



An **ATCO** Company

CU INC.
INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

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CONSOLIDATED STATEMENTS OF EARNINGS

<i>(millions of Canadian Dollars)</i>	Note	Three Months Ended June 30		Six Months Ended June 30	
		2019	2018	2019	2018
Revenues	5	638	532	1,397	1,283
Costs and expenses					
Salaries, wages and benefits		(52)	(92)	(101)	(143)
Energy transmission and transportation		(50)	(45)	(100)	(89)
Plant and equipment maintenance		(40)	(41)	(72)	(75)
Fuel costs		(3)	(3)	(7)	(8)
Purchased power		(18)	(17)	(42)	(40)
Depreciation and amortization		(128)	(141)	(255)	(263)
Franchise fees		(55)	(44)	(129)	(123)
Property and other taxes		(16)	(17)	(32)	(35)
Other		(62)	(59)	(118)	(117)
		(424)	(459)	(856)	(893)
Operating profit		214	73	541	390
Interest income		3	3	7	7
Interest expense		(93)	(90)	(185)	(179)
Net finance costs		(90)	(87)	(178)	(172)
Earnings (loss) before income taxes		124	(14)	363	218
Income tax recovery (expense)	6	179	4	114	(59)
Earnings (loss) for the period		303	(10)	477	159

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(millions of Canadian Dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Earnings (loss) for the period	303	(10)	477	159
Other comprehensive (loss) income, net of income taxes				
Items that will not be reclassified to earnings:				
Re-measurement of retirement benefits ⁽¹⁾	(1)	1	(10)	1
Comprehensive income (loss) for the period	302	(9)	467	160

(1) Net of income taxes of \$1 million and \$4 million for the three and six months ended June 30, 2019 (2018 - \$(1) million and \$(1) million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

		June 30	December 31
<i>(millions of Canadian Dollars)</i>	Note	2019	2018
ASSETS			
Current assets			
Cash		18	21
Accounts receivable and contract assets		282	366
Accounts receivable from parent and affiliate companies		36	39
Long-term advances to affiliate company		52	52
Inventories		20	15
Prepaid expenses and other current assets		23	27
		431	520
Non-current assets			
Property, plant and equipment	7	15,222	15,089
Intangibles		562	557
Right-of-use assets	3, 8	7	–
Long-term advances to affiliate company		78	78
Other assets		11	11
Total assets		16,311	16,255
LIABILITIES			
Current liabilities			
Bank indebtedness		4	–
Accounts payable and accrued liabilities		271	410
Accounts payable to parent and affiliate companies		21	42
Lease liabilities	3, 11	2	–
Other current liabilities		4	6
Short-term debt	10	50	25
Long-term debt	9	300	480
		652	963
Non-current liabilities			
Deferred income tax liabilities		1,193	1,325
Retirement benefit obligations		163	149
Customer contributions		1,691	1,683
Lease liabilities	3, 11	5	–
Other liabilities		27	18
Long-term debt	9	7,473	7,472
Total liabilities		11,204	11,610
EQUITY			
Equity preferred shares		187	187
Equity preferred shares to parent company		79	79
Class A and Class B share owner's equity			
Class A and Class B shares		1,056	1,056
Retained earnings		3,785	3,323
		4,841	4,379
Total equity		5,107	4,645
Total liabilities and equity		16,311	16,255

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(millions of Canadian Dollars)</i>	Note	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2017		1,056	266	3,320	–	4,642
Earnings for the period		–	–	159	–	159
Other comprehensive income		–	–	–	1	1
Gains on retirement benefits transferred to retained earnings		–	–	1	(1)	–
Dividends	12, 13	–	–	(60)	–	(60)
June 30, 2018		1,056	266	3,420	–	4,742
December 31, 2018		1,056	266	3,323	–	4,645
Earnings for the period		–	–	477	–	477
Other comprehensive loss		–	–	–	(10)	(10)
Losses on retirement benefits transferred to retained earnings		–	–	(10)	10	–
Dividends	12, 13	–	–	(5)	–	(5)
June 30, 2019		1,056	266	3,785	–	5,107

