



**ATCO Ltd.**

**2006  
ANNUAL  
INFORMATION  
FORM**

February 21, 2007

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## FORWARD-LOOKING INFORMATION

This Annual Information Form (“AIF”) contains forward-looking statements pertaining to contractual obligations, planned capital expenditures, the impact of changes in government regulation, non-regulated generating capacity subject to long term contracts and Industrials segment market developments. The Corporation’s actual results could differ materially from those anticipated in these forward-looking statements as a result of regulatory decisions, competitive factors in the industries in which the Corporation operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Corporation.

## DEFINITIONS OF CERTAIN TERMS

Certain terms used in this Annual Information Form are defined below:

“AEUB” means the Alberta Energy and Utilities Board;

“AGP” means ATCO Gas and Pipelines Ltd.;

“Alberta Power (2000)” means Alberta Power (2000) Ltd.;

“Alberta Power Pool” means the market for electricity in Alberta operated by the AESO;

“AESO” means the Alberta Electric System Operator;

“ASHCOR Technologies” means ASHCOR Technologies Ltd.;

“ATCO” means ATCO Ltd.;

“ATCO Electric” means ATCO Electric Ltd.;

“ATCO Frontec” means ATCO Frontec Corp. together with its subsidiaries;

“ATCO Gas” means the natural gas distribution division of AGP;

“ATCO I-Tek” means ATCO I-Tek Inc.;

“ATCO I-Tek Business Services” means ATCO I-Tek Business Services Ltd.;

“ATCO Investments” means ATCO Investments Ltd.;

“ATCO Midstream” means ATCO Midstream Ltd.;

“ATCO Noise Management” means ATCO Noise Management Ltd. together with its subsidiaries;

“ATCO Pipelines” means the natural gas transportation 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. together with its subsidiaries;

“ATCO Travel” means ATCO Travel Ltd.;

“ATCO Utility Services” means ATCO Utility Services Ltd.;

“BPL” means Barking Power Limited;

“Canadian Utilities” means Canadian Utilities Limited together with its subsidiaries;

“Class I Shares” means the Class I Non-Voting Shares of the Corporation;

“Class II Shares” means the Class II Voting Shares of the Corporation;

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

“CU” means Canadian Utilities Limited;

“CU Water” means CU Water Limited;

“EEEP” means the Edmonton Ethane Extraction Plant;

“EUA” means the Electric Utilities Act (Alberta);

“Genics” means Genics Inc.;

“GUA” means the Gas Utilities Act (Alberta);

“km” means kilometre;

“Mmcf” means one million cubic feet and “Bcf” means one billion cubic feet;

“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 AEUB;

“NLD” means Northland Utilities (NWT) Limited;

“NUY” means Northland Utilities (Yellowknife) Limited;

“petajoule” means a unit of energy equal to approximately 948.2 billion British thermal units, “terajoule” means a unit of energy equal to approximately 948.2 million British thermal units and “gigajoule” means a unit of energy equal to approximately 948.2 thousand British thermal units;

“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 PPA’s are legislatively mandated and approved by the AEUB;

“REA” means Rural Electrification Association. REA’s 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;

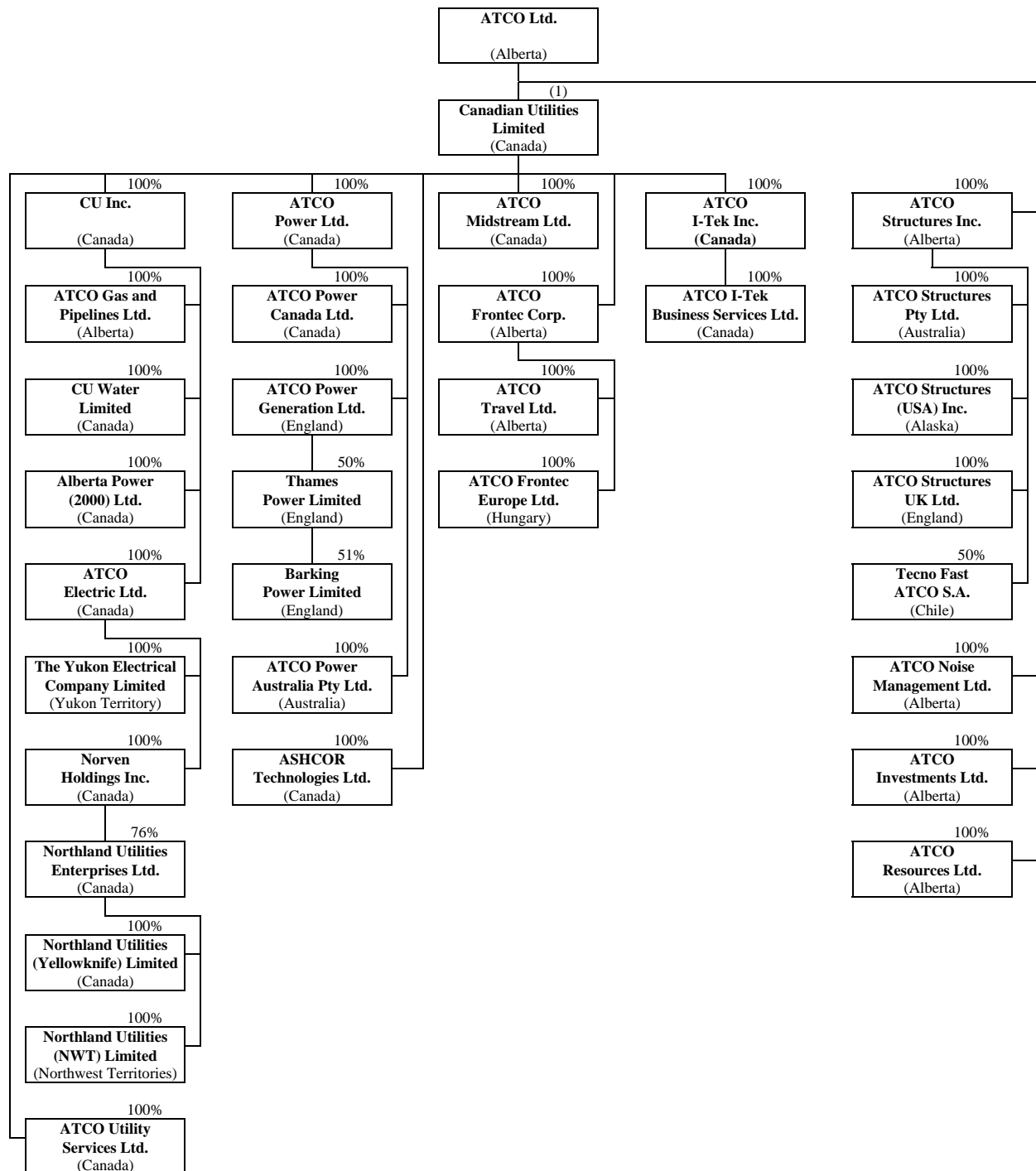
“Thames Power” means Thames Power Limited;

“YECL” means The Yukon Electrical Company Limited.

#### **ATCO LTD.**

The Corporation 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 principal and registered office of the Corporation is 1600 ATCO Centre, 909 – 11<sup>th</sup> Avenue S.W., Calgary, Alberta T2R 1N6.

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 over which control or direction is exercised by the Corporation.



**Note:**

(1) At December 31, 2006, ATCO Ltd. owned 74.4% of the Class B common shares, being the only voting securities outstanding, and 40.6% of the Class A non-voting shares, for an aggregate ownership of 52.4%, of Canadian Utilities Limited.

## BUSINESS OF THE CORPORATION

The Corporation is a holding company. Its principal operating subsidiaries are engaged in regulated natural gas and electric energy operations, primarily in Alberta, and in related non-regulated operations. Regulated operations are conducted by ATCO Electric (and its subsidiaries, NLD, NUY and YECL), ATCO Gas and ATCO Pipelines. Included in regulated operations are the generating plants of Alberta Power (2000), which were regulated by the AEUB until December 31, 2000, but are now governed by legislatively mandated PPA's that were approved by the AEUB. These plants are included in regulated operations primarily because the PPA's are designed to allow the owners of generating plants constructed before January 1, 1996, to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPA's. The plants will become deregulated upon the earlier of one year after the expiry of a PPA or a decision to continue to operate the plant. Alberta Power (2000) 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. 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 Corporation operates in the following business segments:

The **Utilities** Business Group includes the regulated distribution of natural gas by ATCO Gas, the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, NLD, NUY and YECL, the regulated transportation of natural gas by ATCO Pipelines, the regulated transmission and distribution of water by CU Water, and the provision of non-regulated complementary projects by ATCO Utility Services.

The **Power Generation** Business Group includes the non-regulated supply of electricity and cogeneration steam by ATCO Power and ATCO Resources, the regulated supply of electricity by Alberta Power (2000), and the sale of fly ash and other combustion byproducts produced in coal fired electrical generating plants by ASHCOR Technologies.

The **Global Enterprises** Business Group includes the non-regulated gathering, processing, storage, purchase and sale of natural gas by ATCO Midstream, the provision of project management and technical services for customers in the industrial, defence and transportation sectors by ATCO Frontec, the development, operation and support of information systems and technologies by ATCO I-Tek, the provision of billing services, payment processing, credit, collection and call centre services by ATCO I-Tek's subsidiary, ATCO I-Tek Business Services, the sale of travel services to both business and consumer sectors by ATCO Travel, the manufacture, sale and lease of transportable workforce shelter and space rentals products by ATCO Structures (Industrials) and the design, supply and construction of industrial noise abatement by ATCO Noise Management (Industrials). The Corporation sold its 50% interest in Genics, a manufacturer of wood preservation products, effective August 1, 2006.

