Consolidated Financial Statements of

EPCOR UTILITIES INC.

Years ended December 31, 2017 and 2016

Management's responsibility for financial reporting

The preparation and presentation of the accompanying consolidated financial statements of EPCOR Utilities Inc. are the responsibility of management and the consolidated financial statements have been approved by the Board of Directors. In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily requires judgment and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgment where estimates were required, and these consolidated financial statements reflect all information available to February 15, 2018. Financial information presented elsewhere is consistent with that in the consolidated financial statements.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that relevant financial information is reliable, accurate and available on a timely basis. The internal control systems are monitored by management, and evaluated by an internal audit function that regularly reports its findings to management and the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, the Company’s external auditors. The external auditors are responsible for auditing the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditors' report outlines the scope of their audit and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, which is composed of independent directors, meets regularly with management, the internal auditors and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and management’s discussion and analysis and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee is also responsible for reviewing and recommending the annual appointment of the external auditors and approving the annual external audit plan.

On behalf of management,

Stuart Lee
President and Chief Executive Officer

Guy Bridgeman
Senior Vice President and Chief Financial Officer

February 15, 2018

EPCOR UTILITIES INC.
Consolidated Financial Statements

Years ended December 31, 2017 and 2016

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of EPCOR Utilities Inc.

We have audited the accompanying consolidated financial statements of EPCOR Utilities Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EPCOR Utilities Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
February 15, 2018
Edmonton, Canada

EPCOR UTILITIES INC.

Consolidated Statements of Comprehensive Income
(In millions of Canadian dollars)

Years ended December 31, 2017 and 2016

	2017	2016
Revenues and other income:		
Revenues (note 6)	$ 2,035	$ 1,932
Other income (note 6)	12	14
	2,047	1,946
Operating expenses:		
Energy purchases and system access fees	804	722
Other raw materials and operating charges	170	191
Staff costs and employee benefits expenses (note 7)	281	275
Depreciation and amortization (note 7)	236	189
Franchise fees and property taxes	112	99
Other administrative expenses (note 7)	88	91
	1,691	1,567
Operating income	356	379
Finance expenses (note 8)	(115)	(112)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income (note 12)	1	42
Dividend income from available-for-sale investment in Capital Power	-	9
Income before income taxes	242	318
Income tax recovery (expense) (note 9)	14	(9)
Net income for the year – all attributable to the Owner of the Company	256	309
Other comprehensive income (loss):		
Item that will not be reclassified to net income:		
Re-measurements of net defined benefit plans	(5)	(1)
Items that have been or may subsequently be reclassified to net income:		
Fair value gain on available-for-sale investment in Capital Power	-	43
Fair value loss on available-for-sale beneficial interest in sinking fund	(1)	-
Fair value gain on available-for-sale investment in Capital Power reclassified to net income	(1)	(42)
Unrealized loss on foreign currency translation	(30)	(11)
	(32)	(10)
	(37)	(11)
Comprehensive income for the year - all attributable to the Owner of the Company	$ 219	$ 298

The accompanying notes are an integral part of these consolidated financial statements

EPCOR UTILITIES INC.

Consolidated Statements of Financial Position
(In millions of Canadian dollars)

December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents (note 10)	$ 338	$ 191
Trade and other receivables (note 11)	551	325
Available-for-sale investment in Capital Power (note 12)	-	6
Derivatives (note 13)	1	-
Inventories (note 14)	17	14
	907	536
Non-current assets:		
Other financial assets (note 15)	91	265
Deferred tax assets (note 16)	90	84
Property, plant and equipment (note 17)	8,977	4,983
Intangible assets and goodwill (note 18)	293	293
	9,451	5,625
TOTAL ASSETS	$ 10,358	$ 6,161
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables (note 19)	$ 384	$ 299
Loans and borrowings (note 20)	442	15
Deferred revenue (note 21)	60	25
Provisions (note 22)	25	25
Other liabilities (note 23)	50	26
	961	390
Non-current liabilities:		
Loans and borrowings (note 20)	2,424	1,905
Deferred revenue (note 21)	3,221	1,016
Deferred tax liabilities (note 16)	39	46
Provisions (note 22)	91	86
Other liabilities (note 23)	96	46
	5,871	3,099
Total liabilities	6,832	3,489
Equity attributable to the Owner of the Company:		
Share capital (note 24)	812	24
Accumulated other comprehensive income (note 25)	49	86
Retained earnings	2,665	2,562
Total equity	3,526	2,672
TOTAL LIABILITIES AND EQUITY	$ 10,358	$ 6,161

Approved on behalf of the Board,

Hugh J. Bolton
Director and Chairman of the Board

Vito Culmone
Director and Chairman of the Audit Committee

The accompanying notes are an integral part of these consolidated financial statements

EPCOR UTILITIES INC.

Consolidated Statements of Changes in Equity
(In millions of Canadian dollars)

December 31, 2017 and 2016

	Share capital (note 24)	Accumulated other comprehensive income (loss): Available-for-sale financial assets (note 25)	Cumulative translation account (note 25)	Employee benefits account (note 25)	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2015	$ 24	$ 1	$ 105	$ (9)	$ 2,394	$ 2,515
Net income for the year	-	-	-	-	309	309
Other comprehensive income (loss):						
Re-measurements of net defined benefit plans	-	-	-	(1)	-	(1)
Fair value gain on available-for-sale investment in Capital Power	-	43	-	-	-	43
Fair value gain on available-for-sale investment in Capital Power reclassified to net income	-	(42)	-	-	-	(42)
Unrealized loss on foreign currency translation	-	-	(11)	-	-	(11)
Total comprehensive income (loss)	-	1	(11)	(1)	309	298
Dividends	-	-	-	-	(141)	(141)
Equity at December 31, 2016	$ 24	$ 2	$ 94	$ (10)	$ 2,562	$ 2,672
Net income for the year	-	-	-	-	256	256
Other comprehensive loss:						
Re-measurements of net defined benefit plans	-	-	-	(5)	-	(5)
Fair value gain on available-for-sale investment in Capital Power reclassified to net income	-	(1)	-	-	-	(1)
Fair value loss on available-for-sale beneficial interest in sinking fund	-	(1)	-	-	-	(1)
Unrealized loss on foreign currency translation	-	-	(30)	-	-	(30)
Total comprehensive income (loss)	-	(2)	(30)	(5)	256	219
Capital contribution from the Owner	788	-	-	-	-	788
Dividends	-	-	-	-	(153)	(153)
Equity at December 31, 2017	$ 812	$ -	$ 64	$ (15)	$ 2,665	$ 3,526

The accompanying notes are an integral part of these consolidated financial statements

EPCOR UTILITIES INC.

Consolidated Statements of Cash Flows
(In millions of Canadian dollars)

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from (used in) operating activities:		
Net income for the year	$ 256	$ 309
Reconciliation of net income for the year to cash from (used in) operating activities:		
Interest paid	(116)	(128)
Finance expenses (note 8)	115	112
Income taxes recovered (paid)	(4)	1
Income tax expense (recovery) (note 9)	(14)	9
Depreciation and amortization (note 7)	236	189
Change in employee benefits provisions	2	(8)
Contributions received (note 21)	48	21
Deferred revenue recognized (note 21)	(38)	(37)
Fair value change on derivative instruments (note 13)	(1)	(2)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income (note 12)	(1)	(42)
Dividend income from available-for-sale investment in Capital Power	-	(9)
Other	(5)	(3)
Funds from operations	478	412
Change in non-cash operating working capital (note 26)	48	63
Net cash flows from operating activities	526	475
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and intangible assets[1]	(566)	(502)
Business acquisitions (note 5)	(68)	(51)
Proceeds on disposal of property, plant and equipment	6	19
Change in non-cash investing working capital (note 26)	31	5
Net payments received on other financial assets (note 15)	14	314
Payment of Drainage transition cost compensation to the City (note 23)	(8)	-
Net proceeds on sale of available-for-sale investment in Capital Power (note 12)	6	204
Distributions received from Capital Power	-	12
Net cash flows from (used in) investing activities	(585)	1
Cash flows from (used in) financing activities:		
Net repayment of short-term loans and borrowings (note 27)	-	(98)
Proceeds from issuance of long-term loans and borrowings (note 27)	400	52
Repayment of long-term loans and borrowings (note 27)	(37)	(141)
Deferred debt issue costs (note 27)	(2)	-
Net contributions from (refunds to) customers and developers (note 27)	(2)	7
Dividends paid	(153)	(141)
Net cash flows from (used in) financing activities	206	(321)
Increase in cash and cash equivalents	147	155
Cash and cash equivalents, beginning of year	191	36
Cash and cash equivalents, end of year	$ 338	$ 191

1 Interest payment of $6 million (2016 – $5 million) is included in acquisition or construction of property, plant and equipment and intangible assets.

1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical, natural gas and water transmission and distribution networks, water and wastewater treatment facilities and sanitary and stormwater systems. The Company also provides electricity, natural gas and water products and services to residential and commercial customers.

The Company operates in Canada and the United States (U.S.) with its registered head office located at 2000, 10423 - 101 Street NW, Edmonton, Alberta, Canada, T5H 0E8.

The common shares of EPCOR are owned by The City of Edmonton (the City). The Company was established by Edmonton City Council under City Bylaw 11071.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements were approved and authorized for issue by the Board of Directors on February 15, 2018.

(b) Basis of measurement

The Company's consolidated financial statements are prepared on the historical cost basis, except for its beneficial interest in the sinking fund held with the City, available-for-sale investment in Capital Power, derivative financial instruments and contingent consideration which are measured at fair value.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements unless otherwise indicated.

(a) Basis of consolidation

These consolidated financial statements include the accounts of EPCOR and its wholly owned subsidiaries at December 31, 2017. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from the performance of the entity and has the ability to affect those returns through its control over the entity. Subsidiaries are fully consolidated from the date on which EPCOR obtains control, and continue to be consolidated until the date that such control ceases to exist. All intercompany balances and transactions have been eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company’s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. The financial statements of the subsidiaries are prepared for the same reporting period as EPCOR, using consistent accounting policies.

These consolidated financial statements are presented in Canadian dollars. The functional currency of EPCOR and its Canadian subsidiaries is the Canadian dollar; the functional currency of U.S. subsidiaries is the U.S. dollar. All the values in these consolidated financial statements have been rounded to nearest million except where otherwise stated.

(b) Changes in significant accounting policies

The Company adopted amendments to various accounting standards effective January 1, 2017 and the amendments did not have a significant impact on these consolidated financial statements.

(c) Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The determination of whether or not an acquisition meets the definition of business combination under IFRS requires judgment and is assessed on a case by case basis. The consideration for an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in net income. Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not re-measured and settlement is accounted for within equity. Subsequent changes in the fair value of contingent consideration that is not classified as equity are recognized in net income.

Goodwill is measured as the excess of the fair value of the consideration transferred less the fair value of the identifiable assets acquired and liabilities assumed. Subsequently, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognized.

(d) Business combinations under common control

A ‘business combination involving entities or businesses under common control’ is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations involving entities or businesses under common control are outside the scope of IFRS 3 - *Business Combinations* and currently there is no IFRS guidance on accounting for business combinations involving entities or businesses under common control. In accordance with IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, if no applicable standard or interpretation exists then management must develop a policy that is reliable and relevant to the decision making needs of the users. As per the Company’s business combinations under common control policy, common control transactions are accounted for using book value accounting; this requires the Company to recognize the transferred assets and liabilities at their respective carrying amounts. The difference between the fair value of consideration due and the net carrying amount of the assets and liabilities acquired is recorded as an adjustment to equity.

(e) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company for the provision of goods or services and where the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or to be received, excluding discounts, rebates and sales taxes or duty.

Certain water services contracts contain multiple-deliverables arrangements. Each deliverable that is considered to be a separate unit of account is accounted for individually. Significant judgment is required to determine an appropriate allocation of the total contract value to each unit of account based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered units of account. The primary identifiable deliverables under such contracts are for construction of plant and other infrastructure, project upgrades and expansions, financing or leasing of upgrades, and facilities operations and maintenance.

The Company’s principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

Sale of goods

Revenues from sales of electricity, natural gas and water are recognized upon delivery. These revenues include an estimate of the value of electricity, natural gas and water consumed by customers and billed subsequent to the reporting period.

Revenues from the sale of other goods are recognized when the products have been delivered and collectability is probable.

Provision of services

Revenues from the provision of electricity and natural gas distribution and transmission services, sanitary and stormwater collection and wastewater treatment services are recognized over the period in which the service is performed and collectability is probable. Revenues from the provision of other services are recognized when the services have been rendered and collectability is probable.

Construction contracts

Contract revenue from the construction of water and wastewater treatment plants and other project upgrades and expansions provided to customers is recognized in profit or loss on the percentage of completion basis when the projected final cost of a construction contract can be reliably estimated. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be reliably measured. Percentage of completion is estimated based on an assessment of progress towards the completion of contract tasks. These estimates may result in the recognition of unbilled receivables when the revenues are earned prior to billing customers. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred revenue in the statement of financial position. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are probable to be recoverable.

Provisions for estimated losses on uncompleted contracts are made for the full amount of the projected loss in the period in which the losses are identified. Revenues and costs related to variations are included in the total estimated contract revenue and expenses when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured.

Revenues earned under finance leases

Finance income earned from arrangements where the Company leases water and wastewater assets to customers are accounted for as finance leases, as described in note 3(i).

Interest income

Revenue from the financing of project upgrades and expansions is recognized over the term of each contract using the effective interest method based on the fair value of the loan calculated at inception for each contract.

Interest income related to the loans receivable from Capital Power is recognized over the terms of the loans based on the interest rate applicable to each loan.

Interest income relating to short-term investments and cash deposits is recognized on time proportion basis taking into account the applicable interest rates.

