



**ATCO Ltd.**

**2010**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

**February 22, 2011**

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### 1. FORWARD-LOOKING INFORMATION

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

## 2. DEFINED TERMS

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

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

**Alberta Power (2000)** means Alberta Power (2000) Ltd., the wholly owned subsidiary of CU Inc. that was transferred to ATCO Power Ltd. on October 1, 2010;

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

**ASL** means ATCO Structures & Logistics Ltd., the company formed on July 1, 2009, through the amalgamation of ATCO Structures and ATCO Frontec;

**ATCO** means ATCO Ltd.;

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

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

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

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

**ATCO Investments** means ATCO Investments Ltd.;

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

**ATCO Noise Management** means ATCO Noise Management Ltd., the wholly owned subsidiary of ATCO that became a wholly owned subsidiary of ATCO Structures & Logistics Ltd. on July 1, 2009, and was subsequently amalgamated with ATCO Structures & Logistics Ltd. on January 1, 2010;

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

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

**ATCO Resources** means ATCO Resources Ltd.;

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

**AUC** means the Alberta Utilities Commission;

**Canadian Utilities** means Canadian Utilities Limited;

**Class I Shares** means Class I Non-Voting Shares of the Corporation;

**Class II Shares** means Class II Voting Shares of the Corporation;

**Corporation** means ATCO Ltd. and, unless the context otherwise requires, includes its subsidiaries;

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

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

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

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

**Interruptible** means the natural gas transmission service volumes that are subject to interruption at anytime at the sole discretion of ATCO Pipelines if ATCO Pipelines determines that those service volumes would in any way interfere with or restrict its ability to transport higher priority service volumes;

**MD&A** means the Corporation's Management's Discussion and Analysis for the year ended December 31, 2010;

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

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

**Negotiated Settlement** means an agreement related to a revenue requirement and/or customer rates for a specific period of time resulting from direct negotiations between a utility and its customers. A negotiated settlement avoids the need for a general rate application for the duration of the agreement. All negotiated settlements must be approved by the AUC;

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

**NLD** means Northland Utilities (NWT) Limited;

**NUY** means Northland Utilities (Yellowknife) Limited;

**Overrun** means volumes of natural gas transported in excess of contracted volumes. These volumes are subject to interruption at the sole discretion of ATCO Pipelines;

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

**Placeholder** means an AUC approved interim cost which has been included in utility customer rates pending an AUC review in a separate or future proceeding. This cost is subject to adjustment once the separate or future proceeding is completed and may result in refunds to or recoveries from customers;

**PPA** means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electric utility business in Alberta. The PPAs are legislatively mandated and approved by the AUC;

**REA** means Rural Electrification Association. REAs are constituted under the Rural Utilities Act (Alberta) by groups of persons carrying on farming operations. Each REA purchases electric power for distribution to its members through a distribution system owned by that REA;

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

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

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

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

**Variable Volumes** means volumes of natural gas transported for customers who are charged non-standard rates;

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

### **3. CORPORATE STRUCTURE**

ATCO Ltd. is the successor to the business commenced in 1947 by the late S.D. Southern and R.D. Southern and was incorporated under The Companies Act (Alberta) by Certificate of Incorporation dated August 31, 1962. The Corporation was continued under the Business Corporations Act (Alberta) on March 13, 1984. The address of the head and registered office of the Corporation is 1600 ATCO Centre, 909 – 11<sup>th</sup> Avenue S.W., Calgary, Alberta T2R 1N6.

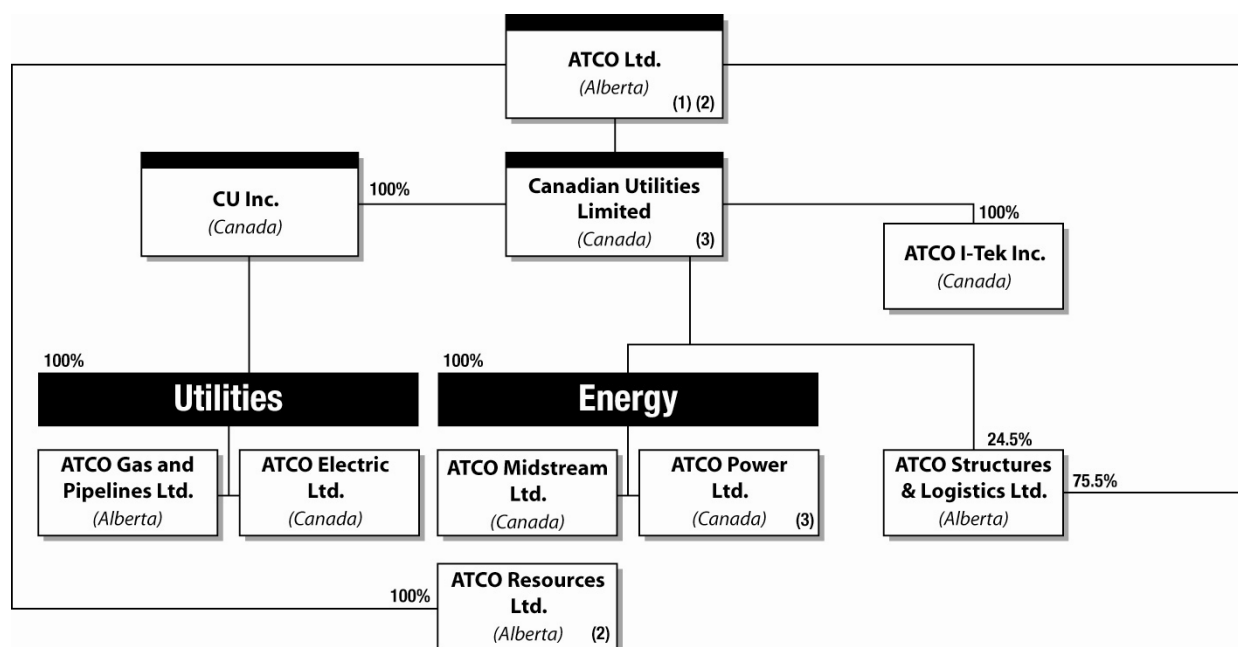
A significant change to the corporate structure of the Corporation occurred in June 1980 when ATCO Ltd. acquired a 58.1% controlling interest in Canadian Utilities from IU International Corporation of Philadelphia. The \$323 million transaction resulted in the Corporation's assets totaling more than \$1.0 billion.

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

#### **3.1. Intercorporate Relationships**

Alberta-based ATCO Ltd., with more than 7,700 employees and assets of approximately \$10 billion, delivers service excellence and innovative business solutions worldwide with leading companies engaged in Utilities (pipelines, natural gas and electricity transmission and distribution), Energy (power generation, natural gas gathering, processing, storage and liquids extraction), Structures & Logistics (manufacturing, logistics and noise abatement) and Technologies (business systems solutions).

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



- (1) At December 31, 2010, ATCO owned 81.7% of the Class B common shares, being the only voting securities outstanding, and 38.5% of the Class A non-voting shares of Canadian Utilities, for an aggregate ownership of 52.2%.
- (2) Effective January 1, 2011, ATCO Ltd. transferred its 100% ownership interest in ATCO Resources Ltd. to ATCO Power Ltd., a wholly owned subsidiary of Canadian Utilities. As a result of this transfer, ATCO's aggregate ownership in Canadian Utilities increased to approximately 52.8% (refer to Business Description – Three Year History section).
- (3) In 2010, ATCO Power's Australian operations were reported under the Energy Segment. In 2011, these operations will be reported in a separate segment.

#### 4. BUSINESS DESCRIPTION

##### ATCO Australia Initiative

On January 1, 2011, Steven J. Landry was appointed Managing Director & Chief Operating Officer of ATCO Australia Pty Ltd. Based in Perth, Western Australia, Mr. Landry will oversee the Corporation's energy, power generation and infrastructure business, including the three generating plants already in operation in that country. While the existing generating plants were reported in the Energy segment in 2010, effective January 1, 2011 the operations of ATCO Australia will be reported in a separate segment.

## **Utilities Segment**

The Utilities Segment is focused on regulated activities including transmission and delivery of natural gas and electricity. Located mainly in Alberta and the Canadian north, this segment serves more than 1.2 million customers in nearly 300 communities. The Utilities Segment includes ATCO Electric and its subsidiaries (NLD, NUY and YECL) and the ATCO Gas and ATCO Pipelines divisions of AGP.

## **Energy Segment**

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

## **Structures & Logistics Segment**

The Structures & Logistics Segment, through ASL, is engaged in the manufacture, sale and lease of transportable workforce housing and space rentals products (Modular Structures division), the rapid mobilization and provision of lodging and support services (Lodging & Support Services division), facilities operations and maintenance services for clients in the resource, defence, and telecommunications sectors for both domestic and international markets (Facilities Operations & Maintenance division), and the design, supply and construction of industrial noise abatement solutions (Construction division).

## **Corporate & Other Segment**

The Corporate & Other Segment includes ATCO I-Tek and commercial real estate owned by ATCO Ltd., ATCO Investments and Canadian Utilities in Alberta. ATCO I-Tek is engaged in the development, operation and support of information systems and technologies, and the provision of billing, payment processing, credit, collection and call centre services.

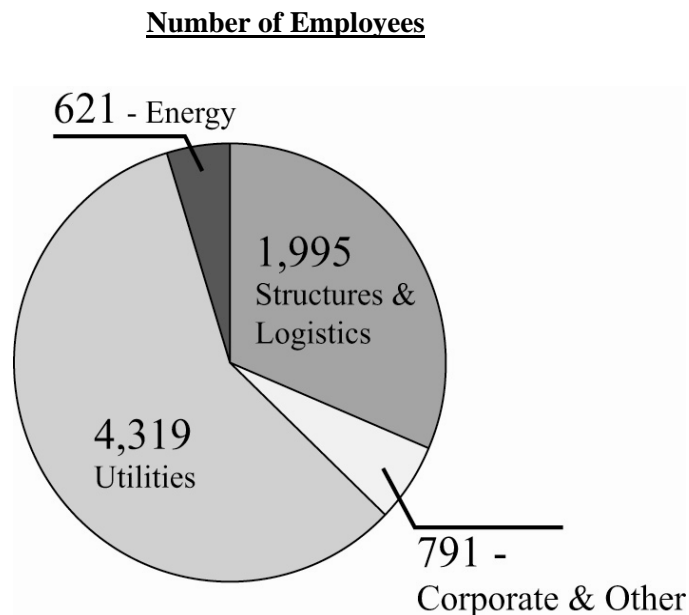
## Comparison of Segmented Revenue and Earnings

Each segment's contribution to the consolidated revenue and earnings of the Corporation is as follows:

(\$ millions)	2010		2009		2008	
	Revenue	Earnings	Revenue	Earnings	Revenue	Earnings
Utilities	<b>1,476.8</b>	<b>127.6</b>	1,367.5	102.1	1,260.9	78.0
Energy	<b>1,190.7</b>	<b>85.1</b>	1,075.6	114.6	1,305.0	128.7
Structures & Logistics	<b>749.2</b>	<b>72.5</b>	638.8	61.6	685.8	51.0
Corporate & Other and Eliminations	<b>28.7</b>	<b>7.7</b>	27.0	5.0	13.9	14.5
<b>Total</b>	<b>3,445.4</b>	<b>292.9</b>	3,108.9	283.3	3,265.6	272.2
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Utilities	<b>42.9</b>	<b>43.6</b>	44.0	36.0	38.6	28.7
Energy	<b>34.6</b>	<b>29.1</b>	34.6	40.5	40.0	47.3
Structures & Logistics	<b>21.7</b>	<b>24.7</b>	20.5	21.7	21.0	18.7
Corporate & Other and Eliminations	<b>0.8</b>	<b>2.6</b>	0.9	1.8	0.4	5.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	100.0	100.0	100.0	100.0

## Employee Information

At December 31, 2010, the Corporation had 7,726 employees. The following chart represents the employee numbers of the Corporation:



*Not included in the chart are 255 employees in Energy Segment joint ventures and 1,105 employees in Structures & Logistics Segment joint ventures.*

### 4.1. Three Year History

#### Internal Transfer of Subsidiaries

On January 1, 2011, the Corporation transferred its wholly owned subsidiary, ATCO Resources, to ATCO Power, a wholly owned subsidiary of Canadian Utilities. The fair value of the common shares of ATCO Resources, net of its existing debt obligations, was \$82.5 million, as estimated by an independent financial advisor and supported by management.

