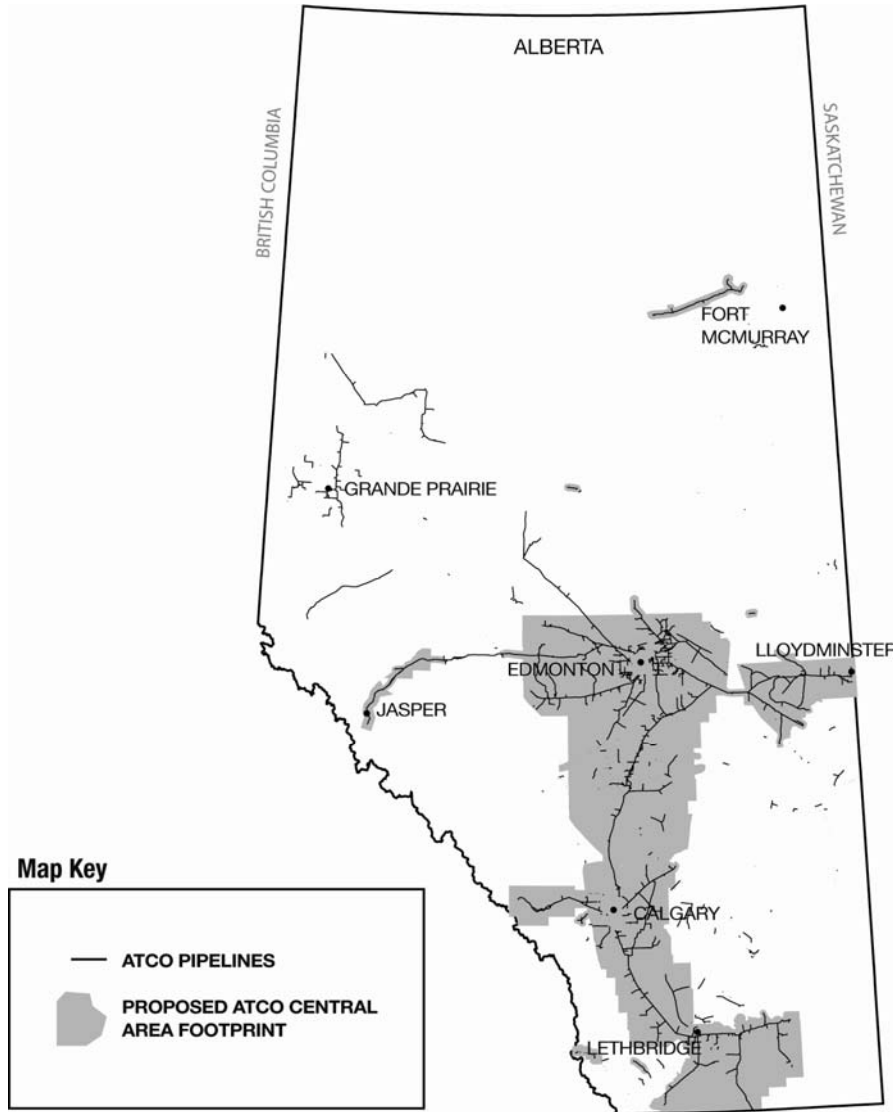
### **ATCO Pipelines**

ATCO Pipelines is a regulated business engaged in the transmission of natural gas in Alberta. ATCO Pipelines receives natural gas on its pipeline system at various gas processing plants and transports it to end users within the province or other pipeline systems for export out of the province.

ATCO Pipelines owns and operates an extensive natural gas transmission system. The system currently consists of approximately 8,500 km of pipelines, 22 compressor sites, approximately 4,104 receipt and delivery points and a salt cavern storage peaking facility located near Fort Saskatchewan, Alberta. The system has 170 producer receipt points, 48 interconnections with TransCanada Pipelines Limited, five interconnections with Alliance Pipeline, and one interconnection with Many Islands Pipelines. The peak delivery capability of the ATCO Pipelines system is 3.8 billion cubic feet per day.

ATCO Pipelines' revenues were based primarily on contractual arrangements for access to its transmission systems until September 30, 2011. In order to streamline the provision of natural gas transmission services and address competitive pipeline issues in Alberta, ATCO Pipelines and NGTL entered into the Alberta System Integration Agreement which resulted in a single rate and services structure for regulated gas transmission service in Alberta. Commencing October 1, 2011, natural gas transportation rates in Alberta are comprised of the ATCO Pipelines cost of service approved by the AUC plus the NGTL cost of service approved by the National Energy Board (NEB).

The Alberta System Integration Agreement requires ATCO Pipelines and NGTL, subject to acceptable regulatory approvals, to swap ownership of certain physical assets within distinct operating territories or “footprints” in Alberta (Asset Swap). The shaded area in the following map represents the proposed ATCO Pipelines footprint upon completion and approval of the Asset Swap.



## Energy

The activities of the Energy segment are conducted through ATCO Power and ATCO Midstream. The Energy segment has operations in Canada and the U.K. as shown in the following map:

### Location of Energy Segment Operations



## **Power Generation**

Power generation activities within the Energy segment are focused on owning, operating and developing generating plants in the U.K. and Canada.

The Corporation has 665 MW (26%) of its generating capacity exposed to the merchant market for power generation in Alberta, Canada and the U.K. The Alberta power industry serves a population of 3.8 million. Total consumption for 2011 was approximately 74,000 GWh. Peak demand for the province reached a high of 10,226 MW on January 12, 2011. Installed electricity generating capacity at December 31, 2011, was approximately 13,500 MW and consisted of 46% coal, 39% gas, 6% hydro, 6% wind and 3% other.

