CANADIAN UTILITIES LIMITED
An ATCO Company

CANADIAN UTILITIES LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2015

CANADIAN UTILITIES LIMITED
CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars except per share data)	Note	Three Months Ended March 31 2015	Three Months Ended March 31 2014
Revenues		**918**	1,017
Costs and expenses			
Salaries, wages and benefits		**(104)**	(118)
Energy transmission and transportation		**(48)**	(42)
Plant and equipment maintenance		**(70)**	(46)
Fuel costs		**(87)**	(129)
Purchased power		**(21)**	(18)
Materials and consumables		**(11)**	(17)
Depreciation and amortization		**(123)**	(119)
Franchise fees		**(68)**	(76)
Property and other taxes		**(24)**	(27)
Other		**(66)**	(61)
		(622)	(653)
		296	364
Earnings from investment in ATCO Structures & Logistics		**1**	4
Earnings from investment in joint ventures		**6**	5
Operating profit		**303**	373
Interest income		**2**	2
Interest expense		**(73)**	(76)
Net finance costs		**(71)**	(74)
Earnings before income taxes		**232**	299
Income taxes		**(56)**	(73)
Earnings for the period		**176**	226
Earnings attributable to:			
Equity owners of the Company		**174**	221
Equity preferred share owners of subsidiary company		**2**	5
		176	226
Earnings per Class A and Class B share	7	**$ 0.61**	$ 0.80
Diluted earnings per Class A and Class B share	7	**$ 0.61**	$ 0.80

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CANADIAN UTILITIES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended March 31	
(millions of Canadian Dollars)	**2015**	**2014**
Earnings for the period	**176**	226
Other comprehensive loss, net of income taxes:		
Items that will not be reclassified to earnings:		
Re-measurement of retirement benefits (1)	**(10)**	(67)
Share of other comprehensive income of joint ventures (2)	**(3)**	-
	(13)	(67)
Items that are or may be reclassified subsequently to earnings:		
Cash flow hedges (3)	**(3)**	5
Cash flow hedges reclassified to earnings (4)	**(1)**	-
Foreign currency translation adjustment (4)	**14**	37
Share of other comprehensive income of ATCO Structures & Logistics (4)	**5**	4
	15	46
	2	(21)
Comprehensive income for the period	**178**	205
Comprehensive income attributable to:		
Equity owners of the Company	**176**	200
Equity preferred share owners of subsidiary company	**2**	5
	178	205

(1) Net of income taxes of $3 million for the three months ended March 31, 2015 (2014 – $21 million).

(2) Net of income taxes of $1 million for the three months ended March 31, 2015 (2014 – nil).

(3) Net of income taxes of $1 million for the three months ended March 31, 2015 (2014 – $(2) million).

(4) Net of income taxes of nil.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CANADIAN UTILITIES LIMITED
CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	March 31 2015	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		**413**	351
Accounts receivable		**421**	485
Finance lease receivables		**20**	20
Inventories		**75**	85
Prepaid expenses and other current assets		**52**	63
		981	1,004
Non-current assets			
Property, plant and equipment	4	**14,926**	14,608
Intangibles		**399**	396
Investment in ATCO Structures & Logistics		**208**	203
Investment in joint ventures		**124**	119
Finance lease receivables		**291**	290
Other assets		**81**	82
Total assets		**17,010**	16,702
LIABILITIES			
Current liabilities			
Bank indebtedness		**-**	4
Accounts payable and accrued liabilities		**745**	829
Asset retirement obligations and other provisions		**31**	30
Other current liabilities		**18**	19
Short-term debt	5	**140**	-
Long-term debt		**3**	83
Non-recourse long-term debt		**15**	15
		952	980
Non-current liabilities			
Deferred income tax liabilities		**778**	740
Asset retirement obligations and other provisions		**192**	171
Retirement benefit obligations		**426**	411
Deferred revenues		**1,591**	1,512
Other liabilities		**50**	64
Long-term debt		**7,200**	7,105
Non-recourse long-term debt		**108**	112
Total liabilities		**11,297**	11,095
EQUITY			
Equity preferred shares		**1,115**	1,115
Equity preferred shares of subsidiary company		**187**	187
Class A and Class B share owners' equity			
Class A and Class B shares	7	**934**	909
Contributed surplus		**12**	16
Retained earnings		**3,481**	3,411
Accumulated other comprehensive income		**(16)**	(31)
		4,411	4,305
Total equity		**5,713**	5,607
Total liabilities and equity		**17,010**	16,702