The Corporation transferred its common shares of ATCO Resources to Canadian Utilities in exchange for 1,059,658 Class A non-voting shares and 489,171 Class B common shares of Canadian Utilities, having a value of \$82.5 million. As a result of this transaction, the Corporation's overall ownership of Canadian Utilities increased from 52.2% to approximately 52.8%. This is a related party transaction between entities under common control and will be measured at the carrying amount. The excess of the fair value of the shares and the carrying value of the investment will be recorded in equity.

In addition, effective October 1, 2010, the ownership of Alberta Power (2000) was transferred from CU Inc. to ATCO Power. Both CU Inc. and ATCO Power are wholly owned subsidiaries of Canadian Utilities.

### **Other Events**

On March 23, 2010, the Corporation redeemed all of its outstanding 5.75% Cumulative Redeemable Preferred Shares Series 3 (Series 3 Preferred Shares) at a cost of \$153.5 million (representing \$150.0 million reduction in preferred shares, \$3.0 million prescribed premium and \$0.5 million accrued and unpaid dividends). As a result of the elimination of dividends as of March 23, 2010, the prescribed premium of \$3.0 million was offset by preferred dividend savings of \$6.6 million for the year ended December 31, 2010, resulting in increased after-tax earnings of \$3.9 million.

On July 1, 2009, the Corporation and its subsidiary, Canadian Utilities, finalized a transaction combining ATCO Structures and ATCO Noise Management, both wholly owned subsidiaries of the Corporation, with ATCO Frontec, a wholly owned subsidiary of Canadian Utilities. As a result of this transaction, the Corporation and Canadian Utilities have direct ownership interests of 75.5% and 24.5%, respectively, in the new corporation named ATCO Structures & Logistics Ltd. The ownership interests reflect the proportion of the respective valuations of the combined entities. The valuations were based on analysis prepared by independent financial advisors retained by the special committees of the Boards of Directors of the Corporation and Canadian Utilities.

In July 2009, the Corporation announced it had reorganized its operating subsidiaries into the following segments: Utilities, Energy, Structures & Logistics and Corporate & Other. The Utilities Segment includes ATCO Gas, ATCO Pipelines and ATCO Electric. The Energy Segment includes ATCO Power, ATCO Resources and ATCO Midstream. ATCO I-Tek is included in the Corporate & Other Segment.

The significant events that have influenced the general development of the business attributable to a particular segment over the past three years are as follows:

#### **4.1.1. Utilities Segment**

Earnings in the Utilities Segment have increased due to substantial capital expenditures, primarily in ATCO Electric and ATCO Gas, which have increased the asset base on which the Corporation earns a return on equity (ROE). Total capital expenditures in the Utilities Segment for the previous three years were approximately \$2.4 billion.

In 2009, the AUC issued its decision on the 2009 Generic Cost of Capital proceeding, setting the 2009 and 2010 generic ROE at 9.0% for all Alberta utilities which it regulates. The AUC has maintained the concept of a single generic ROE for all utilities, with differences in utility or sector specific risk to be recognized through adjustments of individual common equity ratios. As part of the same decision, the AUC also set the 2011 generic return on equity at 9.0% on an interim basis subject to change following a subsequent generic proceeding. The common equity ratios were determined by the AUC to be 36% for

ATCO Electric's transmission operations, 39% for both ATCO Electric's distribution operations and ATCO Gas' operations and 45% for ATCO Pipelines' operations.

In December 2010, the AUC initiated a 2011 Generic Cost of Capital proceeding, the scope of which includes, among other things, a full review of cost of capital matters including capital structure and the ROE for 2011. It will also include consideration of whether a formula approach to ROE can be reinstated for 2012. In the absence of a formula approach to ROE, the AUC will then consider how the ROE will be set for 2012. The proceeding is scheduled to be completed in the third quarter of 2011 and a decision is expected in the fourth quarter of 2011.

In 2010, ATCO Electric and ATCO Gas filed general rate applications with the AUC for 2011 and 2012. Decisions on these rate applications are expected in the second and fourth quarters of 2011, respectively.

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

	Year	Date of Decision <sup>(1)</sup>	Mid-Year Rate Base (\$ Millions)		Rate of Return on Common Equity <sup>(2)</sup>		Common Equity Ratio <sup>(3)</sup>	
<u>ATCO Electric</u>								
Transmission	2008	Dec 21/07	888.4		8.75%		33.0%	
	2009	Jul. 2/09	965.2		9.00%	(4)	36.0%	(4)
	2010	Jul. 2/09	1,275.1		9.00%	(4)	36.0%	(4)
Distribution	2008	Dec 21/07	883.7		8.75%		37.0%	
	2009	Jul. 2/09	972.8		9.00%	(4)	39.0%	(4)
	2010	Jul. 2/09	1,104.3		9.00%	(4)	39.0%	(4)
<u>ATCO Pipelines</u>								
	2008	Mar 18/09	711.1	(6)	8.75%	(5)	43.0%	(5)
	2009	Mar 18/09	745.7	(6)	8.75%	(5)	43.0%	(5)
	2010	Oct. 1/10	758.6		9.00%	(4)	45.0%	(4)
<u>ATCO Gas</u>								
	2008	Nov. 13/08	1,229.8		8.75%	(4)	39.0%	(4)
	2009	Nov. 13/08	1,386.6		9.00%	(4)	39.0%	(4)
	2010	(7)	1,421.4	(7)	9.00%	(4)	39.0%	(4)

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

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

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

<sup>(4)</sup> The rate of return on common equity for 2009 and 2010 and common equity ratio were approved in the AUC's Generic Cost of Capital decision dated November 12, 2009. The return on common equity for 2008 was approved in an AUC decision dated November 30, 2007.

<sup>(5)</sup> The rate of return on common equity and common equity ratio were approved by the AUC in ATCO Pipelines' 2008/2009 Negotiated Settlement.

<sup>(6)</sup> The mid-year rate base amounts shown in the table for ATCO Pipelines are the forecast amounts provided in its 2008-2009 General Rate Application Phase I as refiled on December 18, 2007. These amounts were not specifically identified or approved in the ATCO Pipelines' 2008/2009 Negotiated Settlement.

<sup>(7)</sup> The 2010 mid-year rate base amounts shown in the table for ATCO Gas are amounts provided in its 2011-2012 General Rate Application for which a decision from the AUC is expected in the fourth quarter of 2011.

## **Carbon Natural Gas Storage Facility**

ATCO Gas owns a 43.5 petajoule natural gas storage facility located at Carbon, Alberta (Carbon Facility). Since April 1, 2005, ATCO Gas has leased the entire storage capacity of the Carbon Facility to ATCO Midstream. As a result of numerous regulatory and legal proceedings, ATCO Gas received approval from the AUC to remove the Carbon Facility from regulation effective April 1, 2005. Removal of the Carbon Facility from regulation, and the associated recovery from customers of net revenues that had previously been refunded to customers, resulted in increased earnings of \$35.7 million, including interest. Of this amount, \$9.9 million was recorded in 2009 and \$25.8 million was recorded in 2010 as AUC decisions related to the Carbon Facility were received.

On December 1, 2010, Canadian Utilities and CU Inc. announced that an application has been filed with the AUC to approve the internal transfer of the Carbon Facility from ATCO Gas to ATCO Midstream. A decision on this application is expected in the second quarter of 2011.

## **Deferred Gas Account**

In April 2005, the AUC had issued a decision resulting in a 15% decrease in the transportation imbalance adjustments sought by ATCO Gas. The decision resulted in ATCO Gas recovering \$9.2 million in natural gas supply costs from customers. This decision was appealed to the Alberta Court of Appeal which issued a decision allowing the appeal and vacating orders under appeal and returned the matter to the AUC for consideration. The AUC completed a process to address the Alberta Court of Appeal decision and on October 15, 2010 issued a decision requiring ATCO Gas to refund to customers approximately 85% of the transportation imbalance adjustment amounts in question, resulting in a refund of approximately \$9.7 million, including interest of \$1.7 million, and a decrease in ATCO Gas' 2010 earnings of \$7.1 million.

## **ATCO Pipelines' Integration Application**

In 2008, ATCO Pipelines and NOVA Gas Transmission Ltd. (NOVA) announced a proposed agreement to provide natural gas transmission service to their customers. This proposal will allow ATCO Pipelines and NOVA to utilize their physical assets under a single rates and services structure with a single commercial interface for Alberta customers. Each company would separately manage assets within distinct operating territories within Alberta. If approved by the AUC, this proposal is expected to end duplicate tolling and operational activities and result in more efficient regulatory processes.

In 2009, ATCO Pipelines filed an application with the AUC for the integration of ATCO Pipelines' and NOVA's gas transmission systems in Alberta (Integration Application), and filed a second application with the AUC to approve its 2010, 2011 and 2012 negotiated settlement, which was a condition precedent of the Integration Application.

The AUC issued a decision on May 27, 2010 approving integration and the 2010, 2011 and 2012 negotiated settlement but requested ATCO Pipelines to submit subsequent applications to address the specific details on: (i) the transition of ATCO Pipelines' customers to NOVA, and (ii) the asset swap

between ATCO Pipelines and NOVA in order to establish operating areas. ATCO Pipelines has submitted an application to the AUC to address the transition of customers and a decision is expected in the second quarter of 2011. An application to address the asset swap will be submitted to the AUC in the first quarter of 2011.

#### **4.1.2. Energy Segment**

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

During the previous three years the earnings of the Energy Segment have decreased from \$128.7 million in 2008 to \$85.1 million in 2010, mainly due to lower Alberta Spark Spreads in ATCO Power and lower Storage Price Differentials in ATCO Midstream in 2010.

A combination of an increasing power reserve margin (the amount of power supply in excess of demand) and low natural gas prices has led to a decrease in Alberta and U.K. power prices and commensurate Spark Spreads.

ATCO Midstream's Storage Price Differentials have been volatile during the previous three years due to the supply/demand variability in the natural gas marketplace. Frac Spreads in ATCO Midstream's NGL operations have generally been strong and are affected by the price of oil and natural gas, inventories and demand.

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

#### **Power Generation**

In the U.K., the revenue contract for the 1,000 MW (ATCO Power's share 255 MW) Barking power plant expired on September 30, 2010. A new tolling contract for 178 MW (ATCO Power's share 45 MW) of the plant's capacity was entered into for a one-year term commencing October 1, 2010. The remaining 822 MW of the plant's capacity (ATCO Power's share 210 MW) is being sold into the merchant market commencing October 2010.

During the previous three years, the Corporation has constructed an 86 MW natural gas-fired simple cycle generating plant in Karratha, Western Australia and a 45 MW natural gas-fired simple cycle generating plant located at Valleyview, Alberta. The Karratha plant commenced operations in 2010 and the Valleyview unit commenced operations in 2008.