The Corporate and Other segment includes commercial real estate owned by ATCO Ltd., ATCO Investments and Canadian Utilities in Alberta.

### Three Year History

The significant events and conditions that have influenced the general development of the Corporation's business over the past three years are summarized below.

#### 2006:

- Increased business activity in ATCO Structures and ATCO Noise Management.
- Increased capital expenditures in the Utilities Business Group.
- Fluctuations in temperatures affecting ATCO Gas' operations.
- In November 2006, the AEUB announced that a generic return on common equity of 8.51% would be applied on rate applications filed for 2007.
- Availability of generating plants in ATCO Power, ATCO Resources and Alberta Power (2000).

- Volatility in prices received for electricity sold to the Alberta Power Pool by ATCO Power and ATCO Resources and for electricity sold into the United Kingdom Power Exchange Market by ATCO Power.
- Lower PPA tariffs due to declining rate bases at Alberta Power (2000)'s generating plants and a decline in the return on common equity rate that is based on long term Government of Canada bond yields plus 4.5%.
- Changes in market conditions in natural gas liquids and storage operations in ATCO Midstream.
- In 2006, the Canada Revenue Agency ("CRA") issued a reassessment for Alberta Power (2000)'s 2001 taxation year. The CRA's reassessment treats the proceeds received from the sale of the H.R. Milner generating plant to the Alberta Balancing Pool as income rather than as a sale of an asset. The Corporation has made submissions to the CRA opposing the CRA's position. The impact of the reassessment is a \$12.4 million increase in interest and income tax expense, a \$6.4 million decrease in earnings after non-controlling interests and a \$28.8 million payment associated with the tax and interest assessed. It is expected that \$16.4 million of this cash payment will be recovered by reducing income taxes payable through higher capital cost allowance claims. Due to the uncertainty as to whether the reassessment will ultimately be resolved in the Corporation's favour, the Corporation reduced earnings by \$6.4 million in 2006.
- Federal and provincial governments have recently announced a number of changes to income taxes and rates. As these changes are considered to have been substantively enacted, the Corporation made an adjustment to income taxes amounting to \$14.9 million in the second quarter of 2006, most of which relates to future income taxes. The adjustment increased 2006 earnings by \$9.3 million after non-controlling interests, of which \$1.0 million relates to the Utilities Business Group, \$5.0 million to the Power Generation Business Group, \$1.2 million to the Global Enterprises Business Group, \$2.4 million to the Industrials segment, and \$(0.3) million to Corporate and Other.
- In June 2005, as part of their rate applications, ATCO Electric and ATCO Gas submitted a filing to the AEUB that addressed certain common matters. ATCO Pipelines was also a party to this filing as the concerns were common to all three utilities. On October 11, 2006, the AEUB issued a decision which resulted in no significant impact on earnings. Among other things, the decision upheld ATCO's treatment of pension costs and approved the continued use of preferred shares. In addition, the decision approved minimal changes to head office rent expense and executive compensation.
- On November 24, 2006, the Corporation announced that its Board of Directors had completed its review of the strategic alternatives available for its gas gathering and processing and natural gas liquids midstream business and reached a decision to retain the business under the Corporation's current structure. The strategic review, commenced in May 2006, was conducted by the Board of Directors in conjunction with the Corporation's management and legal and financial advisors. The review involved the evaluation of a number of alternatives, including reorganization into a business trust or newly-created company or a sale to a third party.
- ATCO Structures received contracts from Albian Sands Energy Inc. for the first and second phases of a project to manufacture, supply and install the Albian Village accommodations for trades people and management personnel at Shell Canada Limited's Athabasca Oil Sands Project Upstream Expansion #1 north of Fort McMurray, Alberta.
- On March 15, 2006, the Corporation completed the sale of land in downtown Calgary, Alberta ("Sale of Property"). Net proceeds, after costs of disposition, resulted in a gain of \$14.3 million before income taxes of \$2.6 million. This sale increased 2006 earnings by \$11.7 million.

**2005:**

- Volatility in prices received for electricity sold to the Alberta Power Pool by ATCO Power and ATCO Resources and for electricity sold into the United Kingdom Power Exchange Market by ATCO Power.

- Increased business activity in ATCO Structures operations in Canada, Australia and South America.
- Fluctuations in temperatures affecting ATCO Gas' operations.
- In 2005, the Corporation received \$83.1 million as its share of the partial settlement of the claim for damages related to TXU Europe's breach of its contract with BPL. An additional payment of \$16.6 million was received on January 19, 2006 and a final installment of approximately \$1.6 million was expected in the second quarter of 2006. The settlement is expected to generate earnings after income taxes and non-controlling interests of approximately \$35 million, based on foreign currency exchange rates in effect on March 30, 2005, which will be recognized over the remaining term of the TXU Europe contract to September 30, 2010, at approximately \$5.5 million per year. These earnings will be dependent upon the foreign currency exchange rates in effect at the time the earnings are recognized.
- In November 2005, the AEUB announced a generic return on common equity of 8.93% for 2006. In January 2006, the AEUB clarified that the generic return on equity determined on an annual basis in accordance with the generic cost of capital decision should apply to each year of the test period in the companies' applications. If no rate applications are filed for a particular year, then there will be no adjustment to the common equity rate of return for that year.
- In November 2005, the AEUB approved ATCO Pipelines as the party to manage the acquisition and sale of working gas at its salt cavern storage. Salt cavern working gas had historically been acquired by ATCO Gas and its predecessors.
- In May 2005, ATCO Gas filed a general rate application with the AEUB for the 2005, 2006 and 2007 test years requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. In June 2005, ATCO Gas filed an application requesting interim refundable rates pending the AEUB's decision on the general rate application. On August 28, 2005, ATCO Gas received a decision from the AEUB approving an interim refundable rate increase, to be collected from northern customers, of \$7.0 million. A decision from the AEUB was received on January 27, 2006, which resulted in an earnings impact that is not materially different from the earnings based on the interim rates approved by the AEUB in August 2005.
- In April 2005, ATCO Midstream leased the full storage capacity at ATCO Gas' Carbon natural gas storage facility for the 2005/2006 year resulting in higher storage revenues due to higher capacity leased and the timing and demand of storage capacity sold.
- On March 3, 2005, the Supreme Court of Canada dismissed the Corporation's application for leave to appeal and decided not to hear the Corporation's appeal of a \$6.7 million income tax reassessment relating to its 1996 disposal of ATCOR Resources Ltd. Due to the uncertainty as to whether the Supreme Court of Canada would hear the Corporation's appeal, the Corporation charged \$6.7 million to earnings in its 2004 consolidated financial statements. There was no material effect on the Corporation's 2005 consolidated financial statements as a result of the Supreme Court of Canada's decision to not hear the Corporation's appeal.

#### **2004:**

- Volatility in prices received for electricity sold to the Alberta Power Pool by ATCO Power and ATCO Resources.
- In September 2004, ATCO Structures announced it had been awarded a contract to supply a 2,100 person camp to Nexen Inc. for the Long Lake project in the Athabasca oil sands region of northern Alberta. The camp was completed in December 2005.
- In August 2004, the Corporation reorganized its structure into three business groups: **Utilities** (ATCO Gas, ATCO Electric and its subsidiaries, NLD, NUY and YECL, ATCO Pipelines, CU Water, ATCO Utility Services); **Power Generation** (ATCO Power, ATCO Resources, Alberta Power (2000)); and **Global**

**Enterprises** (ATCO Midstream, ATCO Frontec, ATCO I-Tek and its subsidiary ATCO I-Tek Business Services, ASHCOR Technologies, Genics, ATCO Travel, ATCO Structures, ATCO Noise Management).

- In August 2004, ATCO Electric completed construction of a \$99.0 million, 350 kilometre 240 kilovolt transmission line between Fort McMurray and Whitefish Lake.
- In a decision dated July 13, 2004, the AEUB awarded ATCO Pipelines additional revenue with respect to the revenue forecasts of certain industrial customers.
- In July 2004, ATCO Power's and ATCO Resources' Brighton Beach generating plant in Windsor, Ontario was completed and commenced commercial operations. All of ATCO Power's and ATCO Resources' generating plants are now operational.
- In July 2004, the AEUB issued its generic cost of capital decision, establishing a standardized approach for determining the rate of return on common equity for each utility company (ATCO Electric, ATCO Gas and ATCO Pipelines) regulated by the AEUB. The decision also established capital structures for each utility company regulated by the AEUB. This resulted in:
  - ATCO Electric obtaining an approved 2004 return on common equity of 9.60% and a common equity ratio of 33% for its transmission operations and 37% for its distribution operations. The impact of this decision was an increase in the common equity that ATCO Electric was allowed to earn a return on by \$22.3 million in 2004.
  - ATCO Pipelines obtaining an approved 2004 rate of return on common equity of 9.60% and a common equity ratio of 43%.
  - ATCO Gas was not impacted by this decision for 2004 as its return on common equity of 9.50% and its common equity ratio of 37% had already been approved by the AEUB in a decision dated October 1, 2003. The Generic Cost of Capital decision approved, among other things, ATCO Gas' common equity ratio of 38% beginning in 2005.
- In 2001, the Corporation received and paid income tax reassessments of \$21.3 million relating to the 1996 disposal of ATCOR Resources Ltd. Of this amount, \$12.9 million was assessed to CU and \$8.4 million to ATCO. The Corporation did not agree with the reassessment and contested the matter with tax authorities. Accordingly, the payments were recorded as a reduction of future income tax liabilities.

