CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of CU Inc. (our, we, us, or the Company) during the nine months ended September 30, 2019.

This MD&A was prepared as of October 30, 2019, and should be read with the Company's unaudited interim consolidated financial statements for the nine months ended September 30, 2019. Additional information, including the Company's previous MD&A, Annual Information Form (2018 AIF), and audited consolidated financial statements for the year ended December 31, 2018, is available on SEDAR at www.sedar.com. Information contained in the 2018 MD&A is not discussed in this MD&A if it remains substantially unchanged.

The Company is controlled by Canadian Utilities Limited, which in turn is controlled by ATCO Ltd. (ATCO) and its controlling share owner Sentgraf Enterprises Ltd. and their controlling share owner, the Southern family.

Terms used throughout this MD&A are defined in the Glossary at the end of this document.

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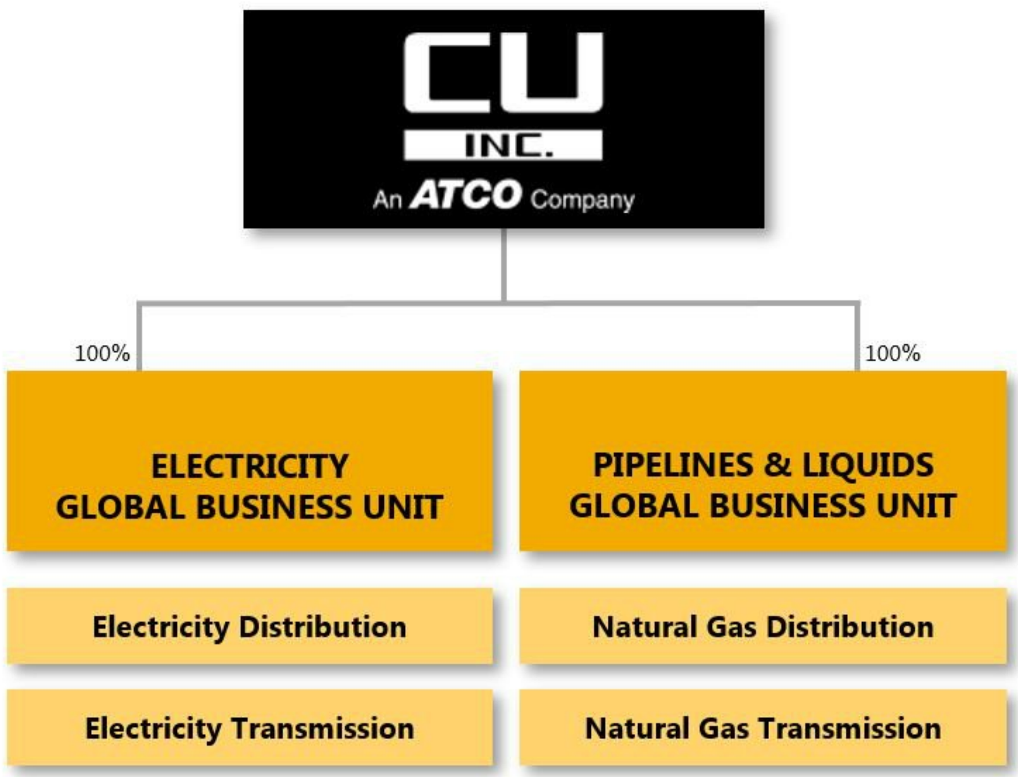
COMPANY OVERVIEW

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO Company. CU Inc. is an Alberta-based corporation with approximately 3,500 employees and assets of $17 billion comprised of rate-regulated utility operations in natural gas and electricity distribution and transmission. More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

THE UTILITIES

The Utilities' activities are conducted through regulated businesses in two Business Units within western and northern Canada: Electricity, which includes Electricity Distribution and Electricity Transmission, and Pipelines & Liquids, which includes Natural Gas Distribution and Natural Gas Transmission.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



The unaudited interim consolidated financial statements include the accounts of CU Inc. and all of its subsidiaries. The unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

UTILITIES PERFORMANCE

REVENUES

Utilities revenues of $618 million in the third quarter of 2019 were $71 million higher than the same period in 2018 mainly due to higher flow through revenues in natural gas distribution for third party franchise and transmission fees, and ongoing growth in the regulated rate base.