In 2006, Canada Revenue Agency (CRA) issued an income tax reassessment for Alberta Power (2000)'s 2001 taxation year which treated the proceeds received from the sale of the H.R. Milner generating plant

to the Balancing Pool as income rather than as a sale of an asset. The Corporation disagreed with CRA's position. The Tax Court of Canada heard an appeal from Alberta Power (2000) and ordered CRA to reverse its 2006 reassessment of Alberta Power (2000)'s 2001 tax return.

On January 30, 2008, the 150 MW Unit 4 at ATCO Power's Battle River generating plant experienced an unplanned outage due to a failure in the unit's generator. The unit returned to service on March 27, 2008. ATCO Power claimed relief under the force majeure provisions of its PPA. The Balancing Pool notified ATCO Power that it disagreed with the claim and the claim proceeded to arbitration. On October 25, 2010, the arbitrator issued a decision which denied ATCO Power's force majeure claim. The cash impact resulting from this outage was approximately \$11.8 million which was recorded in 2008. However, due to ATCO Power's availability incentive pool deferral account, there was no material earnings impact.

#### **4.1.3. Structures & Logistics Segment**

The earnings from ASL are largely project based and are significantly influenced by the levels of activity in the natural resource, defence and construction sectors. During the past three years, earnings have increased from \$51.0 million in 2008 to \$72.5 million in 2010. This growth has been primarily driven by increased natural resources activity in the Alberta oil sands, South America and Australia. In addition, construction activity in the United Arab Emirates and increased military activity in Afghanistan have fueled further growth.

##### **Modular Structures**

ASL's Modular Structures division has been awarded a number of significant contracts during the previous three years. The largest project was a partnership between ASL and Al Habtoor Engineering to design and construct a 20,000 person workforce housing complex in the resort island of Saadiyat, located 500 metres offshore from Abu Dhabi in the United Arab Emirates. This contract was awarded in 2008 and completed in early 2010.

In 2008, activity in the Alberta oil sands experienced a downturn, leading to cancellation of a contract for the construction of a 2,000 person workforce housing camp located north of Fort McMurray for the Fort Hills Energy Limited Partnership (FHELP). ASL had completed approximately 25 per cent of the contract at the time of cancellation. In February 2009, ASL reached a cancellation agreement with FHELP.

In 2010, ASL has benefited from a recovery in Alberta oil sands activity, as well as high copper and gold prices. ASL was recently awarded two Canadian workforce housing contracts, a 1,000 person construction camp in northeastern Ontario for Detour Gold Corporation and a 744 person permanent accommodation facility south of Fort McMurray for a major oil sands company. These contracts are expected to be completed in the first and fourth quarters of 2011, respectively.

ASL, through its South American joint venture Tecno Fast ATCO (TFA), was awarded contracts to construct workforce accommodations for Lumina Copper's Caserones project in Chile, Barrick Gold's

Pascau-Lama project on the Chile-Argentina border and Minera Chinalco Toromocho project in Peru. Together, these workforce housing accommodation projects total over 15,000 beds and are expected to be completed in 2011 and 2012.

ASL has also experienced growth in its rental fleet activity during the previous three years. The following table shows information on the space rentals and workforce housing rental fleet as well as manufacturing hours:

	<b>For the Year Ended</b>		
	<b>December 31</b>		
	<b>2010</b>	2009	2008
Manufacturing hours <sup>(1)</sup>	<b>943,282</b>	586,796	1,246,785
<b><u>Space Rentals Fleet</u></b>			
Number of units	<b>15,840</b>	13,248	12,827
Utilization (%)	<b>78</b>	73	81
Average rental rate (\$ per month)	<b>448</b>	466	489
<b><u>Workforce Housing Fleet</u></b>			
Number of units	<b>2,699</b>	2,416	2,325
Utilization (%)	<b>78</b>	74	80
Average rental rate (\$ per month)	<b>1,236</b>	1,268	1,287

<sup>(1)</sup> Manufacturing hours exclude operations in Australia where manufacturing is sub-contracted to third party contractors.

### **Facilities Operations & Maintenance**

The growth in the Facilities Operations & Maintenance division has mainly been through defence contracts. Since 2007, ASL has provided multiple support services to NATO at the Kandahar Airfield in Afghanistan for the troops that serve in NATO's International Security Assistance Force.

In 2010, ASL won three three-year NATO contracts, two of which provide critical first-responder services and utility services for NATO at Kandahar Airfield in Afghanistan, and a third to provide maintenance support for computer information systems on behalf of NATO headquarters Sarajevo and European Union Forces headquarters in Bosnia-Herzegovina.

The following is a summary of the principal Facilities Operations & Maintenance division contracts as of December 31, 2010:

<b>Contract</b>	<b>Customer</b>	<b>Start Date</b>	<b>Completion Date</b>	<b>Possible Extension</b> (1)
Alaska Radar System <sup>(2)</sup>	U.S. Department of Defense	Oct. 2004	Sep. 2011	2014
North Warning System <sup>(2)</sup>	Department of National Defense	Sep. 2001	Sep. 2011	2013
Iqaluit Fuel Contract <sup>(2)</sup>	Government of Nunavut	Jun. 2007	Nov. 2012	2017
Stabilization Force Organization	NATO	Feb. 2004	Sep. 2013	2015
NATO Flight Training	NATO	Jun. 2000	May 2020	-
Kandahar Projects: Infrastructure, Support Services, Range & Pest	NATO	Sep. 2007	Mar. 2011	-
First Responders		Jan. 2011	Jan 2014	2016
Utilities		Nov. 2010	Nov. 2013	2015
Pass & Permits		Sep. 2007	Sep. 2011	2012

<sup>(1)</sup> *The contract may be extended at the option of the customer.*

<sup>(2)</sup> *Joint venture with aboriginal partners.*

#### **Lodging & Support Services**

ASL, with joint venture partners Fort McKay First Nation, opened its first lodge in 2008, the 500-room Creeburn Lake Lodge located north of Fort McMurray. A second lodge, the 1,900 room Barge Landing Lodge located north of Fort McMurray, was also opened in 2008, again with the Fort McKay First Nation as joint venture partners.

In 2010, ASL opened two smaller lodges: the 202-room ATCO Lodge Estevan in Saskatchewan and the 150-room ATCO Lodge Williston in North Dakota.

#### **4.1.4. Corporate & Other Segment**

The Corporate & Other Segment includes ATCO I-Tek and commercial real estate owned by the Corporation in Alberta.

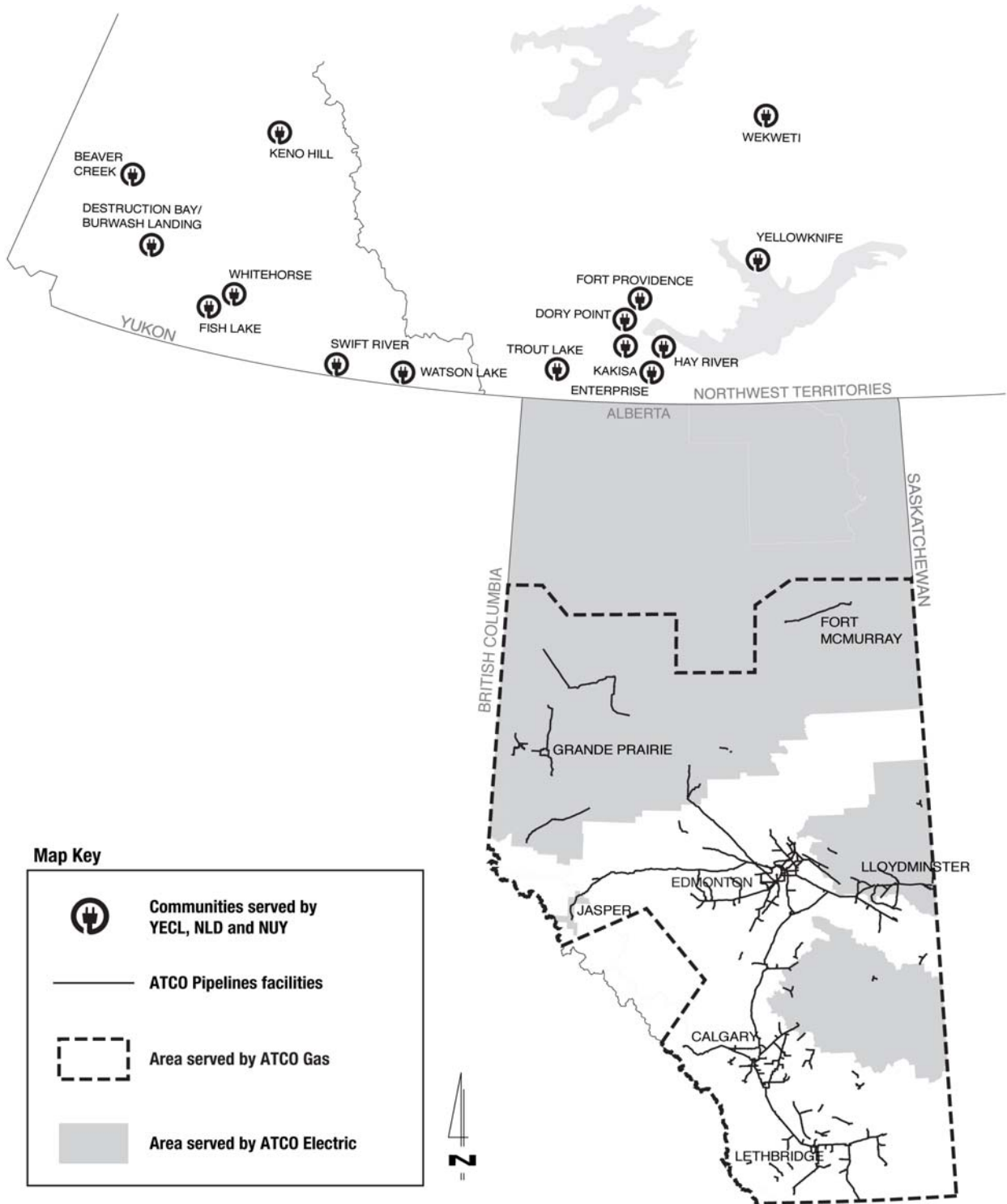
## **4.2. Detailed Business Description**

Following is a general description of the nature of the activities within each of the Corporation's segments.

### **4.2.1. Utilities Segment**

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

## Location of Utilities Segment Operations



## **Government Regulation**

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

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

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

On November 12, 2009, the AUC issued its decision on the 2009 Generic Cost of Capital proceeding. In this decision, the AUC set the 2009 and 2010 generic return on equity at 9.0% for all Alberta utilities which it regulates. On December 16, 2010, the AUC initiated the 2011 Generic Cost of Capital proceeding. Refer to Three Year History – Utilities Segment section for a more detailed description of these Generic Cost of Capital Proceedings.

### **ATCO Electric**

ATCO Electric is engaged in the regulated business of transmitting and distributing electric energy to 245 communities as well as rural areas in east-central and northern Alberta. Included are the communities of Drumheller, Lloydminster, Grande Prairie and Fort McMurray as well as the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River. ATCO Electric is headquartered in Edmonton and has 38 offices throughout its service area. Electric utility service is also provided to one community in British Columbia and to two communities in Saskatchewan. YECL serves 19 communities in the Yukon Territory, including the capital city of Whitehorse. NUY and NLD serve 9 communities in the Northwest Territories, including the capital city of Yellowknife.