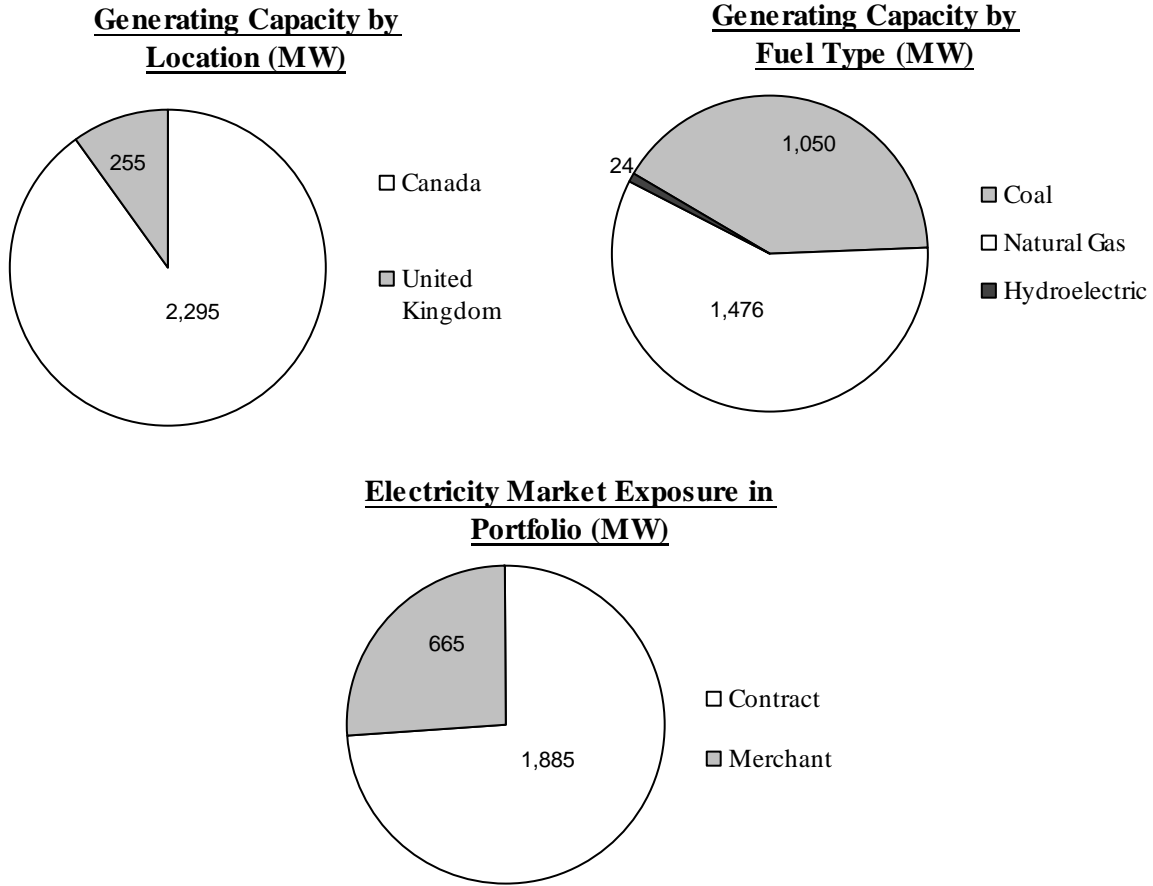
With a population of 62 million, the U.K. electricity market is served by a total of 85,000 MW of electricity generating installed capacity of various kinds but principally made up of 37% combined-cycle gas turbines, 33% coal, 12% nuclear and 6% wind. In addition, the U.K. has the capacity to import from and export to France and Ireland the equivalent of 3,500 MW. Demand in 2011 was approximately 325,000 GWh.

At December 31, 2011, the Energy segment had an ownership position in generating plants with a total capacity, including partners' interests, of 4,590 MW. The Corporation operates 4,470 MW of this capacity and owns 2,550 MW.

The Corporation is involved in joint ventures with a wide range of partners, including other generators, distribution companies, oil and gas companies and steam hosts. The ownership of these ventures includes municipally and state-owned utilities, and public and private companies in Canada and the U.K. The Corporation's role in each venture is tailored to the specific needs of each project. The Corporation generally provides the operation of the power and steam generation facilities ensuring secure supply with, in the case of some projects, the opportunity to sell uncontracted electricity into the electricity market or uncontracted capacity into the market in the form of Ancillary Services.

Details of the generating plants at December 31, 2011, are shown in Appendix 1.

The following charts illustrate the approximate portion of owned generating capacity displayed by the location of the facilities, the fuel types in the portfolio and contract versus merchant portions of owned capacity:



Foreign operations in the power generation activities of the Energy segment represent 10% of the owned capacity.

Within the Energy segment’s portfolio of power generation projects, 58% of capacity is fueled by natural gas, 41% by coal and 1% is from a hydroelectric facility. The natural gas used to supply generating plants is procured in a variety of manners. There are tolling arrangements for the Brighton Beach and Cory generating plants whereby the customers supply gas at their own cost and the combined-cycle facilities convert the gas to electricity on behalf of the customer. At the cogeneration and remaining combined-cycle plants, gas is procured either through the terms of a long-term gas supply agreement or directly through the site host. The terms of revenue contracts on these sites result in gas cost recovery being built into the tariff charged to the customer. For the remainder of facilities and for the merchant portion of the combined-cycle and cogeneration plants, gas is procured from the Alberta and U.K. markets.

### *Regulated Generating Plants*

ATCO Power's Battle River and Sheerness generating plants 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 considered 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, ATCO Power 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 the incremental decommissioning costs above what has already been collected from the PPA purchaser. 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 original estimated life of the related generating plant or December 31, 2020.

A decision to operate Battle River units 3 and 4 after the expiry of the PPAs in 2013 has not yet been finalized. The ability to operate beyond the PPA term will in part depend on the final version of the various environmental regulations which are currently in draft form. At this point, ATCO Power expects to operate both of these units beyond 2013. However, it is yet to be determined how long this period will be.

The electricity generated by the Battle River and Sheerness generating plants is sold pursuant to PPAs. Under the PPAs, ATCO Power is required to make the generating capacity for each generating unit available to the purchaser of the PPA for that unit. In return, ATCO Power 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. ATCO Power'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 ATCO Power was 7.90% in 2011 and 8.44% for 2010. The rate of return on common equity for 2012 is 7.23%.

All the coal fuel requirements relate to the Battle River and Sheerness generating plants which have a coal supply agreement with Prairie Mines & Royalties Limited (PMRL). PMRL operates the mining leases adjacent to the generating plants. The coal reserves of the mine are owned, leased or controlled jointly by the generating plant owners and PMRL. The coal supply agreement for Battle River extends until 2022. The coal supply agreement for Sheerness extends to the earlier of 2026 or the exhaustion of the coal supply.