Utilities revenues of $2,015 million in the first nine months of 2019 were $185 million higher than the same period in 2018, mainly due to settlement of the electricity transmission 2013-2014 deferral application, higher flow through revenues in natural gas distribution for third party franchise and transmission fees, and ongoing growth in the regulated rate base.

ADJUSTED EARNINGS

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Electricity						
Electricity Distribution	**26**	26	–	**95**	86	9
Electricity Transmission	**47**	44	3	**151**	134	17
Total Electricity	**73**	70	3	**246**	220	26
Pipelines & Liquids						
Natural Gas Distribution	**(18)**	(18)	–	**57**	46	11
Natural Gas Transmission	**18**	16	2	**57**	52	5
Total Pipelines & Liquids	**–**	(2)	2	**114**	98	16
Corporate & Other and Intersegment Eliminations	**–**	4	(4)	**1**	4	(3)
Total Utilities Adjusted Earnings [(1)]	**73**	72	1	**361**	322	39

(1) Additional information regarding this measure is provided in the Non-GAAP and Additional GAAP Measures section of this MD&A.

Utilities adjusted earnings were $73 million in the third quarter of 2019 and $361 million in the first nine months of 2019, $1 million and $39 million higher than the same periods in 2018. Higher earnings were mainly due to favourable electricity and natural gas transmission regulatory decisions, ongoing growth in the regulated rate base, cost efficiencies, and lower income taxes.

Detailed information about the activities and financial results of the Utilities businesses is provided in the following sections.

ELECTRICITY

Electricity activities are conducted by Electricity Distribution and Electricity Transmission and their subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife). These businesses provide regulated electricity distribution and transmission mainly in northern and central east Alberta, the Yukon and the Northwest Territories.

Electricity Distribution

In the third quarter of 2019, electricity distribution adjusted earnings of $26 million were comparable to the same period in 2018.

In the first nine months of 2019, electricity distribution adjusted earnings of $95 million were $9 million higher than the same period in 2018. Higher earnings were mainly due to continued growth in the rate base, cost efficiencies and lower income taxes.

Electricity Transmission

Electricity transmission earned $47 million and $151 million in the third quarter and first nine months of 2019, $3 million and $17 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to the impact of the 2018-2019 general tariff application (GTA) decision received in July 2019 which approved higher rates for 2019.

PIPELINES & LIQUIDS

Our Pipelines & Liquids activities are conducted through two regulated businesses, Natural Gas Distribution and Natural Gas Transmission.

Natural Gas Distribution

Natural gas distribution services municipal, residential, business and industrial customers throughout Alberta and in the Lloydminster area of Saskatchewan.

Natural gas distribution recorded a loss of $18 million in the third quarter of 2019, comparable to the same period in 2018.

Natural gas distribution recorded adjusted earnings of $57 million in the first nine months of 2019, $11 million higher than the same period in 2018, mainly due to ongoing growth in the rate base and customers, cost efficiencies and lower income taxes.

Natural Gas Transmission

Natural gas transmission receives natural gas on its pipeline system from various gas processing plants as well as from other natural gas transmission systems and transports it to end users within the province of Alberta or to other pipeline systems, primarily for export out of the province.

Natural gas transmission recorded adjusted earnings of $18 million in the third quarter of 2019 and $57 million in the first nine months of 2019, $2 million and $5 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to continued growth in the rate base and lower income taxes.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

In the third quarter and first nine months of 2019, Corporate & Other and Intersegment Eliminations were $4 million and $3 million lower than the same periods in 2018 mainly due to timing of certain other expenses.

