



An **ATCO** Company

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

**FOR THE YEAR ENDED
DECEMBER 31, 2005**

CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

The following discussion and analysis of financial condition and results of operations of CU Inc. (the "Corporation") should be read in conjunction with the Corporation's unaudited consolidated interim financial statements for the three months ended December 31, 2005, and the audited consolidated financial statements for the year ended December 31, 2005. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com.

All quarterly information in this document is unaudited and is shaded to differentiate it from the annual information.

The common share capital of the Corporation consists of Class A non-voting shares ("Class A shares") and Class B common shares ("Class B shares").

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FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. These statements involve 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 statements. The Corporation believes that the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

In particular, this MD&A contains forward-looking statements pertaining to purchase obligations, planned capital expenditures and the impact of changes in government regulation. The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of regulatory decisions, competitive factors in the industries in which the Corporation operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Corporation.

CONTROLS AND PROCEDURES

As of December 31, 2005, the Corporation's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures ("Disclosure Controls") as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO").

Disclosure Controls are procedures designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Corporation's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

The Corporation's management, including the CEO and the CFO, does not expect that the Corporation's Disclosure Controls will prevent or detect all error and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Corporation have been detected.

Based on the evaluation of Disclosure Controls, the CEO and the CFO have concluded that, subject to the inherent limitations noted above, the Corporation's Disclosure Controls are effective in providing reasonable assurance that material information relating to the Corporation and its consolidated subsidiaries is made known to the Corporation's management.

BUSINESS OF THE CORPORATION

The Corporation's financial statements are consolidated from two segments: utilities and power generation. Transactions between segments are eliminated in all reporting of the Corporation's consolidated financial information. For additional information on the Corporation's business segments, refer to Note 20 of the consolidated financial statements.

TRANSFER OF THE RETAIL ENERGY SUPPLY BUSINESSES

On May 4, 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "DEML"), a subsidiary of Centrica plc ("Transfer of the Retail Energy Supply Businesses"). Proceeds of the transfer were \$90 million, of which \$45 million was paid at closing, and the remainder was paid on May 4, 2005. Net proceeds, after adjustments related to legal, transition and other deferred costs pertaining to the Transfer of the Retail Energy Supply Businesses, resulted in a gain of \$63.3 million before income taxes of \$8.2 million and increased 2004 earnings by \$55.1 million.

The Corporation's revenues and natural gas supply and purchased power costs after May 4, 2004 were reduced accordingly for 2004 and thereafter. Subsequent to May 4, 2004, ATCO Gas continued to purchase natural gas on behalf of DEML until the transfer of the relevant ATCO Gas natural gas purchase contracts to DEML was completed in September 2004. There is no ongoing impact on earnings resulting from the transfer of these businesses as natural gas and electricity have historically been sold to customers on a "no-margin" basis. ATCO Gas and ATCO Electric continue to own and operate the natural gas and electricity distribution systems used to deliver energy.

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

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

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

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

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

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

SELECTED ANNUAL AND QUARTERLY INFORMATION

(\$ Millions)	For the Three Months Ended				Year Ended
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Dec. 31
	<i>(unaudited)</i>				
2005					
Revenues (1)	505.7	307.7	294.4	382.2	1,490.0
Earnings attributable to Class A and Class B shares (4) (5).....	58.3	27.3	24.9	45.6	156.1
2004					
Revenues (1)	960.0	480.7	266.3	371.7	2,078.7
Earnings attributable to Class A and Class B shares (2) (4) (5)	63.8	80.3	24.0	53.5	221.6
2003					
Revenues.....	.....	.....	.....	.....	2,846.2
Earnings attributable to Class A and Class B shares (3) (4) (5) .....	.....	.....	.....	.....	174.8

Notes:

(1) Prior to the Transfer of the Retail Energy Supply Businesses on May 4, 2004, the cost of natural gas and electricity purchased for ATCO Gas’ and ATCO Electric’s customers was included in revenues. As ATCO Gas

and ATCO Electric no longer purchase natural gas and electricity for their customers, revenues since May 4, 2004, have decreased accordingly.

- (2) Includes earnings of \$55.1 million on the Transfer of the Retail Energy Supply Businesses for the three months ended June 30, 2004, and for the year ended December 31, 2004.
- (3) 2003 earnings attributable to Class A and Class B shares have been restated for retroactive changes in the methods of accounting for asset retirement obligations.
- (4) There were no discontinued operations or extraordinary items during these periods.
- (5) Due to the seasonal nature of the Corporation's operations and the timing of rate decisions, earnings for any quarter are not necessarily indicative of operations on an annual basis.
- (6) As all Class A and Class B shares of the Corporation are owned by Canadian Utilities Limited, the disclosure of earnings per share is not provided as it is not considered to be meaningful.
- (7) The above data has been extracted from the financial statements which have been prepared in accordance with Canadian generally accepted accounting principles and the reporting currency is the Canadian dollar.