(f) Income taxes

Under the Income Tax Act (Canada) (ITA), a municipally owned corporation is subject to income tax on its taxable income if the income from activities for any relevant period that was earned outside the geographical boundaries of the municipality exceeds 10% of the corporation's total income for that period. As a result of these and other provisions, certain Canadian subsidiaries of the Company are taxable under the ITA and provincial income tax acts. The U.S. subsidiaries are subject to income taxes pursuant to U.S. federal and state income tax laws.

Current income taxes for the current or prior periods are measured at the amount expected to be recovered from or payable to the taxation authorities based on the tax rates that are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted rates of tax expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the date of enactment or substantive enactment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries are only recognized to the extent that the temporary difference will reverse in the foreseeable future and the Company judges that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill arising from a business combination or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting income.

Current and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

(g) Cash and cash equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(h) Inventories

Small parts and other consumables, the majority of which are consumed by the Company in the provision of its goods and services, are valued at the lower of cost and net realizable value. Cost includes the purchase price, transportation costs and other costs to bring the inventories to their present location and condition. The costs of inventory items that are interchangeable are determined on an average cost basis. For inventory items that are not interchangeable, cost is assigned using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Previous write downs of inventories from cost to net realizable value can be fully or partially reversed if supported by economic circumstances. The Company estimates the value of inventory that is expected to be used in the construction of property, plant and equipment (PP&E) and reports this value as construction work in progress under PP&E.

(i) Lease arrangements

At the inception of an arrangement entered into for the use of an asset, the Company determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of the specific asset and the arrangement conveys a right to use the asset. An arrangement conveys the right to use the asset if the right to control the use of the underlying asset is transferred. Where it is determined that the arrangement contains a lease, the Company classifies the lease as either a finance or operating lease dependent on whether substantially all the risks or rewards of ownership of the asset have been transferred.

Where the Company is the lessor, finance income related to leases or arrangements accounted for as finance leases is recognized in a manner that produces a constant rate of return on the net investment in the lease. The net investment in the lease is the aggregate of net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net income over the lease term.

Where the Company is the lessee, leases or other arrangements that transfer substantially all of the benefits and risks of ownership of property to the Company are classified as finance leases. All other arrangements that are determined to contain a lease are classified as operating leases. Rental payments under arrangements classified as operating leases are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(j) Property, plant and equipment

PP&E are recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Cost includes contracted services, materials, direct labor, directly attributable overhead costs, borrowing costs on qualifying assets and decommissioning costs. Where parts of an item of PP&E have different estimated economic useful lives, they are accounted for as separate items (major components) of PP&E.

The cost of major inspections and maintenance is recognized in the carrying amount of the item if the asset recognition criteria are satisfied. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing are expensed as incurred.

Depreciation of cost less residual value is charged on a straight-line basis over the estimated economic useful lives of items of each depreciable component of PP&E, from the date they are available for use, as this most closely reflects the expected usage of the assets. Land and construction work in progress are not depreciated. Estimating the appropriate economic useful lives of assets requires significant judgment and is generally based on estimates of life characteristics of similar assets. The estimated economic useful lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

The ranges of estimated economic useful lives for PP&E assets used are as follows:

Water treatment and distribution, and wastewater collection and treatment	3 – 95 years
Energy transmission and distribution	3 – 65 years
Retail systems and equipment	4 – 10 years
Corporate information systems and equipment	2 – 15 years
Leasehold improvements	5 – 25 years

Gains and losses on the disposal of PP&E are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

(k) Capitalized borrowing costs

The Company capitalizes interest during construction of a qualifying asset using the weighted average cost of debt incurred on the Company's external borrowings or specific borrowings used to finance qualifying assets. Qualifying assets are considered to be those that take a substantial period of time to construct.

(l) Intangible assets

Intangible assets with finite lives are stated at cost, net of accumulated amortization and impairment losses, if any. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair value.

Customer rights represent the costs to acquire the rights to provide electricity services to particular customer groups for a finite period of time. Other rights represent the costs to acquire the rights, for finite periods of time, to access electricity delivery corridors, to the supply of water, to provide sewage treatment and transportation services, to withdraw groundwater and to the supply of potable water for emergency and peak purposes. Customer and other rights are recorded at cost at the date of acquisition. A subsequent expenditure is capitalized only when it increases the future economic benefit in the specific asset to which it relates.

The cost of intangible software includes the cost of license acquisitions, contracted services, materials, direct labor, along with directly attributable overhead costs and borrowing costs on qualifying assets.

Amortization of the cost of finite life intangible assets is recognized on a straight-line basis over the estimated economic useful lives of the assets, from the date they are available for use, as this most closely reflects the expected usage of the asset. Work in progress is not amortized. The estimated economic useful lives and methods of amortization are reviewed annually with any changes adopted on a prospective basis.

The estimated economic useful lives for intangible assets with finite lives are as follows:

Customer rights	20 years
Software	2 – 20 years
Other rights	12 – 50 years
Water rights	100 years

Certificates of convenience and necessity (CCN) represent the costs to acquire the exclusive rights for the Company to serve within its specified geographic areas in the U.S. for an indefinite period of time. CCN are not amortized but are subject to review for impairment at the end of each reporting period.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

(m) Service concession arrangements

Service concession arrangements are contracts between the Company and government entities and can involve the design, build, finance, operation and maintenance of public infrastructure in which the government entity controls (i) the services provided by the Company and (ii) significant residual interest in the infrastructure. Service concession arrangements are classified in one of the following categories:

(i) financial asset
The Company recognizes a financial asset arising from service concession arrangement when it has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement. The financial asset is measured at the fair value of consideration received or receivable. When the Company delivers more than one category of activities in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair value of the activity, when amounts are separately identifiable.

(ii) intangible asset
The Company recognizes an intangible asset arising from service concession arrangement when it has a right to charge for usage of the public infrastructure. The intangible asset, recognized as consideration for providing construction or upgrade services under a service concession arrangement, is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortization and impairment losses, if any.

Revenue under the service concession arrangements is recognized as per the revenue recognition policy of the Company described in note 3(e) by reference to each activity when the amount of revenue is separately identifiable.

The accounting for investment in contracts with government entities requires the application of judgment in determining if they fall within the scope of IFRIC 12 – Service Concession Arrangements (IFRIC 12). Additional judgment also needs to be exercised when determining, among other things, the classification to be applied to the service concession asset (i.e. financial asset or intangible asset), allocation of consideration between revenue generating activities, classification of cost incurred on such concessions and the effective interest rate to be applied to the service concession asset. Contracts falling under IFRIC 12 require use of estimates over the term of the arrangement, and therefore any change in the long term estimates could result in significant variation in the amounts recognized under service concession arrangements.

(n) Deferred revenue

Certain assets may be acquired or constructed using non-repayable government grants or contributions from developers or customers. Non-refundable contributions received towards construction or acquisition of an item of PP&E which are used to provide ongoing service to a customer are recorded as deferred revenue and are amortized on a straight line basis over the estimated economic useful lives of the assets to which they relate.

(o) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as a financing expense over the estimated time period until settlement of the obligation. Significant judgment is required to determine whether a past event results in a liability that is recognized in the statement of financial position. In addition, quantifying such provision also involves a certain amount of estimation in respect of the amount and timing of outflows of economic benefits and therefore it is possible that the assumptions used in measuring the provision may differ from future outcomes and the impact of such variations could be material.

The Company recognizes a decommissioning provision in the period in which a legal or constructive obligation is incurred. A corresponding asset for the decommissioning cost is added to the carrying amount of the associated PP&E, and is depreciated over the estimated useful life of the asset.

The Company may receive contributions from customers, homebuilders, real estate developers, and others to fund construction necessary to extend service to new areas. Certain of these contributions may be refunded over a limited period of time as new customers begin to receive service or other contractual obligations are fulfilled. The portion of contributions which are estimated to be refunded in the future are recorded as provisions. The remaining contributions are classified as deferred revenue.

(p) Employee benefits

The employees of the Company are either members of the Local Authorities Pension Plan (LAPP) or other defined benefit or defined contribution pension plans.

The LAPP is a multi-employer defined benefit pension plan. The trustee of the plan is the Alberta President of Treasury Board and Minister of Finance and the plan is administered by a Board of Trustees. The Company and its employees make contributions to the plan at rates prescribed by the Board of Trustees to cover costs and an unfunded liability under the plan. The rates are based on a percentage of the pensionable salary. The most recent actuarial report of the plan discloses an unfunded liability. It is accounted for as a defined contribution plan as the LAPP is not able to provide information which reflects EPCOR's specific share of the defined benefit obligation or plan assets that would enable the Company to account for the plan as a defined benefit plan. Accordingly, the Company does not recognize its share of any plan surplus or deficit.

The Company maintains additional defined contribution and defined benefit pension plans to provide pension benefits to certain management employees and employees who are not otherwise served by the LAPP, including employees of new or acquired operations. Employees not otherwise served by LAPP comprise less than 14% of total employees (2016 – 17%).

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability for short-term employee benefits is recognized for the amount expected to be paid if the Company has a legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company recognizes the contribution payable to a defined contribution plan as an expense and a liability in the period during which the service is rendered.

(q) Derivative financial instruments

The Company uses various risk management techniques to reduce its exposure to movements in electricity prices, interest rates and foreign currency exchange rates. These include the use of derivative financial instruments such as forward contracts or contracts-for-differences and interest rate swaps. Such instruments may be used to establish a fixed price for electricity, fixed interest rates for borrowings or fixed foreign currency rates for anticipated transactions denominated in a foreign currency. Embedded derivatives are separated from the host contract and accounted for as a derivative if certain criteria are met.

The Company sells electricity to customers under a Regulated Rate Tariff (RRT). As part of the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by a regulatory approved Energy Price Setting Plan (EPSP). Under the EPSP, the Company manages its exposure to fluctuating wholesale electricity spot prices and consumption volume by entering into financial electricity purchase contracts in advance of the month of consumption in order to economically hedge the price of electricity under a well-defined risk management process set out in the EPSP. Under these instruments, the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the Alberta Electric System Operator (AESO) market price and the fixed contract price for a specified volume of electricity for the forward months, all in accordance with the EPSP. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

Interest rates swaps are used by the Company to manage interest rate risks associated with long-term loans and borrowings and result in securing fixed interest rates over the term of the loans and borrowings against the floating interest rate.

Foreign exchange forward contracts may be used by the Company to manage foreign exchange exposures, consisting mainly of U.S. dollar exposures, resulting from anticipated transactions denominated in foreign currencies.

All derivative financial instruments are recorded at fair value as derivative assets or derivative liabilities on the statement of financial position, to the extent they have not been settled, with all changes in the fair value of derivatives recorded in net income. At initial recognition, transaction costs attributable to the derivative financial instruments are recognized in net income.

The fair value of derivative financial instruments reflects changes in the electricity prices, interest rates and foreign exchange rates. Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as forward prices, interest rates, foreign exchange rates and discount rates for time value. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

(r) Non-derivative financial instruments

Financial assets are identified and classified as one of the following: measured at fair value through profit or loss, loans and receivables, or available-for-sale financial assets. Financial assets are measured at fair value through profit or loss if classified as held for trading or designated as such upon initial recognition. Financial liabilities are classified as measured at fair value through profit or loss or as other financial liabilities.

Financial assets and financial liabilities are presented on a net basis when the Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial instruments at fair value through profit or loss

The Company may designate financial instruments as measured at fair value through profit or loss when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on them on a different basis.

Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Changes in fair value of financial instruments measured at fair value through profit or loss are recognized in net income.

Loans and receivables

Cash and cash equivalents, trade and other receivables, and other financial assets are classified as loans and receivables.

The Company's loans and receivables are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost using the effective interest method less any impairment as described in note 3(s). The effective interest method calculates the amortized cost of a financial asset or liability and allocates the finance income or expense over the term of the financial asset or liability using an effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period when appropriate, to the net carrying amount of the financial asset or financial liability.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in other categories. These assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value with unrealized gains and losses, other than impairment losses, recognized in other comprehensive income and presented within equity in the fair value reserve. On derecognition of an available-for-sale financial asset, the cumulative gain or loss that was previously held in equity is transferred to net income.

The Company's beneficial interest in the sinking fund with the City and available-for-sale investment in Capital Power do not meet the criteria for classification in any of the previous categories and are classified as available-for-sale financial assets and measured at fair value with changes in fair value reported in other comprehensive income until they are disposed of or becomes impaired, as described in note 3(s).

Other financial liabilities

The Company’s trade and other payables, debentures and borrowings, contributions from customers and developers and other liabilities are classified as other financial liabilities and recognized on the date at which the Company becomes a party to the contractual arrangement. Other financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

Other financial liabilities are initially recognized at fair value including debenture discounts and premiums, plus directly attributable transaction costs, such as issue expenses, if any. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

(s) Impairment of financial assets

The Company's financial assets held as loans and receivables or available-for-sale assets are assessed for indicators of impairment at each reporting date. An impairment loss for financial assets is recorded when it is identified that there is objective evidence that one or more events has occurred, after the initial recognition of the asset, that has had a negative impact on the estimated future cash flows of the asset and that can be reliably estimated. The objective evidence for these types of assets is as follows:

(i) For listed and unlisted investments in equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment. Impairment losses recognized are not reversed in subsequent periods.

(ii) For all other financial assets, including finance lease receivables, objective evidence of impairment includes significant financial difficulty of the counterparty or default or delinquency in interest or principal payments.

(iii) Trade receivables and other assets that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the Company's past experience of collecting payments as well as observable changes in national or local economic conditions.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed or adjusted within net income. An impairment loss is reversed only to the extent that the financial asset’s carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognized.

(t) Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Non-financial assets include PP&E, intangible assets and goodwill. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at least once each year.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company’s corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a fundamental change, since the date of impairment, which may improve the financial performance of the non-financial asset. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(u) Foreign currency transactions and translation

Foreign currency transactions

Transactions denominated in currencies other than the Canadian dollar are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the end of the reporting period. Other non-monetary assets and liabilities are not retranslated unless they are carried at fair value. The resulting foreign exchange gains and losses are included in net income.