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(millions of Canadian Dollars)</i>	Note	Three Months Ended June 30		Six Months Ended June 30	
		2019	2018	2019	2018
Operating activities					
Earnings (loss) for the period		303	(10)	477	159
Adjustments to reconcile earnings (loss) to cash flows from operating activities	14	39	214	333	492
Changes in non-cash working capital		(20)	51	(56)	42
Cash flows from operating activities		322	255	754	693
Investing activities					
Additions to property, plant and equipment		(180)	(214)	(358)	(431)
Additions to intangibles		(13)	(18)	(27)	(31)
Changes in non-cash working capital		(16)	(55)	(29)	(85)
Other		-	-	-	1
Cash flows used in investing activities		(209)	(287)	(414)	(546)
Financing activities					
Net issue of short-term debt	10	50	50	25	50
Repayment of long-term debt	9	-	-	(180)	-
Repayment of lease liabilities	11	-	-	(1)	-
Dividends paid on equity preferred shares	12	(2)	(2)	(5)	(5)
Dividends paid to Class A and Class B share owner	13	-	-	-	(55)
Interest paid		(111)	(103)	(192)	(185)
Interest received from parent and affiliate companies		5	4	6	6
Cash flows used in financing activities		(58)	(51)	(347)	(189)
Increase (decrease) increase in cash position		55	(83)	(7)	(42)
Beginning of period		(41)	67	21	26
End of period	14	14	(16)	14	(16)

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2019

(Tabular amounts in millions of Canadian Dollars, except as otherwise noted)

1. THE COMPANY AND ITS OPERATIONS

CU Inc. was incorporated under the laws of Canada and its debt and equity preferred shares are listed on the Toronto Stock Exchange. Its head office and registered office is at 4th Floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4. The Company is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

CU Inc. is engaged in the following business activities:

- Electricity (electricity distribution, transmission and infrastructure development); and
- Pipelines & Liquids (natural gas transmission, distribution and infrastructure development).

The unaudited interim consolidated financial statements include the accounts of CU Inc. and its subsidiaries (the Company).

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The unaudited interim consolidated financial statements are prepared according to International Accounting Standard (IAS) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and IFRS Interpretations Committee (IFRIC). They do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2018, prepared according to IFRS.

The unaudited interim consolidated financial statements are prepared following the same accounting policies used in the Company's most recent annual consolidated financial statements, except for the change in accounting policy described in Note 3 and income taxes. In interim periods, income taxes are accrued using an estimate of the annualized effective tax rate applied to year-to-date earnings.

The unaudited interim consolidated financial statements were authorized for issue by the Audit Committee, on behalf of the Board of Directors, on July 24, 2019.

BASIS OF MEASUREMENT

The unaudited interim consolidated financial statements are prepared on a historic cost basis, except for retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value.

Revenues, earnings and adjusted earnings for any quarter are not necessarily indicative of operations on an annual basis. Quarterly financial results may be affected by the seasonal nature of the Company's operations and the timing of utility rate decisions.

Certain comparative figures have been reclassified to conform to the current presentation.

3. CHANGE IN ACCOUNTING POLICY

LEASES

The Company adopted IFRS 16 *Leases* on January 1, 2019, which introduces a new approach to lease accounting. 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 these unaudited interim consolidated financial statements is not restated.

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or modified, on or after January 1, 2019.

Practical expedients

Effective January 1, 2019, the IFRS 16 transition date, the Company elected to use the following practical expedients under the modified retrospective transition approach:

- Leases with lease terms of less than twelve months (short-term leases) and leases of low-value assets (less than \$5,000 U.S. dollars) (low-value leases) that have been identified at transition, were not recognized in the consolidated balance sheet;
- Right-of-use assets on transition were measured at the amount equal to the lease liabilities at transition, adjusted by the amount of any prepaid or accrued lease payments;
- For certain leases having associated initial direct costs, the Company, at initial measurement on transition, excluded these direct costs from the measurement of the right-of-use assets; and
- Any provision for onerous lease contracts previously recognized at the date of adoption of IFRS 16, has been applied to the associated right-of-use asset recognized upon transition.