REGULATORY DEVELOPMENTS

ATCO ELECTRIC RECOVERY OF 2016 REGIONAL MUNICIPALITY OF WOOD BUFFALO WILDFIRE COSTS

In October 2019, the AUC issued two decisions associated with ATCO Electric's application for the recovery of costs related to the 2016 Regional Municipality of Wood Buffalo wildfire. Electricity transmission's applied-for cost recoveries were all substantially approved as part of the ATCO Electric Transmission 2018-2019 GTA. Approximately 90 per cent of the applied-for cost recoveries were approved in ATCO Electric Distribution's Z Factor application. The capital cost to replace the destroyed assets was approved as filed as were the majority of the operating and maintenance costs and recovery for lost revenues. However, the value of electricity distribution's destroyed assets were deemed to be an extraordinary retirement and were not approved for recovery in customer rates, resulting in a reduction of electricity distribution adjusted earnings of $2 million after-tax.

ATCO ELECTRIC TRANSMISSION 2020-2022 GTA

On October 3, 2019, ATCO Electric Transmission filed a GTA for its operations for 2020, 2021, and 2022. The application requests, among other things, additional revenues to recover higher depreciation costs. The application also requests, at ATCO Electric Transmission's discretion, the ability to advance an application to establish 2023 and 2024 revenue requirements by escalating the 2022 approved revenue requirement. A decision from the AUC is expected by the fourth quarter of 2020.

ATCO ELECTRIC DISTRIBUTION DEPRECIATION PROCEEDING

In the third quarter of 2019, the AUC issued a decision for electricity distribution on depreciation parameters that extends the overall depreciable life of the electricity distribution assets and incorporates historical retirements related to severe weather events. The Commission determined the depreciation parameters as filed are reasonable, resulting in an electricity distribution depreciation rate change and lowered depreciation expense in the third quarter of 2019.

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

We believe that reducing our environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. Our success depends on our ability to operate in a responsible and sustainable manner, today and in the future.

SUSTAINABILITY REPORTING

ATCO, the controlling share owner of CU Inc., has been publishing external sustainability reports since 2008. These reports include CU Inc.'s operations sustainability performance data.

The ATCO 2018 Sustainability Report, released in June 2019, focuses on key material topics including:

- Energy Stewardship: access and affordability, security and reliability, and customer satisfaction,
- Environmental Stewardship: climate change and energy use, and environmental compliance,
- Safety: employee health and safety, public safety, and emergency preparedness, and
- Community and Indigenous relations.

The Sustainability Report is based upon the internationally recognized Global Reporting Initiative (GRI) Standards. Our reporting is also guided by frameworks such as the Sustainability Accounting Standards Board and the Financial Stability Board's Task Force on Climate-related Financial Disclosures' recommendations.

The 2018 Sustainability Report, Sustainability Framework Reference Document, and other disclosures are available on our website, at www.ATCO.com.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the third quarter and first nine months of 2019 and 2018 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Operating costs	**293**	255	38	**894**	885	9
Depreciation and amortization	**105**	124	(19)	**360**	387	(27)
Net finance costs	**73**	86	(13)	**251**	258	(7)
Income taxes	**35**	22	13	**(79)**	81	(160)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, increased by $38 million in the third quarter of 2019 compared to the same period in 2018 mainly due to increased plant and equipment maintenance and higher flow-through expenses in natural gas distribution for third party franchise and transmission fees in the Utilities.

Operating costs of $894 million in the first nine months of 2019 were comparable to the same period in 2018.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense decreased by $19 million and $27 million in the third quarter and first nine months of 2019 when compared to the same periods in 2018, mainly due to an electricity distribution depreciation rate change in the third quarter of 2019 that extends the overall depreciable life of the electricity distribution assets.

NET FINANCE COSTS

Net finance costs decreased by $13 million and $7 million in the third quarter and first nine months of 2019 when compared to the same periods in 2018, mainly due to the early settlement of the long-term advances in accordance with the financing agreement with Alberta Power (2000) Ltd.

INCOME TAXES

Income taxes increased by $13 million in the third quarter of 2019 compared to the same period in 2018 mainly due to higher earnings before income taxes.