Foreign operations translation

On consolidation, the assets and liabilities of foreign operations that have a functional currency other than Canadian dollars are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period. Revenues and expenses are translated at the average monthly exchange rates prevailing during the period. The resulting translation gains and losses are deferred and included in the cumulative translation account in accumulated other comprehensive income.

(v) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Transactions between segments are made under terms that approximate market value. The accounting policies of the segments are the same as those described in note 3 and other relevant notes and are measured in a manner consistent with that of the consolidated financial statements. The results for all operating segments, for which discrete financial information is available, are reviewed regularly by the Company's management to assess its performance and make decisions about resources to be allocated to the segment.

Segment results that are reported to management include items directly attributable to the segment as well as those that can be allocated on a reasonable and consistent basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire or construct PP&E and intangible assets other than goodwill.

During the year, the Company reassessed its business segments due to the addition of Drainage Utility Services (Drainage). Drainage has been aggregated with the existing Canadian water operations under the Water Services segment while U.S. operations are now being reported as a separate business segment. As a result of reassessment, the comparative information presented in these consolidated financial statements has also been revised to correspond with the new business segments.

The Company uses significant judgment in identification and aggregation of business segments. The Company aggregates business segments when they offer similar products and services, have similar business processes, use similar methods to distribute the goods and services, have similar customer bases and operate under similar regulatory environments.

(w) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committee the application of which is effective for periods beginning on or after January 1, 2018. Those which may be relevant to the Company and may impact the accounting policies of the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 9 - *Financial Instruments* (IFRS 9), which replaces IAS 39 - *Financial Instruments: Recognition and Measurement*, includes a new classification and measurement approach for financial assets that reflects the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets including (i) measured at amortized cost, (ii) fair value through other comprehensive income and (iii) fair value through profit or loss. IFRS 9 also replaces the "incurred loss" model under IAS 39 with a forward looking "expected credit loss" (ECL) model for recognition of impairment on financial instruments. The effective date for implementation of IFRS 9 has been set for annual periods beginning on or after January 1, 2018.

Based on the assessment of the Company's existing financial instruments, the Company does not expect any material impact on the accounting for its financial instruments as a result of the adoption of IFRS 9. The Company expects to record an adjustment to the provision of allowance of doubtful accounts on its trade receivables resulting from the application of the methodology of the calculation prescribed by the new standard. As per the Company's existing policy, the allowance for doubtful accounts is calculated on the overdue balances of trade receivables only, whereas the new impairment model requires the Company to calculate the lifetime ECL on the initial recognition of trade receivables, instead of on the overdue balances only. Accordingly, the Company will be required to recognize the lifetime ECL on all outstanding trade receivables. As the Company has very short credit periods for trade receivables, the Company does not expect any material impact due to implementation of the new requirements in IFRS 9.

The Company will also change the classification of its beneficial interest in the sinking fund with the City, which is currently classified as available-for-sale investment. Since the available-for-sale classification is no longer available under IFRS 9 the Company will re-designate its beneficial interest in sinking fund at fair value through profit or loss. This change is not expected to have a material impact.

IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15), which replaces IAS 11 - *Construction Contracts* and IAS 18 - *Revenue* and related interpretations, is effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

There are two methods by which the new standard can be adopted: (1) a full retrospective approach with a restatement of all prior periods presented, or (2) a modified retrospective approach with a cumulative-effect adjustment recognized in retained earnings as of the date of adoption. The Company will adopt IFRS 15 using the modified retrospective approach with the cumulative effect of the adjustment, if any, recognized as of January 1, 2018, subject to allowable and elected practical expedients.

The Company has performed detailed analysis on each revenue stream that is within the scope of the new standard through review of the underlying contracts with customers to determine the impact of IFRS 15 on the consolidated financial statements. A significant portion of the Company’s revenue is generated from providing utility goods and services. The Company will continue to recognize utility revenue over time as the Company’s customers simultaneously receive and consume the utility goods and services as they are provided.

The Company is finalizing its review and quantification of IFRS 15 application to contributions from customers and developers. Contributions, which may be in the form of physical assets or financial contributions, help fund infrastructure that will be used by the utility to provide ongoing services to customers. Such contributions are currently recorded as deferred revenue when received and are amortized and recognized as revenue on a straight-line basis over the estimated economic useful lives of the assets to which they relate. The Company is finalizing its review of all contributions recognized as deferred revenue to identify the contributions which will fall under the scope of IFRS 15, which includes the quantification of the impact of any change in the accounting treatment to contributions that fall within the scope of the new standard. Preliminary analysis suggests that contributions received where the utility will have an ongoing performance obligation with the contributor will fall under the scope of IFRS 15, with the fair value of contributed assets to be recognized as revenue over the period which related services will be provided. However, contributions where the utility has no ongoing performance obligation with the contributor will likely fall outside the scope of IFRS 15, and as a result, the Company is assessing whether a change in accounting treatment is required for these contributions.

The Company is also finalizing its review and quantification of the impact of IFRS 15 on the recognition and presentation of energy sales and energy purchases and system access fees. Any potential adjustments would relate only to the classification of these amounts under IFRS 15 and would not have a material impact on the adjustment recorded under the modified retrospective approach.

For the Energy Services segment, the Company currently recognizes gross revenue from sales of energy, which include collection of third party distribution and transmission charges. All related distribution and transmission costs are recognized as operating expenses under energy purchases and system access fees. The Company is finalizing its position regarding whether the third party distribution and transmission charges to customers will constitute consideration received for fulfillment of a performance obligation or are a flow-through charge.

In the Distribution and Transmission segment, the Company currently recognizes gross revenues which include collection of provincial transmission system access service charges. All provincial transmission system access service costs are recognized as operating expenses under energy purchases and system access fees. The Company is finalizing its position as to whether the provincial transmission system access service costs charged to customers will constitute consideration received for fulfillment of a performance obligation or are a flow-through charge.

For all other contracts with customers, the Company does not expect the implementation of IFRS 15 to have material changes in the timing or amounts of revenues recognized.

As a result of the adoption of the new standard, the Company will be required to include significant disclosures in the financial statements based on the prescribed requirements. These new disclosures will include information regarding the significant judgments used in evaluating how and when revenues are recognized and information related to contract assets and deferred revenues. In addition, IFRS 15 requires that the Company's revenue recognition policy disclosure includes additional detail regarding the various performance obligations and the nature, amount, timing, and estimates of revenues and cash flows generated from contracts with customers. The Company is in the process of preparing its draft disclosures, which will be required in the first quarter of 2018.

IFRS 16 - *Leases* (IFRS 16), which replaces IAS 17 – *Leases* (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases under IAS 17 into a single lessee model. Under the new single lessee model, a lessee will recognize lease assets and lease liabilities on the statement of financial position initially measured at the present value of unavoidable lease payments. IFRS 16 will also cause expenses to be higher at the beginning and lower towards the end of a lease, even when payments are consistent throughout the term. Leases for duration of twelve months or less and leases of low value assets are exempted from recognition on the statement of financial position. Lessors will continue with a dual lease classification model and the classification will determine how and when a lessor will recognize lease revenue and what assets will be recorded.

The Company is currently reviewing the contracts that are identified as leases, or that could be classified as leases under IFRS 16, in order to evaluate the impact of adoption of IFRS 16 on the consolidated financial statements. Based on preliminary assessment, the Company expects that there will be a material impact on its statements of consolidated financial position requiring the recognition of lease assets and lease obligations with respect to its leases for office space, which are currently classified as operating leases.

IFRIC 23 – *Uncertainty over Income Tax Treatments* is effective for annual periods commencing on or after January 1, 2019. The interpretation provides guidance on the recognition and measurement of current and deferred tax assets and liabilities under IAS 12 – *Income Taxes* when there is uncertainty over income tax treatments. The Company does not expect a material impact on initial application of the interpretation however, the interpretation may impact the Company's recognition, measurement and disclosure of uncertain tax treatments in the future.

4. Use of judgments and estimates

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments in the application of accounting policies, and estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

(a) Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in notes:

Note 3(c) – Business acquisitions
Note 3(d) – Business combinations under common control
Note 3(e) – Revenue recognition
Note 3(m) – Service concession arrangements
Note 3(o) – Provisions
Note 3(v) – Segment reporting

(b) Estimates

The Company reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgment in making these estimates and assumptions. Adjustments to previous estimates, which may be material, are recorded in the period in which they become known. Actual results may differ from these estimates.

Assumptions and uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include:

Revenues

By regulation, electricity wire service providers in Alberta have four months to submit the final electricity load settlement data after the month in which such electricity was consumed. The data and associated processes and systems used by the Company to estimate electricity revenues and costs, including unbilled consumption, are complex. The Company's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents.

Fair value measurement

For accounting measures such as determining asset impairments, purchase price allocations for business combinations, recording financial assets and liabilities, and the recording and disclosure of certain non-financial assets, the Company is required to estimate the fair value of certain assets or obligations. Estimates of fair value may be based on readily determinable market values or on depreciable replacement cost or discounted cash flow techniques employing estimated future cash flows based on a number of assumptions and using an appropriate discount rate. Financial instruments, other than those classified as loans and receivables and other financial liabilities, are recorded at fair value which may require the use of estimated future prices.

Deferred taxes

Significant estimation and judgment is required in determining the provision for income taxes. Recognition of deferred tax assets in respect of deductible temporary differences and unused tax losses and credits is based on management's estimation of future taxable profit against which the deductible temporary differences and unused tax losses and credits can be utilized. The actual utilization of these deductible temporary differences and unused tax losses and credits may vary materially from the amounts estimated.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

5. Business transfer and acquisitions

Transfer of Drainage Utility Services from the City of Edmonton

The City transferred its Drainage business to EPCOR on September 1, 2017 pursuant to an Asset and Liability Transfer Agreement. The Drainage business is comprised of the sanitary drainage utility and the stormwater drainage utility which provide sanitary and stormwater collection and conveyance, as well as bio solids management and disposal.

The transfer of Drainage was a business combination involving a business under common control as it did not result in a change in the ultimate control of the Drainage business. Consistent with the Company's policy for business combinations under common control, book value accounting has been applied to the transaction and therefore all assets and liabilities have been initially recognized at their carrying amounts as recorded by the City, on the date of transfer, adjusted to align with IFRS. As of September 1, the adjusted carrying amounts of the transferred assets and liabilities are summarized as follows:

Book value of net assets transferred:		
Trade and other receivables	$	90
Inventories		1
Property, plant and equipment		3,566
Intangible assets		1
Total assets		3,658
Trade and other payables		(39)
Deferred revenue		(2,152)
Other liabilities		(3)
Total liabilities		(2,194)
Net assets	$	1,464
Consideration:		
Promissory note	$	604
Transition cost compensation		72
Total consideration	$	676

The difference of $788 million between the adjusted carrying amount of the net assets transferred of $1,464 million less the fair value of consideration due of $676 million was recognized in equity as a capital contribution received from the City.

The trade and other receivables included trade receivables of $14 million due from customers and $10 million from related parties of Drainage. Trade and other receivables also include a balance of $66 million due from the City, being the Drainage utility's cash on hand on the date of transfer.

Property, plant and equipment primarily consist of sanitary and stormwater collection and treatment facilities. Property, plant and equipment include construction work in progress of $108 million and land of $238 million.

Trade and other payables include trade payables, accrued liabilities, accrued interest and amounts due to employees.

Deferred revenue represents cash contributions and contributed assets received from customers and developers as well as grants received from government authorities. Deferred revenue will be recognized as revenue over the corresponding life of the respective assets to which the contributions or grants relate.

Other liabilities primarily consist of deposits from customers and contractors.

The promissory note of $604 million represents the fair value of an obligation to the City which mirrors the principal and interest payment obligations of debentures issued by the City in respect of the Drainage business. This long-term debt bears interest at a weighted average rate of approximately 3.41% and will be fully settled by June, 2042. During the term of the obligation, blended payments of principal and interest are due at various times throughout each year.

As per the terms of the Asset and Liability Transfer, the Company will pay transition cost compensation of $75 million to the City over time to compensate the City for stranded costs, including liabilities retained by the City, related to the transfer. On the date of the transfer, the Company paid $8 million to the City and recognized the present value of the remaining transition cost compensation liability of $64 million within other liabilities on the consolidated statements of financial position.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

On the transfer of Drainage, the Company has also assumed commitments for capital and construction projects of $119 million which are expected to be complete by the end of 2020.

Since the date of transfer to December 31, 2017, the financial performance of Drainage services is as follows:

		2017
Revenue and other income	$	75
Operating expenses		(62)
Operating income		13
Financing expenses		(7)
Net income for the period	$	6

The financial results and assets and liabilities of Drainage have been incorporated in these consolidated financial statements from the date of transfer of Drainage to the Company. Accordingly, the comparative information does not include any financial information relating to Drainage prior to the transfer date.

Hughes Gas Resources, Inc.

On June 1, 2017 the Company acquired 100% of the common shares of Hughes Gas Resources, Inc. (Hughes), a natural gas distribution, transmission and services holding company with four wholly owned subsidiaries operating northwest of Houston, Texas, for total consideration of $54 million (US$40 million) and the assumption of $14 million (US$10 million) in third party debt.

Hughes is primarily involved in the distribution of natural gas to approximately 4,300 customer connections through its rate regulated subsidiary Hughes Natural Gas, Inc. which owns and operates a 354 kilometer natural gas distribution network. Other subsidiaries include Alamo Pipeline, LLC, the owner and operator of a rate regulated natural gas transmission pipeline which transports natural gas from suppliers to Hughes Natural Gas, Inc. through its 51 kilometer pipeline. These operations are regulated by the Railroad Commission of Texas. The acquisition also includes two unregulated subsidiaries, Pinehurst Utility Construction, LLC (infrastructure contractor) and Goliad Midstream Energy, LLC (intermediary company for negotiation of natural gas supply contracts).