	Year Ended December 31		
	2005	2004	2003
	(\$ Millions except per share data)		
Cash dividends declared per share (1):			
Series Second Preferred Shares:			
Series Q	1.48	1.48	1.48
Series R	1.33	1.33	1.33
Series S	1.65	1.65	1.65
Series U	1.26	1.26	1.26
Series V	1.31	1.31	1.31
Total assets	4,290.8	4,201.8	4,218.0
Long term debt	2,122.5	2,062.5	1,682.5
Equity preferred shares	256.5	256.5	256.5
Class A and Class B share owners' equity	1,459.0	1,443.9	1,411.0

Notes:

- (1) Dividends declared by subsidiary companies of CU Inc. on preferred shares held by Canadian Utilities Limited.
- (2) The above data has been extracted from the financial statements which have been prepared in accordance with Canadian generally accepted accounting principles and the reporting currency is the Canadian dollar.

RESULTS OF OPERATIONS

The principal factors that caused variations in **revenues** over the eight most recently completed quarters were:

- lower sales of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses (refer to the Transfer of the Retail Energy Supply Businesses section), and lower prices of electricity and natural gas purchased for customers on a “no-margin” basis prior to May 4, 2004 (refer to the Utilities section);
- fluctuations in temperatures (refer to the Utilities section); and
- timing of rate decisions (refer to the Utilities and Regulatory Matters sections).

The principal factors that caused variations in **earnings** over the eight most recently completed quarters were:

- gain on the Transfer of the Retail Energy Supply Businesses (refer to the Transfer of the Retail Energy Supply Businesses and the Utilities sections);
- fluctuations in temperatures (refer to the Utilities section);
- timing of rate decisions (refer to the Utilities and Regulatory Matters sections); and
- timing of generating plant outages (refer to Power Generation section).

Consolidated Operations

Revenues for the three months ended December 31, 2005, increased by \$10.5 million to \$382.2 million, primarily due to:

- 2004 impact of 2004 General Rate Application adjustments for ATCO Gas related to the refund of deferred income taxes; and
- higher franchise fees collected by ATCO Gas on behalf of cities and municipalities.

This increase was partially offset by:

- reduced recoveries of natural gas costs and lower storage revenues as ATCO Gas is no longer storing or selling natural gas from its Carbon natural gas storage facility. ATCO Gas has leased the entire storage capacity of the facility to ATCO Midstream for the period April 1, 2005 to March 31, 2006.

Revenues for the year ended December 31, 2005, decreased by \$588.7 million to \$1,490.0 million, primarily due to:

- lower sales of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses in May 2004;
- reduced recoveries of natural gas costs and lower storage revenues as ATCO Gas is no longer storing or selling natural gas from its Carbon natural gas storage facility. ATCO Gas has leased the entire storage capacity of the facility to ATCO Midstream for the period April 1, 2005 to March 31, 2006; and
- lower natural gas volumes purchased for ATCO Pipelines’ customers as a result of customers moving from sales service (commodity and transportation revenues) to transportation service only contracts (transportation revenue).

This decrease was partially offset by:

- higher franchise fees collected by ATCO Gas on behalf of cities and municipalities;
- impact of ATCO Gas’ general rate decision for the 2005, 2006 and 2007 test years (refer to Regulatory Matters – ATCO Gas section);
- 2004 impact of 2004 General Rate Application adjustments for ATCO Gas related to the refund of deferred income taxes; and
- higher transmission charges recovered from customers in ATCO Gas.

Earnings attributable to Class A and Class B shares for the three months ended December 31, 2005, decreased by \$7.9 million to \$45.6 million, primarily due to:

- higher costs not recovered in ATCO Gas in 2005. In May 2005, ATCO Gas submitted a general rate application with the AEUB for the 2005, 2006 and 2007 test years. In August 2005, the AEUB approved interim refundable rates which recognized only 28% of the increased operating costs and rate base additions requested in the original application. On January 27, 2006, ATCO Gas received an AEUB decision which did not materially change the earnings based on the 2005 interim rates (the “ATCO Gas Decision”). The final impact of the decision will not be known until two subsequent regulatory processes are finalized (refer to Regulatory Matters – ATCO Gas section).

Earnings attributable to Class A and Class B shares for the year ended December 31, 2005, were \$156.1 million. Earnings for 2004 were \$166.5 million, **excluding** the \$55.1 million after-tax gain on the Transfer of the Retail Energy Supply Businesses in May 2004. Earnings for the year ended December 31, 2004, **including** the impact of the Transfer of the Retail Energy Supply Businesses, were \$221.6 million.

Earnings attributable to Class A and Class B shares for the year ended December 31, 2005, **excluding** the impact of the Transfer of the Retail Energy Supply Businesses, decreased by \$10.4 million, primarily due to:

- impact of the ATCO Gas Decision (refer to Regulatory Matters – ATCO Gas section); and
- warmer temperatures in ATCO Gas.

Return on common equity was 10.8% in 2005.

Operating expenses (consisting of natural gas supply, purchased power, operation and maintenance, selling and administrative and franchise fee costs) for the three months ended December 31, 2005, increased by \$5.9 million to \$204.6 million, primarily due to:

- higher franchise fees collected by ATCO Gas on behalf of cities and municipalities.

This increase was partially offset by:

- 2004 one time impact of finalization of natural gas supply costs in ATCO Gas related to the Transfer of the Retail Energy Supply Businesses; and
- lower natural gas volumes purchased for ATCO Pipelines' customers as a result of customers moving from sales service (commodity and transportation revenues) to transportation service only contracts (transportation revenue).