Income taxes decreased by $160 million in the first nine months of 2019 when compared to the same periods in 2018 mainly due to lower corporate income tax rates enacted by the Government of Alberta in June 2019, partially offset by higher earnings before income taxes. In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent over four years, commencing with a one per cent decrease on July 1, 2019, followed by one per cent reductions on January 1 of each of the next three years.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position is supported by Utility operations. Our business strategies, funding of operations, and planned future growth are supported by maintaining strong investment grade credit ratings and access to capital markets at competitive rates. Primary sources of capital are cash flow from operations, the debt and preferred share capital markets and injections of equity from Canadian Utilities Limited. Liquidity is generated by cash flow from operations and is supported by appropriate levels of cash and available committed credit facilities.

CREDIT RATINGS

Credit ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.

On July 17, 2019, Dominion Bond Rating Service affirmed its 'A (high)' long-term corporate credit rating and stable outlook on CU Inc.

On October 3, 2019, S&P Global Ratings affirmed its "A-" long-term issuer credit rating and stable outlook on CU Inc.

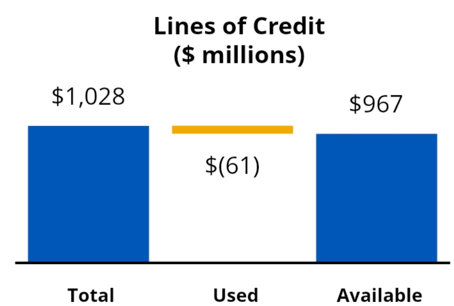
LINES OF CREDIT

At September 30, 2019, CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**900**	1	899
Uncommitted	**128**	60	68
Total	**1,028**	61	967

Of the $1,028 million in total credit lines, $128 million was in the form of uncommitted credit facilities with no set maturity date.

The other $900 million in credit lines was committed with maturities between 2020 and 2021, unless extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.



CONSOLIDATED CASH FLOW

At September 30, 2019, the Company's cash position was $211 million, an increase of $190 million compared to December 31, 2018 mainly due to higher earnings for the period and the receipt of $130 million in settlements of long-term advances from Alberta Power (2000) Ltd., a subsidiary of the Company's parent.

Funds Generated by Operations

Funds generated by operations were $342 million in the third quarter of 2019, $54 million higher than the same period in 2018, mainly due to higher earnings.

Funds generated by operations were $1,152 million in the first nine months of 2019, $213 million higher than the same period in 2018, mainly due to higher earnings, the 2018 impact of a refund of customer deferral accounts in electricity transmission, and a refund of over collected transmission costs in natural gas distribution.

Cash Used for Capital Expenditures

Capital expenditures were $252 million in the third quarter of 2019, $17 million higher than the same period in 2018. The increase was mainly due to higher capital spending in natural gas distribution.

Capital expenditures were $645 million in the first nine months of 2019, $62 million lower than the same period in 2018. The decrease was mainly due to lower planned capital spending in the Utilities.

Capital expenditures for the third quarter and first nine months of 2019 and 2018 are shown in the table below.

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Electricity Distribution	**63**	58	5	**151**	164	(13)
Electricity Transmission	**32**	39	(7)	**139**	159	(20)
Natural Gas Distribution	**88**	75	13	**192**	210	(18)
Natural Gas Transmission	**69**	63	6	**163**	174	(11)
Total [(1)]	**252**	235	17	**645**	707	(62)

(1) Includes additions to property, plant and equipment, intangibles and $5 million and $13 million (2018 - $5 million and $15 million) of interest capitalized during construction for the second quarter and first half of 2019.

Base Shelf Prospectuses

On June 11, 2018, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of October 30, 2019, aggregate issuances of debentures were $965 million.

SHARE CAPITAL

CU Inc. equity securities consist of Class A shares and Class B shares.

At October 29, 2019, the Company had outstanding 3,570,322 Class A shares and 2,188,262 Class B shares.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended December 31, 2017 through September 30, 2019.