During 2003, the Corporation was successful in appealing the reassessments to the Tax Court of Canada. The Federal Government appealed the Tax Court's decision to the Federal Court of Appeal, which issued a decision on June 18, 2004 in favor of CU with respect to the entire amount of its \$12.9 million reassessment, and in favor of ATCO for \$1.7 million of its \$8.4 million reassessment. The Federal Government did not appeal the Federal Court of Appeal's decision to the Supreme Court of Canada. With respect to CU, the Corporation received a refund of \$15.1 million, including interest, and reversed the future income tax reduction of \$12.9 million. With respect to ATCO, the Corporation filed for leave to appeal the Federal Court of Appeal's decision to the Supreme Court of Canada. Due to the uncertainty as to whether the Supreme Court of Canada would hear the Corporation's appeal, the Corporation reversed the future income tax reduction of \$8.4 million, reduced income taxes payable by \$1.7 million for the expected refund and charged \$6.7 million to earnings.

- On May 4, 2004, ATCO Gas and ATCO Electric closed the transfer of their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "DEML"), a subsidiary of Centrica plc ("Transfer of the Retail Energy Supply Businesses") for \$90 million. The transfer increased 2004 earnings by \$28.5 million. As a result of the transfer, ATCO Gas and ATCO Electric are no longer involved in arranging for the supply and sale of natural gas and electricity to customers, but continue to own the assets and provide transportation and distribution services under AEUB approved rates that provide for a recovery of costs of service and fair return. ATCO I-Tek Business Services entered into a 10 year contract to provide billing and call centre services to DEML.

## Utilities

As a result of the Transfer of the Retail Energy Supply Businesses to DEML in May 2004, ATCO Electric and ATCO Gas are no longer involved in arranging for the supply and sale of electricity and natural gas to customers and are therefore no longer responsible for electric energy or natural gas supply, but will continue to own the assets and provide transportation and distribution services under AEUB approved rates that provide for a recovery of costs of service and fair return.

### Natural Gas Distribution

ATCO Gas is primarily engaged in the business of distributing natural gas throughout Alberta and in the Lloydminster area of Saskatchewan. Although ATCO Gas is the major natural gas distributor in Alberta, certain areas are served by other natural gas utilities.

ATCO Gas' principal markets for the distribution of natural gas are in the communities of Edmonton, Calgary, Airdrie, Camrose, Fort McMurray, Grande Prairie, Lethbridge, Lloydminster, Red Deer, St. Albert and Sherwood Park, which have a combined population of approximately 2,194,000. Also served are 279 smaller communities as well as rural areas having a combined population of approximately 564,000, located on or in the vicinity of ATCO Pipelines' transportation systems or the natural gas transportation pipelines of other companies. ATCO Gas provides approximately 970,000 customers with natural gas service, of whom approximately 75% are 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:

	<u>2006</u>	<u>2005</u>
Residential .....	886,999	858,618
Commercial .....	82,490	80,630
Industrial .....	358	350
Other .....	30	-
Total .....	<u>969,877</u>	<u>939,598</u>

ATCO Gas owns and operates approximately 35,900 km of distribution mains. In addition, ATCO Gas owns modern service and maintenance facilities in major centres.

Revenues and earnings of ATCO Gas are affected by temperature and consequently winter weather can have a significant impact. During a typical year, more than 90% of the earnings of ATCO Gas are generated during the months of January, February, November and December.

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

	<u>2006</u>	<u>2005</u>
	(petajoules)	
Residential .....	105.3	103.8
Commercial .....	98.6	96.9
Industrial .....	14.4	14.4
Other .....	0.4	0.4
Total .....	<u>218.7</u>	<u>215.5</u>

### Natural Gas Supply

Prior to April 1, 2005, as directed by the AEUB, ATCO Gas purchased fixed quantities of natural gas from various gas producers at market prices that are in effect at the time the quantities are purchased. Effective April 1, 2005, as directed by the AEUB, ATCO Gas no longer purchases fixed quantities of natural gas related to storage purchases and operational contracts pertaining to its natural gas field storage facility at Carbon, Alberta. ATCO Gas has leased

the entire storage capacity of the 43.5 petajoule Carbon facility to ATCO Midstream since April 1, 2005. For additional information related to the leasing of the Carbon natural gas storage facility to ATCO Midstream, refer to the Regulatory Matters, ATCO Gas section of the Corporation's Management's Discussion and Analysis ("MD&A"), which is available at [www.sedar.com](http://www.sedar.com).

In 2003, ATCO Gas commenced the first phase of a \$278 million project to relocate natural gas meters currently inside homes to the outside. The project will make the distribution system safer by relocating and replacing aging infrastructure, improve metering accuracy and accessibility, and facilitate more efficient meter reading. The AEUB approved a program which will result in meters with underground entries being relocated over 10 years and all other inside meters moved as part of the existing meter recall program. The decision also allows ATCO Gas to move meters at any time if they are deemed unsafe.

### ***CU Water***

CU Water is engaged in the transmission and distribution of water. CU Water owns and operates a distribution system to supply water to rural customers and small towns east of Edmonton. At the end of 2006, approximately 1,000 customers were being served directly by CU Water and, in addition, bulk water sales were being made to the towns of Tofield and Viking and to 13 commercial water haulers. The operations of CU Water are subject to regulation by the AEUB.

### **Natural Gas Transportation**

ATCO Pipelines is engaged in the business of transporting natural gas throughout Alberta and the operation of a salt cavern storage peaking facility.

ATCO Pipelines owns and operates extensive natural gas transportation systems. The systems consist of approximately 8,419 km of pipelines, 23 compressor sites and a salt cavern storage peaking facility. The systems have 229 producer receipt points, 78 interconnections with TransCanada Pipelines Limited, five interconnections with Alliance Pipeline and one interconnection with Many Islands Pipelines.

ATCO Pipelines' revenues are based primarily on contractual arrangements for access to its transportation systems. Contract demand for access, and interruptible (IT), overrun (OR) and variable volumes for each of the last two years was as follows:

	<u>2006</u>	<u>2005</u>
	(terajoules/day)	
Contract Demand:		
Producer .....	1,366	1,291
Industrial .....	966	1,015
Distribution .....	95	93
Affiliates .....	2,605	2,431
Total .....	<u>5,032</u>	<u>4,830</u>
IT/OR/Variable Volumes:		
Producer .....	244	243
Industrial .....	234	241
Distribution .....	-	2
Total .....	<u>478</u>	<u>486</u>
Total Contract Demand and IT/OR/Variable Volumes .....	<u><u>5,510</u></u>	<u><u>5,316</u></u>

The AEUB approved the conversion of sales service to transportation service for certain customers of ATCO Pipelines. This conversion was completed during 2005.

## Electric Distribution and Transmission

ATCO Electric is engaged in the 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. 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, and NUY and NLD serve 9 communities in the Northwest Territories, including the capital city of Yellowknife.

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

	2006		2005	
	Millions of Kilowatt Hours	%	Millions of Kilowatt Hours	%
Industrial.....	6,719	65	6,583	66
Commercial .....	1,967	19	1,826	19
Residential .....	1,098	11	1,023	10
Rural, REAs and other.....	502	5	494	5
Total.....	<u>10,286</u>	<u>100</u>	<u>9,926</u>	<u>100</u>

The aggregate population of the areas provided with electric utility service by ATCO Electric, NUY, NLD and YECL is approximately 465,000 and service is provided to approximately 216,000 customers. ATCO Electric has been assigned approximately 65% of the designated service area within Alberta which contains approximately 15% of the existing provincial electrical load and 13% 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:

	2006		2005	
	Number	%	Number	%
Industrial.....	10,894	5	10,847	5
Commercial .....	29,284	13	28,673	14
Residential .....	146,503	68	141,806	67
Rural, REAs and other.....	29,657	14	29,536	14
Total.....	<u>216,338</u>	<u>100</u>	<u>210,862</u>	<u>100</u>

ATCO Electric, NUY, NLD and YECL own and operate extensive electric transmission and distribution systems. The systems consist of approximately 9,300 km of main transmission lines and 60,800 km of distribution lines. In addition, ATCO Electric delivers power to and operates approximately 12,000 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 61 megawatts in Alberta and in the Yukon and Northwest Territories. The maximum peak load demand for these plants during the year ended December 31, 2006, was 32 megawatts.

In August 2006, the AEUB approved the first phase of the AESO's application for the need to improve transmission infrastructure in northwest Alberta. The AEUB decision grants the AESO approval to assign approximately \$300 million in projects to the Transmission Facility Owner, ATCO Electric. Once assigned by the AESO, ATCO Electric will prepare and file facility applications with the AEUB. Construction will commence once approval to proceed is received from the AEUB. The entire project was originally intended to be completed by 2009, but now is anticipated to be completed by 2011. As a result of price escalation caused by the change in completion date, coupled with the increasing costs of construction in Alberta, the entire project is now estimated to cost \$400 million.

## **Franchises**

AGP, ATCO Electric, YECL, NUY and NLD distribute natural gas and electricity 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.

In Edmonton, distribution of natural gas is carried on under the authority of an exclusive franchise. In 2004, AGP entered into an agreement with the City of Edmonton for a 10 year renewal of the franchise to November 15, 2015. The franchise renewal is subject to the right of the City of Edmonton, at the end of the renewal period, to purchase all of AGP's assets used in supplying natural gas to the city. The purchase price would be determined by an arbitration process according to the arbitration laws of Alberta. Although the franchise agreement gives the City certain rights of purchase, since 1935 the City has granted renewals for 10 year periods.

In Calgary, distribution of natural gas is carried on under the authority of a municipal by-law. The rights of AGP 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.

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

### ***Franchise Renewals***

ATCO Electric has four material franchises, two of which have expired and are currently being renegotiated. Of the remaining franchises, one expires in 2008 and the other expires in 2014.

ATCO Gas has five material franchise agreements which expire between 2012 and 2018.

The Corporation anticipates that all material franchise agreements currently held will be renewed.