The population of the principal markets for electric utility service by ATCO Electric, NUY, NLD and YECL is approximately 502,800 and service is provided to approximately 237,200 customers. ATCO Electric has been assigned approximately 65% of the designated service area within Alberta which contains approximately 14% of the existing provincial electrical load and 12% of the existing population.

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

	2010		2009	
	Number	%	Number	%
Industrial	11,311	5	11,229	5
Commercial	31,342	13	30,946	13
Residential	164,004	69	160,611	69
Rural, REAs and other	30,502	13	30,355	13
<b>Total</b>	<b>237,159</b>	<b>100</b>	233,141	100

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

	2010		2009	
	GWh	%	GWh	%
Industrial	6,630	63	6,552	63
Commercial	2,156	20	2,132	20
Residential	1,239	12	1,232	12
Rural, REAs and other	507	5	515	5
<b>Total</b>	<b>10,532</b>	<b>100</b>	10,431	100

ATCO Electric, NUY, NLD and YECL own and operate extensive electric transmission and distribution systems. The systems consist of approximately 10,000 km of main transmission lines and 63,000 km of distribution lines. In addition, ATCO Electric delivers power to and operates approximately 11,800 km of REA-owned distribution lines.

ATCO Electric, NUY, NLD and YECL own and operate 28 diesel, natural gas turbine and hydro generating plants having an aggregate nameplate capacity of 60 MW in Alberta and in the Yukon and Northwest Territories. The maximum peak load demand for these plants during the year ended December 31, 2010, was 28 MW.

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

The franchises under which service is provided in incorporated communities in Alberta and in the Northwest Territories have been granted for periods of up to 20 years. These franchises are exclusive to ATCO Electric, NUY or NLD and are renewable by agreement for further periods not exceeding 10

years. If any franchise is not renewed, it remains in effect until such time as either party, with the approval of the prevailing regulatory authority, terminates it on six months written notice. Upon termination of a franchise the municipality may purchase the facilities used in connection with that franchise at a price to be agreed upon or, failing agreement, to be fixed by the prevailing regulatory authority. The franchise under which service is provided in the Yukon Territory was granted under the Public Utilities Act (Yukon Territory) and has no set expiry date.

Under the EUA, wholesale tariffs for transmission of electricity must be approved by the AUC. The transmission tariffs allow any owner of a generating unit to have access to the transmission system in Alberta and thus facilitate the sale of its power. The same transmission tariff is charged to each distribution utility or customer directly connected to the transmission system regardless of location.

The equalization of transmission costs is achieved by having each owner of transmission facilities charge its costs to the AESO. The AESO then aggregates these costs and charges a common transmission rate to all who use the transmission system.

The AESO has developed and approved rules as mandated in the Transmission Regulation as amended from time to time. These rules stipulate that new transmission projects will be assigned to the Transmission Facility Owners based on the service areas of the distribution companies they have been historically affiliated with. Ownership of facilities will change at service area boundaries except where, in the opinion of the AESO, only a small portion of the project is in another service area. The rule applies to all transmission projects except those projects deemed as “critical” by the Government of Alberta.

The Electric Statutes Amendment Act enacted in 2009 creates a category of transmission projects known as Critical Transmission Infrastructure (CTI). A key feature of CTI is that these projects will not necessarily be assigned to the Transmission Facility Owners based on service area. Instead, CTI ownership may be determined through a competitive process or through assignment by the Minister of Energy. CTI facilities do not include all future transmission projects, but are limited to projects which the Government of Alberta determines are critical to the safe, reliable and economic operation of the interconnected electric system. An important feature of CTI is that the government, rather than the AUC, has the authority to approve the need for the facilities. The Act names certain immediately required CTI projects, including the Edmonton to Calgary 500 kV high-voltage direct current project on the east side of the province which has been assigned to ATCO Electric. ATCO Electric expects to complete and file the facility application with the AUC seeking final approval to construct and operate the facility in the first quarter of 2011. Final approval is not anticipated until late 2011.

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

## ATCO Gas

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

ATCO Gas' principal markets for the distribution of natural gas are in the communities of Edmonton, Calgary, Airdrie, Fort McMurray, Grande Prairie, Lethbridge, Lloydminster, Red Deer, Spruce Grove, St. Albert and Sherwood Park, which have a combined population of approximately 2,358,000. Also served are 279 smaller communities as well as rural areas having a combined population of approximately 631,000. As of December 31, 2010, ATCO Gas provided over one million customers with natural gas service, of whom approximately 75% were located in the 11 communities named above.

The number of customers served by ATCO Gas as at the end of each of the last two years was as follows:

	2010		2009	
	Number	%	Number	%
Residential	968,459	92	949,473	92
Commercial	88,547	8	87,561	8
Industrial	353	-	351	-
Other	10	-	27	-
<b>Total</b>	<b>1,057,369</b>	<b>100</b>	<b>1,037,412</b>	<b>100</b>

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

	2010		2009	
	PJ	%	PJ	%
Residential	115.5	49	122.0	49
Commercial	107.9	45	113.7	45
Industrial	13.9	6	13.7	6
Other	0.1	-	0.4	-
<b>Total</b>	<b>237.4</b>	<b>100</b>	<b>249.8</b>	<b>100</b>

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

ATCO Gas owns a 43.5 petajoule natural gas storage facility at Carbon, Alberta. Since April 1, 2005, ATCO Gas has leased the entire storage capacity of the Carbon Facility to ATCO Midstream. On December 1, 2010, Canadian Utilities and CU Inc. announced that an application had been filed with the AUC to approve the internal transfer of the Carbon Facility to ATCO Midstream. Refer to the Annual Results of Operations – Segmented Information – Utilities section of the MD&A, which may be found on SEDAR at [www.sedar.com](http://www.sedar.com), for additional information about the Carbon Facility.

ATCO Gas distributes natural gas in incorporated communities under the authority of franchises or by-laws and in rural areas under approvals, permits or orders issued pursuant to applicable statutes. ATCO Gas currently has 166 franchise agreements with communities throughout Alberta.

In Edmonton, distribution of natural gas is carried on under the authority of an exclusive franchise. In 2010, ATCO Gas entered into an agreement with the City of Edmonton for a 20 year renewal of the franchise to July 21, 2030. The franchises under which service is provided in other incorporated communities in Alberta have been granted for periods of up to 20 years. All franchises are exclusive to ATCO Gas and are renewable by agreement for further periods not exceeding 20 years. If any franchise is not renewed, it remains in effect until such time as either party, with the approval of the prevailing regulatory authority, terminates it on six months written notice. Upon termination of a franchise the municipality may purchase the facilities used in connection with that franchise at a price to be agreed upon or, failing agreement, to be fixed by the prevailing regulatory authority.

In Calgary, distribution of natural gas is carried on under the authority of a municipal by-law. The rights of ATCO Gas under this by-law, while not exclusive, are unrestricted as to time. The by-law does not confer any right on the City of Calgary to acquire the facilities used in providing the service.

### **ATCO Pipelines**

ATCO Pipelines is a regulated business engaged in the transmission of natural gas throughout Alberta. It is headquartered in Calgary and has 217 customers including producers, industrial users and gas distribution companies located in Edmonton, Calgary, Red Deer, Lethbridge, Lloydminster, Grande Prairie, Fort McMurray and nearly 300 smaller communities.

ATCO Pipelines receives natural gas on its pipeline system at various gas processing plants throughout Alberta and transports it to end users within the province or other pipeline systems for export out of the province. Higher demand allows ATCO Pipelines to bring on additional gas volumes to its system from producers to maintain the balance between supply and demand.

ATCO Pipelines' revenues are based primarily on contractual arrangements for access to its transmission systems. Contract demand for access, and Interruptible (IT), Overrun (OR) and Variable Volumes for each of the last two years were as follows:

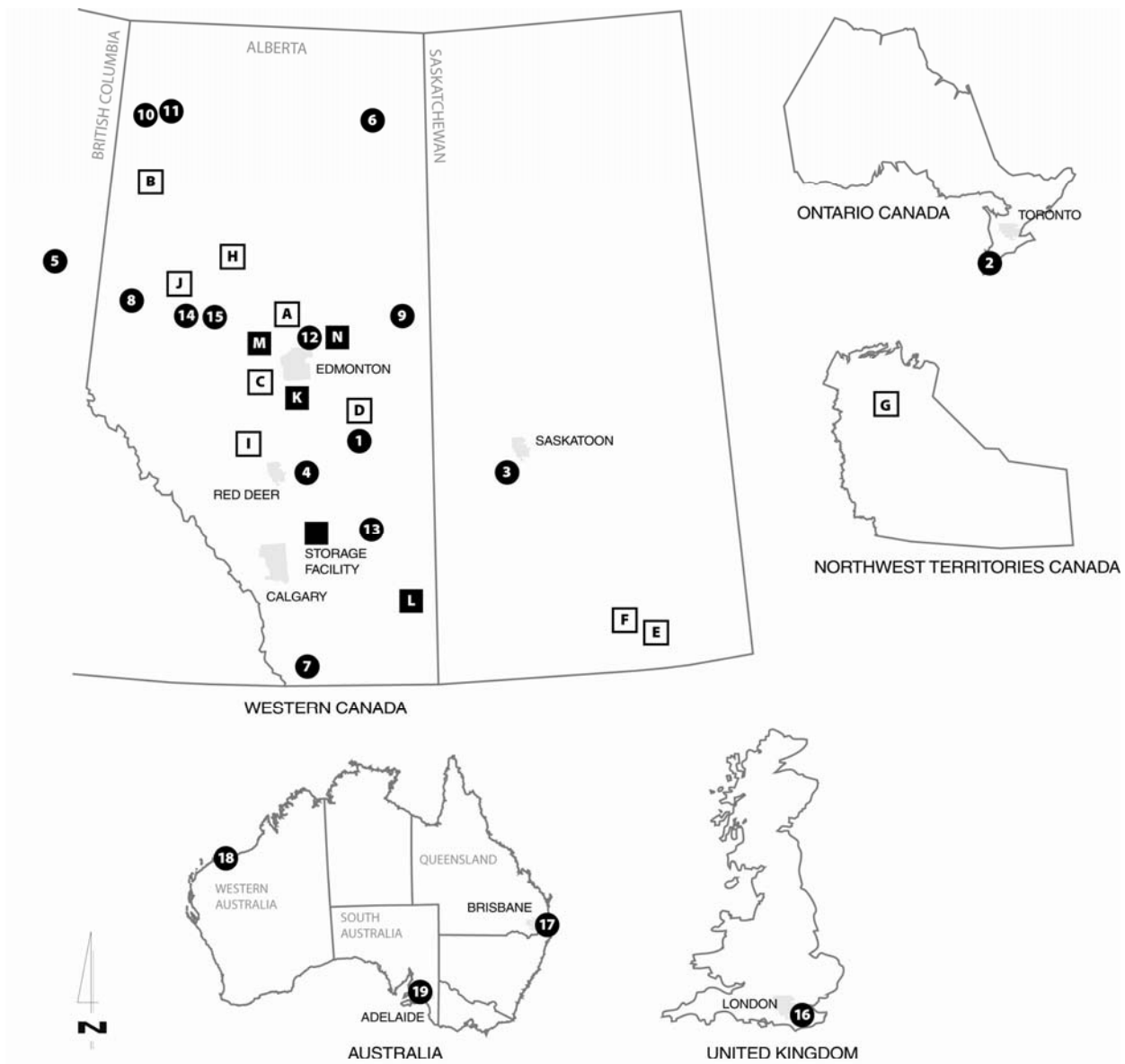
	2010		2009	
	TJ/day	%	TJ/day	%
<b>Contract Demand:</b>				
Producer	1,074	21	1,244	24
Industrial	929	18	913	17
Distribution	116	2	110	2
Affiliates	2,638	51	2,610	49
Sub-total	4,757	92	4,877	92
<b>IT/OR/Variable Volumes:</b>				
Producer	113	2	135	2
Industrial	291	6	301	6
Sub-total	404	8	436	8
<b>Total Contract Demand and IT/OR/Variable Volumes</b>	<b>5,161</b>	<b>100</b>	<b>5,313</b>	<b>100</b>

ATCO Pipelines owns and operates extensive natural gas transmission systems. The systems consist of approximately 8,486 km of pipelines, 22 compressor sites and a connection to the salt cavern storage peaking facility located near Fort Saskatchewan, Alberta. The systems have 170 producer receipt points, 48 interconnections with TransCanada Pipelines Limited, five interconnections with Alliance Pipeline, and one interconnection with Many Islands Pipelines. The peak delivery capability of the ATCO Pipelines system is 3.8 billion cubic feet per day.