($ millions)	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Revenues	677	759	638	**618**
Earnings for the period	126	174	303	**112**
Adjusted earnings				
Electricity	68	83	90	**73**
Pipelines & Liquids	84	88	26	–
Corporate & Other and Intersegment Eliminations	1	1	–	–
Total adjusted earnings	153	172	116	**73**

($ millions)	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Revenues	696	751	532	547
Earnings (loss) for the period	114	169	(10)	60
Adjusted earnings				
Electricity	80	73	77	70
Pipelines & Liquids	77	85	15	(2)
Corporate & Other and Intersegment Eliminations	–	–	–	4
Total adjusted earnings	157	158	92	72

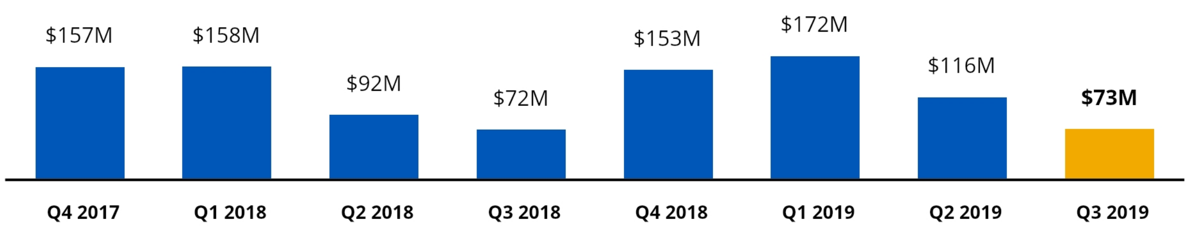
ADJUSTED EARNINGS

Our financial results over the previous eight quarters reflect the large capital expenditure made by the Utilities. These investments earn a return under a regulated business model and drive growth in adjusted earnings. Our earnings have also been impacted by the timing of certain major regulatory decisions. In addition, interim results will vary due to the seasonal nature of demand for electricity and natural gas.

In 2017, earnings were positively impacted by capital investment and rate base growth. Fourth quarter 2017 earnings were positively impacted by growth in rate base across our Utilities and growth in customers in our natural gas distribution business.

In the first quarter of 2018, higher seasonal demand in natural gas distribution and growth in rate base across the Utilities were partially offset by rate rebasing under Alberta's regulated model in electricity distribution and natural gas distribution. In the second, third, and fourth quarters of 2018, lower earnings compared to the same periods in 2017 were mainly due to rate rebasing under Alberta's regulated model in electricity distribution and natural gas distribution and lower interim rates approved by the Alberta Utilities Commission (AUC) for electricity transmission, partially offset by growth in rate base across the Utilities, and higher seasonal demand in natural gas distribution.

In the first quarter of 2019, higher earnings were mainly due to ongoing growth in the regulated rate base and cost efficiencies in electricity distribution and natural gas distribution. In the second and third quarters of 2019, higher earnings compared to the same periods in 2018 were mainly due to favourable electricity and natural gas transmission regulatory decisions, ongoing growth in the regulated rate base, cost efficiencies, and lower income taxes.



NON-GAAP AND ADDITIONAL GAAP MEASURES

Adjusted earnings are defined as earnings for the period after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings for the period is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 4 of the unaudited interim consolidated financial statements.

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. A reconciliation of funds generated by operations to cash flows from operating activities is presented in this MD&A.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE PERIOD

Adjusted earnings are earnings for the period after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings that management uses to assess segment performance and allocate resources. It is management's view that adjusted earnings allow a better assessment of the economics of rate regulation in Canada than IFRS earnings.

($ millions)					**Three Months Ended September 30**
2019 / **2018**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**343**	**276**	**–**	**(1)**	**618**
	329	218	–	–	547
Adjusted earnings (loss)	**73**	**–**	**–**	**–**	**73**
	70	(2)	–	4	72
Prepayment penalty received on early settlement of long-term advances to affiliate companies	**–**	**–**	**12**	**–**	**12**
	–	–	–	–	–
Rate-regulated activities	**8**	**19**	**–**	**–**	**27**
	(3)	(12)	–	–	(15)
IT Common Matters decision	**(2)**	**(1)**	**–**	**–**	**(3)**
	–	–	–	–	–
Dividends on equity preferred shares of the Company	**1**	**2**	**–**	**–**	**3**
	1	2	–	–	3
Earnings (loss) for the period	**80**	**20**	**12**	**–**	**112**
	68	(12)	–	4	60