## ATCO Midstream

ATCO Midstream owns and operates the non-regulated Carbon Facility and markets its storage services. In addition, ATCO Midstream owns and operates a portfolio of non-regulated natural gas gathering, processing and NGL extraction facilities in Alberta, Saskatchewan and the Northwest Territories. ATCO Midstream also provides natural gas procurement and load balancing services for other ATCO subsidiaries.

### *Natural Gas Storage Operations*

ATCO Midstream owns and operates a natural gas storage facility at Carbon, Alberta. The facility is a natural gas reservoir with a storage capacity of 43.5 petajoules, a maximum injection rate of 400 terajoules per day and a maximum withdrawal rate of 600 terajoules per day. The facility is connected to multiple transmission pipeline systems and has been in service for more than 40 years, making it one of the more established and reliable gas storage facilities in western Canada.

ATCO Midstream provides customized storage, natural gas procurement and transportation services that are individually tailored to each customer's specific needs. Services offered range in terms from a daily to a multi-year basis and are offered to financial institutions, marketing companies, pipelines, retail energy providers and producers.

### *Natural Gas Liquids Extraction Operations*

ATCO Midstream owns or has an interest in four NGL extraction facilities, three of which ATCO Midstream operates. The NGL facilities extract ethane and other NGLs from natural gas flowing through contracted pipelines. ATCO Midstream's net ownership in the processing capacity of the facilities is over 411 million cubic feet per day of natural gas which produces approximately 17,900 barrels per day of NGLs.

Facility	Date in Service	NGL Extracted	Licensed Capacity (mmcf/day)	Ownership	Net Ownership (mmcf/day)	Operator
Edmonton Ethane Extraction Plant	1978	(1)	390	51.3%	200	No
Empress Gas Liquids Straddle Plant	1983	(1)	1,100	12.2%	134	Yes
Fort Saskatchewan Ethane Extraction Plant	1984	(2)	37	100.0%	37	Yes
Villeneuve Ethane Extraction Plant	1997	(2)	40	100.0%	40	Yes
			1,567		411	

(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 an interest in nine natural gas gathering and processing facilities, seven of which ATCO Midstream operates, with a net gathering and processing capacity of 213 million cubic feet per day. In addition, ATCO Midstream owns approximately 1,171 km of field gathering lines. Natural gas production connected to ATCO Midstream's natural gas gathering systems is processed for a fee or purchased, processed and sold in accordance with third party contractual arrangements. Approximately 68% of ATCO Midstream's net processing capacity is capable of processing sour gas.

The gas gathering and processing assets are in close proximity to customers and potential new customers. ATCO Midstream provides a network of facilities that provide gathering and processing services to producers.

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

<b>Facility</b>	<b>Date in Service</b>	<b>Licensed Capacity (mmcf/day)</b>	<b>Ownership</b>	<b>Net Ownership (mmcf/day)</b>	<b>Operator</b>
Carbondale Gas Plant	1991	56	100.0%	56	Yes
Cranberry Gas Plant	1981	36	100.0%	36	Yes
Golden Spike Gas Plant	1999	65	100.0%	65	Yes
Ikhil Gas Plant	1999	8	33.3%	3	No
Kinsella Gathering and Compression Facility	1996	20	100.0%	20	Yes
Kisbey Gas Plant	2000	5	50.0%	3	Yes
Nottingham Gas Plant	1985	18	8.0%	1	No
Puskwaskau Gas Plant	1996	21	41.0%	9	No
Watelet Gas Plant	1998	20	100.0%	20	Yes
		249		213	

## ATCO Australia

The ATCO Australia segment is involved in energy, power generation and infrastructure businesses in Australia. The activities of the segment are conducted through ATCO Gas Australia, ATCO Power Australia, and ATCO I-Tek Australia. The ATCO Australia segment has operations as shown in the following map:



## ATCO Gas Australia

ATCO Gas Australia is engaged in the business of providing natural gas distribution services in Western Australia. It serves more than 650,000 customers in 18 communities, including metropolitan Perth and surrounding regions such as Geraldton, Bunbury, Busselton, Kalgoorlie, Albany, Harvey, Pinjarra, Brunswick Junction and Capel.

ATCO Gas Australia owns and operates approximately 13,100 km of natural gas pipelines and associated infrastructure.

The number of customers served and quantity of gas delivered by ATCO Gas Australia as at the end of 2011 was as follows:

	<b>2011</b>	
	<b>Number</b>	<b>%</b>
Residential	<b>643,108</b>	<b>98</b>
Commercial	<b>10,137</b>	<b>2</b>
Industrial	<b>187</b>	<b>-</b>
<b>Total</b>	<b>653,432</b>	<b>100</b>

	<b>July 29, 2011, to December 31, 2011</b>	
	<b>PJ</b>	<b>%</b>
Residential	<b>5.3</b>	<b>43</b>
Commercial	<b>1.3</b>	<b>11</b>
Industrial	<b>5.7</b>	<b>46</b>
<b>Total</b>	<b>12.3</b>	<b>100</b>

#### *ATCO Gas Australia Regulatory Environment*

ATCO Gas Australia is regulated primarily by the Economic Regulation Authority (ERA) of Western Australia. Rates are generally set for a five year Access Arrangement (or General Rate Application) period. ATCO Gas Australia is subject to a cost of service regulatory mechanism under which the ERA establishes the revenues for each year of the access arrangement period to recover: (1) a return on projected rate base, including income taxes; (2) depreciation on the projected rate base; and (3) projected operating costs.

In the rate decision released by the ERA on February 28, 2011, for the current access period, the real return, which excludes forecast inflation of 2.6%, was approved at 7.4%. The real return is based on a deemed capital structure of 60% debt and 40% equity. The cost of debt is based on market rates for BBB rated companies in Australia, while the cost of equity is based on a capital asset pricing model. Income taxes are included in the return component of the revenue requirement.

#### **ATCO Power Australia**

Current operations of ATCO Power Australia consist of interests in three natural gas-fired generating plants: a 50% interest in each of two joint ventures which own and operate cogeneration plants at

Adelaide, South Australia and Brisbane, Queensland, and a 100% interest in a simple cycle generating plant in Karratha, Western Australia.