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CANADIAN UTILITIES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Class A and Class B Shares	Equity Preferred Shares [1]	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2013		803	1,458	15	3,157	(39)	5,394
Earnings for the period		-	-	-	226	-	226
Shares issued		38	-	-	-	-	38
Dividends	8	-	-	-	(87)	-	(87)
Share-based compensation		-	-	(2)	-	-	(2)
Other comprehensive loss		-	-	-	-	(21)	(21)
Losses on retirement benefits transferred to retained earnings		-	-	-	(67)	67	-
March 31, 2014		841	1,458	13	3,229	7	5,548
December 31, 2014		909	1,302	16	3,411	(31)	5,607
Earnings for the period		**-**	**-**	**-**	**176**	**-**	**176**
Shares issued		**25**	**-**	**-**	**-**	**-**	**25**
Dividends	8	**-**	**-**	**-**	**(93)**	**-**	**(93)**
Share-based compensation		**-**	**-**	**(4)**	**-**	**-**	**(4)**
Other comprehensive income		**-**	**-**	**-**	**-**	**2**	**2**
Losses on retirement benefits transferred to retained earnings		**-**	**-**	**-**	**(13)**	**13**	**-**
March 31, 2015		**934**	**1,302**	**12**	**3,481**	**(16)**	**5,713**

(1) Includes equity preferred shares and equity preferred shares of subsidiary company.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CANADIAN UTILITIES LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Three Months Ended March 31 2015	2014
Operating activities		
Earnings for the period	**176**	226
Adjustments for:		
Depreciation and amortization	**123**	119
Earnings from investment in ATCO Structures & Logistics, net of dividends received	**1**	(2)
Earnings from investment in joint ventures, net of dividends and distributions received	**(6)**	2
Income taxes	**56**	73
Unearned availability incentives	**(15)**	2
Contributions by customers for extensions to plant	**91**	77
Amortization of customer contributions	**(12)**	(12)
Net finance costs	**71**	74
Income taxes paid	**(27)**	(29)
Other	**(6)**	(13)
	452	517
Changes in non-cash working capital	**66**	(24)
Cash flow from operations	**518**	493
Investing activities		
Additions to property, plant and equipment	**(353)**	(504)
Proceeds on disposal of property, plant and equipment	**1**	-
Additions to intangibles	**(13)**	(23)
Changes in non-cash working capital	**(74)**	53
Other	**-**	(4)
	(439)	(478)
Financing activities		
Issue of short-term debt	**140**	11
Issue of long-term debt	**-**	9
Repayment of non-recourse long-term debt	**(4)**	(8)
Dividends paid on equity preferred shares	**(12)**	(12)
Dividends paid on equity preferred shares of subsidiary company	**(2)**	(5)
Dividends paid to Class A and Class B share owners	**(54)**	(32)
Interest paid	**(82)**	(68)
Other	**(1)**	-
	(15)	(105)
Foreign currency translation	**2**	4
Cash position [(1)]		
Increase (decrease)	**66**	(86)
Beginning of period	**347**	496
End of period	**413**	410

(1) Cash position consists of cash and cash equivalents less current bank indebtedness and includes $40 million (2014 - $47 million) which is not available for general use by the Company.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CANADIAN UTILITIES LIMITED
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

MARCH 31, 2015

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

1. THE COMPANY AND ITS OPERATIONS

Canadian Utilities Limited was incorporated under the laws of Canada and is listed on the Toronto Stock Exchange. Its head office is at 700, 909 - 11th Avenue SW, Calgary, Alberta, T2R 1N6 and its registered office is 20th Floor, 10035 – 105 Street, Edmonton, Alberta T5J 2V6. The Company is controlled by ATCO Ltd. and its controlling share owner, R.D. Southern.

Canadian Utilities Limited is engaged in the following business activities:

- Utilities (pipelines, natural gas and electricity transmission and distribution); and
- Energy (power generation and sales, industrial water infrastructure, natural gas gathering, processing, storage and liquids extraction).

The unaudited interim consolidated financial statements include the accounts of Canadian Utilities Limited and its subsidiaries (the Company). The statements also include the accounts of a proportionate share of the Company's investments in joint operations and its equity-accounted investments in ATCO Structures & Logistics (24.5 per cent) and joint ventures.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The unaudited interim consolidated financial statements are prepared according to International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. They do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2014, prepared according to IFRS.