Operating expenses for the year ended December 31, 2005, decreased by \$604.6 million to \$846.7 million, primarily due to:

- lower costs of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses in May 2004.

This decrease was partially offset by:

- higher franchise fees collected by ATCO Gas on behalf of cities and municipalities.

Depreciation and amortization expenses for the three months ended December 31, 2005, increased by \$2.0 million to \$65.5 million, primarily due to:

- capital additions in 2005 and 2004.

Depreciation and amortization expenses for the year ended December 31, 2005, increased by \$13.0 million to \$235.4 million, primarily due to:

- capital additions in 2005 and 2004.

Interest expense for the three months ended December 31, 2005, increased by \$0.7 million to \$37.8 million, primarily due to:

- interest on new financings issued in 2005 and 2004 to fund capital expenditures in Utilities operations.

Interest expense for the year ended December 31, 2005, increased by \$5.8 million to \$150.7 million, primarily due to:

- interest on new financings issued in 2005 and 2004 to fund capital expenditures in Utilities operations.

Interest and other income for the three months ended December 31, 2005, increased by \$0.4 million to \$4.8 million, primarily due to:

- interest income on higher cash balances.

Interest and other income for the year ended December 31, 2005, increased by \$3.3 million to \$12.7 million, primarily due to:

- the recovery of ATCO Electric's carrying costs and interest associated with the AEUB decision adjusting the 2001 and 2002 revenue requirements for changes in deferred income taxes (refer to Regulatory Matters – ATCO Electric section); and
- interest income on higher cash balances.

Income taxes for the three months ended December 31, 2005, increased by \$10.2 million to \$30.0 million, primarily due to:

- favorable tax adjustment in 2004 for ATCO Gas resulting from a change in income tax methodology as directed by the AEUB in its decision respecting ATCO Gas' 2003/2004 General Rate Application.

Income taxes for the year ended December 31, 2005, **including** the \$8.2 million of income taxes resulting from the Transfer of the Retail Energy Supply Businesses in May 2004, increased by \$2.6 million to \$99.8 million.

Income taxes for the year ended December 31, 2005, **excluding** the \$8.2 million of income taxes resulting from the Transfer of the Retail Energy Supply Businesses, increased by \$10.8 million to \$99.8 million, primarily due to:

- favorable tax adjustment in 2004 for ATCO Gas resulting from a change in income tax methodology as directed by the AEUB in its decision respecting ATCO Gas' 2003/2004 General Rate Application.

Segmented Information

Segmented revenues for the three months and the year ended December 31, 2005, were as follows:

(\$ Millions)	For the Three Months Ended December 31		For the Year Ended December 31	
	2005	2004	2005	2004
	<i>(unaudited)</i>			
Utilities (1).....	305.2	297.7	1,194.8	1,788.8
Power Generation	77.2	74.1	295.5	292.3
Intersegment eliminations.....	(0.2)	(0.1)	(0.3)	(2.4)
Total.....	382.2	371.7	1,490.0	2,078.7

Note:

(1) Prior to the Transfer of the Retail Energy Supply Businesses on May 4, 2004, the cost of natural gas and electricity purchased for ATCO Gas' and ATCO Electric's customers was included in revenues. As ATCO Gas and ATCO Electric no longer purchase natural gas and electricity for their customers, revenues since May 4, 2004, have decreased accordingly.

Segmented earnings attributable to Class A and Class B shares for the three months and the year ended December 31, 2005, were as follows:

(\$ Millions)	For the Three Months Ended December 31		For the Year Ended December 31	
	2005	2004	2005	2004
	<i>(unaudited)</i>			
Utilities (1).....	32.4	38.6	105.9	168.6
Power Generation	13.1	14.6	50.0	51.7
Corporate and Other	0.1	0.3	0.2	1.3
Intersegment eliminations.....	-	-	-	-
Total.....	45.6	53.5	156.1	221.6

Note:

(1) The December 31, 2004, earnings include \$55.1 million resulting from the Transfer of the Retail Energy Supply Businesses.

Utilities

Revenues from the Utilities Business Group for the three months ended December 31, 2005, increased by \$7.5 million to \$305.2 million, primarily due to:

- 2004 impact of 2004 General Rate Application adjustments for ATCO Gas related to the refund of deferred income taxes;
- higher franchise fees collected by ATCO Gas on behalf of cities and municipalities; and
- impact of the ATCO Gas Decision (refer to Regulatory Matters – ATCO Gas section).

This increase was partially offset by:

- reduced recoveries of natural gas costs and lower storage revenues as ATCO Gas is no longer storing or selling natural gas from its Carbon natural gas storage facility. ATCO Gas has leased the entire storage

capacity of the facility to ATCO Midstream for the period April 1, 2005 to March 31, 2006.

Temperatures in ATCO Gas for the three months ended December 31, 2005, were 14.1% warmer than normal, compared to 9.8% warmer than normal for the corresponding period in 2004.