The purchase price was allocated to the assets acquired and liabilities assumed based on their fair values on the date of acquisition, in Canadian dollars as follows:

Fair value of net assets acquired:		
Trade and other receivables	$	2
Property, plant and equipment		66
Intangible assets		1
Trade and other payables		(1)
Loans and borrowings		(14)
Net assets acquired at fair value	$	54
Consideration:		
Cash	$	46
Contingent consideration		8
Total consideration	$	54

The intangible assets of $1 million represent the fair value of a franchise agreement with the City of Magnolia for the distribution of natural gas.

Loans and borrowings of $14 million represent the fair value of existing third party debt assumed by the Company as part of the transaction. Subsequent to the acquisition date, the Company repaid all of the assumed third party debt.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Contingent consideration with a fair value of $8 million was recognized at the date of acquisition. The contingent consideration consists of the Company's commitment to pay a fee, with a cap of US$8 million, to the previous owners of Hughes on the addition of new customer connections above a minimum of 600 incremental customer connections over a period of up to six years from the date of closing.

The transaction has been accounted for using the acquisition method in conformance with IFRS 3 – *Business Combinations* with the results of operations included in the consolidated financial statements from the date of acquisition. Total revenue and net income included in the consolidated statements of comprehensive income since the date of acquisition to December 31, 2017 was $6 million and nil, respectively. The consolidated statements of comprehensive income up to December 31, 2017 would have included estimated revenue and net income of $9 million and $1 million, respectively, had the acquisition of assets occurred on January 1, 2017.

Management used assumptions and estimates about future events in the determination of fair values. The assumptions and estimates with respect to the determination of the fair value of property, plant and equipment, intangible assets and contingent consideration required the most judgment. The key assumptions in determination of fair value included future regulatory rates, discount rate, future growth rates and expected additional customer connections for supply of natural gas. Based on those assumptions and estimates, the purchase price was allocated to the identified assets and liabilities, including contingent consideration. The fair values were estimated by applying standard valuation techniques. For property, plant and equipment, a replacement cost estimate was prepared by an external consultant and the fair value was then determined internally by making adjustments for functional and economic obsolescence. The fair value of contingent consideration was based on management's expectations for the addition of new customer connections over the period of six years from the date of acquisition, discounted to present value.

Natural Resources Gas Limited:

On November 1, 2017, the Company assumed operations and acquired substantially all of the natural gas distribution assets of Natural Resource Gas Limited for cash consideration of $22 million and now distributes and sells natural gas to over 8,700 residential, commercial and industrial customers in the counties of Elgin, Middlesex, Oxford and Norfolk in southwestern Ontario. The distribution system consists of approximately 640 kilometers of distribution mains. The operations are regulated by the Ontario Energy Board under a price cap incentive cost-of-service rate setting framework.

Blue Water 130 Pipeline

On August 19, 2016, the Company completed the acquisition of the assets of Blue Water Project 130 L.P. (Blue Water) and Cross County Water Supply Corporation (CCWSC) through its wholly owned U.S. subsidiaries EPCOR 130 Project Inc. and 130 Regional Water Supply Corporation respectively for total consideration of $82 million (US$64 million).

The assets acquired from Blue Water and CCWSC include an 85 kilometer water supply pipeline, near Austin, Texas, U.S., with designed capacity of nearly 18 million gallons per day along with groundwater well production systems and long term wholesale water supply agreements.

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition, in Canadian dollars as follows:

Fair value of net assets acquired:		
Intangible assets	$	13
Goodwill		2
Property, plant and equipment		68
Deferred revenue		(1)
Net assets acquired at fair value	$	82
Consideration:		
Cash	$	48
Contingent consideration		34
Total consideration	$	82

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The intangible assets of $13 million consist of the right to receive groundwater up to the maximum capacity of the pipeline for a period of at least 99 years.

The goodwill recognized at fair value of $2 million includes the value of the expected benefits to the Company by providing a commercial platform to develop other similar projects and future cost synergies which may result from the Company's expanded operations in the State of Texas, U.S. The goodwill is deductible for income tax purposes over time.

Contingent consideration with a fair value of $34 million was recognized at the date of acquisition. The contingent consideration consists of the Company's commitment to pay Blue Water (i) a fee of up to US$32 million based on securing newly executed long term contracts for the supply of water and (ii) US$2 million upon execution of certain pending agreements with third parties, being facilitated by Blue Water. There is no time limit related to the contingent consideration. These amounts are included within other liabilities on the consolidated statements of financial position.

The transaction has been accounted for using the acquisition method in conformity with IFRS 3 Business Combinations with the results of operations included in the consolidated financial statements from the date of acquisition.

Management used assumptions and estimates about future events in the determination of fair values. The assumptions and estimates with respect to the determination of the fair value of PPE, intangible assets and contingent consideration required the most judgment. Based on those assumptions and estimates the purchase price was allocated to the identified assets and liabilities including goodwill and contingent consideration. The fair value was estimated by applying standard valuation techniques. The fair value measurement is based on significant inputs which are not observable in the market. The key assumptions in determination of fair value included the discount rate, future growth rates and expected execution of new contracts for the supply of water. The allocation of the purchase price was internally determined based on the relative fair values of the assets and liabilities. Goodwill was estimated based on the applicable incremental benefits of the acquisition. The fair value of contingent consideration was based on management's expectation of execution of new long-term water supply contracts with customers and the execution of pending agreements, discounted to their present value.

Willow Valley Water Company

On May 9, 2016, the Company completed the acquisition of the regulated water utility assets of Willow Valley Water Company, providing water services in the Bullhead City area of Arizona, U.S., for cash consideration of $3 million (US$2 million).

6. Revenues and other income

	2017	2016
Revenue		
Energy and water sales	$ 1,195	$ 1,163
Provision of services	823	705
Construction revenues	11	50
Other commercial revenue	6	14
	2,035	1,932
Other income		
Interest income on long-term receivable from Capital Power	10	14
Other	2	-
	12	14
	$ 2,047	$ 1,946

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

7. Expense analysis

		2017		2016
Included in staff costs and employee benefits expenses				
Post-employment defined contribution plan expense	$	39	$	36
Post-employment defined benefit plan expense		6		6
Included in depreciation and amortization				
Depreciation of property, plant and equipment		205		168
Amortization of intangible assets		19		19
Loss on disposal of assets		12		2
		236		189
Included in other administrative expenses				
Operating lease expenses		15		16
Lease recoveries through sub-lease		(5)		(6)

8. Finance expenses

		2017		2016
Interest on loans and borrowings	$	(121)	$	(117)
Capitalized interest (note 17)		6		5
	$	(115)	$	(112)

9. Income tax recovery (expense)

		2017		2016
Current income tax recovery (expense)	$	5	$	(4)
Deferred income tax recovery (expense)				
Relating to origination and reversal of temporary differences		(18)		(11)
Change in tax rates		20		-
Recognition of previously unrecognized deferred tax assets		7		6
		9		(5)
Total income tax recovery (expense)	$	14	$	(9)

Income taxes differ from the amounts that would be computed by applying the federal and provincial income tax rates as follows:

		2017		2016
Income before taxation	$	242	$	318
Income tax at the statutory rate of 27% (2016 – 27%)		(65)		(86)
(Increase) decrease resulting from:				
Income exempt from income taxes at statutory rates		60		59
Non-taxable amounts		-		2
Change in recognition of deferred tax assets		7		18
Change in tax rates on deferred taxes		20		-
Effect of higher tax rate in the U.S.		(4)		(3)
Other		(4)		1
Total income tax recovery (expense)	$	14	$	(9)

On December 22, 2017, the U.S. Tax Cuts and Jobs Act was enacted in the U.S. Consequently, effective January 1, 2018 the U.S. federal corporate tax rate has been reduced from 35% to 21%. The change has resulted in a deferred tax recovery of $20 million related to the re-measurement of deferred tax assets and liabilities of the Company's U.S. Operations.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

10. Cash and cash equivalents

		2017		2016
Cash on deposit	$	181	$	137
Cash equivalents		157		54
	$	338	$	191

Restricted balances

Under certain agreements between the Company and the Natural Gas Exchange (NGX) for the purchase of electricity derivative financial instruments, the Company established separate bank accounts through which the settlement of the electricity derivative financial contracts are processed in conjunction with letters of credit and cash as collateral. As security for the payment and performance of its obligations, the Company assigned a first ranking security interest on the balance of these accounts to the NGX. The Company's use of this cash is restricted to these purposes. At December 31, 2017, $4 million (2016 – $2 million) was held in these bank accounts.

11. Trade and other receivables

		2017		2016
Trade receivables	$	224	$	179
Accrued revenues		141		125
Gross accounts receivable		365		304
Allowance for doubtful accounts		(5)		(5)
Net accounts receivable		360		299
Income tax recoverable		6		2
Prepaid expenses		7		6
		373		307
Current portion of long-term receivables (note 15)		178		18
	$	551	$	325

Details of the aging of accounts receivable and analysis of the changes in the allowance for doubtful accounts are provided in note 30.

12. Investment in Capital Power

In these consolidated financial statements, Capital Power refers to Capital Power Corporation and its subsidiaries, including Capital Power L.P., except where otherwise noted or the context indicates otherwise. Capital Power builds, owns and operates power plants in North America and manages its related electricity and natural gas portfolios by undertaking trading and marketing activity.

At December 31, 2015 the Company owned 9,391,000 common shares of Capital Power Corporation representing approximately 9% of the issued and outstanding common shares of Capital Power Corporation, which were classified as available-for-sale investment. During the year ended December 31, 2016, the Company sold 9,141,636 common shares of Capital Power Corporation for net proceeds of $204 million. The Company also reclassified fair value gains of $42 million to net income, representing the realized portion of fair value gains on available-for-sale investment in Capital Power Corporation previously recognized in other comprehensive income. The remaining 249,364 shares of Capital Power Corporation were sold during the first quarter of 2017 for net proceeds of $6 million.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The change in available-for-sale investment in Capital Power is detailed as follows:

	2017	2016
Balance, beginning of the year	$ 6	$ 167
Fair value gain recorded in other comprehensive income	-	43
Sale of investment	(6)	(204)
Balance, end of year	$ -	$ 6

13. Derivatives

Derivative financial instruments consist of electricity price forward contracts which are held for the purpose of electricity price risk management. The derivative financial instruments used for risk management purposes as described in note 30 consist of the following:

	2017	2016
Electricity price forward contracts		
Fair value	$ -	$ (1)
Cash paid to counterparty	1	1
Net fair value	$ 1	$ -
Net notional buys		
Terawatt hours of electricity	1.1	1.1
Range of contract terms (in years)	0.1 to 0.3	0.1 to 0.3

The fair value of electricity derivative financial instruments reflects changes in the forward electricity prices, net of cash payments to or from the counterparty. During the course of the contract, daily payments are made to or received from the counterparty to settle the fair value of the contracts.

Fair value is determined based on quoted exchange index prices by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Changes in fair value on electricity derivative financial instruments are recorded in energy purchases and system access fees.

14. Inventories

During the year ended December 31, 2017, $25 million (2016 – $25 million) was expensed to other raw materials and operating charges.

No significant inventory write-downs were recognized in the years ended December 31, 2017 or 2016. No significant reversals of previous write-downs were recorded in the years ended December 31, 2017 or 2016.

At December 31, 2017 or 2016, no inventories were pledged as security for liabilities.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

15. Other financial assets

		2017		2016
Long-term loans receivable from Capital Power	$	174	$	184
Long-term receivables from service concession arrangements		83		82
Finance lease receivables		1		1
Loans and other long-term receivables		10		15
Other		1		1
		269		283
Less: current portion (included in trade and other receivables) (note 11)		178		18
	$	91	$	265

Long-term loans receivable from Capital Power

On July 9, 2009, EPCOR received $896 million in long-term loans receivable from Capital Power as part of the consideration on the sale of the power generation business. These loans effectively mirror certain long-term debt obligations of EPCOR. The interest rates on the long-term loans receivable range from 5.8% to 9.0%. The entire long-term loans receivable balance from Capital Power is due in 2018 and has been included in trade and other receivables.

Service concession arrangements

The Company has executed service concession arrangements to design, build, upgrade, finance, operate and maintain, under public private partnerships, wastewater treatment facilities with the City of Regina and water and wastewater treatment facilities with Her Majesty the Queen in Right of Alberta for Kananaskis Village. The consideration under the service concession arrangements constitute rights to financial assets and have been classified as financial assets and recorded as a long-term receivable under other financial assets. The significant terms of the arrangement are summarized below:

(a) **City of Regina**

EPCOR entered into an agreement with the City of Regina to operate and maintain an existing facility and design, build, finance, operate and maintain a new wastewater treatment facility under a public private partnership, for which the contract was signed in July 2014. In August 2014, EPCOR took over the operations of the existing wastewater treatment plant in Regina. Construction of the new plant reached final completion in December, 2017. The contract includes operation of both facilities for a term of 30 years. As of December 31, 2017, an amount of $78 million (2016 – $76 million) has been recorded as a financial asset which will be recovered along with financing cost at the interest rate established in the arrangement over the life of the arrangement.

(b) **Kananaskis Village**

The Company won a bid to design, build, finance, upgrade, operate and maintain the water and wastewater treatment facilities in Kananaskis Village in October 2012. The arrangement includes operation of the facilities for a term of 10 years after completion of construction. The construction of the new facility was completed in August 2014 following which the Company started operating and maintaining the facility. At December 31, 2017, an amount of $5 million (2016 – $5 million) recognized as a financial asset pertaining to Kananaskis Village will be recovered along with financing cost at the interest rate established in the arrangement over the life of the arrangement.