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

The unaudited interim consolidated financial statements were authorized for issue by the Audit Committee, on behalf of the Board of Directors, on April 28, 2015.

BASIS OF MEASUREMENT

The unaudited interim consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, defined benefit pension and other employee retirement benefit liabilities and cash-settled share-based compensation liabilities.

Revenues, earnings and adjusted earnings for any quarter are not necessarily indicative of operations on an annual basis. Quarterly financial results may be affected by the seasonal nature of the Company's operations, changes in electricity prices in Alberta, the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees, changes in natural gas liquids prices and natural gas costs, the timing of maintenance outages at power generating plants, and the timing of utility rate decisions.

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

CHANGE IN ACCOUNTING POLICIES

Financial Instruments

The Company adopted IFRS 9 (2013) *Financial Instruments* effective January 1, 2015. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and previous versions of IFRS 9. It includes revised guidance on the classification and measurement of financial assets and liabilities and adds guidance on general hedge accounting.

Previously, the Company classified financial assets when they were first recognized as fair value through profit or loss, available for sale, held to maturity investments or loans and receivables. Under IFRS 9 (2013), the Company classifies financial assets under the same two measurement categories as financial liabilities; amortized cost or fair value through profit and loss. Financial assets are classified as amortized cost if the purpose of the Company's business model is to hold the financial assets for collecting cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. All other financial assets are classified as fair value through profit or loss. All of the Company's financial assets and financial liabilities as at December 31, 2014 will continue to be classified and measured at amortized cost with the exception of derivative financial instruments disclosed below. The adoption of this standard has not resulted in any changes to comparative figures.

The Company has not yet adopted IFRS 9 (2014) *Financial Instruments* that incorporates the new impairment model that assesses financial assets based on expected losses rather than incurred losses as applied in IAS 39. This final standard will replace IFRS 9 (2013) and is effective for annual periods on or after January 1, 2018.

Derivative Financial Instruments

As part of the early adoption of IFRS 9 (2013), the accounting for derivative financial instruments, including hedge accounting, is now addressed under the new standard.

Previously, all derivative financial instruments, including derivatives embedded in other financial instruments or host contracts, were measured at fair value. Under IFRS 9 (2013), derivatives embedded in financial asset host contracts are no longer required to be separated. Instead, the contract is required to be classified in its entirety at either amortized cost or fair value. For those measured at fair value, the gain or loss that results from changes in fair value of the derivative is recognized in earnings immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in earnings depends on the hedging relationship.

By early adopting hedge accounting under IFRS 9 (2013), the Company is able to better align its hedge accounting policy with its risk management objectives. Hedge documentation of the relationship between the derivative and the hedged item at inception of the hedge is still required. Assessment at each reporting period can be performed qualitatively if both the critical terms of the hedging relationship and the economic relationship between the hedged item and hedging instrument continue to remain the same or similar. If the mismatch in terms is significant, a quantitative assessment is required. Ineffectiveness, if any, is measured at the end of each reporting period.

If the risk management hedge ratio used to form the economic relationship of the hedged item and hedging instrument changes, rebalancing of the hedging relationship is required. Under this circumstance, an adjustment to the quantities of the hedged item or hedging instrument would be allowed to realign the hedging relationship to its original risk management hedge ratio. The Company can only discontinue hedge accounting prospectively if there is no longer an economic relationship between the hedged item and hedging instrument, the risk management objective changes, the derivative no longer is designated as a hedging instrument, or the underlying hedged item is derecognized.

3. SEGMENTED INFORMATION

SEGMENTED RESULTS

Results by operating segment for the three months ended March 31, 2015 and 2014 are shown below.