($ millions)					Nine Months Ended September 30
2019					
2018	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**1,042**	**975**	**–**	**(2)**	**2,015**
	945	885	–	–	1,830
Adjusted earnings	**246**	**114**	**–**	**1**	**361**
	220	98	–	4	322
Prepayment penalty received on early settlement of long-term advances to affiliate companies	**–**	**–**	**12**	**–**	**12**
	–	–	–	–	–
Restructuring and other costs	**–**	**–**	**–**	**–**	**–**
	(25)	(14)	–	–	(39)
Rate-regulated activities	**125**	**100**	**–**	**–**	**225**
	(69)	(3)	–	–	(72)
IT Common Matters decision	**(9)**	**(8)**	**–**	**–**	**(17)**
	–	–	–	–	–
Dividends on equity preferred shares of the Company	**4**	**4**	**–**	**–**	**8**
	4	4	–	–	8
Earnings for the period	**366**	**210**	**12**	**1**	**589**
	130	85	–	4	219

PREPAYMENT PENALTY RECEIVED ON EARLY SETTLEMENT OF LONG-TERM ADVANCES TO AFFILIATE COMPANIES

In the third quarter of 2019, the Company recorded $16 million ($12 million after-tax) related to a prepayment penalty fee on the early repayment of $78 million of long-term advances issued to its affiliate company. The repaid amounts were originally due from 2020 to 2023.

RESTRUCTURING AND OTHER COSTS

In the second quarter of 2018, restructuring and other costs not in the normal course of business of $39 million after-tax were recorded. These costs mainly relate to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.

RATE-REGULATED ACTIVITIES

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas and ATCO Pipelines are collectively referred to as Utilities.

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the Utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the Utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulator's decisions on revenues.

Rate-regulated accounting differs from IFRS in the following ways:

Timing Adjustment	Items	RRA Treatment	IFRS Treatment
Additional revenues billed in current period	Future removal and site restoration costs, and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes and impact of warmer temperatures.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

The significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs [1]	**18**	19	(1)	**55**	58	(3)
Impact of colder temperatures [2]	**2**	6	(4)	**14**	18	(4)
Revenues to be billed in future periods						
Deferred income taxes [3]	**(16)**	(20)	4	**(71)**	(78)	7
Deferred income taxes due to decrease in provincial corporate tax [4]	**–**	–	–	**210**	–	210
Regulatory decisions received (see below)	**3**	–	3	**–**	–	–
Settlement of regulatory decisions and other items [5]	**20**	(20)	40	**17**	(70)	87
	27	(15)	42	**225**	(72)	297

(1) Removal and site restoration costs are billed to customers over the estimated useful life of the related assets based on forecast costs to be incurred in future periods.

(2) ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the normal in the current period are refunded to or recovered from customers in future periods.

(3) Income taxes are billed to customers when paid by the Company.

(4) In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent. This decrease is being phased in increments from July 1, 2019 to January 1, 2022. As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings in the second quarter of 2019 by $210 million.

(5) *For the nine months ended September 30, 2018, ATCO Electric recorded a decrease in earnings for the period of $38 million mainly related to the refund of deferral account balances for 2013 and 2014. ATCO Gas also recorded a reduction in earnings for the period of $33 million related to the refund of previously over collected transmission costs.*

Regulatory Decisions Received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. A description of the significant regulatory decisions recognized in adjusted earnings in 2019 is provided below.

	Decision	Amount	Description
1.	Information Technology (IT) Common Matters	17	In August 2014, CU Inc.'s parent, Canadian Utilities Limited (CU), sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. In 2015, the AUC commenced the Information Technology Common Matters proceeding to review the recovery of IT costs by the Alberta Utilities from January 1, 2015 going forward. On June 5, 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13 per cent and to apply a glide path that reduces pricing by 4.61 per cent in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to September 30, 2019 was $17 million. Of this amount, $14 million relates to the period January 1, 2019 to June 30, 2019 and was recorded in the second quarter of 2019. The remaining $3 million was recorded in the third quarter of 2019.
2.	ATCO Electric Transmission General Tariff Application (GTA)	(17)	In June 2017, ATCO Electric Transmission filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of capital expenditures and operating costs requested. The increase in adjusted earnings resulting from the decision of $17 million was recorded in the second quarter of 2019.