Details of these plants are shown in Appendix 1.

### **ATCO I-Tek Australia**

ATCO I-Tek Australia provides a variety of information technology services, including day to day operational support through to architectural design and program delivery. Services are based on a shared service model requiring ATCO I-Tek Australia to own and maintain fundamental IT hardware and recover the cost of this hardware over time.

Its services are provided primarily to ATCO Gas Australia and Dampier Bunbury Pipelines, with an increased focus on serving additional clients both within ATCO Australia and with third parties.

### **Corporate & Other**

The activities of the Corporate & Other segment are conducted through ATCO I-Tek, commercial real estate owned by the Corporation in Alberta and the Corporation's 24.5% equity investment in ATCO Structures & Logistics. For more information about the Corporation's 24.5% equity investment in ATCO Structures & Logistics, refer to ATCO's 2011 Annual Information Form which may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **ATCO I-Tek**

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

ATCO I-Tek provides billing, 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. ATCO I-Tek also supplies distribution-related billing and customer care services to ATCO Gas and ATCO Electric.

Direct Energy 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 upon immediate payment of termination fees which decline over the remaining term of the contract. As a result of negotiations in 2010, the contract was extended to December 31, 2014.

## Business Risks

Business risks are described in the Segmented Information and Risk Management and Financial Instruments sections in the MD&A and are hereby incorporated by reference. The MD&A may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## Dividends

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

<i>(Canadian dollars per share)</i>	<b>2011</b>	2010	2009
Series Second Preferred Shares:			
Series O <sup>(1)</sup>	<b>1.18</b>	1.09	1.09
Series T <sup>(1)</sup>	<b>1.09</b>	1.09	1.09
Series U <sup>(1)</sup>	<b>1.09</b>	1.09	1.09
Series V <sup>(2)</sup>	<b>1.18</b>	1.18	1.18
Series W	<b>1.45</b>	1.45	1.45
Series X	<b>1.50</b>	1.50	1.50
Series Y <sup>(3)</sup>	<b>0.19</b>	-	-
Class A and Class B Shares	<b>1.61</b>	1.51	1.41

<sup>(1)</sup> The dividend was reset to \$1.09 (from 5.05% to 4.35%) for dividend periods between December 2, 2006 and December 2, 2011. On December 2, 2011, the Corporation redeemed all outstanding Series O, T, and U shares. Accrued and unpaid dividends of \$0.09 per share were paid to Series O shareholders on redemption.

<sup>(2)</sup> The dividend was reset to \$1.18 (from 5.25% to 4.70%) for dividend periods between October 3, 2007 and October 3, 2012.

<sup>(3)</sup> Second Preferred Shares Series Y were issued on September 21, 2011.

It is the policy of the Corporation to pay dividends quarterly on its Class A and Class B Shares. In the first quarter of 2011, the Corporation increased the quarterly dividend on Class A and Class B Shares by \$0.025 to \$0.4025 per share. The Corporation has increased its common share dividend each year since its inception as a holding corporation 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 2012, the quarterly dividend payment has been increased by \$0.04 to \$0.4425 per share, a 10% increase. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Corporation and other factors.

# Capital Structure

## Share Capital

The share capital of the Corporation as at February 17, 2012, was as follows:

Share Description	Authorized	Outstanding
Series Preferred Shares	150,000	-
Series Second Preferred Shares	unlimited	29,400,000
Class A Shares	unlimited	87,256,183
Class B Shares	unlimited	40,361,249

### 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 Corporation, or other distribution of assets of the Corporation among its share owners 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 Corporation to pay dividends on any such shares for a period of 18 months, in which case the owners of all such shares are entitled to one vote per share and to elect at meetings of share owners at which directors are elected just under one-half of the directors of the Corporation.

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.

### 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 Corporation, entitled to preference over the Class A

Shares and the Class B Shares and any other shares of the Corporation 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 Corporation.
- (iii) The owners 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 share owners' 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 owners will be entitled to receive notice of and to attend all share owners' meetings at which directors are to be elected (other than separate meetings of owners 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:

	Stated Value (dollars)	Redemption Dates (1)	Shares	Amount (\$ millions)
<b>Perpetual Cumulative Second Preferred Shares</b>				
4.70% Series V (2)	\$25.00	October 3, 2012	4,400,000	\$110
<b>Cumulative Redeemable Second Preferred Shares</b>				
5.8% Series W (3)	\$25.00	See below	6,000,000	150
6.0% Series X (4)	\$25.00	See below	6,000,000	150
4.0% Series Y (5)	\$25.00	See below	13,000,000	325
				<b>\$735</b>

<sup>(1)</sup> The preferred shares, except for the Series W, X, and Y, are redeemable on the dates specified above at the option of the Corporation at the stated value per share plus accrued and unpaid dividends.

<sup>(2)</sup> The dividends payable on the Series V preferred shares are fixed until October 3, 2012, at which time a new dividend rate may be established by negotiations between the Corporation and the owners of the shares.

<sup>(3)</sup> 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.

<sup>(4)</sup> 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.

<sup>(5)</sup> *The Series Y preferred shares are redeemable at the option of the Corporation on June 1, 2017, and on June 1 of every fifth year thereafter at the stated value per share plus accrued and unpaid dividends. The dividend rate will reset every five years to the then current 5-year Government of Canada bond yield plus 2.40%. Owners may elect to convert any or all of their Series Y preferred shares into an equal number of Cumulative Redeemable Preferred Shares Series Z on June 1, 2017, and on June 1 of every fifth year thereafter. The dividend rate on the Series Z preferred shares will be equal to the then current 3-month Government of Canada Treasury Bill yield plus 2.40%. On June 1, 2022, and on June 1 of every fifth year thereafter, the Corporation may redeem the Series Z preferred shares in whole or in part at par. The Corporation may redeem the Series Z preferred shares in whole or in part by the payment of \$25.50 for each share to be redeemed in the case of redemption on any other date.*

### **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 Corporation on either of such classes of shares as well as the remaining property of the Corporation upon dissolution. The owners of the Class B Shares are entitled to vote and to exchange at any time each share held for one Class A Share.