## **Power Generation**

Under the EUA, generation assets constructed after December 31, 1995, are not considered part of utility operations and rates are not regulated by the AEUB. All owners of new and existing generating units must sell their surplus electric energy through the Alberta Power Pool.

### **Regulated (Alberta Power (2000))**

Alberta Power (2000) is engaged in the regulated supply of electricity in Alberta. Alberta Power (2000)'s assets are operated by ATCO Power pursuant to management agreements. The generating plants of Alberta Power (2000) were regulated by the AEUB until December 31, 2000, but are now governed by legislatively mandated PPA's that were approved by the AEUB. These plants are included in regulated operations primarily because the PPA's are designed to allow the owners of generating plants constructed before January 1, 1996, to recover their forecast fixed and variable costs and to earn a return at the rate specified in the PPA's. The plants will become deregulated upon the earlier of one year after the expiry of a PPA or a decision to continue to operate the plant. Alberta Power (2000) 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 future decommissioning costs. Each PPA is to remain in effect until the earlier of the last day of the life of the related generating plant and December 31, 2020.

Substantially all of the electricity generated by Alberta Power (2000) is sold pursuant to PPA's with ENMAX Corporation (Battle River generating plant) and TransCanada Energy Ltd. (Sheerness generating plant). The Battle

River PPA was sold to ENMAX Corporation by EPCOR Utilities Inc. in May, 2006, the Sheerness PPA was sold to TransCanada Energy Ltd. by the Alberta Balancing Pool effective January 2006 and the Rainbow PPA expired on December 31, 2005. Under the PPA's, Alberta Power (2000) is required to make the generating capacity for each generating unit available to the purchaser of the PPA for that unit. In return, Alberta Power (2000) is entitled to recover its forecast fixed and variable costs for that unit from the PPA purchaser, including a return on common equity equal to the long term Government of Canada bond rate plus 4.5% based on a deemed common equity ratio of 45%. Many of the forecast costs are determined by indices, formulae or other means for the entire period of the PPA. Alberta Power (2000)'s actual results will vary and depend on performance compared to the forecasts on which the PPA's are based.

Alberta Power (2000) continued to operate the Rainbow generating plant during 2006 and the electricity generated was sold to the Alberta Power Pool. Alberta Power (2000) had one year after the expiry of the PPA for the Rainbow generating plant (December 31, 2005) to determine whether to decommission the plant in order to fully recover plant decommissioning costs or to continue to operate the plant. The AESO and Alberta Power (2000) are currently negotiating a contract that, if executed, will result in Alberta Power (2000) continuing to operate the plant and be responsible for future decommissioning costs. Alberta Power (2000) has filed an application with the AEUB to decommission the plant and thereby preserve Alberta Power (2000)'s rights to fully recover plant decommissioning costs in the event negotiations with the AESO are unsuccessful.

The name plate capacity ratings of Alberta Power (2000)'s generating plants are shown below.

<u>Plant</u>	<u>Commissioning Date</u>	<u>Type of Generating Plant</u>	<u>Name Plate Capacity Rating</u> (megawatts)	<u>PPA Purchaser</u>	<u>PPA Expiry Date</u>
Battle River (1)					
Unit 3 .....	1969	coal-fired steam turbine	150	ENMAX Corporation	2013
Unit 4 .....	1975	coal-fired steam turbine	150	ENMAX Corporation	2013
Unit 5 .....	1981	coal-fired steam turbine	370	ENMAX Corporation	2020
			<u>670</u>		
Sheerness (2)(3)					
Unit 1 .....	1986	coal-fired steam turbine	190	TransCanada Energy Ltd.	2020
Unit 2 .....	1990	coal-fired steam turbine	190	TransCanada Energy Ltd.	2020
			<u>380</u>		
Rainbow.....	1968	natural gas turbine	88	Merchant	
Sturgeon.....	1957	natural gas turbine	18	Merchant	
Total			<u>1,156</u>		

Notes:

- (1) ENMAX Corporation became the PPA purchaser on May 1, 2006; previously the PPA purchaser was EPCOR Utilities Inc.
- (2) Alberta Power (2000)'s ownership of the 760 megawatt name plate capacity.
- (3) TransCanada Energy Ltd. became the PPA purchaser on January 1, 2006; previously the PPA purchaser was the Alberta Balancing Pool.

Alberta Power (2000) manages the Sheerness generating plant under long term agreements with TransAlta Cogeneration L.P. for the equal sharing of ownership and cost of electric capacity.

Alberta Power (2000) owns or has committed under long term contracts sufficient coal supplies for the anticipated lives of its Battle River and Sheerness generating plants.

### Non-Regulated (ATCO Power and ATCO Resources)

ATCO Power and ATCO Resources are engaged in the non-regulated supply of electricity and cogeneration steam in Canada, the United Kingdom and Australia. ATCO Power also manages Alberta Power (2000)'s assets. ATCO Power continues to focus its development efforts on independent power production projects in Canada, Australia and the United Kingdom.

ATCO Power's and ATCO Resources' non-regulated independent cogeneration plants and generating plants, with their respective commissioning dates and name plate capacity ratings, are shown below.

Location	Commissioning Date	Name Plate Capacity Rating (megawatts)	Ownership			
			ATCO Power	ATCO Resources	Total	Net (megawatts)
<i>Canada:</i>						
McMahon, B.C.	1993	120	50.0%	-	50.0%	60
Primrose, Alberta	1998	85	40.0%	10.0%	50.0%	42
Poplar Hill, Alberta	1998	45	80.0%	20.0%	100.0%	45
Rainbow Lake, Alberta	1999	90	40.0%	10.0%	50.0%	45
Joffre, Alberta	2000	480	32.0%	8.0%	40.0%	192
Valleyview, Alberta	2001	45	80.0%	20.0%	100.0%	45
Muskeg River, Alberta	2003	170	56.0%	14.0%	70.0%	119
Cory, Saskatchewan	2003	260	40.0%	10.0%	50.0%	130
Oldman River, Alberta	2003	32	80.0%	20.0%	100.0%	32
Scottford, Alberta	2003	170	80.0%	20.0%	100.0%	170
Brighton Beach, Ontario	2004	580	40.0%	10.0%	50.0%	290
<i>United Kingdom:</i>						
Barking, London	1995	1,000	25.5%	-	25.5%	255
Heathrow Airport	1990	14	50.0%	-	50.0%	7
<i>Australia:</i>						
Osborne, South Australia	1998	180	50.0%	-	50.0%	90
Bulwer Island, Queensland	2001	33	50.0%	-	50.0%	17
Total		<u>3,304</u>				<u>1,539</u>

#### Canada

ATCO Power has a 50% interest in a joint venture with McMahon Power Holdings L.P. The joint venture owns and operates the 120 megawatt McMahon cogeneration plant at Taylor, British Columbia. All of the electricity generated is sold to British Columbia Hydro and Power Authority pursuant to an electricity purchase agreement expiring in 2014. In addition to generating electricity, the plant sells steam to Westcoast Energy Inc.'s adjacent natural gas processing plant.

A joint venture, owned by ATCO Power, Canadian Natural Resources Limited ("CNRL") and ATCO Resources, operates an 85 megawatt cogeneration power plant (the "Primrose Steam Enhancement Plant") near Bonnyville, Alberta. The joint venture sells electricity and steam to CNRL for use in its heavy oil recovery process. Any excess electricity generated is sold to the Alberta Power Pool or to specific customers. ATCO Power owns a 40% interest in the project, ATCO Resources owns 10% and CNRL owns 50%.

ATCO Power operates a 45 megawatt natural gas-fired generating plant at Poplar Hill near Grande Prairie, Alberta. Revenues are derived from power sold to the Alberta Power Pool and for transmission support required by the Alberta Power Pool. ATCO Power owns an 80% interest in the project and ATCO Resources owns 20%.

ATCO Power operates a 90 megawatt natural gas-fired generating plant at Rainbow Lake, Alberta which sells steam and electricity to Husky Energy Inc. (“Husky”). Surplus electricity is sold to the Alberta Power Pool. ATCO Power owns a 40% interest in the project, ATCO Resources owns 10% and Husky owns 50%.

ATCO Power, EPCOR Power Development Corporation and NOVA Chemicals Corporation (“NOVA”) are participants in a joint venture which operates a 480 megawatt natural gas-fired cogeneration plant near Joffre, Alberta. ATCO Power is the operator of the facility. NOVA purchases all of the steam and approximately 25% of the electricity produced for use in NOVA’s Joffre petrochemical site under an energy purchase agreement expiring in 2020. The balance of the output is sold to the Alberta Power Pool or to specific customers. ATCO Power owns a 32% interest in the project, ATCO Resources owns 8%, EPCOR Power Development Corporation owns 40% and NOVA owns 20%.

ATCO Power operates a 45 megawatt natural gas-fired generating plant near Valleyview, Alberta. All of the electricity produced by the plant is sold to the Alberta Power Pool. ATCO Power owns an 80% interest in the project and ATCO Resources owns 20%.

ATCO Power and SaskPower International Inc. (“SPI”) are participants in a joint venture which operates a 170 megawatt natural gas-fired cogeneration plant and related facilities at the Athabasca Oil Sands Project (“AOSP”) Muskeg River mine near Fort McMurray, Alberta. Approximately one-half of the electricity and all of the steam produced by the plant are supplied to AOSP for use in its Muskeg River mine. The balance of the electricity generated is sold to the Alberta Power Pool. ATCO Power owns a 56% interest in the project, ATCO Resources owns 14% and SPI owns 30%.