Revenues from the Utilities Business Group for the year ended December 31, 2005, decreased by \$594.0 million to \$1,194.8 million, primarily due to:

- lower sales of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses in May 2004;
- reduced recoveries of natural gas costs and lower storage revenues as ATCO Gas is no longer storing or selling natural gas from its Carbon natural gas storage facility. ATCO Gas has leased the entire storage capacity of the facility to ATCO Midstream for the period April 1, 2005 to March 31, 2006; and
- lower natural gas volumes purchased for ATCO Pipelines’ customers as a result of customers moving from sales service (commodity and transportation revenues) to transportation service only contracts (transportation revenue).

This decrease was partially offset by:

- higher franchise fees collected by ATCO Gas on behalf of cities and municipalities;
- impact of the ATCO Gas Decision (refer to Regulatory Matters – ATCO Gas section);
- 2004 impact of 2004 General Rate Application adjustments for ATCO Gas related to the refund of deferred income taxes; and
- higher transmission charges recovered from customers in ATCO Gas.

Temperatures in ATCO Gas in 2005 were 7.8% warmer than normal, compared to 3.0% warmer than normal in 2004.

Earnings for the three months ended December 31, 2005, decreased by \$6.2 million to \$32.4 million, primarily due to:

- impact of the ATCO Gas Decision (refer to Regulatory Matters – ATCO Gas section); and
- warmer temperatures in ATCO Gas.

Earnings for the year ended December 31, 2005, were \$105.9 million. Earnings for 2004 were \$113.5 million, **excluding** the \$55.1 million after-tax gain on the Transfer of the Retail Energy Supply Businesses in May 2004. Earnings for the year ended December 31, 2004, **including** the impact of the Transfer of the Retail Energy Supply Businesses, were \$168.6 million.

Earnings for the year ended December 31, 2005, **excluding** the impact of the Transfer of the Retail Energy Supply Businesses, decreased by \$7.6 million, primarily due to:

- impact of the ATCO Gas Decision (refer to Regulatory Matters – ATCO Gas section); and
- warmer temperatures in ATCO Gas.

This decrease was partially offset by:

- impact of the AEUB decision adjusting the 2001 and 2002 revenue requirements for changes in deferred income taxes recorded in ATCO Electric (refer to Regulatory Matters – ATCO Electric section).

Operating expenses for the year ended December 31, 2005, decreased by \$611.8 million to \$716.4 million, primarily due to:

- lower costs of electricity and natural gas purchased for customers on a “no-margin” basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses in May 2004.

The decrease was partially offset by:

- higher franchise fees collected by ATCO Gas on behalf of cities and municipalities.

Power Generation

Revenues from the Power Generation Business Group for the three months ended December 31, 2005, increased by \$3.1 million to \$77.2 million, primarily due to:

- higher excess energy sales at the Sheerness generating plant; and
- higher amortization of deferred availability incentives.

Revenues from the Power Generation Business Group for the year ended December 31, 2005, increased by \$3.2 million to \$295.5 million, primarily due to:

- higher energy and excess energy charges due to higher generation at the Battle River and Sheerness generating plants. The higher generation is due to normal cooling water conditions at the Battle River generating plant in 2005 and capacity upgrades at the Sheerness generating plant; and
- higher amortization of deferred availability incentives.

Earnings for the three months ended December 31, 2005, decreased by \$1.5 million to \$13.1 million, primarily due to:

- additional income tax provision in 2005; and
- higher maintenance and general and administration costs.

This decrease was partially offset by:

- higher excess energy earnings at the Sheerness generating plant.

Earnings for the year ended December 31, 2005, decreased by \$1.7 million to \$50.0 million, primarily due to:

- higher maintenance and general and administration costs.

This decrease was partially offset by:

- higher excess energy earnings at the Battle River and Sheerness generating plants.

Operating expenses for the year ended December 31, 2005, increased by \$5.1 million to \$130.6 million, primarily due to:

- additional maintenance expenses at the Battle River generating plant as two units received major overhauls in 2005 compared to one in 2004;
- higher fuel expense at the Battle River generating plant due to higher generation; and
- higher administration costs in 2005.

During the three months ended December 31, 2005, Alberta Power (2000)'s **deferred availability incentive** account increased by \$14.4 million to \$59.7 million. The increase was due to additional availability incentives received for improved plant availability. During the three months ended December 31, 2005, the amortization of deferred availability incentives, recorded in revenues, increased by \$0.7 million to \$2.7 million as compared to the same period in 2004.

During the year ended December 31, 2005, Alberta Power (2000)'s **deferred availability incentive** account increased by \$13.6 million to \$59.7 million. The increase was due to additional availability incentives received for plant availability in excess of planned outages and amortization. During the year ended December 31, 2005, the amortization of deferred availability incentives, recorded in revenues, increased by \$1.3 million to \$8.9 million as compared to 2004.

REGULATORY MATTERS

Regulated operations are conducted by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, the ATCO Gas and ATCO Pipelines divisions of ATCO Gas and Pipelines Ltd. and the generating plants of Alberta Power (2000), all of which are wholly owned subsidiaries of the Corporation.