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 Corporation, 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 Corporation if ATCO Ltd., the controlling share owner of the Corporation, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B Shares of the Corporation. 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.

## Credit Ratings

The following table shows the current credit ratings assigned to the Corporation's and CU Inc.'s securities and ATCO Gas Australia Limited Partnership's long term debt by DBRS Limited (DBRS), Standard and Poor's (S&P) and Moody's:

	DBRS	S&P
<i>Canadian Utilities Limited:</i>		
Long term debt and issuer	A	A
Commercial paper	R-1 (low)	A-1 (mid)
Preferred shares	Pfd-2 (high)	P-2 (high)
<i>CU Inc.:</i>		
Long term debt and issuer	A (high)	A
Commercial paper	R-1 (low)	A-1 (mid)
Preferred shares	Pfd-2 (high)	P-2 (high)
	Moody's	S&P
<i>ATCO Gas Australia Limited Partnership: <sup>(1)</sup></i>		
Long term debt and issuer	Baa3	BBB

<sup>(1)</sup> ATCO Gas Australia Limited Partnership is the entity used to hold the long term debt for ATCO Gas Australia Pty Ltd.

DBRS and S&P maintain a stable trend on the above securities for Canadian Utilities Limited and CU Inc. The ATCO Gas Australia Limited Partnership long term debt was recently issued.

### Long Term Debt and Issuer Credit Ratings

An A rating by DBRS is the third highest of ten categories. Long term debt rated A is of good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. It may be vulnerable to future events, but qualifying negative factors are considered manageable. Each rating category other than AAA and D contains 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. An obligor rated A by S&P has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories. An obligor rated BBB by S&P, its fourth highest rating, has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments. Ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

A Baa rating by Moody's is the fourth highest of nine categories. Obligations rated Baa by Moody's are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics. Moody's appends numeric modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa, indicating that the obligation ranks in the higher, middle or lower end, respectively, of that generic rating category.

### **Commercial Paper and Short Term Debt Credit Ratings**

An R-1 (low) rating by DBRS is the lowest subcategory in the highest of six categories and is granted to short term debt of good credit quality. The capacity for the payment of short-term financial obligations as they fall due is substantial. Overall strength is not as favourable as higher rating subcategories and may be vulnerable to future events, but qualifying negative factors are considered manageable. Rating categories R-1 and R-2 are further denoted by the subcategories "(high)", "(middle)", and "(low)".

An A-1 (Mid) rating by S&P is the second highest of eight categories in its Canadian commercial paper ratings scale. A short-term obligation rated A-1 (Mid) reflects a strong capacity for the obligor to meet its financial commitment on the obligation.

### **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 still substantial, but earnings, the balance sheet, and coverage ratios are not as strong as Pfd-1 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 "high" or "low" designation shows relative standing within a rating category. The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the 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.

## Market for Securities of the Corporation

The Corporation's Class A Shares, Class B Shares and Cumulative Redeemable Second Preferred Shares, Series W, X and Y are listed on the Toronto Stock Exchange. The Perpetual Cumulative Second Preferred Shares Series V are not listed.

The following table sets forth the high and low prices and volumes of the Corporation's shares traded on the Toronto Stock Exchange during 2011.

	Class A Shares			Class B Shares		
	High (\$)	Low (\$)	Volume	High (\$)	Low (\$)	Volume
January	54.89	52.67	2,214,810	54.94	52.40	15,938
February	54.28	50.20	3,986,924	54.36	50.16	25,259
March	52.95	47.95	3,191,596	52.75	48.37	45,848
April	54.00	51.54	1,891,800	53.82	52.14	12,611
May	59.90	53.65	3,457,988	59.00	53.18	32,131
June	57.51	54.03	3,459,764	57.50	54.12	18,231
July	58.19	55.26	2,135,653	58.00	55.64	6,643
August	60.03	52.17	3,899,290	59.50	51.50	28,542
September	63.44	57.90	3,455,387	63.09	58.21	15,273
October	64.36	59.86	3,015,534	64.00	60.00	13,213
November	62.93	59.56	5,272,017	62.56	59.75	13,737
December	62.49	59.00	4,471,025	61.85	59.50	8,238

	Cumulative Redeemable Second Preferred Shares								
	Series W			Series X			Series Y		
	High \$	Low \$	Volume	High \$	Low \$	Volume	High \$	Low \$	Volume
January	25.67	25.18	50,037	26.04	25.51	106,864	-	-	-
February	25.60	25.00	52,684	25.89	25.15	63,577	-	-	-
March	25.40	24.85	79,366	25.49	25.15	68,447	-	-	-
April	25.47	25.11	62,575	25.50	25.25	85,370	-	-	-
May	25.40	25.06	65,114	25.61	25.13	69,887	-	-	-
June	25.40	25.20	149,223	25.56	25.35	121,454	-	-	-
July	25.45	25.20	78,322	25.87	25.41	68,673	-	-	-
August	25.60	24.90	78,988	25.60	25.00	80,519	-	-	-
September	25.63	25.24	45,549	25.67	25.37	103,692	25.50	25.15	713,092
October	25.79	25.17	47,068	26.10	25.25	63,976	25.89	25.25	593,860
November	25.98	25.32	44,064	26.08	25.50	56,861	25.89	25.30	235,471
December	26.35	25.33	47,774	26.25	25.56	157,233	26.06	25.45	237,850

## Directors and Officers

### Directors

Name, Province or State and Country of Residence	Position	Principal Occupation	Director Since
R.T. Booth, Q.C. Alberta, Canada	Director	Partner, Bennett Jones LLP (barristers and solicitors)	1998
L.M. Charlton (3) (4) Alberta, Canada	Director	Vice President, Lintus Resources Limited (a private oil and gas company)	2006
D.A. Dodge, O.C., LL.D., Ph.D. (5) Ontario, Canada	Director	Senior Business Advisor, Bennett Jones LLP (barristers and solicitors)	2008
D.M. Ellard (3) (4) Alberta, Canada	Director	Corporate Director	2008
L.A. Heathcott (5) Alberta, Canada	Director	Chairman of the Board, Akita Drilling Ltd. (an oil and gas drilling contractor) and President & Chief Executive Officer, Spruce Meadows (an equestrian facility)	2000
R.J. Normand (3) (4) Alberta, Canada	Director	Corporate Director	2008
R.J. Routs, Ph.D. (5) Brunnen, Switzerland	Director	Corporate Director	2008
J.W. Simpson (2) (3) (4) Alberta, Canada	Lead Director	Corporate Director	2004
N.C. Southern Alberta, Canada	Director	Deputy Chair, President & Chief Executive Officer, Canadian Utilities Limited and ATCO Ltd.	1990