IT COMMON MATTERS DECISION

As described in the IT Common Matters decision above, in August 2014, CU Inc.'s parent, CU sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. Proceeds of the sale were $204 million, resulting in a one-time after-tax gain of $138 million. In 2014, CU did not include this gain on sale in adjusted earnings because it was a significant one-time event.

In June 2019, the AUC issued its decision regarding the IT Common Matters proceeding which is described in the regulatory decisions received section above. In the proceeding, the Company presented a considerable amount of evidence, including expert benchmarking and price review studies to support that the Wipro MSA rates were at fair market value. As such, there was no cross subsidization between the sale price of the CU's IT services business to Wipro in the 2014 transaction and the establishment of IT rates under the MSA. Despite these efforts the AUC found that the Alberta Utilities failed to demonstrate that the IT pricing in the MSA would result in just and reasonable rates.

Consistent with the treatment in 2014, the $17 million reduction recognized in 2019 year-to-date, along with future impacts associated with this decision, will be excluded in adjusted earnings.

OTHER FINANCIAL INFORMATION

ACCOUNTING CHANGES

On January 1, 2019, the Company adopted the new accounting standard, IFRS 16 *Leases*, which replaces IAS 17 *Leases* and related interpretations. This standard introduces a new approach to lease accounting that requires a lessee to recognize right-of-use assets and lease liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance.

The Company adopted the standard using the modified retrospective approach which does not require restatement of prior period financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information in the unaudited interim consolidated financial statements is not restated.

On adoption of the new standard on January 1, 2019, the Company recognized $8 million of right-of-use assets and $8 million of lease liabilities. The right-of-use assets and lease liabilities relate to leases for land and buildings. From January 1, 2019, the Company recognizes depreciation expense on right-of-use assets and interest expense on lease liabilities with lease payments recorded as a reduction of the lease liability. Prior to the adoption of IFRS 16, lease payments were recorded as expenses in the statement of earnings. The adoption of IFRS 16 has not had a significant impact on earnings. Further information on the adoption of IFRS 16, right-of-use assets and lease liabilities are provided in Notes 3, 8 and 11 of the unaudited interim consolidated financial statements.

In June 2019, the IFRS Interpretations Committee, acting on a request for interpretation, concluded that a pipeline sub-surface arrangement is, or contains, a lease under IFRS 16. A pipeline sub-surface arrangement is an agreement with a landowner to lay an underground pipeline in exchange for consideration. It contains a lease because the underground space is physically distinct from the landowner's land, and the owner of the pipeline has exclusive use of the underground space. The Company is currently assessing the impact of the interpretation on its pipeline sub-surface arrangements. The assessment is expected to be complete before the end of 2019. Based on the preliminary analysis performed to date, the impact on the consolidated financial statements is not expected to be significant.

There are no other new or amended standards issued, but not yet effective, that the Company anticipates will have a material effect on the unaudited interim consolidated financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on July 1, 2019, and ended on September 30, 2019, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD-LOOKING INFORMATION

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

The Company's actual results could differ materially from those anticipated in any forward-looking information contained in this MD&A as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Company.

Any forward-looking information contained in this MD&A represents the Company's expectations as of the date hereof, and is subject to change after such date. The Company disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

GLOSSARY

AUC means the Alberta Utilities Commission.

Alberta Utilities or **Utilities** means Electricity Distribution (ATCO Electric Distribution), Electricity Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas) and Natural Gas Transmission (ATCO Pipelines).

Class A shares means Class A non-voting shares of the Company.

Class B shares means Class B common shares of the Company.

CODM means Chief Operating Decision Maker, and is comprised of the Chair, Chief Executive Officer, and the other members of the Executive Committee.

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

Earnings means Adjusted Earnings as defined in the Non-GAAP and Additional GAAP Measures section of this MD&A.

GAAP means Canadian generally accepted accounting principles.

IFRS means International Financial Reporting Standards.

Km means kilometre.

PBR means Performance Based Regulation.