The Company as a lessee

Where the Company is a lessee, a right-of-use asset representing the right to use the underlying asset with a corresponding lease liability is recognized when the leased asset becomes available for use by the Company.

The right-of-use asset is recognized at cost and is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term on a straight-line basis. The cost of the right-of-use asset is based on the following:

- the amount of initial recognition of related lease liability;
- adjusted by any lease payments made on or before inception of the lease;
- increased by any initial direct costs incurred; and
- decreased by lease incentives received and any costs to dismantle the leased asset.

The lease term includes consideration of an option to extend or to terminate if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liabilities are initially recognized at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Subsequent to recognition, lease liabilities are measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in future lease payments arising mainly from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option.

The payments related to short-term leases and low-value leases are recognized as other expenses over the lease term in the unaudited interim consolidated statements of earnings.

Significant accounting estimates and assumptions

In the situation where the implicit interest rate in the lease is not readily determined, the Company uses judgment to estimate the incremental borrowing rate for discounting the lease payments. The Company's incremental borrowing rate generally reflects the interest rate that the Company would have to pay to borrow a similar amount at a similar term and with a similar security. The Company estimates the lease term by considering the facts and circumstances that create an economic incentive to exercise an extension or termination option. Certain qualitative and quantitative assumptions are used when evaluating these incentives.

The Company as a lessor

The Company's unaudited interim consolidated financial statements were not impacted by the adoption of IFRS 16 *Leases* in relation to lessor accounting. Lessors will continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17 *Leases*.

Sub-surface Rights

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.

IMPACT OF CHANGES IN ACCOUNTING POLICY

Impact of adoption of IFRS 16 on unaudited interim consolidated financial statements

On January 1, 2019, the Company recognized \$8 million of right-of-use assets and \$8 million of lease liabilities. The Company applied its weighted average incremental borrowing rate at January 1, 2019, 3.00 per cent, to determine the amount of lease liabilities. The effect of the adjustment to the amounts recognized in the Company's unaudited interim consolidated balance sheet at January 1, 2019 is shown below.

<i>(millions of Canadian Dollars)</i>	Note	December 31, 2018, as previously reported	IFRS 16 re- measurement adjustments on January 1, 2019	Restated
ASSETS				
Non-current assets				
Right-of-use assets	8	–	8	8
Total assets		16,255	8	16,263
LIABILITIES				
Current liabilities				
Lease liabilities	11	–	2	2
Non-current liabilities				
Lease liabilities	11	–	6	6
Total liabilities		11,610	8	11,618
EQUITY				
Equity preferred shares		187	–	187
Equity preferred shares to parent company		79	–	79
Class A and Class B share owner's equity				
Class A and Class B shares		1,056	–	1,056
Retained earnings		3,323	–	3,323
		4,379	–	4,379
Total equity		4,645	–	4,645
Total liabilities and equity		16,255	8	16,263

The reconciliation of differences between the operating lease commitments disclosed at December 31, 2018 (when applying IAS 17 *Leases*), discounted using the weighted average incremental borrowing rate at January 1, 2019, and the lease liabilities recognized upon adoption of IFRS 16 *Leases*, is shown below.

Operating lease commitments at December 31, 2018, as previously reported	25
Adjustment to reflect discounting of the operating lease commitments at December 31, 2018, using the weighted average incremental borrowing rate	(2)
Lease liabilities at January 1, 2019, before exemptions and other adjustments	23
Exemptions applied upon recognition of lease liabilities:	
Short-term leases	(1)
Contracts not meeting the definition of a lease ⁽¹⁾	(15)
Recognition of the lease term extension option ⁽²⁾	1
Lease liabilities recognized at January 1, 2019	8

(1) Contracts not meeting the definition of a lease are comprised of contracts or certain components of contracts that are considered executory service arrangements.

(2) Recognition of the lease term extension option relates to leases where the extension option is reasonably certain to be exercised.