THREE MONTHS ENDED MARCH 31

2015 2014	Utilities	Energy	ATCO Australia	Corporate and Other	Intersegment Eliminations	Consolidated
Revenues – external	**658**	**203**	**55**	**2**	**–**	**918**
	653	285	59	20	–	1,017
Revenues – intersegment	**4**	**1**	**–**	**5**	**(10)**	**–**
	1	1	–	43	(45)	–
Revenues	**662**	**204**	**55**	**7**	**(10)**	**918**
	654	286	59	63	(45)	1,017
Operating expenses [1]	**(308)**	**(167)**	**(26)**	**(9)**	**11**	**(499)**
	(293)	(215)	(24)	(48)	46	(534)
Depreciation and amortization	**(95)**	**(19)**	**(9)**	**(1)**	**1**	**(123)**
	(86)	(20)	(10)	(4)	1	(119)
Earnings from investment in ATCO Structures & Logistics	**–**	**–**	**–**	**1**	**–**	**1**
	–	–	–	4	–	4
Earnings from investment in joint ventures	**–**	**4**	**2**	**–**	**–**	**6**
	–	2	3	–	–	5
Net finance costs	**(56)**	**(7)**	**(10)**	**3**	**(1)**	**(71)**
	(49)	(8)	(18)	2	(1)	(74)
Earnings before income taxes	**203**	**15**	**12**	**1**	**1**	**232**
	226	45	10	17	1	299
Income taxes	**(51)**	**(4)**	**(3)**	**2**	**–**	**(56)**
	(57)	(12)	(3)	(1)	–	(73)
Earnings for the period	**152**	**11**	**9**	**3**	**1**	**176**
	169	33	7	16	1	226
Adjusted earnings	**116**	**11**	**12**	**(8)**	**(1)**	**130**
	139	33	8	5	1	186
Total assets [2,3]	**13,584**	**1,642**	**1,331**	**534**	**(81)**	**17,010**
	13,389	1,652	1,296	470	(105)	16,702
Capital expenditures [4]	**311**	**29**	**16**	**29**	**5**	**390**
	506	15	18	7	–	546

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

(2) Total assets do not reflect adjustments for rate-regulated activities included in adjusted earnings.

(3) 2014 comparative total assets are at December 31, 2014.

(4) Includes additions to property, plant and equipment and intangibles and $24 million (2014 – $19 million) of interest capitalized during construction for the three months ended March 31, 2015.

ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to equity owners of the Company after adjusting for the timing of revenues and expenses for rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude one-time gains and losses, significant impairments and items that are not in the normal course of business or a result of day-to-day operations. Adjusted earnings are a key measure of segment earnings used by the Chief Operating Decision Maker (CODM) to assess segment performance and allocate resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the three months ended March 31 is shown below.

2015 **2014**	**Utilities**	**Energy**	**ATCO Australia**	**Corporate and Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**116**	**11**	**12**	**(8)**	**(1)**	**130**
	139	33	8	5	1	186
Adjustments for rate-regulated activities	**33**	**–**	**(3)**	**–**	**2**	**32**
	24	–	(1)	–	–	23
Dividends on equity preferred shares of Canadian Utilities Limited	**1**	**–**	**–**	**11**	**–**	**12**
	1	–	–	11	–	12
Earnings attributable to equity owners of the Company	**150**	**11**	**9**	**3**	**1**	**174**
	164	33	7	16	1	221
Earnings attributable to equity preferred share owners of subsidiary company						**2**
						5
Earnings for the period						**176**
						226

Adjustments for rate-regulated activities

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Consequently, the Company does not recognize assets and liabilities arising from rate-regulated activities under IFRS.

Before adopting IFRS, the Company used standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of segment disclosures on this basis.

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

	Rate-Regulated Accounting Treatment	**IFRS Treatment**
1.	The Company defers the recognition of cash received in advance of future expenditures.	The Company records revenues when amounts are billed to customers and recognizes costs when they are incurred.
2.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings.
3.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company recognizes earnings when customer rates are changed and amounts are billed to customers.
4.	Intercompany profits on the manufacture or construction of facilities for a regulated public utility in the consolidated group are deemed to have been realized to the extent that the transfer price on such facilities is recognized for rate-making purposes by a regulator.	Intercompany profits are eliminated upon consolidation. The Company then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset.

Timing adjustments for rate-regulated activities are as follows:

	Three Months Ended March 31	
	2015	**2014**
Additional revenues billed in current period:		
Future removal and site restoration costs [1]	**11**	15
Retirement benefits [2]	**–**	2
Finance costs on major transmission capital projects [3]	**15**	12
Impact of colder temperatures on revenues [4]	**–**	8
Other	**1**	6
	27	43
Revenues to be billed in future period:		
Deferred income taxes [5]	**(21)**	(26)
Transmission access payments [6]	**(3)**	(1)
Transmission capital deferral [7]	**(13)**	(2)
Impact of warmer temperatures on revenues [4]	**(9)**	–
Impact of inflation on rate base for ATCO Gas Australia [8]	**(3)**	(3)
Other	**(4)**	(1)
	(53)	(33)
Regulatory decisions related to current and prior periods:		
Generic cost of capital and capital tracker decisions [9]	**46**	–
Transmission access payments recoveries [9]	**7**	14
ATCO Gas Australia appeal decision	**–**	2
Weather refunds [4]	**(4)**	–
Other	**7**	(1)
	56	15
Intercompany profits:		
Intercompany profits related to construction of property, plant and equipment and intangibles [10]	**2**	(2)
	32	23