ATCO Power and SPI are participants in a joint venture which operates a 260 megawatt natural gas-fired cogeneration plant at Potash Corporation of Saskatchewan Inc.’s Cory Mine, located near Saskatoon, Saskatchewan. ATCO Power is the operator of the facility. Saskatchewan Power Corporation has agreed to purchase all of the electricity generated by the plant for 25 years. ATCO Power owns a 40% interest in the project, ATCO Resources owns 10% and SPI owns 50%.

ATCO Power operates a 32 megawatt hydroelectric generating plant at the Oldman River dam near Pincher Creek, Alberta. All of the electricity produced by the plant is sold to the Alberta Power Pool. ATCO Power owns an 80% interest in the project and ATCO Resources owns 20%. The Piikani Nation of Brockett, Alberta has an option which expires February 28, 2007, to purchase a 25% interest in the project.

ATCO Power operates a 170 megawatt natural gas-fired cogeneration plant at the AOSP upgrader at Scotford, Alberta. Approximately 80% of the electricity and all the thermal energy produced by the plant is supplied to AOSP for use in the upgrader and the balance of the electricity is sold to the Alberta Power Pool. ATCO Power owns an 80% interest in the project and ATCO Resources owns 20%.

A partnership formed by ATCO Power and Ontario Power Generation Inc. (“OPG”) owns and operates the Brighton Beach power plant, a 580 megawatt natural gas-fired combined cycle generating plant in Windsor, Ontario. Coral Energy Canada Inc. supplies and pays for the natural gas used at the plant and owns, markets and trades all the electricity produced under contracts expiring in 2024. ATCO Power owns a 40% interest in the project, ATCO Resources owns 10% and OPG owns 50%.

### ***United Kingdom***

ATCO Power and Balfour Beatty plc, a United Kingdom construction group, each own a 50% equity interest in Thames Power, a London, England based company. Thames Power has a 51% interest in BPL which owns a 1,000 megawatt natural gas-fired combined cycle generating plant at Dagenham in London, England (the “Barking power plant”). EDF Energy plc (“EDF”) and SSE Energy Supply Limited (“SSE”) own the remaining 49% interest in BPL. EDF and SSE have entered into long term agreements expiring in 2010 to purchase 72.5% of the electricity produced at the plant. The remaining 275 megawatts of power is being sold into the United Kingdom electricity market on a merchant basis under a two year marketing agreement expiring September 30, 2008. The majority of the 275 megawatts has been sold forward under this agreement through the end of March 2007 with smaller volumes sold forward through March 2008. The Barking power plant is operated by ATCO Power.

ATCO Power has a 50% interest in a joint venture with a subsidiary of EDF. The joint venture owns and operates a facility consisting of a 14 megawatt natural gas turbine, 40 megawatts of boiler capacity and an associated heat distribution system at London’s Heathrow Airport. The joint venture has a 15 year energy services contract, expiring in 2010, with BAA plc, owner of the Heathrow Airport, for all of the electric energy and hot water produced by the facility.

***Australia***

ATCO Power has a 50% interest in a joint venture with Origin Energy Limited (“Origin”). The joint venture owns and operates a 180 megawatt cogeneration plant in Osborne, South Australia. This joint venture supplies electricity to Flinders Osborne Trading Pty Ltd (“FOT”) under a 20 year electricity purchase agreement expiring in 2018. In addition to generating electricity, the plant provides steam under a 20 year agreement, expiring in 2018, to Penrice Soda Products Pty Ltd. The Government of South Australia has guaranteed the obligations of FOT under these agreements.

ATCO Power has a 50% interest in a second consortium with Origin. The consortium owns and operates a 33 megawatt natural gas-fired cogeneration plant and other utility infrastructure at BP Amoco plc’s (“BP”) Bulwer Island refinery, near Brisbane, Queensland. All of the power and steam produced by the plant is sold to BP under a 20 year agreement expiring in 2021.

***ASHCOR Technologies***

ASHCOR Technologies is engaged in the sale of fly ash and other combustion byproducts produced in coal-fired electrical generating plants.

**Global Enterprises**

**Non-Regulated Natural Gas Gathering, Processing and Storage**

ATCO Midstream owns and operates non-regulated gathering and processing facilities in Alberta. ATCO Midstream provides natural gas procurement/load balancing services for other ATCO subsidiaries, management services for ATCO Gas’ storage field at Carbon and markets non-regulated storage products. Since April 1, 2005, ATCO Midstream has leased the full storage capacity at ATCO Gas’ 43.5 petajoule Carbon storage facility. Upon the Transfer of the Retail Energy Supply Businesses in 2004, ATCO Midstream ceased providing natural gas procurement services to ATCO Gas.

ATCO Midstream owns a 51.3% interest in EEEP. Located in south Edmonton, EEEP is a natural gas processing plant which extracts ethane and other natural gas liquids from natural gas flowing into the Edmonton market area. Ethane is sold to an Alberta ethylene producer under a long term contract that expires in December 2012 and other natural gas liquids are sold under another long term contract that expires in May 2014.

ATCO Midstream’s natural gas liquids extraction plants with plant capacity ratings are shown below:

<b>Facility</b>	<b>Extraction</b>	<b>Plant Capacity</b> (Mmcf/day)	<b>Ownership</b>	<b>Net Ownership</b> (Mmcf/day)	<b>Operator</b>
Edmonton Ethane Extraction Plant.....	C2 & C3+ NGL mix	360	51.3%	185	No
Empress Gas Liquids Straddle Plant...	C2 & C3+ NGL mix	1,100	12.2%	134	Yes
Villeneuve Ethane Extraction Plant....	C2+NGL mix	40	100.0%	40	Yes
Fort Saskatchewan Ethane Extraction Plant .....	C2+NGL mix	35	100.0%	35	Yes
		<u>1,535</u>		<u>394</u>	

Notes:

- (1) Ethane (“C2”), propane, butane and pentanes-plus (“C3+”) and a mixture of other natural gas liquids (“NGL”).
- (2) Ethane (“C2”) and a mixture of other NGL’s.

ATCO Midstream owns or has a joint venture interest in eight natural gas processing plants, six of which it operates, three compression facilities, all of which it operates, and approximately 1,000 km of field gathering lines. Natural gas production from the producing properties connected to ATCO Midstream's natural gas gathering systems is processed by ATCO Midstream and either transported for a fee or purchased and sold under contracts with third parties.

ATCO Midstream's natural gas processing plants with plant capacity ratings are shown below:

Facility	Plant Capacity (Mmcf/day)	Ownership	Net Ownership (Mmcf/day)	Operator
Carbondale.....	55	100.0%	55	Yes
Cranberry.....	35	100.0%	35	Yes
Golden Spike.....	65	100.0%	65	Yes
Nottingham Gas Plant.....	13	7.0%	1	No
Puskwaskau Gas Plant.....	21	41.0%	9	No
Watelet Gas Plant.....	20	100.0%	20	Yes
West Pembina Gas Plant.....	145	2.4%	3	Yes
Widewater Gas Plant.....	10	100.0%	10	Yes
	<u>364</u>		<u>198</u>	

### Technical Facilities Management

ATCO Frontec, through its own operations and through a number of joint ventures, provides project management and technical services for customers in the industrial, defence, telecommunications and transportation sectors. Activities include the operation and maintenance of the Alaska Radar System and various remote sites for Northwestel Inc. in northern Canada. ATCO Frontec provides construction, site support and technical support for NATO, United Nations and the Swedish Armed Forces in Afghanistan, Pakistan and eastern Europe. ATCO Frontec also provides airport operation and maintenance, security, facilities management, bulk fuel storage and distribution and a wide variety of services and business activities in various locations throughout Canada and the world.

ATCO Frontec and Pan Arctic Inuit Logistics Corporation ("Pan Arctic") have a contract with the Government of Canada, until September 2009, to operate and maintain the North Warning System. The Government of Canada has an option to extend the contract until 2011. Nasittuq Corporation, a corporation jointly owned by ATCO Frontec and Pan Arctic, operates as agent for the purposes of the North Warning System contract.

### Technologies

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

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

DEML has entered into a 10 year contract effective May 4, 2004, with ATCO I-Tek Business Services to provide billing and call centre services to ensure continued quality customer service. DEML has the ability to terminate this contract after the fifth anniversary upon immediate payment of termination fees which decline over the remaining term of the contract. Based upon current customer counts and service levels and a 10 year contract, revenues are estimated to be between \$400-\$500 million over the term of the contract.

### ATCO Travel

ATCO Travel is engaged in the sale of travel services to both business and consumer sectors. ATCO Travel is one of the largest independent travel agencies in western Canada. ATCO Travel was awarded the 2006 Association of

Canadian Travel Agencies Atlas Award for Travel Agency of the Year in Alberta and the Northwest Territories. This award recognizes ATCO Travel's commitment to its customers by developing and implementing innovative solutions for their travel needs.

### **Industrials**

ATCO Structures is engaged in the manufacture, sale and lease of transportable shelters and related products. ATCO Structures has marketed and installed its manufactured products in over 105 countries around the world since 1947 and has established a reputation as a leader in the international supply of relocatable shelter products. Products sold are manufactured in Canada, the United States, Australia and Chile and under subcontract in other jurisdictions.

ATCO Structures employs engineers and designers whose expertise in designing modular buildings, complemented by technicians experienced in selection of materials and modular construction methods, results in the manufacturing of products for use anywhere in the world ranging from sophisticated custom-designed projects to basic construction camp facilities, modular housing and space rentals products.

### ***Workforce Housing***

ATCO Structures' 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 designed to be used in all weather conditions and are fully transportable. Workforce housing products are used primarily by companies in oil and gas, forestry and mining industries, as well as governments.

The workforce housing lease fleet includes sleeping accommodation, kitchens, diners, recreation facilities and washcars. The fleet is maintained to meet the latest standards set by the building industry and trade unions and is refurbished and upgraded as required. ATCO Structures 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 natural resource industries. During 2006, the utilization rate for ATCO Structures' work force housing fleet averaged 89%, up from 70% in 2005 and 62% in 2004.