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

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

In November 2004, the AEUB announced a generic return on common equity of 9.50% for 2005 and in November 2005 announced a generic return on common equity of 8.93% for 2006. In January 2006, the AEUB clarified that the generic return on equity determined on an annual basis in accordance with the generic cost of capital decision should apply to each year of the test period in the companies' applications. If no rate applications are filed for a particular year, then there will be no adjustment to the common equity rate of return for that year.

In July 2004, ATCO Gas and ATCO Electric filed applications with the AEUB addressing the impact on the 2003 and 2004 revenue requirements of the Transfer of the Retail Energy Supply Businesses to DEML and the customer care volume forecast for services provided by ATCO I-Tek Business Services for 2003 and 2004. In April and May 2005, the AEUB issued decisions which resulted in an increase to revenues and earnings of \$2.4 million and \$1.6 million, respectively.

In June 2005, as part of their rate applications, ATCO Electric and ATCO Gas submitted a filing to the AEUB that addressed certain common matters. ATCO Pipelines is also a party to this filing as the concerns are common to all three utilities. This filing included evidence regarding the appropriate ratemaking approach in the determination of utility revenue requirements as well as treatment of pension costs, executive compensation, head office rent expense and the continued use of preferred shares as a form of financing for the three utilities. The AEUB is expected to hear this filing in May 2006 and a decision is expected in the fourth quarter of 2006.

ATCO Electric

In May 2005, ATCO Electric filed a general tariff application with the AEUB for the 2005 and 2006 test years requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. A decision from the AEUB on the general tariff application is not expected until March 2006. In May and June 2005, ATCO Electric filed applications requesting interim refundable rates for distribution and transmission operations, pending the AEUB's decision on the general tariff application. On July 14, 2005, ATCO Electric received a decision from the AEUB approving its requested interim refundable rates for distribution operations. On September 7, 2005, ATCO Electric received a decision from the AEUB approving an interim refundable rate increase of \$5.0 million for transmission operations. Revenues associated with these interim refundable rates were recorded in 2005.

In August 2002, the AEUB issued a decision in which it denied ATCO Electric's application to adjust its 2001 and 2002 transmission and distribution revenue requirements by \$4.6 million for changes in the amounts of deferred income taxes recorded. In November 2002, ATCO Electric filed a review and variance application of the August 2002 decision with the AEUB. In May 2005, the AEUB changed its August 2002 decision and allowed ATCO Electric to increase its revenues and earnings by \$4.6 million.

ATCO Gas

On January 27, 2006, ATCO Gas received a decision on its general rate application which was filed with the AEUB in May 2005 for the 2005, 2006 and 2007 test years. The decision establishes the amount of revenue ATCO Gas can recover through distribution rates for natural gas distribution service to its customers over the period of 2005 to

2007. In May 2005, ATCO Gas submitted a general rate application with the AEUB for the 2005, 2006 and 2007 test years. In August 2005, the AEUB approved interim refundable rates which recognized only 28% of the increased operating costs and rate base additions requested in the original application. On January 27, 2006, ATCO Gas received an AEUB decision which did not materially change the earnings based on the 2005 interim rates. The final impact of the decision will not be known until two subsequent regulatory processes are finalized. There will be no immediate impact on the ATCO Gas distribution rates as interim rates will continue until final rates are decided by the AEUB in late 2006 or early 2007. The general rate application decision approved a return on common equity as determined by the AEUB's standardized rate of return methodology. The rate of return on common equity is 9.5% in 2005, 8.93% in 2006, and is yet to be determined for 2007.

In October 2001, the AEUB approved the sale by ATCO Gas of certain properties in the City of Calgary, known as the Calgary Stores Block, for \$6.6 million (excluding costs of disposition) and allocated \$4.1 million of the proceeds to customers and \$1.8 million to ATCO Gas. In January 2004, the Alberta Court of Appeal overturned this decision and directed the AEUB to allocate \$5.4 million of the proceeds to ATCO Gas. The City of Calgary has appealed this decision to the Supreme Court of Canada, which has also granted ATCO Gas leave to cross-appeal the decision. The Supreme Court of Canada heard the appeal on May 11, 2005 and on February 9, 2006 rendered its decision. The Supreme Court dismissed the City of Calgary's appeal and allowed ATCO Gas' cross-appeal. The decision will not impact the 2005 earnings of ATCO Gas, as the Supreme Court has directed the AEUB to issue a new decision in accordance with the Supreme Court's ruling. Net proceeds totaling \$4.1 million from the sale are being held pending AEUB approval. It is anticipated that the AEUB will issue a new decision before the end of the first quarter of 2006.

In March 2004, the AEUB directed ATCO Gas to continue to reserve for the benefit of utility customers 16.7 petajoules of storage capacity at its Carbon natural gas storage facility for the 2004/2005 storage year, which ended on March 31, 2005, and allowed ATCO Midstream to continue to utilize the remaining uncontracted capacity at a rate of \$0.45 per gigajoule, up from \$0.41 per gigajoule. ATCO Gas was granted leave to appeal this AEUB decision to the Alberta Court of Appeal. On June 17, 2005 the appeal was dismissed. On September 16, 2005, ATCO Gas filed for leave to appeal the Alberta Court of Appeal's decision to the Supreme Court of Canada. The leave to appeal was denied on January 19, 2006.