Descriptions of the adjustments, and the timing of recovery or refund for each, are as follows:

	Description	Timing of Recovery or Refund
1.	Removal and site restoration costs billed to customers are based on the costs forecast to be incurred in future periods. Customers fund these expected costs over the estimated useful life of the related assets. Under rate-regulated accounting, billings to customers in excess of costs incurred in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings when removal and site restoration costs are incurred.
2.	Contributions to defined benefit pension plans and other post-employment benefit plans are billed to customers when paid by the Company, whereas the costs of retirement benefits are accrued over the service life of the employees. Under rate-regulated accounting, contributions paid and billed to customers in excess of costs accrued in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings as the variances between contributions and costs reverse over the life of the plans.

	Description	Timing of Recovery or Refund
3.	Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred. Under rate-regulated accounting, the finance costs billed to customers are deferred.	The deferred revenues will be recognized in adjusted earnings over the service life of the related assets.
4.	ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Under rate-regulated accounting, revenues above or below the norm in the current period are deferred and refunded to or recovered from customers in future periods.	ATCO Gas may apply to the Alberta Utilities Commission (AUC) for recoveries from or refunds to customers when the net revenue variances exceed $7 million at April 30th of any year for either of its North or South systems.
5.	Deferred income taxes are a non-cash expense resulting from temporary differences between the book value and the tax value of assets and liabilities. Income taxes are billed to customers when paid by the Company. Deferred income taxes are not billed to customers unless directed to do so by the regulator. Under rate-regulated accounting, revenues are recognized in the current period for the deferred income taxes to be billed to customers in future periods.	The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.
6.	Transmission access payments billed to customers by ATCO Electric are based on the forecast payments to be incurred. Under rate-regulated accounting, differences between actual costs incurred and forecast costs billed to customers are deferred for collection from or refund to customers in future periods.	Recoveries from or refunds to customers of the differences between transmission access payments billed to customers and paid by ATCO Electric are expected to occur in the next 6 to 12 months.
7.	For major transmission capital projects, ATCO Electric's billings to customers include a return on forecast rate base. When actual capital costs vary from forecast capital costs, the return on rate base, and the resulting billings to the Alberta Electric System Operator (AESO), will be higher or lower than expected. Under rate-regulated accounting, differences between billings to the AESO and the return on actual rate base are deferred.	Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in the following year.
8.	ATCO Gas Australia earns a return on rate base that excludes inflation. Inflation is accounted for by adjusting the rate base in subsequent periods by the actual rate of inflation; the impact of inflation is billed to customers through recovery of depreciation. Under rate-regulated accounting, an adjustment is made to recognize the inflation component of rate base when it is earned in the current period. Differences between the amounts earned and the amounts billed to customers are deferred.	The inflation-indexed portion of rate base will be recovered from customers over the life of the assets comprising rate base through the recovery of depreciation.

	Description	Timing of Recovery or Refund
9.	The Canadian and Australian utilities recognize revenues from regulatory decisions when customer rates are changed and amounts are billed to customers. Under rate-regulated accounting, revenues from regulatory decisions that affect current and prior periods are recognized when the decision is received.	**Generic Cost of Capital and Capital Tracker Decisions** The Utilities recorded a reduction in adjusted earnings of $36 million in the first quarter of 2015 for an AUC decision which reduced the Return on Equity and deemed common equity ratios for 2013 to 2015. Of the $36 million recorded in the first quarter, $31 million related to 2013 and 2014. Also in the first quarter of 2015, ATCO Gas and the distribution operations of ATCO Electric recorded a reduction in adjusted earnings of $10 million for the AUC Performance Based Regulation Capital Tracker decisions for 2013 to 2015. Of the $10 million, $8 million related to 2013 and 2014. Although these decisions included approval of the Company's applied for Capital Tracker programs, the decisions resulted in lower Capital Tracker rates than previously approved due to the AUC requiring the utilities to use the actual cost of debt in the rate determinations, which was lower than the forecast cost of debt that was previously being used. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings. **Transmission Access Payment Recoveries** In the years 2014 and 2013, actual payments for transmission access paid by ATCO Electric exceeded forecast costs included in billings to customers. These excess costs are subsequently recovered from customers.
10.	Under rate-regulated accounting, intercompany profits from transactions with related parties and approved by the regulator for inclusion in rate base are not eliminated on consolidation; they are recognized as earnings in the current period.	Intercompany profits will be recognized as earnings under IFRS as rate base is depreciated and the depreciation is billed to customers over the life of the assets.