The aggregate amount of revenues and operating income relating to construction services for financial assets under service concession arrangements for the year ended December 31, 2017, is $2 million (2016 – $31 million) and nil in both years, respectively.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

16. Deferred tax assets / liabilities

Deferred tax assets are attributable to the following:

	2017	2016
Losses carried forward	$ 71	$ 83
Investment in partnerships	8	6
Canadian resource expenditures	8	8
Provisions	17	8
Deferred revenue	67	108
Other items	12	16
Tax assets	183	229
Set off by tax liabilities	(93)	(145)
Net tax assets	$ 90	$ 84

Deferred tax liabilities are attributable to the following:

	2017	2016
Other financial assets	$ 1	$ 1
Intangible assets and goodwill	14	18
Property, plant and equipment	117	172
Tax liabilities	132	191
Set off by tax assets	(93)	(145)
Net tax liabilities	$ 39	$ 46

The changes in temporary differences during the years ended December 31, 2017 and 2016 were as follows:

	Balance, beginning of 2017	Recognized in net income	Recognized in OCI	Foreign currency valuation adjustment and other	Balance, end of 2017
Losses carried forward	$ 83	$ (10)	$ -	$ (2)	$ 71
Investment in partnerships	6	2	-	-	8
Canadian resource expenditures	8	-	-	-	8
Provisions	8	8	-	1	17
Deferred revenue	108	(33)	-	(8)	67
Other financial assets	(1)	-	-	-	(1)
Intangible assets and goodwill	(18)	2	-	2	(14)
Property, plant and equipment	(172)	42	-	13	(117)
Other items	16	(2)	1	(3)	12
	$ 38	$ 9	$ 1	$ 3	$ 51

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

	Balance, beginning of 2016	Recognized in net income	Recognized on business acquisitions	Foreign currency valuation adjustment and other	Balance, end of 2016
Losses carried forward	$ 78	$ 5	$ -	$ -	$ 83
Investment in partnerships	5	1	-	-	6
Canadian resource expenditures	8	-	-	-	8
Provisions	8	-	-	-	8
Deferred revenue	106	4	1	(3)	108
Other financial assets	(3)	2	-	-	(1)
Intangible assets and goodwill	(17)	(4)	3	-	(18)
Property, plant and equipment	(142)	(11)	(22)	3	(172)
Other items	(1)	(2)	18	1	16
	$ 42	$ (5)	$ -	$ 1	$ 38

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	2017	2016
Non-capital losses	$ 129	$ 106
Capital losses	279	280
Other deductible temporary differences	-	46

The Company also has taxable temporary differences of $198 million (2016 - $174 million), associated with investments in subsidiaries, for which no deferred tax liability has been recognized. In addition, no deferred tax liability has been recognized in respect of unremitted earnings of subsidiaries as the Company is in a position to control the timing of the reversal of temporary difference and it is probable that such differences will not be reversed in the foreseeable future.

The non-capital losses expire between the years 2028 and 2037.

Deferred tax assets have been recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. The Company has recognized deferred tax assets in the amount of $90 million (2016 – $84 million), the utilization of which is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The recognition of these deferred tax assets is based on taxable income forecasts that incorporate existing circumstances that will result in positive taxable income against which non-capital loss carry-forwards can be utilized as well as management’s intention to implement specific income tax planning strategies that will allow for the offset of remaining deductible temporary differences against future earnings of taxable entities within the consolidated group.

Deferred tax assets have not been recognized in respect of $279 million (2016 - $280 million) of capital losses as it is not probable that future taxable capital gains will be available against which the Company can utilize the benefits of these losses. These losses do not expire.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

17. Property, plant and equipment

	Construction work in progress	Land	Water treatment & distribution, wastewater collection & treatment	Energy transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2017	$ 157	$ 48	$ 3,764	$ 2,466	$ 2	$ 58	$6,495
Additions[1]	534	5	91	3	-	4	637
Additions through business acquisitions	-	-	-	83	-	-	83
Transfers under common control transaction	108	238	4,074	-	-	-	4,420
Disposals and retirements	-	(8)	(28)	(23)	(1)	(6)	(66)
Transfers into service	(578)	-	305	266	3	4	-
Transfers	(5)	-	-	-	-	-	(5)
Foreign currency valuation adjustments	(3)	-	(73)	(5)	-	-	(81)
Others	-	-	4	-	-	-	4
Balance, end of 2017	213	283	8,137	2,790	4	60	11,487
Accumulated depreciation							
Balance, beginning of 2017	-	-	848	637	1	26	1,512
Transfers under common control transaction	-	-	854	-	-	-	854
Depreciation	-	-	120	78	1	6	205
Disposals and retirements	-	-	(20)	(21)	(1)	(6)	(48)
Foreign currency valuation adjustments	-	-	(13)	-	-	-	(13)
Balance, end of 2017	-	-	1,789	694	1	26	2,510
Net book value, end of 2017	$ 213	$ 283	$ 6,348	$ 2,096	$ 3	$ 34	$8,977

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

	Construction work in progress	Land	Water treatment & distribution, wastewater collection & treatment	Energy transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2016	$ 139	$ 55	$ 3,455	$ 2,235	$ 3	$ 56	$5,943
Additions[1]	472	1	74	3	-	4	554
Additions through business acquisitions	-	-	71	-	-	-	71
Disposals and retirements	-	(8)	(14)	(22)	(1)	(4)	(49)
Transfers into service	(453)	-	202	249	-	2	-
Transfers	-	-	-	1	-	-	1
Foreign currency valuation adjustments	(1)	-	(24)	-	-	-	(25)
Balance, end of 2016	157	48	3,764	2,466	2	58	6,495
Accumulated depreciation							
Balance, beginning of 2016	-	-	769	580	2	24	1,375
Depreciation	-	-	92	70	-	6	168
Disposals and retirements	-	-	(10)	(13)	(1)	(4)	(28)
Foreign currency valuation adjustments	-	-	(3)	-	-	-	(3)
Balance, end of 2016	-	-	848	637	1	26	1,512
Net book value, end of 2016	$ 157	$ 48	$ 2,916	$ 1,829	$ 1	$ 32	$4,983

1 Additions include non-cash contributed assets of $97 million (2016 – $65 million).

Borrowing costs capitalized during the year ended December 31, 2017, were $6 million (2016 – $5 million) (note 8). The weighted average rates used to determine the borrowing costs eligible for capitalization ranged from 3.38% to 5.85% (2016 - 4.21% to 5.84%).

There are no security charges over the Company's property, plant and equipment.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

18. Intangible assets and goodwill

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2017	$ 52	$ 51	$ 78	$ 89	$ 174	$ 444
Additions through acquisition	-	-	-	-	18	18
Additions through business acquisitions	2	-	2	-	-	4
Transfers under common control transaction	-	-	-	-	6	6
Internally generated additions	-	-	-	-	2	2
Disposals and retirements	-	-	-	-	(40)	(40)
Change in construction work in progress	-	-	4	-	(2)	2
Transfers	-	-	-	-	5	5
Foreign currency translation adjustments	(4)	-	(4)	(5)	-	(13)
Balance, end of 2017	50	51	80	84	163	428
Accumulated amortization						
Balance, beginning of 2017	-	41	8	-	102	151
Transfers under common control transaction	-	-	-	-	5	5
Amortization	-	2	2	-	15	19
Disposals and retirements	-	-	-	-	(40)	(40)
Balance, end of 2017	-	43	10	-	82	135
Net book value, end of 2017	$ 50	$ 8	$ 70	$ 84	$ 81	$ 293

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2016	$ 50	$ 51	$ 66	$ 92	$ 167	$ 426
Additions through acquisition	-	-	-	-	6	6
Additions through business acquisitions	3	-	13	-	-	16
Internally generated additions	-	-	-	-	1	1
Disposals and retirements	-	-	-	-	(6)	(6)
Change in construction work in progress	-	-	-	-	7	7
Transfers	-	-	-	-	(1)	(1)
Foreign currency translation adjustments	(1)	-	(1)	(3)	-	(5)
Balance, end of 2016	52	51	78	89	174	444
Accumulated amortization						
Balance, beginning of 2016	-	38	6	-	94	138
Amortization	-	3	2	-	14	19
Disposals and retirements	-	-	-	-	(6)	(6)
Balance, end of 2016	-	41	8	-	102	151
Net book value, end of 2016	$ 52	$ 10	$ 70	$ 89	$ 72	$ 293

There are no security charges over the Company's intangible assets. Included in customer rights are the Company's customer rights to operate in the FortisAlberta service territory which expire on December 31, 2020.

For purposes of impairment testing, CCN has been allocated to cash-generating units as follows:

	2017	2016
Cash generating unit:		
U.S. operations segment – Water Arizona	$ 82	$ 86
U.S. operations segment – Others	2	3
	$ 84	$ 89

For purposes of impairment testing, goodwill acquired through business combinations has been allocated to cash-generating units as follows:

	2017	2016
Cash generating unit:		
U.S. operations segment – Water Arizona	39	43
Others	11	9
	$ 50	$ 52

The most recent review of goodwill was performed in the fourth quarter for each cash generating unit. Management reviewed conditions since the last review was performed and determined that no circumstances occurred since then to require a revision to the assumptions used in the value in use calculations.

The recoverable amount of the regulated cash generating units was determined based on a value in use calculation using cash flow projections from financial budgets prepared by senior management covering a twenty year period. The recoverable amount for the non-regulated cash generating unit was calculated using the projected cash flows for the life of the project. The projections were based on cash flow projections for the most recent long-term plan, which covered periods up to ten years, with the projections for the balance of the period extrapolated using growth rates between 2.14% and 3.81% (2016 – between 1.90% and 4.43%) that are in line with the long-term average growth rate for the industry. The pre-tax discount rates applied to cash flow projections are as follows:

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

	2017	2016
Cash generating unit:		
U.S. operations segment – Water Arizona	6.52%	7.10%
Others	6.55%	7.06%

Key assumptions used in value-in-use calculations

The future cash flows of the underlying businesses are relatively stable since they relate primarily to ongoing water supply in a rate-regulated environment. In the case of cash generating units operating under a rate-regulated environment, revenues are set by the regulators to cover operating costs and to earn a return on the rate base, which is set at the regulator's approved weighted average cost of capital for the underlying utility. For non-regulated cash generating units, revenues are estimated based on long-term water supply contracts executed with the customers, which include escalation in rates and volumes over the term of the contracts.

The calculation of value in use for the cash generating units is most sensitive to the following assumptions:

Discount rates

The discount rates used were estimated based on the weighted average cost of capital for the cash generating unit, which, in the case of rate-regulated businesses, are the approved rate of return on capital allowed by the regulators. These rates were further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash flows have not been adjusted.

Timing of future rate increases

Revenue growth is forecast to continue at the same rate as operating costs. In the case of rate-regulated businesses, if future rate filings are delayed then rate increases and increased cash flows from revenues would be affected.

Sensitivity to changes in assumptions

Assumptions have been tested using reasonably possible alternative scenarios. For all scenarios considered, the recoverable value remained above the carrying amount of the cash generating unit.

19. Trade and other payables

		2017		2016
Trade payables	$	243	$	192
Accrued liabilities		93		65
Accrued interest		30		24
Due to employees		18		13
Income tax payable		-		5
	$	384	$	299

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

20. Loans and borrowings

Long-term loans and borrowings

	Effective interest rate	Principal payment terms	2017	2016
Obligation to the City, net of sinking fund				
At 8.50%, due in 2018[1]	11.04%	Annual installments	$ 6	$ 13
At 7.01%, due between 2018 and 2023[1]	7.01%	Annual installments	12	14
At 5.20%, due between 2018 and 2034[2]	5.36%	Bi-annual installments	58	64
At 3.41%, due between 2018 and 2042[3]	3.41%	Periodic installments	588	-
			664	91
Public debentures				
At 5.80%, due in 2018	6.02%	Due at maturity	400	400
At 6.80%, due in 2029	7.05%	Due at maturity	150	150
At 5.65%, due in 2035	5.88%	Due at maturity	200	200
At 6.65%, due in 2038	6.83%	Due at maturity	200	200
At 5.75%, due in 2039	5.88%	Due at maturity	200	200
At 4.55%, due in 2042	4.65%	Due at maturity	300	300
At 3.55%, due in 2047	3.62%	Due at maturity	400	-
			1,850	1,450
Private debt notes				
Bonds at 3.74%, due in 2021	3.80%	Due at maturity	173	185
Bonds at 3.94%, due between 2018 and 2029	4.01%	Monthly installments	1	1
Bonds at 5.00%, due in 2041	5.08%	Due at maturity	141	150
Bonds at 3.63% due in 2041	3.71%	Due at maturity	50	54
			365	390
			2,879	1,931
Other borrowings				
Deferred debt issue costs			(13)	(11)
Total long-term loans and borrowings			2,866	1,920
Less: current portion			442	15
			$ 2,424	$ 1,905

Obligation to the City

1. Debentures were initially issued by the City, on behalf of the Company, pursuant to the City Bylaw authorization. The outstanding debentures are a direct, unconditional obligation of the City. The Company's obligation to the City matches the City's obligation pursuant to those debentures and at December 31, 2017 debt obligations (net of sinking fund) totaling $18 million (2016 - $27 million) are due to the City. Out of these, debentures totaling $6 million (2016 - $13 million) rank as subordinated debt and are due to mature in year 2018.

   The Company makes annual contributions into the sinking fund of the City pertaining to certain debenture issues. These payments constitute effective settlement of the respective debt as the sinking fund accumulates to satisfy the underlying debenture maturity. For any specific City debenture sinking fund requirements, the payment obligation ceases on maturity of the debenture. The sinking fund is measured at fair value and presented net of its related debenture.

2. In 2009, the City transferred the Gold Bar wastewater treatment plant (Gold Bar) to EPCOR. Pursuant to the Gold Bar asset transfer agreement, EPCOR issued $112 million of long-term debt to the City representing EPCOR's proportionate share of the City's debt obligations in respect of Gold Bar assets.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

3. During the year, the City transferred the Drainage business to the Company. Pursuant to the transfer of Drainage business, the Company issued a promissory note to the City having fair value of $604 million on the date of transfer (note 5).