4. SEGMENTED INFORMATION

SEGMENTED RESULTS

Results by operating segment for the three months ended June 30 are shown below.

2019					
2018	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	339	299	-	-	638
	281	251	-	-	532
Revenues - intersegment	1	-	-	(1)	-
	-	-	-	-	-
Revenues	340	299	-	(1)	638
	281	251	-	-	532
Operating expenses ⁽¹⁾	(116)	(181)	-	1	(296)
	(141)	(177)	-	-	(318)
Depreciation and amortization	(78)	(50)	-	-	(128)
	(84)	(57)	-	-	(141)
Net finance costs	(57)	(32)	(1)	-	(90)
	(56)	(31)	-	-	(87)
Earnings (loss) before income taxes	89	36	(1)	-	124
	-	(14)	-	-	(14)
Income tax recovery	116	62	-	1	179
	-	4	-	-	4
Earnings (loss) for the period	205	98	(1)	1	303
	-	(10)	-	-	(10)
Adjusted earnings (loss)	90	26	(1)	1	116
	77	15	-	-	92
Capital expenditures ⁽³⁾	87	109	-	-	196
	111	127	-	-	238

Results by operating segment for the six months ended June 30 are shown below.

2019					
2018	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	698	699	-	-	1,397
	616	667	-	-	1,283
Revenues - intersegment	1	-	-	(1)	-
	-	-	-	-	-
Revenues	699	699	-	(1)	1,397
	616	667	-	-	1,283
Operating expenses ⁽¹⁾	(230)	(373)	-	2	(601)
	(260)	(370)	-	-	(630)
Depreciation and amortization	(155)	(100)	-	-	(255)
	(160)	(103)	-	-	(263)
Net finance costs	(114)	(64)	-	-	(178)
	(111)	(61)	-	-	(172)
Earnings before income taxes	200	162	-	1	363
	85	133	-	-	218
Income tax recovery (expense)	86	28	-	-	114
	(23)	(36)	-	-	(59)
Earnings for the period	286	190	-	1	477
	62	97	-	-	159
Adjusted earnings	173	114	-	1	288
	150	100	-	-	250
Total assets ⁽²⁾	10,154	6,039	137	(19)	16,311
	10,123	6,021	139	(28)	16,255
Capital expenditures ⁽³⁾	195	198	-	-	393
	226	246	-	-	472

(1) Includes total costs and expenses, excluding depreciation and amortization expense.

(2) 2018 comparatives are at December 31, 2018.

(3) Includes additions to property, plant and equipment and intangibles and \$3 million and \$8 million of interest capitalized during construction for the three and six months ended June 30, 2019 (2018 - \$6 million and \$10 million).

ADJUSTED EARNINGS

Adjusted earnings are earnings for the period after adjusting for:

- the timing of revenues and expenses for rate-regulated activities,
- dividends on equity preferred shares of the Company,
- 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 used by the Chief Operating Decision Maker (CODM) to assess segment performance and allocate resources. Other accounts in the unaudited interim consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the three months ended June 30 is shown below.

2019					
2018	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings (loss)	90	26	(1)	1	116
	77	15	-	-	92
Restructuring and other costs	-	-	-	-	-
	(25)	(14)	-	-	(39)
Rate-regulated activities	120	79	-	-	199
	(53)	(12)	-	-	(65)
IT Common Matters decision	(7)	(7)	-	-	(14)
	-	-	-	-	-
Dividends on equity preferred shares of the Company	2	-	-	-	2
	1	1	-	-	2
Earnings (loss) for the period	205	98	(1)	1	303
	-	(10)	-	-	(10)

The reconciliation of adjusted earnings and earnings for the six months ended June 30 is shown below.