#### 4.2.2. Energy Segment

The activities of the Energy Segment are conducted through ATCO Power, ATCO Resources and ATCO Midstream. Effective January 1, 2011, ATCO Power's Australian operations will be reported in a separate segment. The Energy Segment has operations in Canada, U.K. and Australia as shown in the following map:

## Location of Energy Segment Operations



### Map Key

● ATCO Generating Plant sites		■ Extraction Sites		□ Processing Sites
1 - Battle River	3, 4, 5	9 - Primrose	17 - Bulwer Island	A - Carbondale Gas Plant
2 - Brighton Beach	10 - Rainbow Lake 1, 2 & 3	18 - Karratha	B - Cranberry Gas Plant	H - Puskwaskau Gas Plant
3 - Cory	11 - Rainbow Lake 4 & 5	19 - Osborne	C - Golden Spike Gas Plant	I - Watelet Gas Plant
4 - Joffre	12 - Scotford		D - Kinsella Gathering and Compression Facility	J - Widewater Gas Plant
5 - McMahan	13 - Sheerness 1 & 2		E - Nottingham Gas Plant	K - Edmonton Ethane Extraction Plant
6 - Muskeg River	14 - Sturgeon		F - Kisbey Gas Plant	L - Empress Gas Liquids Straddle Plant
7 - Oldman River	15 - Valleyview 1 & 2		G - Ikhil Gas Plant	M - Villeneuve Ethane Extraction Plant
8 - Poplar Hill	16 - Barking			N - Fort Saskatchewan Ethane Extraction Plant

## **Power Generation**

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

The Corporation is exposed to merchant market for power generation in Alberta, Canada and in the U.K. The Alberta power market serves a population of 3.8 million. Total consumption for 2010 was approximately 71,000 GWh. Peak demand for the province reached a high of 10,215 MW on December 7, 2010. Installed electricity generating capacity at December 31, 2010 was approximately 13,500 MW and consisted of 46% coal, 39% gas, 7% hydro, 7% wind and 1% other.

Serving a population of 60 million, the U.K. electricity market is served by a total of 70,000 MW of electricity generating installed firm capacity of various kinds but principally made up of 34% combined-cycle gas turbines, 28% coal and 13% nuclear. In addition, the U.K. has the capacity to import from and export to France and Ireland the equivalent of 2,500 MW. Demand in 2010 was approximately 345,000 GWh.

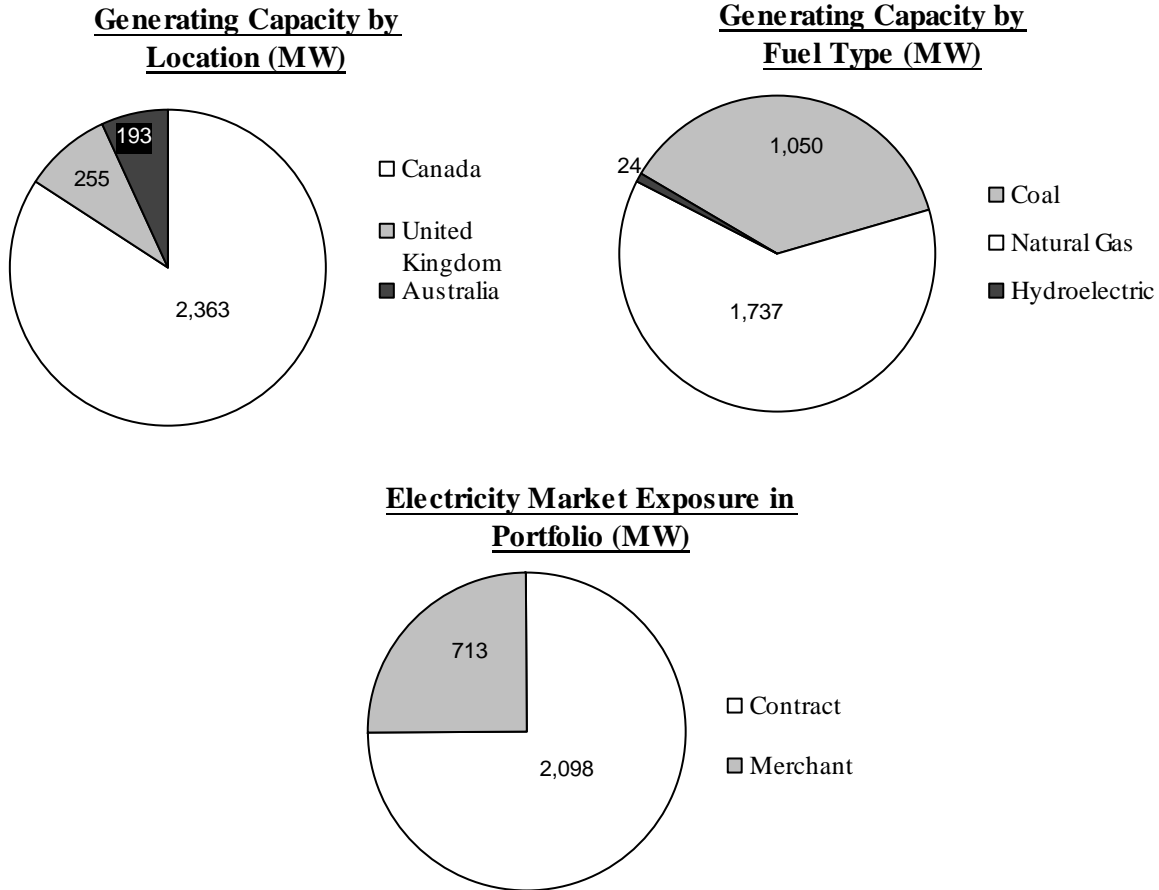
Following deregulation of the electricity market in Alberta, certain regulated assets of ATCO Electric were transferred to ATCO Power. The assets transferred included the generating plants at Battle River, Sturgeon, Rainbow Lake units 1, 2 & 3 and a 50% share in Sheerness. The Rainbow Lake and Sturgeon assets are no longer regulated.

At December 31, 2010, the Energy Segment has an ownership position in generating plants with a total capacity, including partners' interests, of 4,957 MW. The Corporation operates 4,837 MW of this capacity and owns 2,811 MW.

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

Details of the generating plants at December 31, 2010, are shown in Appendix 1.

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



Foreign operations in the power generation activities of the Energy Segment represent 16% of the owned capacity.

Within the Energy Segment’s portfolio of power generation projects, 62% of capacity is fueled by natural gas, 37% by coal and 1% is from a hydroelectric facility. The natural gas used to supply generation plants is procured in a variety of manners. There are tolling arrangements for the Brighton Beach and Cory generating plants whereby the customers supply gas at their own cost and the combined-cycle facilities convert the gas to electricity on behalf of the customer. At the cogeneration and remaining combined-cycle plants, gas is procured either through the terms of a long-term gas supply agreement or directly through the site host. The terms of revenue contracts on these sites result in gas cost recovery being built into the tariff charged to the customer. For the remainder of facilities and for the merchant portion of the combined-cycle and cogeneration plants, gas is procured from the Alberta and U.K. markets.

## **Regulated Generating Plants**

The Battle River and Sheerness generating plants of ATCO Power were regulated by the AUC until December 31, 2000, but are now governed by legislatively mandated PPAs that were approved by the AUC. These plants are considered to be regulated operations primarily because the PPAs are designed to allow the owners of generating plants constructed before January 1, 1996 to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPAs. Each generating plant will become deregulated upon the earlier of one year after the expiry of its PPA or a decision to continue to operate the plant. For PPAs expiring prior to 2019, ATCO Power has one year after the expiry of a PPA to determine whether to decommission the generating plant in order to fully recover plant decommissioning costs or to continue to operate the plant and be responsible for the decommissioning costs. For PPAs expiring after 2018, decommissioning costs are the responsibility of the plant owner. Each PPA is to remain in effect until the earlier of the last day of the estimated life of the related generating plant or December 31, 2020.

The electricity generated by the Battle River and Sheerness generating plants is sold pursuant to PPAs. Under the PPAs, ATCO Power is required to make the generating capacity for each generating unit available to the purchaser of the PPA for that unit. In return, ATCO Power is entitled to recover its forecast fixed and variable costs for that unit from the PPA purchaser, including a return on common equity equal to the long term Government of Canada bond rate plus 4.5% based on a deemed common equity ratio of 45%. Many of the forecast costs will be determined by indices, formulae or other means for the entire period of the PPA. ATCO Power's actual results will vary and depend on performance compared to the forecasts on which the PPAs were based. The return on common equity rate used in its PPA tariff calculations for ATCO Power was 8.44% in 2010 and 8.64% for 2009. The rate of return on common equity for 2011 is 7.90%.

All the coal fuel requirements relate to the Battle River and Sheerness generating plants which have a coal supply agreement with Prairie Mines & Royalties Limited (PMRL). PMRL operates the mining leases adjacent to the generating plants. The coal reserves of the mine are owned, leased or controlled jointly by the generating plant owners and PMRL. The coal supply agreement for Battle River extends until 2012 and includes extension rights in five year increments. ATCO Power is currently negotiating the extension of the agreement. The coal supply agreement for Sheerness extends to the earlier of 2026 or the exhaustion of the coal supply.

## **ATCO Midstream**

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

### *Natural Gas Storage Operations*

ATCO Midstream manages ATCO Gas' natural gas storage facility at Carbon, Alberta. The facility is a natural gas reservoir with a storage capacity of 43.5 petajoules, a maximum injection rate of 400 terajoules per day and a maximum withdrawal rate of 600 terajoules per day. The facility is connected to multiple transmission pipeline systems and has been in service for more than 40 years, making it one of the more established and reliable gas storage facilities in western Canada. Since April 1, 2005, ATCO Midstream has leased from ATCO Gas the full storage capacity of the facility.

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

On December 1, 2010, Canadian Utilities and CU Inc. announced that an application has been filed with the AUC to approve the internal transfer of the Carbon Facility from ATCO Gas to ATCO Midstream. A decision on this application is expected in the second quarter of 2011.

### *Natural Gas Liquids Extraction Operations*

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

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

<sup>(1)</sup> Ethane and a mixture of propane, butane and pentanes plus.

<sup>(2)</sup> A mixture of ethane, propane, butane and pentanes plus.

### *Natural Gas Gathering and Processing Operations*

ATCO Midstream owns or has an interest in ten natural gas gathering and processing facilities, seven of which ATCO Midstream operates, with a net gathering and processing capacity of 225 million cubic feet per day. In addition, ATCO Midstream owns approximately 1,075 km of field gathering lines. Natural gas production connected to ATCO Midstream's natural gas gathering systems is processed for a fee or

purchased, processed and sold in accordance with third party contractual arrangements. Approximately 68% of ATCO Midstream's net processing capacity is capable of processing sour gas.