Except for the subordinated debt, the obligation to the City will rank at least equal to all current and future senior unsecured debt that may be issued by the Company.

Public debentures

During the year, the Company issued public debentures totaling $400 million maturing in 2047 at an interest rate of 3.55%. The public debentures are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The debentures are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the debenture.

Private debt notes

The private debt notes issued in U.S. dollars, are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The private debt notes are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the private debt notes.

21. Deferred revenue

	2017	2016
Balance, beginning of year	$ 1,041	$ 991
Contributions received	133	83
Revenue recognized	(38)	(37)
Transfers from provisions	10	10
Recognized on business acquisition	-	1
Recognized on transfer of business	2,152	-
Foreign currency valuation adjustments	(17)	(7)
	3,281	1,041
Less: current portion	60	25
Balance, end of year	$ 3,221	$ 1,016

Contributions received include non-cash contributions of $85 million (2016 – $62 million).

22. Provisions

	2017	2016
Contributions from customers and developers	$ 19	$ 21
Employee benefits	95	89
Other	2	1
	116	111
Less: current portion	25	25
	$ 91	$ 86

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Contributions from customers and developers

	2017	2016
Balance, beginning of year	$ 21	$ 23
Contributions received	13	13
Transfers to deferred revenue	(10)	(10)
Contributions refunded	(3)	(3)
Foreign currency valuation adjustment	(2)	(2)
Balance, end of year	$ 19	$ 21

Contributions received include non-cash contributions of $12 million (2016 – $3 million).

Employee benefits

	2017	2016
Other short-term employee benefit obligation	$ 18	$ 18
Post-employment benefit obligation	57	51
Other long-term employee benefit obligation	20	20
	$ 95	$ 89

Post-employment benefits

Total cash payments for pension benefits for the year ended December 31, 2017, consisting of cash contributed by the Company to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan, were $42 million (2016 – $39 million). Total contributions expected to be paid in 2018 to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan are $40 million.

Other long-term employee benefits

Other long-term employee benefits consist mainly of obligations for benefits provided to employees on long-term disability leaves.

23. Other liabilities

	2017	2016
Customer deposits	$ 29	$ 26
Drainage transition cost compensation	65	-
Contingent consideration	43	36
Leasehold inducements	9	10
	146	72
Less: current portion	50	26
	$ 96	$ 46

Drainage transition cost compensation

The Drainage transition cost compensation represents the Company's commitment to the City to pay for the stranded cost including liabilities retained by the City relating to Drainage business (note 5). The change in the liability for Drainage transition cost compensation is as follows:

	2017
Fair value of transition cost compensation recognized on transfer of Drainage	$ 72
Payment during the year	(8)
Unwinding of interest included within finance expenses	1
	$ 65

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Contingent consideration

The contingent consideration is the present value of the Company's commitment to pay approximately US$34 million on securing newly executed long-term contracts for the supply of water by EPCOR 130 Project Inc. and approximately US$8 million on securing additional customer connections for natural gas by Hughes (note 5). The Company is reasonably certain that it will be required to settle this commitment by way of cash payments and has accordingly recognized the liability for contingent consideration in the consolidated statements of financial position. The change in the liability for contingent consideration is as follows:

	2017	2016
Contingent consideration recognized on business acquisition	$ 36	$ 34
Recognized on business acquisition	8	-
Unwinding of interest included in finance expenses	2	-
Foreign currency valuation adjustments	(3)	2
	$ 43	$ 36

24. Share capital

Authorized shares

Unlimited number of voting common shares without nominal or par value.

Issued shares

Three common shares to the City.

Capital contributions

Share capital includes capital contributions received from the City. During the year, the Company received capital contribution of $788 million on transfer of Drainage from the City (note 5). As of December 31, 2017 the Company had accumulated capital contributions of $812 million (2016 - $24 million).

25. Accumulated other comprehensive income

Available-for-sale financial assets

This comprises the cumulative net change in the fair value of the Company's beneficial interest in the sinking fund and investment in Capital Power Corporation, until the investments are derecognized or impaired.

Cumulative translation account

The cumulative translation account represents the cumulative portion of gains and losses on retranslation of foreign operations that have a functional currency other than Canadian dollars. The cumulative deferred gain or loss on the foreign operation is reclassified to net income only on disposal of the foreign operation.

Employee benefits account

The employee benefits account represents the cumulative impact of actuarial gains and losses, and return on plan assets excluding interest income from the Company's defined benefit pension plans.

26. Change in non-cash working capital

	2017	2016
Trade receivables (note 11)	$ (65)	$ 34
Prepaid expenses (note 11)	(1)	(1)
Inventories	(3)	1
Trade and other payables (note 19)	85	40
	$ 16	$ 74

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

	2017	2016
Included in specific items on consolidated statements of cash flows:		
Interest paid	$ -	$ (2)
Income taxes recovered	(9)	5
Business acquisitions	(2)	-
Distributions received from Capital Power	-	3
	(11)	6
Transfers under common control transaction	(52)	-
Operating activities	48	63
Investing activities	31	5
	$ 16	$ 74

27. Changes in liabilities arising from financing activities:

	At December 31, 2016	Issued or received	Redemptions, repayments or payments	Foreign currency valuation adjustment	Other	At December 31, 2017
Long-term loans and borrowings (including current portion):						
Obligation to the City, net of sinking fund	$ 91	$ -	$ (24)	$ -	$ 597	$ 664
Public debentures	1,450	400	-	-	-	1,850
Private debt notes	390	-	(13)	(26)	14	365
Deferred debt issuance costs	(11)	(2)	-	-	-	(13)
Total long-term loans and borrowings (including current portion)	$ 1,920	$ 398	$ (37)	$ (26)	$ 611	$ 2,866
Short-term loans and borrowings	$ -	$ 461	$ (461)	$ -	$ -	$ -
Contributions from customers and developers	$ 21	$ 1	$ (3)	$ (2)	$ 2	$ 19

	At December 31, 2015	Issued or received	Redemptions, repayments or payments	Foreign currency valuation adjustment	Other	At December 31, 2016
Long-term loans and borrowings (including current portion):						
Obligation to the City, net of sinking fund	$ 105	$ -	$ (11)	$ -	$ (3)	$ 91
Public debentures	1,580	-	(130)	-	-	1,450
Private debt notes	346	52	-	(9)	1	390
Deferred debt issuance costs	(12)	-	-	-	1	(11)
Total long-term loans and borrowings (including current portion)	$ 2,019	$ 52	$ (141)	$ (9)	$ (1)	$ 1,920
Short-term loans and borrowings	$ 98	$ 1,199	$ (1,297)	$ -	$ -	$ -
Contributions from customers and developers	$ 23	$ 10	$ (3)	$ (2)	$ (7)	$ 21

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

28. Related party balances and transactions

Compensation of key management personnel

	2017	2016
Short-term employee benefits	$ 5	$ 5
Post-employment benefits	1	1
Other long-term benefits	2	2
	$ 8	$ 8

The Company provides utility services to key management personnel as it is the sole provider of certain services. Such services are provided in the normal course of operations and are based on normal commercial rates, as approved by regulation.

Other related party transactions

The Company is 100% owned by the City. The Company provides maintenance, repair and construction services, and customer billing services to the City, and purchases printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements. Sales between the Company and the City are in the normal course of operations, and are generally based on normal commercial rates, or as agreed to by the parties.

The following summarizes the Company's related party transactions with the City except for the transfer of Drainage and related transactions which have been disclosed in detail in note 5:

	2017	2016
Consolidated Statements of Comprehensive Income		
Revenues (a)	$ 87	$ 94
Other raw materials and operating charges (b)	16	8
Other administrative expenses (c)	3	2
Franchise fees and property taxes (d)	104	92
Finance expense (e)	15	9

(a) Included within revenues are electricity and water sales of $4 million (2016 – $4 million), service revenue including the provision of maintenance, repair and construction services of $76 million (2016 – $82 million) and customer billing services of $7 million (2016 – $8 million).

(b) Includes certain costs of waste management and planning services, mobile equipment services, public works and various other services pursuant to service agreements.

(c) Incudes certain costs of cash processing service, corporate services for Drainage operations and various other services pursuant to service agreements.

(d) Composed of franchise fees of $63 million at 0.43 cents per kilowatt hour of electric distribution sales volume for direct connect customers and 0.84 cents per kilowatt hour for all other customers (2016 - $57 million at 0.39 cents per kilowatt hour of electric distribution sales volume for direct connect customers and 0.76 cents per kilowatt hour for all other customers), franchise fees of $21 million at 8% (2016 – $20 million at 8%) of qualifying revenues of water services and waste water services, franchise fees of $3 million at 8% of qualifying revenue of sanitary services, property taxes of $16 million (2016 - $15 million) on properties owned within the City municipal boundaries and business tax of $ $1 million (2016 – nil).

(e) Composed of interest expense on the obligation to the City at interest rates ranging from 3.41% to 8.50% (2016 – 5.20% to 8.50%).

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The following summarizes the Company's related party balances with the City:

	2017	2016
Consolidated Statements of Financial Position		
Trade and other receivables	$ 46	$ 34
Property, plant and equipment (f)	4	5
Trade and other payables	44	8
Loans and borrowings (note 20)	664	91
Deferred revenue (g)	-	2
Other liabilities (note 23)	65	-

(f) Costs of capital construction for electric and water distribution infrastructure.

(g) Contributions received for capital projects.

29. Financial instruments

Classification

The classification of the Company's financial instruments at December 31, 2017 and 2016 is summarized as follows:

	Classification				
	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Available-for-sale	Fair value hierarchy
Measured at fair value					
Available-for-sale investment in Capital Power (note 12)				X	Level 1
Derivatives (note 13)	X				Level 1
Beneficial interest in sinking fund (note 20)				X	Level 1
Other liabilities (note 23)					
Contingent consideration – designated	X				Level 3
Measured at amortized cost					
Cash and cash equivalents (note 10)		X			Level 1
Trade and other receivables (note 11)		X			Level 3
Other financial assets (note 15)		X			Level 2
Trade and other payables (note 19)			X		Level 3
Debentures and borrowings (note 20)			X		Level 2
Other liabilities (note 23)					
Customer deposits			X		Level 3
Drainage transition cost compensation			X		Level 2

Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables, current portion of other financial assets, trade and other payables and certain other liabilities (including customer deposits) approximate their fair values due to the short-term nature of these financial instruments.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The carrying amounts and fair values of the Company's remaining financial assets and liabilities are as follows:

	2017		2016	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Available-for-sale investment in Capital Power (note 12)	$ -	$ -	$ 6	$ 6
Derivatives (note 13)	1	1	-	-
Non-current portion of other financial assets (note 15)[1]	90	99	264	275
Long-term loans and borrowings including current portion (note 20)				
Debentures and borrowings	2,960	3,326	2,007	2,328
Beneficial interest in sinking fund	(94)	(94)	(87)	(87)
Other liabilities (note 23)				
Contingent consideration	43	43	36	36
Drainage transition cost compensation	65	65	-	-

1 Excluding finance lease receivables $1 million (2016 – $1 million).

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities. A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

Available-for-sale investment in Capital Power

The available-for-sale investment in Capital Power represents an investment in common shares of Capital Power Corporation. The fair value of the investment is based on the quoted price of common shares of Capital Power Corporation (CPX) on the Toronto Stock Exchange at December 31, 2016. During the first quarter of 2017 the remainder of this investment was disposed.

Derivatives

The fair value of the Company's financial electricity purchase contracts is determined based on exchange index prices in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices.

It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Other financial assets

The fair value of the Company's unsecured long-term receivable from Capital Power is based on a current yield for the Company's receivable at December 31, 2017 and 2016. This yield is based on an estimated credit spread for Capital Power over the yields of long-term Government of Canada bonds that have similar maturities to the Company's receivable. The estimated credit spread is based on Capital Power's indicative spread as published by independent financial institutions. As of December 31, 2017 the remaining long-term receivable from Capital Power of $174 million has be classified as current asset under trade and other receivables. Due to short-maturity of receivable, the carrying value approximates the fair value.

The fair values of the Company's other long-term loans and receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at December 31, 2017 and 2016.

Long-term loans and borrowings including current portion

The fair value of the Company's long-term public debt is based on the pricing sourced from market data as of December 31, 2017 and 2016. The fair value of the Company's remaining long-term loans and borrowings is based on determining a current yield for the Company's debt at December 31, 2017 and 2016. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds for Canadian dollar loans and U.S. Treasury bonds for U.S. dollar loans that have similar maturities to the Company's debt. The estimated credit spread is based on the Company's indicative spread as published by independent financial institutions. The Company's long-term loans and borrowings include City debentures which are partially offset by payments made by the Company into the sinking fund. The Company's beneficial interest in the sinking fund is a related party balance and has been recorded at fair value as it has been classified as an available-for-sale financial asset in accordance with the requirements of IFRS. The fair value of the beneficial interest in the sinking fund is based on quoted market values as determined by the City at or near the reporting date.

Contingent consideration

The contingent consideration is payable in U.S. dollars and payment is dependent on securing newly executed long-term contracts for the supply of water by EPCOR 130 Project Inc. and additional customer connections for natural gas by Hughes, the timing of which is uncertain. The fair value of the Company's contingent consideration is determined based on the expected timing of securing such new contracts and customer connections and the resulting cash flows are then discounted at risk adjusted discount rates. Any change in the timing of execution of new contracts, discount rate or foreign exchange rate can have material impact on the fair value of contingent consideration.

Timing of securing new contracts / additional customer connections

If the timing of securing new contracts / additional customer connections is advanced by 2 years then the fair value of the contingent consideration will increase by $6 million (2016 - $5 million). Alternatively, if the timing of securing new contracts / additional customer connections is delayed by 2 years then the fair value of the contingent consideration will decrease by $4 million (2016 - $4 million).