In July 2004, the AEUB initiated a written process to consider its role in regulating the operations of the Carbon natural gas storage facility. On June 15, 2005, the AEUB issued a decision with respect to this process. In addition to addressing other matters, the decision found that the AEUB has the authority, when necessary in the public interest, to direct a utility to utilize a particular asset in a specific manner, even over the objection of the utility. ATCO Gas has filed for leave to appeal the decision with the Alberta Court of Appeal. On October 3, 2005, the AEUB established processes to review the use of the Carbon natural gas storage facility for utility purposes.

ATCO Gas' position is that the Carbon natural gas storage facility is no longer required for utility service. Accordingly, in March 2005, ATCO Gas filed a letter with the AEUB in which it withdrew all evidence previously filed by it with respect to the 2005/2006 Carbon Storage Plan, thus providing notice that none of the related costs and revenues will form part of regulated operations on or after April 1, 2005. On March 23, 2005, the AEUB issued an interim order directing ATCO Gas to maintain the Carbon natural gas storage facility in rate base and confirming a lease of the entire storage capacity to ATCO Midstream at a placeholder rate of \$0.45 per gigajoule until otherwise determined by the AEUB. ATCO Gas filed for leave to appeal the interim order on April 15, 2005.

ATCO Gas has filed an application with the AEUB to address, among other things, corrections required to historical transportation imbalances that have impacted ATCO Gas' deferred gas account. In April 2005, the AEUB issued a decision resulting in a 15% decrease in the transportation imbalance adjustments sought by ATCO Gas. The decision resulted in a decrease to revenues and earnings of \$1.8 million and \$1.2 million, respectively. The City of Calgary has filed for leave to appeal the AEUB's decision. ATCO Gas has filed a cross appeal of the AEUB's decision. The cross appeal is contingent upon the granting of the City of Calgary's leave to appeal which is scheduled to be heard in February 2006.

In October 2005, ATCO Gas filed an application with the AEUB to approve the sale of its Red Deer Operating Centre. In December 2005, the AEUB approved the sale and deferred its decision on the distribution of net proceeds of \$1.0 million until the Supreme Court of Canada renders a judgment in the appeal regarding the Calgary Stores Block disposition and allocation of proceeds discussed above. The Supreme Court of Canada rendered its decision

on the Calgary Stores Block matter on February 9, 2006. ATCO Gas is now required to submit a filing to the AEUB to approve the allocation of the net proceeds. The net proceeds of the sale remain in trust pending AEUB approval.

ATCO Pipelines

The AEUB has announced that it will hold a hearing to address competitive issues between ATCO Pipelines and NOVA Gas Transmission Ltd. This hearing is expected to take place in 2006.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations provides a substantial portion of the Corporation's cash requirements. Additional cash requirements are met externally through bank borrowings and the issuance of long term debt and preferred shares. Commercial paper borrowings and short term bank loans are used to provide flexibility in the timing and amounts of long term financing.

Cash flow from operations for the three months ended December 31, 2005, increased by \$13.5 million to \$125.4 million, primarily due to:

- increased deferred availability incentives in Alberta Power (2000), primarily due to availability incentive payments received for improved plant availability; and
- increased cash flow after removal of non-cash adjustments.

Cash flow from operations for the year ended December 31, 2005, increased by \$35.8 million to \$418.4 million, primarily due to:

- increased cash flow after removal of non-cash adjustments; and
- increased deferred availability incentives in Alberta Power (2000), primarily due to availability incentive payments received for improved plant availability.

Investing for the three months ended December 31, 2005, increased by \$43.0 million to \$155.2 million, primarily due to:

- increased capital expenditures; and
- changes in non-current deferred electricity costs.

This increase was partially offset by:

- changes in non-cash working capital in respect of investing activities.

Capital expenditures for the three months ended December 31, 2005, increased by \$37.4 million to \$173.5 million, primarily due to:

- increased investment in regulated natural gas transportation and distribution projects.

Investing for the year ended December 31, 2005, increased by \$52.4 million to \$442.3 million, primarily due to:

- increased capital expenditures;
- changes in non-cash working capital in respect of investing activities; and
- changes in non-current deferred electricity costs.

This increase was partially offset by:

- proceeds from the Transfer of the Retail Energy Supply Businesses.

Capital expenditures for the year ended December 31, 2005, increased by \$40.1 million to \$498.4 million, primarily due to:

- increased investment in natural gas transportation and distribution projects.

This increase was partially offset by:

- lower investment in electric transmission and distribution projects.

During the three months ended December 31, 2005, the Corporation **issued**:

- \$185.0 million of 5.183% Debentures due November 21, 2035.

During the year ended December 31, 2005, the Corporation **issued**:

- \$185.0 million of 5.183% Debentures due November 21, 2035.

During the year ended December 31, 2005, the Corporation **redeemed**:

- \$125.0 million of 8.43% Debentures 1995 Series.

These changes resulted in a **net debt increase** of \$60.0 million.

Capital expenditures to maintain capacity, meet planned growth and fund future development activities are expected to be approximately \$550 million in 2006. These expenditures are uncommitted and relate primarily to utility operations.