2019					
2018	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings	173	114	-	1	288
	150	100	-	-	250
Restructuring and other costs	-	-	-	-	-
	(25)	(14)	-	-	(39)
Rate-regulated activities	117	81	-	-	198
	(66)	9	-	-	(57)
IT Common Matters decision	(7)	(7)	-	-	(14)
	-	-	-	-	-
Dividends on equity preferred shares of the Company	3	2	-	-	5
	3	2	-	-	5
Earnings for the period	286	190	-	1	477
	62	97	-	-	159

Restructuring and other costs

In the second quarter of 2018, the Company recorded restructuring and other costs of \$39 million, after tax, that were not in the normal course of business. These costs mainly related to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represented 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
1. 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.
2. 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.
3. 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.
4. 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 June 30		Six Months Ended June 30	
	2019	2018	2019	2018
<i>Additional revenues billed in current period</i>				
Future removal and site restoration costs ⁽¹⁾	17	20	37	39
Impact of colder temperatures ⁽²⁾	-	-	12	12
<i>Revenues to be billed in future periods</i>				
Deferred income taxes ⁽³⁾	(27)	(25)	(55)	(58)
Deferred income taxes due to decrease in provincial corporate income tax ⁽⁴⁾	210	-	210	-
<i>Regulatory decisions received (see below)</i>	(3)	-	(3)	-
<i>Settlement of regulatory decisions and other items ⁽⁵⁾</i>	2	(60)	(3)	(50)
	199	(65)	198	(57)

(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 (see Note 6). As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings for the three and six months ended June 30, 2019 by \$210 million.

(5) In the second quarter of 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 \$23 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	14	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% and to apply a glide path that reduces pricing by 4.61% in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to June 30, 2019 of \$14 million was recorded in the second 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 \$14 million reduction booked in the second quarter of 2019, along with future impacts associated with this decision, will not be included in adjusted earnings.

5. REVENUES

The Company disaggregates revenues from contracts with customers based on the revenue streams of the operating segments.

The disaggregation of revenues by revenue streams for each operating segment for the three months ended June 30 are shown below:

2019				
2018	Electricity	Pipelines & Liquids	Corporate & Other	Total
Revenue Streams				
Rendering of Services				
Distribution services	129	175	-	304
	143	143	-	286
Transmission services	168	73	-	241
	100	65	-	165
Customer contributions	10	4	-	14
	7	5	-	12
Franchise fees	9	46	-	55
	7	38	-	45
Total rendering of services	316	298	-	614
	257	251	-	508
Other	23	1	-	24
	24	-	-	24
Total	339	299	-	638
	281	251	-	532

The disaggregation of revenues by revenue streams by each operating segment for the six months ended June 30 are shown below:

2019				
2018	Electricity	Pipelines & Liquids	Corporate & Other	Total
Revenue Streams				
Rendering of Services				
Distribution services	284	436	-	720
	283	418	-	701
Transmission services	337	139	-	476
	269	129	-	398
Customer contributions	20	9	-	29
	16	9	-	25
Franchise fees	17	112	-	129
	15	110	-	125
Total rendering of services	658	696	-	1,354
	583	666	-	1,249
Other	40	3	-	43
	33	1	-	34
Total	698	699	-	1,397
	616	667	-	1,283

6. INCOME TAXES

On May 28, 2019, the Alberta government passed Bill 3, the Job Creation Tax Cut, which will reduce the Alberta provincial corporate tax rate from 12 per cent to 8 per cent in a phased approach between July 1, 2019 and January 1, 2022.

As a result of this change, the Company made an adjustment to current and deferred income taxes of \$1 million and \$210 million, respectively, which was recorded in the second quarter of 2019.

As the tax rate change came into effect on July 1, 2019, the combined federal and Alberta statutory Canadian income tax rate for 2019 is 26.5 per cent. Prior to the change, the combined federal and Alberta statutory Canadian income tax rate for 2019 was 27.0 per cent.

7. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Utility Transmission & Distribution	Land and Buildings	Construction Work-in- Progress	Other	Total
Cost					
December 31, 2018	17,946	618	455	657	19,676
Additions	–	–	369	–	369
Transfers	359	–	(362)	3	–
Retirements and disposals	(20)	(2)	–	(5)	(27)
June 30, 2019	18,285	616	462	655	20,018
Accumulated depreciation					
December 31, 2018	4,165	156	–	266	4,587
Depreciation	210	7	–	18	235
Retirements and disposals	(19)	(2)	–	(5)	(26)
June 30, 2019	4,356	161	–	279	4,796
Net book value					
December 31, 2018	13,781	462	455	391	15,089
June 30, 2019	13,929	455	462	376	15,222

The additions to property, plant and equipment included \$8 million of interest capitalized during construction for the six months ended June 30, 2019 (2018 - \$10 million).