Discount rate

A 50 basis point increase in discount rate will decrease the fair value of the contingent consideration by $nil (2016 - $1 million). Alternatively 50 basis point decrease in discount rate will increase the fair value of contingent consideration by $1 million (2016 - $1 million).

Foreign exchange rate

A 10% change in the foreign exchange rate will change the fair value of the contingent consideration by $4 million (2016 - $4 million).

30. Financial risk management

Overview

The Company is exposed to a number of different financial risks arising from business activities and its use of financial instruments, including market risk, credit risk, and liquidity risk. The Company's overall risk management process is designed to identify, assess, measure, manage, mitigate and report on business risk which includes financial risk. Enterprise risk management is overseen by the Board of Directors and senior management is responsible for fulfilling objectives, targets, and policies approved by the Board of Directors. EPCOR's Director, Audit and Risk Management provide the Board of Directors with an enterprise risk assessment quarterly. Risk management strategies, policies and limits are designed to help ensure the risk exposures are managed within the Company's business objectives and risk tolerance. The Company's financial risk management objective is to protect and minimize volatility in earnings and cash flow.

Financial risk management including foreign exchange risk, interest rate risk, liquidity risk and the associated credit risk management is carried out by the centralized Treasury function in accordance with applicable policies. The Audit Committee of the Board of Directors, in its oversight role, performs regular and ad-hoc reviews of risk management controls and procedures to help ensure compliance.

Risks related to Capital Power

Significant reliance is placed on the capacity of Capital Power to honor its back-to-back debt obligations with EPCOR. Should Capital Power fail to satisfy these obligations, EPCOR's capacity to satisfy its debt obligations would be reduced and EPCOR would need to satisfy its own debt obligations by other means. The outstanding balance of back-to-back debt receivable from Capital Power is due by June 30, 2018.

Capital Power has indemnified EPCOR for any losses arising from its inability to discharge its liabilities, including any amounts owing to EPCOR in relation to the long-term loans receivable.

Market risk

Market risk is the risk of loss that results from changes in market factors such as electricity prices, foreign currency exchange rates and interest rates. The level of market risk to which the Company is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Company's financial assets and liabilities held, non-trading physical asset and contract portfolios, and trading portfolios. The Company's financial exposure management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the foreign exchange and interest rate risk throughout the Company.

To manage the exposure related to changes in market risk, the Company may use various risk management techniques including derivative financial instruments such as forward contracts, contracts-for-differences or interest rate swaps. Such instruments may be used for an anticipated transaction to establish a fixed price denominated in a foreign currency or to secure electricity price or to secure fixed interest rates.

The sensitivities provided in each of the following risk discussions disclose the effect of reasonable changes in relevant prices and rates on net income at the reporting date. The sensitivities are hypothetical and should not be considered to be predictive of future performance or indicative of earnings on these instruments. The Company's actual exposure to market risks is constantly changing as the Company's portfolio of debt, foreign currency and commodity contracts changes. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

Electricity price and volume risk

EPCOR sells electricity to regulated rate option (RRO) customers under a RRT. All electricity for the RRO customers is purchased in real time from the AESO in the spot market. Under the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by the EPSP. Under the EPSP, the Company uses financial contracts to economically hedge the RRO requirements and incorporate the price into customer rates for the applicable month. Fixed volumes of electricity are economically hedged using financial contracts-for-differences in advance of the month in which the electricity (load) is consumed by the RRO customers. The volume of electricity economically hedged in advance is based on load (usage) forecasts for the consumption month. When consumption varies from forecast consumption patterns, EPCOR is exposed to prevailing market prices when the volume of electricity economically hedged is short of actual load requirements or greater than the actual load requirements (long). Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and unusual weather patterns.

Under contracts-for-differences the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the AESO electricity spot market price and the fixed contract price for a specified volume of electricity in advance of the consumption date, all in accordance with the EPSP. The contracts-for-differences are referenced to the AESO electricity spot price and any movement in the AESO price results in changes in the contract settlement amount. If the risks of the EPSP were to become untenable, EPCOR could test the market and potentially re-contract the procurement risk under an outsourcing arrangement at a certain cost that would likely increase procurement costs and reduce margins. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

At December 31, 2017, holding all other variables constant, a $5 per megawatt hour increase / decrease in the forward electricity spot price would increase / decrease net income by approximately $5 million (2016 – $5 million). In preparing the sensitivity analysis, the Company compared average AESO electricity spot prices to the forward index price for the past 24 months. Based on historical fluctuations, the Company estimates that the fair value of the contracts could increase or decrease by up to $6 million (2016 – $22 million) with a corresponding change to net income.

Foreign exchange risk

The Company is exposed to foreign exchange risk on foreign currency denominated future transactions and firm commitments, and monetary assets and liabilities denominated in a foreign currency and on its net investments in foreign subsidiaries.

The Company's financial exposure management policy attempts to minimize material exposures arising from movements in the Canadian dollar relative to the U.S. dollar or other foreign currencies. The Company's direct exposure to foreign exchange risk arises on commitments denominated in U.S. dollars or other currencies. The Company coordinates and manages foreign exchange risk centrally by identifying opportunities for naturally occurring opposite movements and then dealing with any material residual foreign exchange risks.

The Company may use foreign currency forward contracts to fix the functional currency of its non-functional currency cash flows thereby reducing its anticipated foreign currency denominated transactional exposure. The Company looks to limit foreign currency exposures as a percentage of estimated future cash flows.

At December 31, 2017, holding all other variables constant, a 10% change in exchange rate would change the private debt balance by $36 million (2016 – $39 million).

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents, and floating-rate short-term loans and obligations. The Company is also exposed to interest rate risk from the possibility that changes in the interest rates will affect future cash flows or the fair values of its financial instruments. At December 31, 2017 and 2016, all long-term debt was fixed rate.

Credit risk

Credit risk is the possible financial loss associated with the inability of counterparties to satisfy their contractual obligations to the Company, including payment and performance. The Company's counterparty credit risk management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the credit risks associated with the various business activities throughout the Company. Credit and counterparty risk management procedures and practices generally include assessment of individual counterparty creditworthiness and establishment of exposure limits prior to entering into a transaction with the counterparty. Exposures and concentrations are subsequently monitored and are regularly reported to senior management. Creditworthiness continues to be evaluated after transactions have been initiated, at a minimum, on an annual basis. Credit risk includes the Capital Power back-to-back debt obligations with EPCOR as described above. To manage and mitigate credit risk, the Company employs various credit mitigation practices such as master netting agreements, pre-payment arrangements from retail customers, credit derivatives and other forms of credit enhancements including cash deposits, parent company guarantees, and bank letters of credit.

Maximum credit risk exposure

The Company's maximum credit exposure is represented by the carrying amount of the following financial assets:

	2017	2016
Cash and cash equivalents[1] (note 10)	$ 338	$ 191
Trade and other receivables[1 & 2] (note 11)	360	299
Other financial assets (note 15)	269	283
	$ 967	$ 773

1 This table does not take into account collateral held. At December 31, 2017, the Company held cash deposits of $29

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

million (2016 – $26 million) as security for certain counterparty accounts receivable and derivative contracts. The Company is not permitted to sell or re-pledge this collateral in the absence of default of the counterparties providing the collateral.

2 The Company's maximum exposures related to trade and other receivables by major credit concentration is composed of $282 million (2016 – $212 million) related to rate-regulated customer balances. At December 31, 2017, the Company held credit enhancements to mitigate credit risk on trade and other receivables in the form of letters of credit of $1 million (2016 – $1 million), performance bonds of $1 million (2016 – $1 million) and parental guarantees of $254 million (2016 – $263 million).

Credit quality and concentrations

The Company is exposed to credit risk on outstanding trade receivables associated with its energy and water sales activities and agreements with the AESO and on electricity supply agreements with wholesale and retail customers. The Company is also exposed to credit risk from its cash and cash equivalents, derivative instruments and long-term financing arrangements receivable.

The credit quality of the Company's trade and other receivables, by major credit concentrations, finance lease receivables, and other financial assets at December 31, 2017 and 2016, was as follows:

	2017		2016	
	Investment grade or secured[1,2] %	Unrated %	Investment grade or secured[1,2] %	Unrated %
Trade and other receivables				
Rate-regulated customers[3]	3	70	-	65
Non rate-regulated customers	22	5	24	11
Total trade and other receivables	25	75	24	76
Cash and cash equivalents	100	-	100	-
Loans and other long-term receivables	100	-	100	-

1 Credit ratings are based on the Company's internal criteria and analyses, which take into account, among other factors, the investment grade ratings of external credit rating agencies when available.

2 Certain trade receivables and other financial assets are considered to have low credit risk as they are either secured by the underlying assets, secured by other forms of credit enhancements, or the counterparties are local or provincial governments.

3 Rate-regulated customer trade receivables include energy distribution and transmission, water sales, collection and conveyance of sanitary and stormwater, treatment of wastewater, rate-regulated and default electricity supply receivables. Under the Electric Utilities Act (Alberta), the Company provides electricity supply in its service area to residential, agricultural and small commercial customers at regulated rates and to those commercial and industrial customers who have not chosen a competitive offer and consume electricity under default supply arrangements.

Rate-regulated customer credit risk

Credit risk exposure for residential and commercial customers under regulated electricity and water supply rates is generally limited to amounts due from customers for electricity and water consumed but not yet paid for. The Company mitigates credit risk from counterparties by performing credit checks and on higher risk customers, by taking pre-payments or cash deposits. The Company monitors credit risk for this portfolio at the gross exposure level.

Trade and other receivables and allowance for doubtful accounts

Trade and other receivables consist primarily of amounts due from retail customers including commercial customers, other retailers, government-owned or sponsored entities, regulated public utility distributors, and other counterparties. Commercial customer contracts provide performance assurances through letters of credit, irrevocable guarantees and bonds. For other retail customers, represented by a diversified customer base, credit losses are generally low and the

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Company provides for an allowance for doubtful accounts on estimated credit losses.

The aging of accounts receivables was as follows:

December 31, 2017	Gross accounts receivables	Allowance for doubtful accounts	Net accounts receivables
Current[1]	$ 327	$ -	$ 327
Outstanding 31 to 60 days	16	-	16
Outstanding 61 to 90 days	9	2	7
Outstanding more than 90 days	13	3	10
	$ 365	$ 5	$ 360

December 31, 2016	Gross accounts receivables	Allowance for doubtful accounts	Net accounts receivables
Current[1]	$ 279	$ -	$ 279
Outstanding 31 to 60 days	11	-	11
Outstanding 61 to 90 days	5	2	3
Outstanding more than 90 days	9	3	6
	$ 304	$ 5	$ 299

1 Current amount represents trade and other receivables outstanding up to 30 days. Amounts outstanding for more than 30 days are considered past due.

Bad debt expense of $7 million (2016 – $9 million) recognized in the year relates to customer amounts that the Company determined may not be fully collectable. Allowances for doubtful accounts are determined by each business unit considering the unique factors of the business unit's trade and other receivables. Allowances and write-offs are determined either by applying specific risk factors to customer groups' aged balances in trade and other receivables or by reviewing material accounts on a case-by-case basis. Reductions in trade and other accounts receivable and the related allowance for doubtful accounts are recorded when the Company has determined that recovery is not possible.

The change in the allowance for doubtful accounts was as follows:

	2017	2016
Balance, beginning of year	$ 5	$ 3
Additional allowances created	7	9
Recovery of receivables	1	2
Receivables written off	(8)	(9)
Balance, end of year	$ 5	$ 5

At December 31, 2017, the Company held $30 million (2016 – $24 million) of customer deposits for the purpose of mitigating the credit risk associated with trade and other receivables from residential and business customers.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's liquidity is managed centrally by the Company's Treasury function. The Company manages liquidity risk through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and by matching the maturity profiles of financial assets and liabilities to identify financing requirements. The financing requirements are addressed through a combination of committed and demand revolving credit facilities and financings in public or private debt capital markets.

In the normal course of business, the Company provides financial support and performance assurances including guarantees, letters of credit and surety bonds to third parties in respect of its subsidiaries. The Company has revolving extendible credit facilities, which are used principally for the purpose of backing the Company's commercial paper program and providing letters of credit, as outlined below:

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

December 31, 2017	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2022	$ 600	$ -	$ -	$ 600
Uncommitted					
Bank credit facilities[2]	No expiry	200	-	66	134
Bank credit facility	No expiry	25	-	-	25
Total uncommitted		225	-	66	159
		$ 825	$ -	$ 66	$ 759

December 31, 2016	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2020	$ 350	$ -	$ -	$ 350
Syndicated bank credit facility[2]	November 2019	200	-	73	127
Total committed		550	-	73	477
Uncommitted					
Bank credit facility	No expiry	25	-	-	25
		$ 575	$ -	$ 73	$ 502

1 In November 2017, the Company established a new $600 million single tranche committed syndicated bank credit facility which replaced the previous $350 million single tranche committed syndicated bank credit facility. The Company's $600 million committed syndicated bank credit facility is available and primarily used for short-term borrowing and backstopping EPCOR's commercial paper program. The committed syndicated bank credit facility cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's committed syndicated bank credit facility give the Company the option each year to re-price and extend the terms of the facility by one or more years subject to agreement with the lending syndicate. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates.

2 In November 2017 the Company established five new bilateral credit facilities (totaling $200 million) which replaced the previous $200 million committed syndicated bank credit facility. The Company's uncommitted line of credit is restricted to letters of credit. At December 31, 2017 Letters of credit totaling $66 million have been issued and outstanding under uncommitted line of credit (2016 – $73 million issued under committed syndicated bank credit facility) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements. Amounts borrowed and letters of credit issued, if any, under these facilities which are not payable within one year are classified as non-current loans and borrowings.

The Company has credit ratings of A- and A (low), assigned by Standard and Poor's and DBRS Limited, respectively.

The Company has a Canadian base shelf prospectus under which it may raise up to $2 billion of debt with maturities of not less than one year. At December 31, 2017, the available amount remaining under this Canadian base shelf prospectus was $2 billion. The Canadian base shelf prospectus expires in December 2019.