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

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

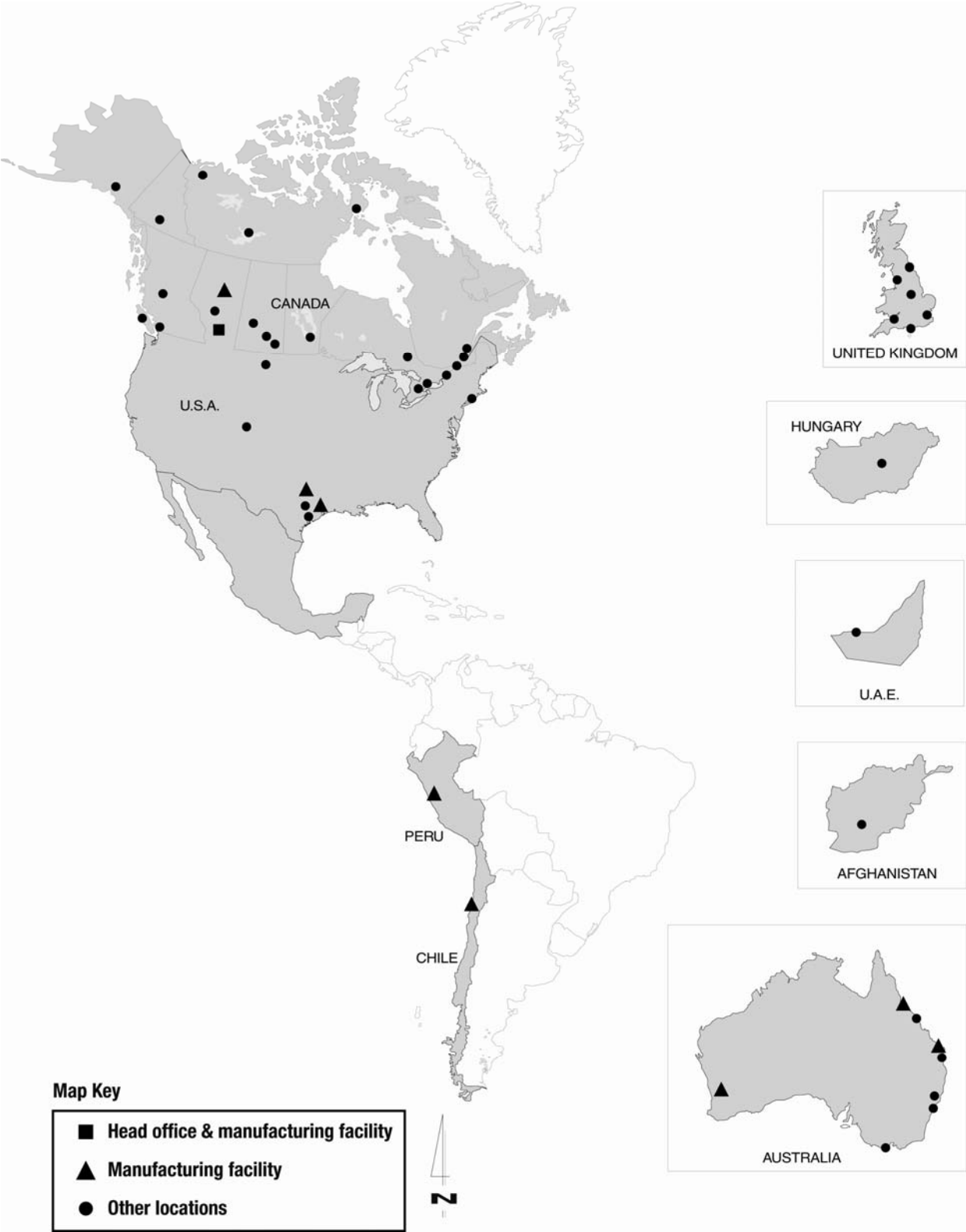
<b>Facility</b>	<b>Date in Service</b>	<b>Licensed Capacity (mmcf/day)</b>	<b>Ownership</b>	<b>Net Ownership (mmcf/day)</b>	<b>Operator</b>
Carbondale Gas Plant	1991	56	100.0%	56	Yes
Cranberry Gas Plant	1981	36	100.0%	36	Yes
Golden Spike Gas Plant	1999	65	100.0%	65	Yes
Ikhil Gas Plant	1999	8	33.3%	3	No
Kinsella Gathering and Compression Facility	1996	20	100.0%	20	Yes
Kisbey Gas Plant	2000	5	50.0%	3	Yes
Nottingham Gas Plant	1985	18	8.0%	1	No
Puskwaskau Gas Plant	1996	21	41.0%	9	No
Watelet Gas Plant	1998	20	100.0%	20	Yes
Widewater Gas Plant	2001	12	100.0%	12	Yes
		261		225	

### 4.2.3. Structures & Logistics Segment

The Structures & Logistics Segment is involved in the manufacture, sale and lease of transportable shelters, rapid mobilization and provision of services in challenging operational environments worldwide. The Segment is comprised of four operating divisions: Modular Structures, Lodging & Support Services, Facilities Operations & Maintenance, and Construction. Since 1947, the Modular Structures division has marketed and installed its manufactured products in over 100 countries and has established a reputation as a leader in the international supply of relocatable shelter solutions. Since 1988, the Facilities Operations & Maintenance division has delivered services to various clients active in the resource, defence and telecommunications sectors. From large information technology systems to radar sites, deployed military operations to mining camps, fuel tank farms to airports, Facilities Operations & Maintenance provides a range of operational support solutions to ensure the integrity and effectiveness of its customers' assets and operations. The Lodging & Support Services division provides operational support solutions including accommodations, catering, waste management and maintenance. The Construction division provides the design, supply and construction of industrial noise abatement solutions.

ASL is headquartered in Calgary, Alberta, with facilities, projects and operations in Canada, the U.S., Chile, Peru, Australia, the U.K., Afghanistan, Hungary and the United Arab Emirates as shown in the following map:

**Location of Structures & Logistics Segment Operations**



## **Modular Structures**

In Modular Structures, the two main areas of revenue generation are workforce housing and space rentals. Workforce housing comprises modular units for accommodation while space rentals comprise modular units for temporary offices, lavatories and schools.

### **Workforce Housing**

ASL sells and leases workforce housing products, including prefabricated standardized or custom units that are designed to be assembled into self-contained camps complete with sleeping accommodation, kitchen, dining and recreation facilities. The units are made for all weather conditions and are fully transportable. The fleet is maintained to meet the latest standards set by the building industry and trade unions and is refurbished and upgraded as required. ASL also purchases used workforce housing units from customers which are then retrofitted as required and made available for resale or lease in the workforce housing market.

Demand for workforce housing products is directly related to the capital spending cycle and the level of development activity in various industries, primarily the natural resources sector.

### **Space Rentals**

The space rentals business is located in Canada, Australia, the U.K., the U.S., Chile and Peru, and involves the lease and sale of relocatable modular offices, classrooms and other community structures. The space rentals fleet consists of on-site structures that can be used as site offices, lunchrooms, storage facilities, lavatories, first-aid units and locker rooms, and modular commercial and community structures such as office complexes and classrooms. On-site structures are used primarily by construction and resource companies on urban and rural construction sites. Commercial and community structures, although relocatable, are generally used as more permanent facilities by a wide range of private and public sector customers.

Space rentals products are generally offered to customers under lease packages that may include options to purchase. The terms of leases generally vary from one month to five years. Customers with longer term requirements typically purchase rather than lease. Sales from the fleet assist in maintaining a modern inventory of space rentals units.

## Number of Units in Lease Fleet

	2010		2009	
	Workforce Housing	Space Rentals	Workforce Housing	Space Rentals
Canada	1,039	3,137	1,093	2,670
Australia	611	8,406	619	7,494
United Kingdom	-	1,594	-	1,609
South America	994	2,683	704	1,475
United States	55	20	-	-
<b>Total</b>	<b>2,699</b>	<b>15,840</b>	<b>2,416</b>	<b>13,248</b>

## Manufacturing

The Modular Structures division manufactures products at ten global facilities located in Canada (Edmonton and Calgary, Alberta), the U.S. (Diboll and Wichita Falls, Texas), South America (Santiago, Chile, and Lima, Peru), and Australia (Brisbane (2), Perth and Townsville).

In Canada, the principal manufacturing facility is located on a 22-acre site in Calgary known as the ATCO Industrial Park, with approximately 275,000 square feet of production and office space.

The ASL Spruce Grove manufacturing facility is located 15 km west of Edmonton, Alberta. This 90,000-square-foot facility is used as an overflow manufacturing facility, principally for the space rental and workforce housing fleet.

In the U.S., ASL operates a leased 90,000-square-foot manufacturing facility in Diboll, Texas, and a leased 140,000-square-foot manufacturing facility in Wichita Falls, Texas. These plants manufacture relocatable modular products and service the local domestic and international markets.

In South America, ASL has a 50 per cent interest in a joint venture with Tecno Fast S.A., a modular manufacturing corporation based in Santiago, Chile. Tecno Fast ATCO owns and operates a 77,500-square-foot manufacturing facility and has a 20,000-square-foot manufacturing facility in Lima, Peru.

In Australia, ASL owns and operates a 15,000-square-foot manufacturing facility and operates a leased 16,000-square-foot manufacturing facility, in Brisbane, Queensland. ASL also owns and operates a 15,000-square-foot manufacturing facility in Townsville, Queensland and a 43,000-square foot manufacturing facility in Perth, Western Australia.

## Facilities Operations & Maintenance

The Facilities Operations & Maintenance division is involved in the rapid mobilization and provision of services in challenging operational environments worldwide. This division focuses on delivery of services to various clients active in the resource, government, defence and telecommunications sectors. From large information technology systems to radar sites, deployed military operations to mining camps,

fuel tank farms to airports, the division is engaged in a range of operational support solutions for its customers' assets and operations.

The division's operations include site support and camp services through delivery of total project management and delivery of construction/installation, operation, and reclamation services. Technical services are offered for operation and maintenance of technical equipment and systems to ensure required operational availability. Airfield services involve complete airside, groundside management and operation of military and civilian airports. Logistics services offer end to end supply chain management, from procurement through transport to inventory. In addition, the division offers facilities management, from property and asset management services to complete building operation and maintenance.

Since 2007, ASL has provided multiple support services to NATO at the Kandahar Airfield in Afghanistan for troops serving NATO's International Security Assistance Force.

### **Lodging & Support Services**

The Lodging & Support Services division is involved in the provision of remote accommodations and related services, including catering, waste management and maintenance, and currently operates four accommodation complexes: Creeburn Lake Lodge and Barge Landing Lodge in Alberta, ATCO Lodge Estevan in Saskatchewan and ATCO Lodge Williston in North Dakota.

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

ASL and the Fort McKay First Nation are also partners in a second joint venture which operates Barge Landing Lodge, a 1,900-room temporary work camp north of Fort McMurray, under various service agreements with several clients.

### **Construction**

The Construction division offers full turnkey engineering, procurement and construction (EPC) capabilities to customers requiring acoustical controls, structural and mechanical building solutions and auxiliary systems for gas turbines. This division focuses on delivery of EPC solutions and project management to various customers in the power generation industry and is focusing on providing similar product offerings to the resource and defence sectors.