Contractual obligations for the next five years and thereafter are as follows:

Contractual Obligations (\$ Millions)	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long term debt	2,122.5	175.0	154.5	250.0	1,543.0
Operating leases.....	34.1	8.8	15.8	6.9	2.6
Purchase obligations:					
ATCO Gas natural gas purchase contracts (1)	9.0	1.1	2.2	2.2	3.5
Alberta Power (2000) coal purchase contracts (2)	656.8	47.3	98.9	105.0	405.6
Alberta Power (2000) capital expenditures (3)	8.8	8.8	-	-	-
ATCO Electric capital expenditures (4).....	19.6	19.1	0.5	-	-
Other	13.7	13.7	-	-	-
Total.....	2,864.5	273.8	271.9	364.1	1,954.7

Notes:

- (1) ATCO Gas has ongoing obligations to purchase fixed quantities of natural gas from various gas producers at market prices that are in effect at the time the quantities are purchased. These obligations relate primarily to operational contracts pertaining to the Carbon natural gas storage facility, which was not included in the Transfer of the Retail Energy Supply Businesses to DEML and continues to be subject to AEUB regulation. Some of these obligations are for the life of the gas reserves. The estimated value of these purchase obligations is based on the market price of natural gas in effect on December 31, 2005, and assumes a remaining life of 10 years for the gas reserves commencing January 1, 2004. DEML has agreed to purchase the natural gas purchased under these contracts at the prices paid by ATCO Gas.
- (2) Alberta Power (2000) has fixed price long term contracts to purchase coal for its coal-fired generating plants. These costs are recoverable pursuant to the power purchase arrangements.
- (3) Alberta Power (2000) has entered into contracts with suppliers to improve operating efficiency at certain of its generating plants.
- (4) ATCO Electric has entered into various contracts to purchase goods and services with respect to its capital expenditure programs.

At December 31, 2005, the Corporation had the following credit lines that enable it to obtain funding for general corporate purposes.

	Total	Used	Available
(\$ Millions)			
Short term committed	300.0	-	300.0
Uncommitted	29.1	0.5	28.6
Total.....	329.1	0.5	328.6

The amount and timing of future financings will depend on market conditions and the specific needs of the Corporation.

Current and long term future income tax liabilities of \$69.0 million at December 31, 2005, are attributable to differences between the financial statement carrying amounts of assets and liabilities and their tax bases. These differences result primarily from recognizing revenue and expenses in different years for financial and tax reporting purposes. Future income taxes will become payable when such differences are reversed through the settlement of liabilities and realization of assets.

On January 16, 2004, the Corporation filed a base shelf prospectus which permits the Corporation to issue up to an aggregate of \$750.0 million of debentures over the twenty-five month life of the prospectus.

- On January 23, 2004, the Corporation issued \$180.0 million of 5.432% Debentures due January 23, 2019, at a price of 100 to yield 5.432%. The proceeds of the issue were advanced to ATCO Electric, ATCO Gas, ATCO Pipelines and CU Water and used to fund capital expenditures, repay indebtedness and for general corporate purposes.
- On November 18, 2004, the Corporation issued \$100.0 million of 5.096% Debentures due November 18, 2014, at a price of 100 to yield 5.096% and \$200.0 million of 5.896% Debentures due November 20, 2034, at a price of 100 to yield 5.896%. The proceeds of the issues were advanced to ATCO Electric, ATCO Gas, ATCO Pipelines and CU Water and used to fund capital expenditures, repay indebtedness and for general corporate purposes.
- On November 21, 2005, the Corporation issued \$185.0 million of 5.183% Debentures due November 21, 2035, at a price of 100 to yield 5.183%. The proceeds of the issue were advanced to ATCO Electric, ATCO Gas and ATCO Pipelines and used to fund capital expenditures, repay indebtedness and for general corporate purposes.

OUTSTANDING SHARE DATA

At February 23, 2006, the Corporation had outstanding 124 Class A shares and 76 Class B shares, all of which are owned by Canadian Utilities Limited.

TRANSACTIONS WITH RELATED PARTIES

The Corporation's transactions with related parties are in the normal course of business and under normal commercial terms. For a description of these transactions, refer to Note 16 to the consolidated financial statements.

BUSINESS RISKS

On February 16, 2005, the Kyoto Protocol came into effect. The Corporation is unable to determine what impact the protocol may have on its operations as the Government of Canada has not yet provided industry specific details for its 2005 Climate Change Plan. It is anticipated that the Corporation's power purchase arrangements ("PPA's") relating to its coal-fired generating plants will allow the Corporation to recover any increased costs associated with the implementation of the protocol.

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

Weather

Weather fluctuations have a significant impact on throughput in ATCO Gas. Since approximately 50% of ATCO Gas' delivery charge is recovered based on throughput, ATCO Gas' revenues and earnings are sensitive to weather. Weather that is 10% warmer or colder than normal temperatures impacts annual earnings by approximately \$11.4 million.

Transfer of the Retail Energy Supply Businesses

Although ATCO Gas and ATCO Electric have transferred to DEML certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions, the legal obligations of ATCO Gas and ATCO Electric remain if DEML fails to perform. In certain events (including where DEML fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AEUB to do so), the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and/or ATCO Electric.