Name, Province or State and Country of Residence	Position	Principal Occupation	Director Since
R.D. Southern, C.B.E., C.C., LL.D. Alberta, Canada	Director and Chairman of the Board	Chairman of the Board, Canadian Utilities Limited and ATCO Ltd.	1977 to 1979 1980 to date
R.J. Urwin, C.B.E., Ph.D. (2) (3) London, England	Director	Corporate Director	2007
C.W. Wilson (2) Colorado, U.S.	Director	Corporate Director	2000

<sup>(1)</sup> All directors hold office until the close of the annual meeting of share owners of the Corporation or until their successors are elected or appointed.

<sup>(2)</sup> Member of the Corporate Governance – Nomination, Compensation and Succession Committee.

<sup>(3)</sup> Member of the Audit Committee.

<sup>(4)</sup> Member of the Risk Review Committee.

<sup>(5)</sup> Member of the Pension Fund Committee.

#### Officers (in Alphabetical Order)

Name, Province or State and Country of Residence	Position Held and Principal Occupation
C.J. Ackroyd Alberta, Canada	Vice President, Marketing & Communications, Canadian Utilities Limited and ATCO Ltd.
B.R. Bale Alberta, Canada	Senior Vice President & Chief Financial Officer, Canadian Utilities Limited and ATCO Ltd.
D.E. Belsheim Alberta, Canada	Vice President, Operational Audit, Canadian Utilities Limited and ATCO Ltd.
C.L. Gareau Alberta, Canada	Vice President & Treasurer, Canadian Utilities Limited and ATCO Ltd.
C. Gear Alberta, Canada	Assistant Corporate Secretary, Canadian Utilities Limited and ATCO Ltd.

Name, Province or State and Country of Residence	Position Held and Principal Occupation
K.P. Hunt Alberta, Canada	Vice President, Internal Audit & Risk Management, Canadian Utilities Limited and ATCO Ltd.
E.M. Kiefer Alberta, Canada	Group Vice President, Human Resources & Corporate Services, Canadian Utilities Limited and ATCO Ltd.
S.W. Kiefer Alberta, Canada	Chief Operating Officer, Energy & Utilities, Canadian Utilities Limited and ATCO Ltd.
R.C. Neumann Alberta, Canada	Vice President, Controller, Canadian Utilities Limited and ATCO Ltd.
A.M. Skiffington Alberta, Canada	Vice President & Chief Information Officer, Canadian Utilities Limited and ATCO Ltd.
N.C. Southern Alberta, Canada	Deputy Chair, President & Chief Executive Officer, Canadian Utilities Limited and ATCO Ltd.
R.D. Southern, C.B.E., C.C., LL.D. Alberta, Canada	Chairman of the Board, Canadian Utilities Limited and ATCO Ltd.
P. Spruin Alberta, Canada	Vice President, Administration & Corporate Secretary, Canadian Utilities Limited and ATCO Ltd.
T.L. Wallace Alberta, Canada	Vice President, Talent Management, Canadian Utilities Limited and ATCO Ltd.
S.R. Werth Alberta, Canada	Senior Vice President & Chief Administration Officer, Canadian Utilities Limited and ATCO Ltd.

### **Positions Held by Directors and Officers within Preceding Five Years**

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 the Vice President of Lintus Resources Limited (a private oil and gas company) since 2010 and prior thereto was a Business Consultant; Dr. Dodge, who was

Governor and Chairman, Bank of Canada until 2008; Mr. Normand, who was President and Chief Executive Officer, Alberta Treasury Branches (a financial institution) until 2008; Dr. Routs, who was Executive Director Downstream, Royal Dutch Shell plc (an international energy company) until 2008; Mr. Skiffington, who held several executive level roles with Fortis Alberta Inc. (an investor-owned electricity utility) including Vice President Business Services & CIO; Dr. Urwin, who was Chairman, Alfred McAlpine plc (a business services firm) from 2006 until 2008 and prior thereto was Group Chief Executive of National Grid plc (an international gas and electric utility); and Ms. Wallace, who was Talent Lead with Deloitte (a private management consulting firm) and Vice President Employee Care with Vonage Canada (a communications firm).

### **Directors' and Officers' Interests in the Corporation**

At December 31, 2011, the directors and officers of the Corporation, as a group, beneficially owned, or controlled or directed, directly or indirectly (via corporate holdings or otherwise), 33,275,792 (82.4%) of the outstanding Class B Shares of the Corporation.

## **Transfer Agent and Registrar**

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

## **Interests of Experts**

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

## **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 Corporation 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.

## Defined Terms

**AESO** means the Alberta Electric System Operator;

**AGP** means ATCO Gas and Pipelines Ltd.;

**Ancillary Services** means those services purchased by the AESO from Alberta generating stations to ensure that electricity can be transmitted reliably, efficiently, and securely across Alberta's interconnected transmission system;

**ATCO** means ATCO Ltd.;

**ATCO Electric** means ATCO Electric Ltd.;

**ATCO Gas** means the natural gas distribution division of AGP;

**ATCO I-Tek** means ATCO I-Tek Inc.;

**ATCO Midstream** means ATCO Midstream Ltd. together with its subsidiaries;

**ATCO Pipelines** means the natural gas transmission division of AGP;

**ATCO Power** means ATCO Power (2010) Ltd. together with its subsidiaries;

**ATCO Structures** means ATCO Structures Inc., the wholly owned subsidiary of ATCO Ltd. which amalgamated with ATCO Frontec on July 1, 2009, to form ATCO Structures & Logistics Ltd.;