ATCO Structures also sells and leases Fold-A-Way metal buildings domestically and internationally. These prefabricated steel buildings have a modular design which enables them to be erected in hours and easily dismantled and relocated. Fold-A-Way metal buildings have been used by a broad range of industries and government agencies with many varied applications such as equipment storage, maintenance facilities, factories, gymnasiums, sewage treatment plants, aircraft hangars and emergency shelters. The buildings are manufactured by subcontractors to designs and specifications developed by ATCO Structures.

### ***Space Rentals***

In Canada, Australia, the United Kingdom and Chile, ATCO Structures' space rentals business involves the lease and sale of relocatable modular offices, classrooms and other community structures. In the United States, ATCO Structures sells its space rentals products to leasing companies. ATCO Structures' space rentals fleet consists of on-site structures such as site offices, lunchrooms, storage facilities, lavatories, first-aid units, locker rooms, and modular commercial and community structures such as office complexes and classrooms. On-site structures are used primarily by construction 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 which 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 ATCO Structures in maintaining a modern inventory of space rentals units.

*Lease Fleet*

The number of units in ATCO Structures’ lease fleets as at the end of each of the last two years was as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Work Force Housing</u>	<u>Space Rentals</u>	<u>Work Force Housing</u>	<u>Space Rentals</u>
Canada.....	<b>1,161</b>	<b>1,865</b>	1,409	1,517
Australia .....	<b>747</b>	<b>5,643</b>	754	5,050
United Kingdom .....	-	<b>834</b>	-	617
Chile .....	<b>520</b>	<b>662</b>	537	566
Other.....	<b>18</b>	-	18	-
Total.....	<b><u>2,446</u></b>	<b><u>9,004</u></b>	<b><u>2,718</u></b>	<b><u>7,750</u></b>

*Manufacturing*

Canada

ATCO Structures’ principal manufacturing facilities are 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.

ATCO Structures’ Spruce Grove manufacturing facility is located 15 km west of Edmonton, Alberta. This 90,000 square foot facility was originally used for service and maintenance work, but has been used as an overflow manufacturing facility and for service and maintenance since 1995 to meet incremental demand for modular products that cannot be met from facilities in Calgary.

International

ATCO Structures 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.

ATCO Structures has a 50% interest in a joint venture with Tecno Fast S.A., a modular manufacturing company based in Santiago, Chile. Tecno Fast owns and operates a 70,000 square foot manufacturing facility.

ATCO Structures owns and operates a 15,000 square foot manufacturing facility on a three acre site and operates a leased 16,000 square foot manufacturing facility on a two and a half acre site in Brisbane, Queensland, Australia. ATCO Structures also owns and operates a 15,000 square foot manufacturing facility on a two acre site in Townsville, Queensland.

Although ATCO Structures’ international competitors generally serve regional markets and often are not able to offer the same capabilities and experience as ATCO Structures, the international market is nevertheless very competitive and price is often the determining factor in securing contracts.

*Noise Management*

ATCO Noise Management provides “one-stop” turnkey solutions for industrial noise that may include acoustic enclosures, buildings, barriers, ventilation systems, combustion air intake and exhaust silencers and other noise abatement components. Registered to the ISO 9001-2000 quality assurance standard, it offers its clients a full range of services, including noise surveys, regulatory review, engineering design, procurement, construction and post-construction testing.

The growing awareness of noise as a pollutant has resulted in a more rigorous enforcement of noise abatement by the National Energy Board in Canada, the Federal Energy Regulatory Commission in the United States, the European Union Commission and local government bodies.

ATCO Noise Management's clients are predominantly from the energy and manufacturing sectors. Typical projects are acoustic buildings for new compressor stations, retrofitting of existing industrial plants, acoustic buildings, barriers, and enclosures for power generation facilities, acoustic buildings for gas separation plants, turbine acoustic inlet and exhaust systems and turbine anti-icing systems.

In 2005, ATCO Noise Management acquired all of the assets of Higgott-Kane Industrial Noise Controls Ltd., a North American market leader in the supply of custom engineered turbine silencing systems for the power, oil and gas industries.

### **Real Estate Operations**

ATCO Investments owns ATCO Centre Phase II at 919 – 11 Avenue S.W., Calgary, containing approximately 132,000 square feet of net rentable area, of which 100% was occupied as at February 21, 2007.

On March 15, 2006, the Corporation completed the sale of land in downtown Calgary, Alberta. Net proceeds, after costs of disposition, resulted in a gain of \$14.3 million before income taxes of \$2.6 million. This sale increased 2006 earnings by \$11.7 million.

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

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

### **BUSINESS RISKS**

The business risks section in the Corporation's Management's Discussion and Analysis ("MD&A") is hereby incorporated by reference and is available at [www.sedar.com](http://www.sedar.com).

### **GOVERNMENT REGULATION**

Under Alberta legislation, owners of public, electric or gas utilities are required to obtain AEUB approval prior to issuing securities, however through AEUB orders ATCO, CU and CU Inc. are exempt from this requirement.

The utility operations of the Corporation in Alberta (ATCO Gas, ATCO Electric, ATCO Pipelines and CU Water) are subject to the jurisdiction of the AEUB which, among other things, is vested with broad general powers of supervision with respect to the construction and operation of electric energy and natural gas facilities within the Province and broad powers of regulation in respect of rates charged for the delivery of electric energy, natural gas and water.

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 provincial and territorial utility boards regulate and approve customer rates based on anticipated energy deliveries as well as the revenue required to recover estimated costs of service, including a fair return on rate base, estimated operating expenses, depreciation and taxes, all in respect of a future test period. Energy deliveries are based on a forecast of economic and business conditions and, in the case of natural gas distribution utility operations, normal temperature which is defined as the average temperature for the previous 20 years.

Rate base consists of the depreciated cost of utility assets and an allowance for working capital. Return on rate base is designed to meet the cost of interest on long term debt and dividends on preferred shares and to provide the common shareholders with a reasonable opportunity to earn a fair return on their investment. 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.

Particulars of the most recent final decisions made by the AEUB respecting general rate applications or negotiated settlements filed by the principal regulated subsidiaries of the Corporation are as follows:

	<u>Year</u>	<u>Date of Decision (1)</u>	<u>Mid-Year Rate Base</u> (\$ Millions)		<u>Rate of Return on Common Equity (2)</u> (%)		<u>Common Equity Ratio (3)</u> (%)	
<b>ATCO Electric</b>								
Transmission .....	2005	Jul. 11/06	786.5		9.50	(4)	33.0	(4)
	2006	Jul. 11/06	849.1		8.93	(4)	33.0	(4)
	2007	(5)	(5)		8.51		(5)	
Distribution .....	2005	Jul. 11/06	605.0		9.50	(4)	37.0	(4)
	2006	Jul. 11/06	673.3		8.93	(4)	37.0	(4)
	2007	(5)	(5)		8.51		(5)	
<b>ATCO Pipelines</b>								
North .....	2003	Dec. 02/03	351.8		9.50		43.5	
	2004	Dec. 02/03	355.2		9.60	(4)	43.0	(4)
South .....	2003	Dec. 02/03	144.8		9.50		43.5	
	2004	Dec. 02/03	147.6		9.60	(4)	43.0	(4)
<b>ATCO Gas</b>								
North .....	2005	Dec.28/06	508.9	(6)	9.50	(7)	38.0	(7)
	2006	Dec.28/06	532.8	(6)	8.93	(7)	38.0	(7)
	2007	Dec.28/06	558.3	(6)	8.51	(7)	38.0	(7)
South .....	2005	Dec.28/06	559.6	(6)	9.50	(7)	38.0	(7)
	2006	Dec.28/06	534.2	(6)	8.93	(7)	38.0	(7)
	2007	Dec.28/06	550.3	(6)	8.51	(7)	38.0	(7)

Notes:

- (1) The information shown reflects the most recent amending or varying orders issued subsequent to the original date of decision.
- (2) Common equity rate of return is the rate of return on the portion of rate base considered to be financed by common equity.
- (3) The common equity ratio is the percentage of rate base considered to be financed by common equity.
- (4) The rate of return on common equity and common equity ratio was determined by the AEUB's generic cost of capital decision dated July 2, 2004.
- (5) In November 2006, ATCO Electric filed a general tariff application with the AEUB for the 2007 and 2008 test years. The AEUB has announced that an 8.51% rate of return on common equity, as determined by the AEUB's standardized rate of return methodology for utilities in Alberta, will be applicable to any determination of a 2007 revenue requirement for ATCO Electric. The mid-year rate base and common equity ratio will be determined by the AEUB when it issues its decision on the general tariff application. The rate of return on common equity for 2008 is yet to be determined by the AEUB.
- (6) Amounts shown for mid-year rate base are based on the AEUB 2005, 2006, and 2007 general rate application compliance decision issued on December 28, 2006.
- (7) The common equity ratios for 2005 – 2007 for ATCO Gas were determined by the AEUB's generic cost of capital decision dated July 2, 2004. The 2005, 2006 and 2007 general rate application decision issued by the AEUB in January 2006 approved a return on common equity as determined by the AEUB's standardized rate of return methodology.

## **Generic Cost of Capital**

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

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

In November 2004, the AEUB announced a generic return on common equity of 9.50% for 2005 and in November 2005 announced a generic return on common equity of 8.93% for 2006. In January 2006, the AEUB clarified that the generic return on equity determined in accordance with the generic cost of capital decision should apply to each year of the test period in the companies' applications. If no rate applications are filed for a particular year, then there will be no adjustment to the common equity rate of return for that year. In November 2006, the AEUB announced a generic return on common equity of 8.51% for 2007.