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

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

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

Late Payment Penalties on Utility Bills

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

Alberta Power (2000)

Included in regulated operations are the generating plants of Alberta Power (2000), which were regulated by the AEUB until December 31, 2000, but are now governed by legislatively mandated PPA's that were approved by the AEUB. These plants are included in regulated operations primarily because the PPA's are designed to allow the owners of generating plants constructed before January 1, 1996, to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPA's. The plants will become deregulated upon the expiry of the PPA's. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant and December 31, 2020.

Substantially all the electricity generated by Alberta Power (2000) is sold pursuant to PPA's. Under the PPA's, Alberta Power (2000) is required to make the generating capacity for each generating unit available to the purchaser

of the PPA for that unit. In return, Alberta Power (2000) is entitled to recover its forecast fixed and variable costs for that unit from the PPA purchaser, including a return on common equity equal to the long term 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 PPA's were based.

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

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

At December 31, 2005, the Corporation had recorded \$59.7 million of deferred availability incentives.

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

As a result of unprecedented drought conditions, the water levels in the cooling pond used by the Battle River generating plant in its production of electricity had fallen to all-time lows in early 2003 and in 2004 and the Corporation was forced to curtail production of electricity. Water levels in the cooling pond have returned to normal for this time of year and there has been no curtailment of production in 2005 or to date in 2006.

Alberta Environment plans to implement mercury emission standards for coal-fired generating plants through a new provincial regulation that is expected to be in place by March 2006. Owners of coal-fired generating plants are required to submit proposals on capturing at least 70% of the mercury in the coal burned in their plants by March 2007. The proposals for mercury emission reduction must be implemented by 2010. It is anticipated that the Corporation's PPA's relating to its coal-fired generating plants will allow the Corporation to recover most of the costs associated with complying with the new regulation.

Measurement Inaccuracies in Metering Facilities

Measurement inaccuracies occur from time to time with respect to ATCO Electric's, ATCO Gas' and ATCO Pipelines' metering facilities. Measurement adjustments are settled between the parties based on the requirements of the Electricity and Gas Inspections Act (Canada) and applicable regulations issued pursuant thereto. There is a risk of disallowance of the recovery of a measurement adjustment if controls and timely follow up are found to be inadequate by the AEUB.

CONTINGENCIES

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

HEDGING

In conducting its business, the Corporation uses various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes. For details on the financial instruments in place at December 31, 2005, refer to Note 18 to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

Unrecorded future income tax liabilities of the regulated operations amounted to \$171.3 million at December 31, 2005. This balance includes \$28.2 million in respect of Alberta Power (2000)'s generating plants, which will be recovered through future payments received in respect of the PPA's. The remainder, amounting to \$143.1 million, is expected to be recovered from utility customers through inclusion in future rates. There are tax loss carryforwards of \$0.5 million for which no tax benefit has been recorded. These losses will expire in 2011. For additional information on the Corporation's unrecorded future income tax liabilities, refer to Note 6 to the consolidated financial statements.

Other than the financial instruments discussed under "Hedging", the Corporation does not have any off-balance sheet arrangements that have, or are likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, such considerations as liquidity and capital resources.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. On an on-going basis, management reviews its estimates, particularly those related to depreciation and amortization methods, useful lives and impairment of long-lived assets, amortization of deferred availability incentives and asset retirement obligations, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. The Corporation's critical accounting estimates are discussed below.

Deferred Availability Incentives

As noted in the Business Risks section, Alberta Power (2000) is subject to an incentive/penalty regime related to generating unit availability. As at December 31, 2005, the Corporation had recorded \$59.7 million of deferred availability incentives. The amortization of deferred availability incentives, which was recorded in revenues, amounted to \$8.9 million in 2005.

The amount to be amortized is dependent upon estimates of future generating unit availability and future electricity prices over the term of the PPA's. Each quarter, the Corporation uses these estimates to forecast high case, low case and most likely scenarios for the incentives to be received from, less penalties to be paid to, the PPA counterparties. These forecasts are added to the accumulated unamortized deferred availability incentives outstanding at the end of the quarter; the resulting total is divided by the remaining term of the PPA to arrive at the amortization for the quarter.

Compared to the most likely scenario recorded in revenues for the year, the high case scenario would have resulted in higher revenues of approximately \$4.3 million, whereas the low case scenario would have resulted in lower revenues of approximately \$2.2 million.

CHANGES IN ACCOUNTING POLICIES

During 2005, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) pertaining to the consolidation of variable interest entities and lease arrangements. None of these policies had any material effect on the Corporation’s financial statements. These changes in accounting policy are discussed in Note 1 to the consolidated financial statements.

Effective December 31, 2005, the Corporation retroactively adopted the CICA guideline pertaining to the disclosure and presentation of information by entities subject to rate regulation. This guideline no longer permits the netting of accrued and regulatory pension and other post employment benefits assets and liabilities, with the result that the Corporation’s total assets and liabilities reported in 2004 increased by \$16.8 million. This change in presentation had no effect on the Corporation’s earnings or cash flows. Accounting for rate regulated operations is described in Note 2 to the consolidated financial statements.

February 23, 2006