**ATCO Structures & Logistics** means ATCO Structures & Logistics Ltd.;

**AUC** means the Alberta Utilities Commission;

**Canadian Utilities** means Canadian Utilities Limited;

**Class A Shares** means Class A non-voting shares of the Corporation;

**Class B Shares** means Class B common shares of the Corporation;

**Corporation** means Canadian Utilities Limited and, unless the context otherwise requires, includes its subsidiaries;

**EUA** means the Electric Utilities Act (Alberta);

**Frac Spread** means the premium or discount between the purchase price of natural gas and the selling price of extracted natural gas liquids on a heat content equivalent basis;

**Gigawatt hour (GWh)** means a measure of electricity consumption equal to the use of 1 billion watts of power over a one-hour period, and

**megawatt hour (MWh)** means a measure of electricity consumption equal to the use of 1 million watts of power over a one-hour period;

**MD&A** means the Corporation's Management's Discussion and Analysis for the year ended December 31, 2011;

**Megawatt (MW)** is a measure of electric power equal to 1,000,000 watts;

**Merchant** means uncontracted generating plant capacity that is offered into the spot electricity market in which the generating plant is located;

**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 (PJ)** means a unit of energy equal to approximately 948.2 billion British thermal units, **terajoule (TJ)** means a unit of energy equal to approximately 948.2 million British thermal units, and **gigajoule (GJ)** 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;

**Spark Spread** means the difference between the selling price of electricity and the marginal cost of producing electricity from natural gas. In this AIF, Spark Spreads are based on an approximate industry heat rate of 7.5 GJ per MWh;

**TMR** means Transmission Must Run and represents an arrangement between a group of generators and the AESO whereby transmission constraints around the location of the facility require the generators to generate a required level of electricity at all times. Compensation is provided to the generators through a TMR contract;

**U.K.** means United Kingdom;

**U.S.** means United States of America;

**YECL** means The Yukon Electrical Company Limited.

## **Additional Information**

Additional information relating to the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Corporation's management proxy circular dated March 7, 2011. Additional financial information is provided in the Corporation's consolidated financial statements and MD&A for the financial year ended December 31, 2011.

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

## APPENDIX 1 – Details Of Generating Plants

Name, Location & Type	Date in Service	MW (1)	Ownership %	Capacity Share	Partner/s (2)	Customer/s (2)	Contract Expiry Date
<b>ATCO Power Generating Plants in Canada:</b>							
<b>Battle River 3, 4 &amp; 5,</b> Forestburg, AB Coal-Fired Thermal	1969 to 1981	670	100.0%	670	-	ENMAX	2013, 2013 & 2020
<b>Brighton Beach,</b> Windsor, ON Gas-Fired Combined-Cycle	2004	580	50.0%	290	OPG	Shell Energy	2024
<b>Cory,</b> Saskatoon, SK Gas-Fired Cogeneration/ Combined-Cycle	2003	260	50.0%	130	SPI	SPC/PCS	2028
<b>Joffre,</b> Red Deer, AB Gas-Fired Cogeneration	2000	480	40.0%	192	Capital Power/ Nova	Nova/ Merchant	2020
<b>McMahon,</b> Taylor, BC Gas-Fired Cogeneration	1993	120	50.0%	60	Spectra Energy	BCHydro	2014
<b>Muskeg River,</b> Ft. McMurray, AB Gas-Fired Cogeneration	2003	170	70.0%	119	SPI	AOSP/ Merchant	2042
<b>Oldman River,</b> Pincher Creek, AB Hydroelectric	2003	32	75%	24	Piikani First Nation	Merchant	-
<b>Poplar Hill,</b> Grande Prairie, AB Gas-Fired Open-Cycle	1998	45	100.0%	45	-	Merchant/ TMR contract	2018
<b>Primrose,</b> Primrose, AB Gas-Fired Cogeneration	1998	85	50.0%	42	CNRL	CNRL/ Merchant	2028
<b>Rainbow Lake 1, 2 &amp; 3,</b> <sup>(3)</sup> Rainbow Lake, AB Gas-Fired Open-Cycle	1968	38	100.0%	38	-	Merchant	-
<b>Rainbow Lake 4 &amp; 5,</b> Rainbow Lake, AB Gas-Fired Cogeneration/ Open-Cycle	1999	90	50.0%	45	Husky Energy	TMR Contract/ Merchant	2010
<b>Scotford,</b> Ft. Saskatchewan, AB Gas-Fired Cogeneration	2003	170	100.0%	170	-	AOSP/ Merchant	2043

Name, Location & Type	Date in Service	MW (1)	Ownership %	Capacity Share	Partner/s (2)	Customer/s (2)	Contract Expiry Date
<b>ATCO Power Generating Plants in Canada: (cont'd)</b>							
Sheerness 1 & 2, Hanna, AB Coal-Fired Thermal	1986 & 1990	760	50.0%	380	TransAlta	Trans Canada	2020
Sturgeon, <sup>(3)</sup> Valleyview, AB Gas-Fired Open-Cycle	1957	0	100.0%	0	-	-	-
Valleyview 1 & 2, Valleyview, AB Gas-Fired Open-Cycle	2001 & 2008	90	100.0%	90	-	Merchant	-
<b>Sub-total</b>		3,590		2,295			

#### ATCO Power Generating Plants Outside Canada:

Barking, London, U.K. Gas-Fired Combined-Cycle	1995	1,000	25.5%	255	BB/EDF/ SSE	Merchant	-
<b>Total ATCO Power (A)</b>		<b>4,590</b>		<b>2,550</b>			

<sup>(1)</sup> Name plate capacity.

<sup>(2)</sup> Full names of Customers and Partners:

- AOSP means Athabasca Oil Sands Project;
- BB means Balfour Beatty Pension Trust Limited;
- Capital Power means Capital Power (Alberta) Limited Partnership;
- CNRL means Canadian Natural Resources Limited;
- EDF means EDF Energy plc.;
- ENMAX means Enmax Corporation;
- Nova means Nova Chemicals;
- OPG means Ontario Power Generation Inc.;
- PCS means Potash Corporation of Saskatchewan;
- Shell Energy means Shell Energy North America (Canada) Inc.;
- SPC means SaskPower Corporation;
- SPI means Saskpower International Inc.;
- SSE means Scottish & Southern Energy;
- TransAlta means TransAlta Corporation; and
- TransCanada means TransCanada Corporation.