#### **4.2.4. Corporate & Other Segment**

The activities of the Corporate & Other Segment are conducted through ATCO I-Tek and commercial real estate owned by the Corporation in Alberta.

## ATCO I-Tek

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

ATCO I-Tek provides billing, payment processing, credit, collection and call centre services to its clients. ATCO I-Tek currently provides such services to Direct Energy for its regulated retail and competitive energy supply businesses in Alberta. In addition, ATCO I-Tek also supplies distribution-related billing and customer care services to ATCO Gas and ATCO Electric.

Direct Energy entered into a 10 year contract effective May 4, 2004, with ATCO I-Tek to provide billing and call centre services to ensure continued quality customer service. Direct Energy has the ability to terminate this contract after the fifth anniversary, which occurred on May 4, 2009, upon immediate payment of termination fees which decline over the remaining term of the contract. As a result of negotiations in 2010, the contract was extended to December 31, 2014.

## Other

ATCO Investments owns ATCO Centre Phase II at 919 – 11<sup>th</sup> Avenue S.W., Calgary, Alberta, containing approximately 135,000 square feet of net rentable area, of which 75% was occupied as at February 18, 2011.

ATCO owns 22 acres of land at the ATCO Industrial Park in Calgary.

Canadian Utilities owns commercial real estate in Fort McMurray, Alberta.

## 5. BUSINESS RISKS

The business risks section located in the MD&A is hereby incorporated by reference and may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## 6. DIVIDENDS

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

<i>(Canadian dollars per share)</i>	<b>2010</b>	2009	2008
5.75% Cumulative Redeemable Preferred Shares, Series 3 <sup>(1)</sup>	<b>0.45</b>	1.44	1.44
Class I and Class II Shares	<b>1.06</b>	1.00	0.94

<sup>(1)</sup> The Series 3 Preferred Shares were redeemed on March 23, 2010.

It is the policy of the Corporation to pay dividends quarterly on its Class I and Class II Shares. In 2010, the Corporation increased the dividends on Class I and Class II Shares by \$0.06 per share. The Corporation has increased its annual common share dividend each year since 1993. The matter of an increase in the quarterly dividend is addressed by the Board of Directors in the first quarter of each year. For the first quarter of 2011, the quarterly dividend payment has been increased by \$0.02 to \$0.285 per share. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Corporation and other factors.

## 7. DESCRIPTION OF CAPITAL STRUCTURE

### Share Capital

The share capital of the Corporation as at February 18, 2011, was as follows:

Share Description	Authorized	Outstanding
Preferred Shares issuable in series	20,000,000	-
Junior Preferred Shares issuable in series	8,000,000	-
Class I Shares	100,000,000	51,074,956
Class II Shares	50,000,000	6,853,408

### Preferred Shares

The Preferred Shares have preferential rights as to dividends as determined by the Board of Directors and are issuable from time to time in one or more series with such rights, restrictions, conditions and limitations as may be determined by the Board of Directors.

Three series of Preferred Shares have been issued to date, all of which have been redeemed and cancelled. This includes the redemption of 6,000,000 5.75% Cumulative Redeemable Preferred Shares, Series 3 on March 23, 2010, at a price of \$25.586644 per share (representing the \$25.00 designated capital of each share and a prescribed premium of \$0.50 per share plus \$0.086644 of accrued and unpaid dividends per share).

### Junior Preferred Shares

The Junior Preferred Shares are issuable from time to time in one or more series with such rights, restrictions, conditions and limitations as may be determined by the Board of Directors. The Junior Preferred Shares rank in priority to the Class I Shares and Class II Shares with respect to the payment of dividends and the distribution of assets upon the liquidation, dissolution or winding up of the Corporation. Three series of Junior Preferred Shares have been issued to date, all of which have been redeemed and cancelled.

## Class I Shares and Class II Shares

Each Class II Share may be converted into one Class I Share at any time at the share owner's option. In the event an offer to purchase Class II Shares is made to all owners of Class II Shares, and is accepted and taken up by the owners of a majority of such shares pursuant to such offer, and provided an offer is not made to the owners of Class I Shares on the same terms and conditions, the Class I Shares shall be entitled to the same voting rights as the Class II Shares. The two classes of shares rank equally in all other respects.

## 8. CREDIT RATINGS

The following table shows the current credit ratings on Canadian Utilities Limited's and CU Inc.'s securities which have been rated by DBRS Limited (DBRS) and Standard and Poor's (S&P):

	DBRS	S&P
Canadian Utilities Limited:		
Debentures	A	A
Commercial paper	R-1 (low)	A-1 (mid)
Preferred shares	Pfd-2 (high)	P-2 (high)
CU Inc.:		
Debentures	A (high)	A
Commercial paper	R-1 (low)	A-1 (mid)
Preferred shares	Pfd-2 (high)	P-2 (high)

Both rating agencies maintain a stable trend on the above securities.

### Long Term Debt Credit Ratings

An A rating by DBRS is the third highest of eight categories. Long term debt rated A is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of higher rated entities. While A is a respectable rating, entities in this category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities. Each rating category is denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category.

An A rating by S&P is the third highest of ten categories. Obligations rated A by S&P are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligations is still strong. The addition of a plus or minus sign shows relative standing within the major rating categories.

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

An R-1 (low) rating by DBRS is the third highest of ten categories and is granted to short term debt of satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry.

An A-1 (mid) rating by S&P is the second highest of eight categories in its Canadian commercial paper ratings scale and is granted where the obligor's capacity to meet its financial commitment on the obligation is strong.

## **Preferred Share Credit Ratings**

A Pfd-2 rating by DBRS is the second highest of six categories granted by DBRS. Preferred shares rated Pfd-2 are of satisfactory credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet, and coverage ratios are not as strong as higher rated companies. Each rating category is denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category.

A P-2 rating by S&P is the second highest of seven categories S&P uses in its Canadian preferred share rating scale. An obligation rated P-2 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. A plus or minus sign shows relative standing within a rating category.

## **Credit Ratings Generally**

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

## 9. MARKET FOR SECURITIES OF THE CORPORATION

The Corporation's Class I Shares and Class II Shares are listed on the Toronto Stock Exchange.

The following table sets forth the high and low prices and volume of the shares traded on the Toronto Stock Exchange during 2010 for the Corporation's listed shares.

	Class I Shares			Class II Shares			Series 3 Preferred Shares <sup>(1)</sup>		
	High \$	Low \$	Volume	High \$	Low \$	Volume	High \$	Low \$	Volume
Jan.	48.85	44.96	1,326,406	47.89	45.86	6,410	26.74	26.01	163,476
Feb.	49.93	44.35	1,096,788	49.50	45.45	7,630	26.75	25.50	693,072
Mar.	53.74	48.00	1,664,330	53.07	49.50	4,373	25.64	25.47	133,620
Apr.	52.09	47.01	953,162	51.50	48.00	4,400			
May	49.21	46.02	1,181,554	48.55	46.00	5,440			
Jun.	49.67	46.61	1,289,312	48.97	46.00	3,877			
Jul.	51.50	46.96	898,391	51.00	47.10	6,150			
Aug.	52.48	49.76	836,078	51.99	50.05	4,134			
Sep.	54.37	50.62	1,578,231	54.49	50.77	7,107			
Oct.	54.45	51.20	979,520	53.49	51.75	6,540			
Nov.	58.16	52.40	1,878,748	57.75	53.86	4,177			
Dec.	61.00	56.73	1,087,891	60.58	57.00	6,759			

<sup>(1)</sup> The Series 3 Preferred Shares were redeemed on March 23, 2010.

## 10. DIRECTORS AND OFFICERS

### Directors

Name, Province or State, and Country of Residence	Position	Principal Occupation	Director Since
R.T. Booth, Q.C. (2) (4) Alberta, Canada	Director	Partner, Bennett Jones LLP (barristers and solicitors)	2008
B.P. Collomb Paris, Île-de-France, France	Director	Honorary Chairman, Lafarge S.A. (building materials company)	1999
B.P. Drummond (2) (3) Quebec, Canada	Director	Corporate Director	1968
Rt. Hon. D.F. Mazankowski, P.C., O.C., A.O.E., D.Eng., LL.D. Alberta, Canada	Director	Business Consultant and Corporate Director	1999
H.M. Neldner (2) (3) (4) Alberta, Canada	Director	Corporate Director	1997
M.R.P. Rayfield (4) Ontario, Canada	Director	Vice Chair, Investment & Corporate Banking, BMO Capital Markets (investment bank)	2009
N.C. Southern Alberta, Canada	Director	Deputy Chair, President & Chief Executive Officer, ATCO Ltd. and Canadian Utilities Limited	1989
R.D. Southern, C.B.E., C.C., LL.D. Alberta, Canada	Director and Chairman of the Board	Chairman of the Board, ATCO Ltd. and Canadian Utilities Limited	1963
C.W. Wilson (2) (3) (4) Colorado, U.S.A.	Lead Director	Corporate Director	2002

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

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

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

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

### Officers (in Alphabetical Order)

Name, Province or State, and Country of Residence	Position Held and Principal Occupation
C.J. Ackroyd Alberta, Canada	Vice President, Marketing & Communications, ATCO Ltd. and Canadian Utilities Limited
B.R. Bale Alberta, Canada	Senior Vice President & Chief Financial Officer, ATCO Ltd. and Canadian Utilities Limited
D.E. Belsheim Alberta, Canada	Vice President, Operational Audit, ATCO Ltd. and Canadian Utilities Limited
K.J. Cumming Alberta, Canada	Senior Vice President, Northern Development, ATCO Ltd. and Canadian Utilities Limited, and President, ATCO Midstream Ltd.
C. Gear Alberta, Canada	Assistant Corporate Secretary, ATCO Ltd. and Canadian Utilities Limited
K.P. Hunt Alberta, Canada	Vice President, Internal Audit & Risk Management, ATCO Ltd. and Canadian Utilities Limited
E.M. Kiefer Alberta, Canada	Group Vice President, Human Resources & Corporate Services, ATCO Ltd. and Canadian Utilities Limited
S.W. Kiefer Alberta, Canada	Managing Director, Utilities, ATCO Ltd. and Canadian Utilities Limited
R.J. Myles Alberta, Canada	Senior Vice President, Corporate Development & Planning, ATCO Ltd. and Canadian Utilities Limited
R.C. Neumann Alberta, Canada	Vice President, Controller, ATCO Ltd. and Canadian Utilities Limited
N.C. Southern Alberta, Canada	Deputy Chair, President & Chief Executive Officer, ATCO Ltd. and Canadian Utilities Limited
R.D. Southern, C.B.E., C.C., LL.D. Alberta, Canada	Chairman of the Board, ATCO Ltd. and Canadian Utilities Limited
P. Spruin Alberta, Canada	Vice President, Administration & Corporate Secretary, ATCO Ltd. and Canadian Utilities Limited

<b>Name, Province or State, and Country of Residence</b>	<b>Position Held and Principal Occupation</b>
S.R. Werth Alberta, Canada	Senior Vice President & Chief Administration Officer, ATCO Ltd. and Canadian Utilities Limited
P.G. Wright Alberta, Canada	Vice President, Finance & Treasury, ATCO Ltd. and Canadian Utilities Limited

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

All of the directors and officers have been engaged for the last five years in the indicated principal occupations, or in other capacities with the companies or firms referred to, or with affiliates or predecessors thereof, with the exception of Mr. Ackroyd, who was Director of Advertising, The Calgary Sun (a newspaper).