## **Electric Utilities Act**

### **Transmission**

Under the EUA, separate wholesale tariffs for transmission must be approved by the AEUB. 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 Alberta Power Pool. The Alberta Power Pool then aggregates these costs and charges a common transmission rate to all who use the transmission system.

The Alberta Power Pool has developed and approved rules as mandated in the Transmission Regulation enacted by the Government of Alberta in 2004. These rules direct 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 Alberta Power Pool, only a small portion of the project is in another service area. All expansions of existing facilities will be assigned to the existing owner.

### **Distribution**

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

## **Environmental Protection**

The Corporation's operating subsidiaries and the industries in which they operate are subject to extensive federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, land use activities and the handling, manufacturing, processing, use, emission and disposal of materials and waste products. In Alberta, protection of the environment is generally governed by the Alberta

Environmental Protection and Enhancement Act. The operating subsidiaries have obtained or are obtaining all permits and licenses required by law to carry on their operations.

The Corporation's operating subsidiaries are committed to preserving and protecting the environment and minimizing the discharge of harmful materials into the environment in accordance with environmental protection laws and regulations. Nevertheless, some risk of unintentional violation of environmental protection laws and the resulting liability to the Corporation's operating subsidiaries is inherent in particular operations of these subsidiaries, as it is with other companies engaged in similar businesses. There can be no assurance that material costs and liabilities will not be incurred. To mitigate these costs, the Corporation carries insurance for the operating subsidiaries against third party claims for bodily injury and property damage arising from a sudden and accidental event or occurrence resulting from an unexpected release of pollutants or contaminants.

The Corporation's operating subsidiaries do not expect that environmental protection laws and regulations will affect them differently from other companies in the industries in which they operate. Specifically identifiable expenditures for pollution abatement and control were approximately \$27.9 million in 2006 and are estimated to be \$28.2 million in 2007.

The current Federal government favours a made in Canada approach to deal with climate change instead of the Kyoto Protocol which the previous government had ratified. The Corporation is unable to determine what impact the Clean Air Act may have on its operations as the Government of Canada has not yet provided industry specific details for its 2006 Climate Change Plan. While it is not certain, it is anticipated that the Corporation's PPA's relating to its coal-fired generating plants will allow the Corporation to recover any increased costs associated with the implementation of the Clean Air Act.

## DESCRIPTION OF CAPITAL STRUCTURE

### Share Capital

The authorized share capital of the Corporation consists of 20,000,000 Preferred Shares issuable in series, 8,000,000 Junior Preferred Shares issuable in series, 100,000,000 Class I Shares and 50,000,000 Class II Shares. At February 16, 2007, the Corporation had outstanding:

- one series of Preferred Shares totaling 6,000,000 shares (\$150.0 million);
- no Junior Preferred Shares;
- 51,514,246 Class I Shares; and
- 6,940,018 Class II Shares.

### 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.

One series of Preferred Shares, the 5.75% Cumulative Redeemable Preferred Series 3 ("Series 3 Preferred Shares"), is currently outstanding. The Series 3 Preferred Shares have, among others, provisions to the following effect:

- (i) On and after December 1, 2008, the Corporation may convert all or any of the Series 3 Preferred Shares into Class I Shares. The number of Class I Shares into which each Series 3 Preferred Share may be converted will be determined by dividing the applicable redemption price together with all accrued and unpaid dividends by the greater of \$2.00 and 95% of the weighted average trading price of Class I Shares on the Toronto Stock Exchange for a period of 20 consecutive trading days ending on the fourth day prior to the date specified for conversion.
- (ii) On and after December 1, 2011, each Series 3 Preferred Share will be convertible at the option of the owner, on the first day of March, June, September and December of each year, into that number of Class I Shares determined by dividing \$25.00 together with all accrued and unpaid dividends by the greater of \$2.00 and 95% of the then current market price of the Class I Shares. If an owner of Series 3 Preferred

Shares elects to convert any of the shares into Class I Shares, the Corporation may elect to redeem the Series 3 Preferred Shares for cash or arrange for the sale of such shares to substitute purchasers. At any time, the Corporation may offer the owners of the Series 3 Preferred Shares the right to convert into a further series of Preferred Shares.

- (iii) The Series 3 Preferred shares are redeemable at the option of the Corporation commencing on December 1, 2008, at the stated value plus a 4% premium for the next 12 months plus accrued and unpaid dividends. The redemption premium declines by 2% in each succeeding 12 month period until December 1, 2010.

### 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.

## DIVIDENDS

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

	<b>Year Ended December 31</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(\$ per share)		
<b>Cash dividends declared per share (1):</b>			
5.75% Cumulative Redeemable Preferred Shares, Series 3 .....	1.44	1.44	1.44
Class I and Class II Shares .....	0.82	0.76	0.70

It is the policy of the Corporation to pay dividends quarterly on its Class I and Class II Shares. In 2006, the Corporation increased the dividends on Class I and Class II Shares by \$0.06 per share, the same increase as in 2005. 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 2007, the quarterly dividend payment has been increased by \$0.015 to \$0.22 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.

## CREDIT RATINGS

The current credit ratings on the Corporation's, CU's and CU Inc.'s securities are as follows:

	<b>DBRS (1)</b>	<b>S&amp;P (2)</b>
<b>ATCO Ltd.:</b>		
Preferred Shares .....	Pfd-2 (low)	P-2 (high)
<b>Canadian Utilities Limited:</b>		
Debentures .....	A	A-
Commercial paper .....	R-1 (low)	A-1 (mid)
Preferred Shares .....	Pfd-2(high)	P-2 (high)
<b>CU Inc.:</b>		
Debentures .....	A (high)	A
Commercial paper .....	R-1 (low)	A-1 (mid)
Preferred Shares .....	Not rated	Not rated

Notes:

- (1) Dominion Bond Rating Service Limited ("DBRS") maintains a stable trend on the above securities.
- (2) Standard and Poor's ("S&P") maintains a stable trend on the above securities.

### Long Term Debt Credit Ratings

An A rating by DBRS is the third highest of ten categories. Long term debt rated A is of satisfactory credit quality. Protection of interest and principal is substantial with a higher degree of strength than that of B rated entities. A is a respectable rating. Entities in this category are still considered to be susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities. "High" and "low" grades may be used to indicate the relative standing of a credit within a particular rating category.

An A rating by S&P is the third highest of eleven 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 rating categories.

### Commercial Paper 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 more favourable than with lower rating categories. 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 for preferred shares and is granted to companies presenting satisfactory credit quality where protection of dividends and principal is still substantial, but earnings, the balance sheet and coverage ratios are not as strong as Pfd-1 rated companies. "High", and "low" grades may be used to indicate the relative standing of a credit within a particular rating category.

A P-2 rating by S&P is the second highest of eight categories S&P uses in its Canadian preferred share rating scale and is granted where the obligor's capacity to meet its financial commitments is considered adequate, but is more subject to adverse economic conditions than higher rating categories. "High", "mid" and "low" grades may be used to indicate the relative standing of a credit within a particular 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.

## DIRECTORS AND EXECUTIVE OFFICERS

Set out below is information with respect to the directors and officers of the Corporation.

<b>Name, Province or State and Country of Residence</b>	<b>Position</b>	<b>Principal Occupation</b>	<b>Periods Served as a Director of the Corporation</b>
C.R. Armour South Australia, Australia	Managing Director, ATCO Group, Australia/Asia/Pacific	Managing Director, ATCO Group, Australia/Asia/Pacific, ATCO Ltd.	
W.L. Britton, Q.C. (2) (5) Alberta, Canada	Director & Vice Chairman of the Board	Vice Chairman of the Board, ATCO Ltd. and Canadian Utilities Limited	1975 to date
B.P. Collomb France	Director	Chairman, Lafarge S.A. (building materials company)	1999 to date
D.T. Davis Alberta, Canada	Vice President, Internal Audit & Risk Management	Vice President, Internal Audit & Risk Management, ATCO Ltd. and Canadian Utilities Limited	
B.P. Drummond (2) (3) (4) Quebec, Canada	Director	Corporate Director	1968 to date
O.G. Edmondson Alberta, Canada	Vice President, Business Development Finance	Vice President, Business Development Finance, ATCO Ltd. and Canadian Utilities Limited	
B.K. French (2) (3) (4) (5) Alberta, Canada	Director	President, Karusel Management Ltd. (property management and management consultants)	1982 to date
I.D. Hargrave Alberta, Canada	Vice President, Project Development	Vice President, Project Development, ATCO Ltd. and Canadian Utilities Limited	
E.M. Kiefer (5) Alberta, Canada	Vice President, Human Resources	Vice President, Human Resources, ATCO Ltd. and Canadian Utilities Limited	
S.W. Kiefer Alberta, Canada	Managing Director, Utilities & Chief Information Officer	Managing Director, Utilities & Chief Information Officer, ATCO Ltd. and Canadian Utilities Limited	