4. PROPERTY, PLANT AND EQUIPMENT

The Utilities segment continues to make significant investment in utility infrastructure in Alberta, particularly in electricity transmission facilities.

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

	Utility Transmission & Distribution	Power Generation	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost:						
December 31, 2014	13,529	1,980	606	2,390	1,062	19,567
Additions	**241**	**21**	**2**	**111**	**19**	**394**
Disposals	**(10)**	**(23)**	**–**	**(1)**	**(1)**	**(35)**
Changes to asset retirement costs	**–**	**5**	**–**	**–**	**17**	**22**
Foreign exchange rate adjustment	**21**	**–**	**–**	**–**	**1**	**22**
March 31, 2015	**13,781**	**1,983**	**608**	**2,500**	**1,098**	**19,970**
Accumulated depreciation:						
December 31, 2014	3,136	1,208	132	–	483	4,959
Depreciation	**84**	**16**	**2**	**–**	**13**	**115**
Disposals	**(10)**	**(21)**	**–**	**–**	**(1)**	**(32)**
Foreign exchange rate adjustment	**2**	**–**	**–**	**–**	**–**	**2**
March 31, 2015	**3,212**	**1,203**	**134**	**–**	**495**	**5,044**
Net book value:						
December 31, 2014	10,393	772	474	2,390	579	14,608
March 31, 2015	**10,569**	**780**	**474**	**2,500**	**603**	**14,926**

The additions of property, plant and equipment included $24 million (March 31, 2014 – $19 million) of interest capitalized.

Construction work-in-progress additions are net of transfers of $208 million (March 31, 2014 – $94 million) to other property, plant and equipment categories.

5. SHORT TERM DEBT

At March 31, 2015, the Company had $140 million (December 31, 2014 – nil) of commercial paper outstanding with a weighted average interest rate of 0.97 per cent, maturing in April 2015. The commercial paper is back-stopped by the Company's long-term committed credit facilities.

6. FAIR VALUE MEASUREMENTS

Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. Fair value is based on quoted market prices when available; models using observable market data and transaction specific factors are also used to estimate fair value.

Fair value measurements are categorized into levels within a fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FAIR VALUE OF NON-DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and short-term debt approximate carrying value due to their short-term nature.

The fair values of the Company's non-derivative financial instruments measured at other than fair value are as follows:

Recurring Measurements	Fair Value Hierarchy Level	March 31, 2015 Carrying Value	March 31, 2015 Fair Value	December 31, 2014 Carrying Value	December 31, 2014 Fair Value
Financial Assets					
Amortized Cost:					
Lease receivables (1)	Level 2	**311**	**519**	310	504
Financial Liabilities					
Amortized Cost:					
Long-term debt (2)	Level 2	**7,203**	**8,711**	7,188	8,202
Non-recourse long-term debt (2)	Level 2	**123**	**153**	127	156

(1) Recorded at amortized cost. Fair values are determined using a risk-adjusted, pre-tax interest rate to discount future cash receipts.

(2) Recorded at amortized cost. Fair values are determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of the Company's derivative financial instruments are as follows:

Recurring Measurements	Fair Value Hierarchy Level	March 31, 2015 Notional Principal or Volume (1)	March 31, 2015 Fair Value Receivable (Payable) (3)	December 31, 2014 Notional Principal or Volume (1)	December 31, 2014 Fair Value Receivable (Payable) (3)
Subject to Hedge Accounting					
Interest rate swaps	Level 2	**1,480**	**(7)**	728	(1)
Natural gas purchase contracts (2)	Level 2	**3,909,000 GJ**	**(1)**	2,452,000 GJ	(3)
Forward power sales contracts (2)	Level 2	**650,200 MWh**	**3**	580,216 MWh	5
Not Subject to Hedge Accounting					
Natural gas purchase contracts (2)	Level 2	**484,000 GJ**	**–**	–	–
Forward power sales contracts (2)	Level 2	**72,480 MWh**	**(1)**	–	–

(1) The notional principal is not recorded in the consolidated financial statements as it does not represent amounts that are exchanged by the counterparties.