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

At December 31, 2010, the directors and officers of the Corporation, as a group, beneficially owned, or controlled or directed, directly or indirectly (via corporate holdings or otherwise), approximately 5,756,460 (84.0%) of the issued and outstanding Class II Shares of the Corporation. In addition, the directors and officers of the Corporation, as a group, beneficially owned, or controlled or directed, directly or indirectly (via corporate holdings or otherwise), 32,786,701 (82.0%) of the issued and outstanding Class B common shares of Canadian Utilities Limited.

## **11. TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Class I Shares and Class II Shares is CIBC Mellon Trust Company at its principal offices in Calgary, Vancouver, Toronto and Montreal.

## **12. INTERESTS OF EXPERTS**

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

### **13. ADDITIONAL INFORMATION**

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

Additional information, including directors' and officers' remuneration, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Corporation's management proxy circular dated March 8, 2010. Additional financial information is provided in the Corporation's financial statements and MD&A for the financial year ended December 31, 2010.

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

## APPENDIX 1 – DETAILS OF GENERATING PLANTS

Name, Location & Type	Date in Service	MW (1)	Ownership %	Capacity Share	Partner/s (4)	Customer/s (4)	Contract Expiry Date
<b><u>Generating Plants in Canada:</u></b>							
<b>Battle River 3, 4 &amp; 5,</b> Forestburg, AB Coal-Fired Thermal	1969 to 1981	670	100.0% (2)	670	-	ENMAX	2013, 2013 & 2020
<b>Brighton Beach,</b> Windsor, ON Gas-Fired Combined-Cycle	2004	580	50.0% (3)	290	OPG	CoralEnergy	2024
<b>Cory,</b> Saskatoon, SK Gas-Fired Cogeneration/ Combined-Cycle	2003	260	50.0% (3)	130	SPI	SPC/PCS	2028
<b>Joffre,</b> Red Deer, AB Gas-Fired Cogeneration	2000	480	40.0% (3)	192	Capital Power/ Nova	Nova/ Merchant	2020
<b>McMahon,</b> Taylor, BC Gas-Fired Cogeneration	1993	120	50.0% (2)	60	Spectra Energy	BCHydro	2014
<b>Muskeg River,</b> Ft. McMurray, AB Gas-Fired Cogeneration	2003	170	70.0% (3)	119	SPI	AOSP/ Merchant	2042
<b>Oldman River,</b> Pincher Creek, AB Hydroelectric	2003	32	75% (3)	24	Piikani First Nation	Merchant	-
<b>Poplar Hill,</b> Grande Prairie, AB Gas-Fired Open-Cycle	1998	45	100.0% (3)	45	-	Merchant/ TMR contract	2018
<b>Primrose,</b> Primrose, AB Gas-Fired Cogeneration	1998	85	50.0% (3)	42	CNRL	CNRL/ Merchant	2028
<b>Rainbow Lake 1, 2 &amp; 3,</b> Rainbow Lake, AB Gas-Fired Open-Cycle	1968	88	100.0% (2)	88	-	Merchant	-
<b>Rainbow Lake 4 &amp; 5,</b> Rainbow Lake, AB Gas-Fired Cogeneration/ Open-Cycle	1999	90	50.0% (3)	45	Husky Energy	TMR Contract/ Merchant	2010
<b>Scotford,</b> Ft. Saskatchewan, AB Gas-Fired Cogeneration	2003	170	100.0% (3)	170	-	AOSP/ Merchant	2043

<b>Name, Location &amp; Type</b>	<b>Date in Service</b>	<b>MW (1)</b>	<b>Ownership %</b>	<b>Capacity Share</b>	<b>Partner/s (4)</b>	<b>Customer/s (4)</b>	<b>Contract Expiry Date</b>
<b>Generating Plants in Canada: (cont'd)</b>							
<b>Sheerness 1 &amp; 2,</b> Hanna, AB Coal-Fired Thermal	1986 & 1990	760	50.0% (2)	380	TransAlta	Trans Canada	2020
<b>Sturgeon,</b> Valleyview, AB Gas-Fired Open-Cycle	1957	18	100.0% (2)	18	-	Merchant	-
<b>Valleyview 1 &amp; 2,</b> Valleyview, AB Gas-Fired Open-Cycle	2001 & 2008	90	100.0% (3)	90	-	Merchant	-
<b>Sub-total (A)</b>		3,658		2,363			

(1) Name plate capacity.

(2) ATCO's ownership in this plant is held 100% by ATCO Power.

(3) ATCO's ownership in these plants is held 80% by ATCO Power and 20% by ATCO Resources. On January 1, 2011, ATCO transferred its ownership in ATCO Resources to ATCO Power (refer to Business Description – Three Year History section)

(4) Full names of Customers and Partners:

- AOSP means Athabasca Oil Sands Project;
- Capital Power means Capital Power (Alberta) Limited Partnership;
- CNRL means Canadian Natural Resources Limited;
- ENMAX means Enmax Corporation;
- Nova means Nova Chemicals;
- OPG means Ontario Power Generation Inc.;
- PCS means Potash Corporation of Saskatchewan;
- SPC means SaskPower Corporation;
- SPI means Saskpower International Inc.;
- TransAlta means TransAlta Corporation; and
- TransCanada means TransCanada Corporation.

<b>Name, Location &amp; Type</b>	<b>Date in Service</b>	<b>MW (1)</b>	<b>Ownership %</b>	<b>Capacity Share</b>	<b>Partner/s (5)</b>	<b>Customer/s (5)</b>	<b>Contract Expiry Date</b>
<b>Generating Plants Outside Canada:</b>							
<b>Barking,</b> London, UK Gas-Fired Combined-Cycle	1995	1,000	25.5% (2)	255	BB/EDF/ SSE	Merchant	-
<b>Bulwer Island,</b> Queensland Australia Gas-Fired Cogeneration	2001	33	50.0% (3)	17	Origin Energy	BP	2021
<b>Karratha,</b> Western Australia (4) Gas-Fired Open-Cycle	2010	86	100.0% (3)	86	-	Horizon Power	2030
<b>Osborne,</b> South Australia Gas-Fired Cogeneration/ Combined-Cycle	1998	180	50.0% (3)	90	Origin Energy	Origin Electricity/ Penrice	2018
<b>Sub-total (B)</b>		1,299		448			
<b>Total (A+B)</b>		4,957		2,811			

(1) Name plate capacity.

(2) ATCO's ownership in this plant is held 100% by ATCO Power.

(3) Effective January 1, 2011, ATCO's ownership in this plant is held 100% by ATCO Australia. In 2011 the operations of these three plants will be reported in a separate segment.

(4) The Karratha generating plant was commissioned in 2010. The first unit commenced commercial operations on February 14, 2010 followed by the second unit on April 9, 2010.

(5) Full names of Customers and Partners:

- BB means Balfour Beatty plc.;
- BP means BP plc.;
- EDF means EDF Energy plc.;
- Origin Electricity means Origin Energy Electricity Limited;
- Origin Energy means Origin Energy Limited;
- Penrice means Penrice Soda Holdings Limited;
- SSE means Scottish & Southern Energy;

## **APPENDIX 2 – AUDIT COMMITTEE INFORMATION**

### **Audit Committee Mandate**

#### **Purpose**

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

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

#### **Composition**

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

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

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

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

#### **Meetings**

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

The Chairman of the Committee shall prepare and/or approve an agenda in advance of each meeting. Reasonable notification of meetings, which may be held in person, by telephone or other communication device, shall be sent to the members of the Committee, the external auditor and any additional attendees as determined by the Chairman of the Committee. The external auditor has the right to appear before and

be heard at any meeting of the Committee. Upon the request of the external auditor, the Chairman of the Committee shall convene a meeting of the Committee to consider any matters which the external auditor believes should be brought to the attention of the directors or shareholders of the Corporation. Meetings will be scheduled to permit timely review of Committee materials. A majority of the Committee will constitute a quorum. Minutes of each meeting will be prepared by the person designated by the Committee to act as secretary and will be kept by the Corporate Secretarial Department.

### **Reporting**

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

### **Responsibilities and Authority**

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

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

The Committee shall:

- Recommend to the Board:
  - (a) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for the Corporation;
  - (b) the compensation of the external auditor; and
  - (c) the approval of the Corporation's annual financial statements, AIF and annual MD&A.
- be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.

- pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by the external auditor of the Corporation (“Non-audit Services”). The Committee may delegate to one or more of its members the authority to pre-approve Non-audit Services, and each pre-approval of Non-audit Services by a member to whom such authority has been delegated must be presented in writing to the Committee at its first scheduled meeting following such pre-approval. The Committee shall adopt and periodically review policies and procedures for the engagement of Non-audit Services that are detailed as to the particular service, that do not include delegation of the Committee’s responsibilities to management, and that are designed to manage the pre-approval process and comply with all applicable legal and regulatory requirements.
- review the Corporation’s annual and interim financial statements, AIF, MD&A and annual and interim earnings press releases before the Corporation publicly discloses this information.
- if delegated by the Board, approve the interim financial statements, interim MD&A and interim earnings press releases before the Corporation publicly discloses this information.
- be satisfied that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information extracted or derived from the Corporation’s financial statements, and periodically assess the adequacy of these procedures. This would include an annual review of the Corporation’s Disclosure Policy.
- ensure that the Corporation has appropriate procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters.
- provide a means for confidential and anonymous submission by employees of the Corporation of concerns regarding accounting or auditing matters.
- be satisfied that the Corporation has implemented appropriate systems of internal control over financial reporting and that these systems are operating effectively.
- be satisfied that the internal audit function has been effectively carried out and the internal auditor has adequate resources.
- review and approve the Corporation’s hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.
- review and reassess annually the adequacy of this mandate and recommend any proposed changes to the Board for approval.

The members of the Committee, for the purpose of performing their duties, have the right to inspect all the books and records of the Corporation and its subsidiary entities and to discuss such books and records

in any manner relating to the financial position of the Corporation and its subsidiary entities with the officers, employees and external auditors of the Corporation and its subsidiary entities.

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

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

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

- B.P. Drummond
- H.M. Neldner
- C.W. Wilson (Chairman)

### **Relevant Education and Experience**

B.P. Drummond - Mr. Drummond has an MBA and was president of a major investment dealer. Mr. Drummond has been a director of several public companies and has served as Chairman of the Investment Dealers Association of Canada and the Montreal Stock Exchange.

H.M. Neldner - Mr. Neldner has a Bachelor of Commerce (Finance). Mr. Neldner held various senior management positions in accounting and finance, including General Accountant, Comptroller, Vice President Finance and President & CEO with Alberta Government Telephones and TELUS Corporation.

C.W. Wilson - Mr. Wilson has an understanding of the accounting principles of the Corporation. In addition, Mr. Wilson supervised a CFO directly for a seven year period as President & CEO of Shell Canada Ltd.

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

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

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

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

## External Auditor Service Fees

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

<i>(\$ Millions)</i>	<b>2010</b>	2009
Audit fees (1)	<b>2.1</b>	2.1
Audit related fees (2)	<b>1.2</b>	0.3
Tax fees (3)	<b>0.6</b>	0.6
All other fees	<b>0.2</b>	-
Total	<b>4.1</b>	3.0

<sup>(1)</sup> *Audit fees are the aggregate professional fees paid to the external auditor for the audit of the annual consolidated financial statements and other regulatory audits and filings.*

<sup>(2)</sup> *Audit related fees are the aggregate fees paid to the external auditor for services related to special purpose audits and audit services including consultations regarding International Financial Reporting Standards and Canadian financial reporting and accounting standards.*

<sup>(3)</sup> *Tax fees are the aggregate fees paid to the external auditor for tax compliance, tax advice, tax planning and advisory services relating to the preparation of corporate tax, capital tax and sales tax returns.*