<b>Name, Province or State and Country of Residence</b>	<b>Position</b>	<b>Principal Occupation</b>	<b>Periods Served as a Director of the Corporation</b>
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 to date
C.S. McConnell Alberta, Canada	Treasurer	Treasurer, ATCO Ltd. and Canadian Utilities Limited	
H.M. Neldner (2) (3) (4) Alberta, Canada	Director	Corporate Director	1997 to date
M.M. Shaw Alberta, Canada	Managing Director, Global Enterprises	Managing Director, Global Enterprises, ATCO Ltd. and Canadian Utilities Limited	
N.C. Southern Alberta, Canada	Director, President & Chief Executive Officer	President & Chief Executive Officer, ATCO Ltd. and Canadian Utilities Limited	1989 to date
R. D. Southern, C.B.E., C.C., B.Sc., LL.D. (6) Alberta, Canada	Director & Chairman of the Board	Chairman of the Board, ATCO Ltd. and Canadian Utilities Limited	1963 to date
P. Spruin Alberta, Canada	Corporate Secretary	Corporate Secretary, ATCO Ltd. and Canadian Utilities Limited	
L.C. van Wachem, K.B.E., The Netherlands	Director	Chairman, Global Crossing Limited (telecom network)	1993 to date
R.H. Walthall Alberta, Canada	Managing Director, Power Generation	Managing Director, Power Generation, ATCO Ltd. and Canadian Utilities Limited	
K.M. Watson (5) Alberta, Canada	Senior Vice President & Chief Financial Officer	Senior Vice President & Chief Financial Officer, ATCO Ltd. and Canadian Utilities Limited	
S.R. Werth (5) Alberta, Canada	Senior Vice President & Chief Administration Officer	Senior Vice President & Chief Administration Officer, ATCO Ltd. and Canadian Utilities Limited	
C.W. Wilson (2) (3) (4) Colorado, U.S.A.	Lead Director	Corporate Director	2002 to date
P.G. Wright Alberta, Canada	Vice President, Finance & Controller	Vice President, Finance & Controller, ATCO Ltd. and Canadian Utilities Limited	

Notes:

- (1) *Each director holds office until the close of the annual meeting of shareholders of the Corporation or until their successors are elected or appointed.*
- (2) *Member of the Corporate Governance – Nomination, Compensation and Succession Committee.*
- (3) *Member of the Audit Committee.*
- (4) *Member of the Risk Review Committee.*
- (5) *Member of the Crisis Management Committee.*
- (6) *R.D. Southern was a director of Canadian Airlines Corporation when it filed for protection under the Companies' Creditors Arrangement Act on March 24, 2000.*

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. L.C. van Wachem who was Chairman of the Board, Zurich Financial Services from 2002 to 2005.

## **SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS**

At December 31, 2006, the directors and officers of the Corporation, as a group, beneficially owned, directly or indirectly (via corporate holdings or otherwise), or exercised control or direction over approximately 82.8% 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, directly or indirectly (via corporate holdings or otherwise), or exercised control or direction over approximately 74.7% of the issued and outstanding Class B common shares of Canadian Utilities Limited.

## **AUDIT COMMITTEE**

### **Audit Committee Charter**

#### **ATCO Ltd. 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 (the "Board") of the Corporation. The Committee is responsible for contributing to the effective stewardship of the Corporation by assisting the Board in fulfilling its oversight of:

- the integrity of the Corporation's financial statements;
- the Corporation's compliance with applicable legal and regulatory requirements;
- the independence, qualifications and appointment of the Corporation's external auditor; and
- the performance of the Corporation's internal audit function and external auditors.

##### *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 Multilateral Instrument 52-110 *Audit Committees*); and
- financially literate (within the meaning of section 1.6 of Multilateral Instrument 52-110 *Audit Committees*).

In order to be considered to be an independent director for the purposes of membership on the Committee, a director must have been determined by the Board to be independent in accordance with all applicable 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 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 auditors. The Committee Chairman 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 auditors and any additional attendees as determined by the Chairman. 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 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 of the Corporation 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 Committee Chairman. Supporting schedules and information reviewed by the Committee will be available for examination by any director upon request. The external auditors and the Vice President, Internal Audit & Risk Management shall report directly to the Committee. The Committee is expected to maintain free and open communication with the Corporation's external auditors, internal auditors and management. This communication shall include private sessions, at least annually, with each of these parties.

### ***Responsibilities***

The Committee relies on the expertise and knowledge of management, and the internal and external auditors in carrying out its oversight 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 auditors are 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 be empowered to retain independent counsel, accountants or other outside advisors as it determines necessary to permit it to carry out its duties.

The Committee shall:

- Recommend to the Board:
  - (a) The external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Corporation;
  - (b) The compensation of the external auditors; and
  - (c) The approval of the Corporation's annual financial statements, AIF and MD&A.
- Be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting.
- Pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by the external auditors of the Corporation or its subsidiaries. The Committee may delegate to one or more of its members the authority to grant pre-approvals provided that any pre-approvals so granted are presented in writing to the Committee at the next regularly scheduled meeting. The Committee will ensure that relevant policies and procedures are in place to manage this process and comply with all applicable regulatory requirements.

- Review the Corporation’s annual and interim financial statements, AIF, MD&A and annual and interim earnings press releases before this information is publicly disclosed.
- As delegated by the Board, review and approve the interim financial statements, MD&A and earnings press releases before this information is publicly disclosed.
- Be satisfied that adequate procedures are in place for the review of the Corporation’s disclosure of financial information extracted or derived from the Corporation’s financial statements, and periodically assess the adequacy of such procedures. This would include an annual review of the Corporation’s Disclosure Policy.
- Establish procedures for:
  - (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, auditing matters, fraud or theft; and
  - (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters, fraud or theft.
- Ensure the Corporation has implemented appropriate systems of internal control over financial reporting and that these systems are operating effectively;
- Ensure the internal audit function has been effectively carried out and the internal auditors have 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 members of the Corporation’s Audit Committee. All members are independent and financially literate:

- B.P. Drummond
- B.K. French
- H.M. Neldner
- C.W. Wilson

### **Relevant Education and Experience**

**B.P. Drummond** Mr. Drummond, a former investment banker, 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.

**B.K. French** Mr. French has a Bachelor of Commerce with an Accounting and Finance Major and is a Chartered Accountant. Mr. French was engaged in public practice for 25 years.

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 previously supervised a CFO directly for a seven year period as President & CEO of Shell Canada Ltd.

### Reliance on Certain Exemptions

The Corporation did not rely on any exemptions from the Audit Committee requirements of Canadian Securities Legislation.

### Audit Committee Oversight

Since January 1, 2006, all recommendations of the Audit Committee to nominate or compensate an external auditor were adopted by the Board of Directors.

### 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:

	<u>2006</u>	<u>2005</u>
	(\$Millions )	
Audit (1) .....	1.7	1.7
Audit Related (2) .....	0.1	0.2
Tax (3) .....	<u>0.4</u>	<u>0.4</u>
Total.....	<u><u>2.2</u></u>	<u><u>2.3</u></u>

Notes:

- (1) *Audit fees include the aggregate professional fees paid to the external auditor for the audit of the annual consolidated financial statements and other regulatory audits and filings.*
- (2) *Audit-related fees include the aggregate fees paid to the external auditor for services related to special purpose audits and the audit services including consultations regarding financial reporting and accounting standards.*
- (3) *Tax fees include 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.*

## MARKETS FOR THE SECURITIES OF THE CORPORATION

The Corporation's Class I Shares, Class II Shares and Series 3 Preferred Shares are listed on the Toronto Stock Exchange.

The following table sets forth the high and low prices and the volume of shares traded on the Toronto Stock Exchange during 2006 for the Corporation's listed shares.

	Class I Shares			Class II Shares			Series 3 Preferred Shares		
	High \$	Low \$	Volume	High \$	Low \$	Volume	High \$	Low \$	Volume
January.....	40.94	37.51	1,406,909	40.77	38.10	3,070	29.34	28.56	56,666
February.....	39.32	35.77	818,590	40.50	36.00	3,265	29.23	28.00	146,435
March.....	36.99	34.25	2,720,246	39.50	35.80	3,575	28.58	28.00	22,772
April.....	36.06	33.56	1,053,333	37.00	34.34	9,305	28.49	27.91	35,891
May.....	39.79	33.99	2,328,988	38.90	35.00	3,640	28.49	28.20	85,458
June.....	38.49	33.10	2,628,888	39.00	35.20	1,330	28.40	28.01	401,803
July.....	40.39	35.24	1,138,199	40.20	36.10	5,240	28.34	26.96	240,615
August.....	41.64	39.32	1,481,547	41.50	40.18	4,700	28.47	27.01	160,140
September..	44.00	41.38	1,979,932	43.80	41.00	12,800	28.75	27.02	906,818
October.....	43.64	41.37	1,681,148	43.40	41.75	7,624	28.25	27.50	388,575
November..	47.44	40.50	2,071,977	47.00	41.25	3,990	29.25	27.84	350,782
December...	51.14	46.48	1,192,849	51.00	46.45	5,150	29.09	27.95	133,997

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Class I Shares, Class II Shares and Series 3 Preferred Shares is CIBC Mellon Trust Company at its principal offices in Calgary, Vancouver, Toronto and Montreal.

## 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 auditor's rules of professional conduct in Canada.

## EMPLOYEE RELATIONS

At December 31, 2006, the Corporation and its joint ventures had the following number of employees:

	<u>Number</u>
Utilities .....	3,438
Global Enterprises .....	1,619
Power Generation .....	466
Industrials .....	1,556
Other .....	95
Sub Total.....	<u>7,174</u>
Joint Ventures – Global Enterprises .....	570
Joint Ventures – Industrials .....	84
Joint Ventures – Power Generation .....	186
Sub Total.....	<u>840</u>
Total.....	<u>8,014</u>

Approximately 4,300 employees are members of four employee associations and 13 unions and are covered by 29 collective agreements. Four of these agreements have expired and are under re-negotiation and the remaining 25 agreements expire over the period April 30, 2007 to December 31, 2009.

#### **ADDITIONAL INFORMATION**

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 2, 2006. Additional financial information is provided in the Corporation's comparative financial statements and Management's Discussion and Analysis for the financial year ended December 31, 2006.

Information relating to Canadian Utilities Limited or CU Inc. may be obtained upon request from the Corporate Secretary of the respective corporation at 1400 ATCO Centre, 909 – 11<sup>th</sup> 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). Additional information relating to the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com).