The undiscounted cash flow requirements and contractual maturities of the Company's non-derivative financial liabilities, including interest payments, are as follows:

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

At December 31, 2017:

	2018	2019	2020	2021	2022	2023 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 354	$ -	$ -	$ -	$ -	$ -	$ 354
Loans and borrowings[2]	442	32	33	207	34	2,131	2,879
Interest payments on loans and borrowings	131	112	111	109	102	1,547	2,112
Other liabilities[3]	50	23	58	15	7	4	157
	$ 977	$ 167	$ 202	$ 331	$ 143	$ 3,682	$ 5,502

At December 31, 2016:

	2017	2018	2019	2020	2021	2022 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 275	$ -	$ -	$ -	$ -	$ -	$ 275
Loans and borrowings[2]	15	413	7	7	192	1,297	1,931
Interest payments on loans and borrowings	112	100	80	79	79	1,141	1,591
Other liabilities[3]	26	3	1	44	1	7	82
	$ 428	$ 516	$ 88	$ 130	$ 272	$ 2,445	$ 3,879

1 Excluding accrued interest on loans and borrowings of $30 million (2016 – $24 million).
2 Excluding deferred debt issue costs of $13 million (2016 – $11 million).
3 Includes undiscounted liabilities for contingent consideration and Drainage transition cost compensation.

The Company's undiscounted cash flow requirements and contractual maturities in the next twelve months of $977 million (2016 – $428 million) are expected to be funded from operating cash flows, interest and principal payments related to the unsecured long-term receivable from Capital Power, commercial paper issuance and the Company's credit facilities. In addition, the Company may issue medium-term notes or other instruments to fund its obligations or investments. The key factors in determining whether to issue medium-term notes are the cash requirements of the business, the expected interest rates for medium-term notes, the estimated demand by investors for EPCOR debt and the general state of debt capital markets.

The Company has long-term loans receivable from Capital Power which effectively match certain of the long-term loans and borrowings above. The remaining long-term loans receivable from Capital Power totaling $174 million is due by June 30, 2018 along with interest payment of $6 million.

The payments from Capital Power fund a portion of the Company's contractual debt obligations. Should Capital Power be unable to make its scheduled payments to EPCOR, then the Company will rely more heavily on its credit facilities and its ability to issue medium-term notes to fund its obligations.

31. Capital management

The Company’s primary objectives when managing capital are to safeguard the Company’s ability to continue as a going concern, pay dividends to its shareholder in accordance with the Company’s dividend policy, maintain an investment grade credit rating, and to facilitate the acquisition or development of projects in Canada and the U.S. consistent with the Company's growth strategy. The Company manages its capital structure in a manner consistent with the risk characteristics of the underlying assets. This overall objective and policy for managing capital remained unchanged in the current year from the prior year.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The Company manages capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing monthly financial results. The Company matches the maturity profiles of financial assets and liabilities to identify financing requirements to help ensure an adequate amount of liquidity.

The Company considers its capital structure to consist of long-term and short-term debt net of cash and cash equivalents and shareholder's equity. The following table represents the Company's total capital:

	2017	2016
Long-term Loans and borrowings (including current portion) (note 20)[1]	$ 2,879	$ 1,931
Cash and cash equivalents (note 10)	(338)	(191)
Net debt	2,541	1,740
Total equity	3,526	2,672
Total capital	$ 6,067	$ 4,412

1 Excluding deferred debt issue costs of $13 million (2016 – $11 million).

EPCOR has the following externally imposed financial covenants on its capital as a result of its credit facilities and outstanding debt:

- Maintenance of modified consolidated net tangible assets to consolidated net tangible assets ratio, as defined in the debt agreements, of not less than 80% (2016 – 80%);
- Maintenance of consolidated senior debt to consolidated capitalization ratio, as defined in the debt agreements, of not more than 75% (2016 – 75%) ;
- Maintenance of interest coverage ratio, as defined in the debt agreements of not less than 1.75 to 1.00 is not applicable as the Company has a debt rating of investment grade; and
- Limitation on external debt issued by subsidiaries.

These capital restrictions are defined in accordance with the respective agreements. For the years ended December 31, 2017 and 2016, the Company complied with all externally imposed capital restrictions.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

32. Commitments, contingencies and guarantees

Commitments

The following represent the Company's commitments not otherwise disclosed in these consolidated financial statements:

At December 31, 2017:

	2018	2019	2020	2021	2022	2023 and thereafter	Total
Distribution and Transmission segment projects[1]	$ 38	$ 46	$ 5	$ -	$ -	$ -	$ 89
Developer funded sanitary and stormwater capital projects[2]	27	25	18	-	-	-	70
Sanitary sewer rehabilitation and upgrade projects[3]	10	-	-	-	-	-	10
Other sanitary and stormwater projects[4]	17	-	-	-	-	-	17
Water Services power contracts[5]	6	4	3	3	-	-	16
Water purchase and transportation of water agreements[6]	8	3	3	3	3	3	23
Billing and customer care services agreement[7]	4	3	3	3	-	-	13
Information technology and communications service Agreements[8]	2	1	1	1	-	-	5
Operating leases payable[9]	15	15	14	14	12	107	177
	$ 127	$ 97	$ 47	$ 24	$ 15	$ 110	$ 420

At December 31, 2016:

	2017	2018	2019	2020	2021	2022 and thereafter	Total
Distribution and Transmission segment projects[1]	$ 24	$ 40	$ 13	$ 7	$ 7	$ -	$ 91
Water Services segment projects	13	-	-	-	-	-	13
Water Services power contracts[5]	9	6	3	3	3	-	24
Water purchase and transportation of water agreements[6]	9	2	-	-	-	4	15
Billing and customer care services agreement[7]	4	4	4	3	3	-	18
Operating leases payable[9]	15	15	14	13	12	119	188
	$ 74	$ 67	$ 34	$ 26	$ 25	$ 123	$ 349

1 The Company has commitments for several Distribution and Transmission projects as directed by the AESO.

2 The Company has commitments for several developer funded new sanitary and stormwater infrastructure projects throughout the city of Edmonton.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

3 The Company has commitments to rehabilitate and upgrade the sanitary sewers in the West Jasper Palace area of the city of Edmonton.

4 The Company as a subcontractor has commitments to carry out construction of flood mitigation infrastructure within the city of Edmonton. These projects are funded by the City.

5 The Company has commitments to purchase power for its Edmonton water treatment plants and distribution sites, wastewater treatment plant and sanitary and stormwater collection sites. The agreements expire on or before December 31, 2021. Under the terms of the agreements, the Company is committed to purchase minimum contracted quantities at a fixed price. There are no early termination or cancellation clauses in these agreements.

6 Water Arizona maintains agreements with the Central Arizona Water Conservation District for the purchase and transportation of water. These agreements are for terms of 100 years expiring at the end of 2107. Under the terms of these agreements, the Company is committed for the amount of water ordered in the fall of each year to be purchased and transported the following year.

Water New Mexico maintains agreements with the various well owners for the purchase of water. These agreements are generally for terms of ten years. Under the terms of these agreements, certain minimum purchases are due each year in order to maintain the agreements until they expire.

7 The Company has entered into an agreement for billing and customer care services for U.S. Operations. The contract term is ten years, expiring on August 31, 2021.

8 The Company has commitments for several information technology and communication service agreements.

9 Represents the Company's gross future operating leases payable for its head office and other premises.

In 2007, the Company entered into a long-term agreement to lease commercial space in a new office tower in Edmonton, Canada, primarily for its head office (head office lease). The agreement, which became effective in the fourth quarter of 2011, has an initial lease term of approximately 20 years, expiring on December 31, 2031, and provides for three successive five-year renewal options.

Under the terms of the lease, the Company's annual lease commitments, net of annual payments to be paid to the Company by Capital Power and another company under the sub-leases receivable discussed below, are as follows:

	Minimum lease payable
January 1, 2018 through December 31, 2022	$ 6
January 1, 2023 through December 31, 2023	7
January 1, 2024 through December 31, 2031	8

The Company has sub-leased a portion of the space under its head office lease to Capital Power under the same terms and conditions as the Company's lease with its landlord.

Effective November 1, 2013, the Company also sub-leased a portion of the space under its head office lease to a third party. The term of the sub-lease to the third party expires on October 31, 2023 with two renewal options of four years each.

Approximate future payments to the Company under the sub-leases receivable are as follows:

	Minimum lease receivable	
	2017	2016
Within one year	$ 5	$ 5
After one year but not more than five years	21	20
More than five years	37	43
	$ 63	$ 68

Contingencies

The Company and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate contingent liability of the Company arising from these claims is immaterial and therefore no provision has been made.

Guarantees

The Company in the normal course of business issues payment guarantees on behalf of its subsidiaries to meet the conditions of the agreements with third parties. At December 31, 2017, guarantees totaling $421 million (2016 – $429 million) have been issued to various third parties.

33. Segment disclosures

The Company operates in the following reportable business segments, which follow the organization, management and reporting structure within the Company.

Water Services

Water Services is primarily involved in the treatment, transmission and distribution and sale of water, the collection and conveyance of sanitary and stormwater and the treatment of wastewater within Edmonton and other communities in Western Canada. This segment's water and wastewater business includes the provision of design, build, finance, operating and maintenance services for municipal and industrial customers in Western Canada.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. This segment also provides commercial services including the construction and maintenance of street lighting, traffic signal and light rail transit electrical infrastructure for the City and for other municipal and commercial customers in Alberta.

Energy Services

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to residential, small commercial and agricultural customers in Alberta. This segment also provides competitive electricity and natural gas products under the Encor brand.

U.S. Operations

U.S. operations are primarily involved in the treatment, transmission and distribution, and sale of water, and the collection and treatment of wastewater within the Southwestern U.S. In addition, this segment also provides natural gas distribution and transmission services in Texas, U.S. All of the Company's operations conducted in the U.S. are included in this segment.

Other

Other includes all of the remaining business segments of the Company which do not meet the criteria of a reportable business segment. Other primarily includes Canadian natural gas distribution business, financing revenues on the long-term receivable from Capital Power and the cost of the Company's net unallocated corporate office expenses. This segment also held the available-for-sale investment in Capital Power.

As explained in detail in note 3(V), during the year the Company has reassessed its reportable business segments. As a result of reassessment of reportable business segments, the segment information for prior year has been revised to correspond with the new reportable business segments.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Year ended December 31, 2017	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues and other income	$ 468	$ 501	$ 837	$ 225	$ 16	$ -	$ 2,047
Inter-segment revenue	-	202	12	-	-	(214)	-
Total revenues and other income	468	703	849	225	16	(214)	2,047
Energy purchases and system access fees	-	250	746	-	1	(193)	804
Other raw materials and operating charges	81	48	-	44	2	(5)	170
Staff costs and employee benefits expenses	103	83	27	32	40	(4)	281
Depreciation and amortization	88	86	6	43	13	-	236
Franchise fees and property taxes	25	79	-	8	-	-	112
Other administrative expenses	27	16	26	14	17	(12)	88
Operating expenses	324	562	805	141	73	(214)	1,691
Operating income (loss) before corporate charges	144	141	44	84	(57)	-	356
Corporate income (charges)	(24)	(25)	(10)	(6)	65	-	-
Operating income	120	116	34	78	8	-	356
Finance recoveries (expenses)	(66)	(57)	(3)	(40)	51	-	(115)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income	-	-	-	-	1	-	1
Income tax recovery	4	-	-	2	8	-	14
Net income	$ 58	$ 59	$ 31	$ 40	$ 68	$ -	$ 256
Capital additions	$ 210	$ 241	$ 4	$ 101	$ 10	$ -	$ 566

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Year ended December 31, 2016 (revised)	Water Service	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues and other income	$ 449	$ 457	$ 812	$ 213	$ 15	$ -	$ 1,946
Inter-segment revenue	-	177	11	-	-	(188)	-
Total revenues and other income	449	634	823	213	15	(188)	1,946
Energy purchases and system access fees	-	182	707	-	-	(167)	722
Other raw materials and operating charges	111	46	-	40	2	(8)	191
Staff costs and employee benefits expenses	92	85	28	31	42	(3)	275
Depreciation and amortization	51	80	6	39	13	-	189
Franchise fees and property taxes	21	71	-	7	-	-	99
Other administrative expenses	22	19	27	16	17	(10)	91
Operating expenses	297	483	768	133	74	(188)	1,567
Operating income (loss) before corporate charges	152	151	55	80	(59)	-	379
Corporate income (charges)	(23)	(29)	(10)	(7)	69	-	-
Operating income	129	122	45	73	10	-	379
Finance recoveries (expenses)	(59)	(51)	(3)	(36)	37	-	(112)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income on sale of portion of investment	-	-	-	-	42	-	42
Dividend income from available-for-sale investment in Capital Power	-	-	-	-	9	-	9
Income tax recovery (expense)	(2)	-	-	(14)	7	-	(9)
Net income	$ 68	$ 71	$ 42	$ 23	$ 105	$ -	$ 309
Capital additions	$ 132	$ 281	$ 4	$ 74	$ 11	$ -	$ 502

The Company's assets and liabilities by lines of business at December 31, 2017 and 2016 are summarized as follows:

December 31, 2017	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 6,088	$ 2,256	$ 184	$ 1,253	$ 3,532	$ (2,955)	$ 10,358
Total liabilities	4,685	1,514	168	1,034	2,386	(2,955)	6,832

December 31, 2016 (revised)	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 2,328	$ 2,080	$ 163	$ 1,198	$ 3,276	$ (2,884)	$ 6,161
Total liabilities	1,762	1,407	150	1,005	2,049	(2,884)	3,489

Non-current assets

		2017		2016
Canada	$	8,238	$	4,469
U.S.		1,213		1,156
	$	9,451	$	5,625

34. Comparative information

The comparative information relating to operating expenses and business segments has been revised and reclassified, where applicable, to conform to current year presentation.