<sup>(3)</sup> Effective December 31, 2011, ATCO Power has removed the Rainbow Lake Units 1 and 3 and the Sturgeon plants from its generation capacity. Due to the age and condition of these units, they are currently not available for generation. ATCO Power is in the process of preparing the decommissioning plans for these plants.

<b>Name, Location &amp; Type</b>	<b>Date in Service</b>	<b>MW (1)</b>	<b>Ownership %</b>	<b>Capacity Share</b>	<b>Partner/s (2)</b>	<b>Customer/s (2)</b>	<b>Contract Expiry Date</b>
<b>ATCO Australia Generating Plants:</b>							
<b>Bulwer Island,</b> Queensland Australia Gas-Fired Cogeneration	2001	33	50.0%	17	Origin Energy	BP	2021
<b>Karratha,</b> Western Australia Gas-Fired Open-Cycle	2010	86	100.0%	86	-	Horizon Power	2030
<b>Osborne,</b> South Australia Gas-Fired Cogeneration/ Combined-Cycle	1998	180	50.0%	90	Origin Energy	Origin Electricity/ Penrice	2018
<b>Total ATCO Australia (B)</b>		<b>299</b>		<b>193</b>			
<b>Total Canadian Utilities (A+B)</b>		<b>4,889</b>		<b>2,743</b>			

(1) Name plate capacity.

(2) Full names of Customers and Partners:

- BP means BP plc.;
- Origin Electricity means Origin Energy Electricity Limited;
- Origin Energy means Origin Energy Limited;
- Penrice means Penrice Soda Holdings Limited;

## **APPENDIX 2 – Audit Committee Information**

### **Audit Committee Mandate**

#### **Purpose**

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

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

#### **Composition**

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

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

In order to be considered to be independent for the purposes of membership on the Committee, a director must have been determined by the Board to have no direct or indirect material relationship with the Corporation and must satisfy all other applicable legal and regulatory requirements.

The Board will appoint one member of the Committee as Chair. 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 a director of the Corporation or upon ceasing to be independent.

#### **Meetings**

The Committee shall meet at least four times per year and whenever deemed necessary by the Chair of the Committee or at the request of a Committee member or the Corporation’s external or internal auditor.

The Chair of the Committee 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 Chair of the Committee. 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 Chair of the Committee shall convene a meeting of the Committee to consider any matters which the external auditor believes should be brought to the attention of the directors or shareholders of the Corporation. 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 Corporation 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 Chair of the Committee. 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 & Risk Management of the Corporation shall report directly to the Committee. The Committee is expected to maintain free and open communication with the Corporation'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 responsibilities. Management of the Corporation is responsible for determining that the Corporation's financial statements are complete, accurate and in accordance with International Financial Reporting Standards. The external auditor is responsible for auditing the Corporation'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 engage independent counsel and other advisors as it determines necessary 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 attestation services for the Corporation;
  - (b) the compensation of the external auditor; and
  - (c) the approval of the Corporation's annual financial statements, Annual Information Form (AIF) and annual Management's Discussion & Analysis (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 attestation services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by the external auditor of the Corporation (“Non-audit Services”). The Committee may delegate to one or more of its members the authority to pre-approve Non-audit Services, and each pre-approval of Non-audit Services by a member to whom such authority has been delegated must be presented in writing to the Committee at its first scheduled meeting following such pre-approval. The Committee shall adopt and periodically review policies and procedures for the engagement of Non-audit Services that are detailed as to the particular service, that do not include delegation of the Committee’s responsibilities to management, and that are designed to manage the pre-approval process and comply with all applicable legal and regulatory requirements.
- review the Corporation’s annual and interim financial statements, MD&A and earnings press releases and the AIF before the Corporation publicly discloses this information.
- if delegated by the Board, approve the interim financial statements, interim MD&A and interim earnings press releases before the Corporation publicly discloses this information.
- be satisfied that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information extracted or derived from the Corporation’s financial statements, and periodically assess the adequacy of these procedures. This would include an annual review of the Corporation’s Disclosure Policy.
- ensure that the Corporation has appropriate procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters.
- provide a means for confidential and anonymous submission by employees of the Corporation of concerns regarding accounting or auditing matters.
- be satisfied that the Corporation 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 Corporation’s hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

- review and reassess annually the adequacy of this mandate and recommend any proposed changes to the Board for approval.
- review and approve annually the Disclosure Committee, Designated Audit Directors and Internal Audit mandates.

The members of the Committee, for the purpose of performing their duties, have the right to inspect all the books and records of the Corporation and its subsidiary entities and to discuss such books and records in any manner relating to the financial position of the Corporation and its subsidiary entities with the officers, employees and internal and external auditors of the Corporation 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 Corporation's Audit Committee, all of whom are independent and financially literate:

- L.M. Charlton
- D.M. Ellard
- R.J. Normand
- J.W. Simpson (Chair)
- 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 Corporation and ATCO Ltd. where he was responsible for financial performance of several companies within the ATCO Group.

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 - 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 Resources, the Vice President Finance directly reported to Mr. Simpson. In addition,

Mr. Simpson was Chairman of the Internal Audit Committee of Chevron Canada Resources. Mr. Simpson graduated from a Senior Executive Program at M.I.T's Sloan School of Business.

R.J. Urwin - Dr. Urwin has been the Chief Executive Officer of major public companies since 1990. He was the Group Chief Executive of 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 number of U.K. public companies and is currently on the Audit Committee of Utilico Limited.

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

The Audit Committee and the Board of Directors of the Corporation have adopted a policy for approval of external auditor services. The policy prohibits the external auditor from providing specified services to the Corporation 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 Chair 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 Corporation and its subsidiaries for professional services provided by PricewaterhouseCoopers LLP for each of the past two years were as follows:

<i>(\$ Millions)</i>	<b>2011</b>	2010
Audit fees (1)	<b>2.2</b>	1.5
Audit related fees (2)	<b>0.2</b>	0.8
Tax fees (3)	<b>0.2</b>	0.2
All other fees (4)	<b>0.1</b>	0.1
Total	<b>2.7</b>	2.6

- (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 International Financial Reporting Standards and Canadian 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.*
- (4) Other fees paid to the external auditor are mainly for services related to French translation.*