8. RIGHT-OF-USE ASSETS

The Company's right-of-use assets mainly relate to the lease of land and buildings.

	Note	Land and Buildings
Cost		
January 1, 2019, on adoption of IFRS 16	3	8
June 30, 2019		8
Accumulated depreciation		
January 1, 2019, on adoption of IFRS 16	3	–
Depreciation		1
June 30, 2019		1
Net book value		
January 1, 2019, on adoption of IFRS 16	3	8
June 30, 2019		7

9. LONG-TERM DEBT

On January 23, 2019, the Company repaid \$180 million of 5.432 per cent debentures.

10. SHORT-TERM DEBT

At June 30, 2019, the Company had \$50 million of commercial paper outstanding at an effective interest rate of 1.95 per cent, maturing in July 2019 (December 31, 2018 - \$25 million of commercial paper outstanding at an effective interest rate of 2.31 per cent, matured in January 2019).

The commercial paper is supported by the Company's long-term committed credit facilities.

11. LEASE LIABILITIES

The Company has recognized lease liabilities in relation to the arrangements to lease land and buildings. The reconciliation of movements in lease liabilities is as follows:

	Note	
January 1, 2019, on adoption of IFRS 16	3	8
Interest expense ⁽¹⁾		-
Lease payments		(1)
		7
Less: amounts due within one year		(2)
June 30, 2019		5

(1) During the three and six months ended June 30, 2019, interest expense was less than \$1 million.

The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:

In one year or less	2
In more than one year, but not more than five years	5
In more than five years	1
	8

During the three and six months ended June 30, 2019, \$1 million and \$2 million, respectively, was expensed in relation to low-value leases, and no expenses were incurred in relation to short-term leases or leases with variable payments.

12. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT COMPANY

Cash dividends declared and paid per share are as follows:

(dollars per share)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Equity preferred shares				
Cumulative Redeemable Preferred Shares				
4.60% Series 1	0.2875	0.2875	0.5750	0.5750
2.243% Series 4	0.1402	0.1402	0.2804	0.2804
Equity preferred shares to parent company				
Perpetual Cumulative Second Preferred Shares				
4.60% Series V	0.2875	0.2875	0.5750	0.5750

The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

13. CLASS A AND CLASS B SHARES

DIVIDENDS

The Company declared and paid cash dividends of nil per Class A non-voting share and Class B common share during the three and six months ended June 30, 2019 (2018 - nil and \$9.55). The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

14. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities are summarized below.

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Depreciation and amortization	128	141	255	263
Income tax (recovery) expense	(179)	(4)	(114)	59
Contributions by utility customers for extensions to plant	12	25	37	50
Amortization of customer contributions	(14)	(12)	(29)	(25)
Net finance costs	90	87	178	172
Income taxes paid	(1)	(7)	(3)	(13)
Other	3	(16)	9	(14)
	39	214	333	492

CASH POSITION

Cash position in the consolidated statement of cash flow at June 30 is comprised of:

	2019	2018
Cash	18	14
Bank indebtedness	(4)	(30)
	14	(16)

15. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash, accounts receivable and contract assets, accounts receivable from parent and affiliate companies, bank indebtedness, accounts payable and accrued liabilities, accounts payable to parent and affiliate companies and short-term debt.	Assumed to approximate carrying value due to their short-term nature.
Long-term advances to affiliate company and long-term debt.	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).

The fair values of the Company's financial instruments measured at amortized cost are as follows:

Recurring Measurements	June 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term advances to affiliate company	130	145	130	147
Financial Liabilities				
Long-term debt	7,773	9,426	7,952	8,591