(2) Notional amounts for the natural gas purchase contracts are the maximum volumes that can be purchased over the terms of the contracts. Notional amounts for the forward sale and purchase contracts are the commodity volumes committed in the contracts.

(3) Fair values for the interest rate swaps and foreign currency forward contracts were estimated using period-end market rates. Fair values for the natural gas purchase contracts were estimated using period-end market prices for natural gas and an estimate of implied volatility based on historic market prices. Fair values for forward power sales contracts were estimated using forward period-end market prices. These fair values approximate the amount that the Company would either pay or receive to settle the contracts at March 31, 2015, and December 31, 2014.

The Company's hedging strategies for which hedge accounting is applied consists of the following:

- Interest Rate Risk: The Company has variable interest rates on its long-term debt and non-recourse long-term debt. Interest rate swap agreements are entered into and designated as cash flow hedges to fix interest rates. Consequently, the exposure to fluctuations in market interest rates is limited.
- Commodity Price Risk: The Company's electricity generation business is exposed to commodity price movements, particularly to the market price of electricity and natural gas. The Company entered into natural gas purchase contracts and forward power sales contracts to manage its exposure to electricity and natural gas market price movements.

For the three months ended March 31, 2015, there were no sources of hedge ineffectiveness.

7. CLASS A AND CLASS B SHARES AND EARNINGS PER SHARE

There were 189,363,162 (2014 – 186,788,313) Class A non-voting shares and 75,167,735 (2014 – 75,249,298) Class B common shares outstanding on March 31, 2015. In addition, there were 1,046,050 options to purchase Class A non-voting shares outstanding at March 31, 2015, under the Company's stock option plan. From April 1, 2015, to April 27, 2015, no stock options were granted or cancelled, 5,600 stock options were exercised, and 3,500 Class B common shares were converted to Class A non-voting shares.

EARNINGS PER SHARE

The earnings and average number of shares used to calculate earnings per share are as follows:

	Three Months Ended March 31	
	2015	**2014**
Average shares:		
Weighted average shares outstanding	**263,598,902**	260,856,212
Effect of dilutive stock options	**321,150**	375,572
Effect of dilutive mid-term incentive plan	**516,610**	507,562
Weighted average dilutive shares outstanding	**264,436,662**	261,739,346
Earnings for earnings per share calculation:		
Earnings for the period	**176**	226
Dividends on equity preferred shares of the Company	**(12)**	(12)
Dividends on equity preferred shares of subsidiary company	**(2)**	(5)
	162	209
Earnings and diluted earnings per Class A and Class B share:		
Earnings per Class A and Class B share	**$0.61**	$0.80
Diluted earnings per Class A and Class B share	**$0.61**	$0.80

DIVIDEND REINVESTMENT PLAN

During the three months ended March 31, 2015, 606,255 Class A non-voting shares were issued under the Company's dividend reinvestment plan (2014 – 993,776), using re-invested dividends of $25 million (2014 – $38 million). The shares were priced at an average of $40.63 per share (2014 – $38.48 per share).

8. DIVIDENDS

Cash dividends declared and paid per share are as follows:

	Three Months Ended March 31	
(dollars per share)	**2015**	**2014**
Equity preferred shares:		
4.00% Perpetual Cumulative Second Preferred Shares, Series V	**0.25000**	0.25000
4.00% Cumulative Redeemable Second Preferred Shares, Series Y	**0.25000**	0.25000
4.90% Cumulative Redeemable Second Preferred Shares, Series AA	**0.30625**	0.30625
4.90% Cumulative Redeemable Second Preferred Shares, Series BB	**0.30625**	0.30625
4.50% Cumulative Redeemable Second Preferred Shares, Series CC	**0.28125**	0.28125
4.50% Cumulative Redeemable Second Preferred Shares, Series DD	**0.28125**	0.28125
Class A and Class B shares	**0.2950**	0.2675

The Company's policy is to pay dividends quarterly on its Class A and Class B shares. Increases in the quarterly dividend are addressed by the Board of Directors in the first quarter of each year. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Company and other factors.