Consolidated Financial Statements of

EPCOR UTILITIES INC.

Years ended December 31, 2020 and 2019

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 18, 2021. 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 consolidated 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,

(signed) “*Stuart Lee*”
Stuart Lee
President and Chief Executive Officer

(signed) “*Tony Scozzafava*”
Tony Scozzafava
Senior Vice President and Chief Financial Officer

February 18, 2021

EPCOR UTILITIES INC.

Consolidated Financial Statements

Years ended December 31, 2020 and 2019

KPMG LLP
2200, 10175 – 101 Street
Edmonton, AB T5J 0H3
Telephone (780) 429-7300
Fax (780) 429-7379
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder of EPCOR Utilities Inc.

Opinion

We have audited the consolidated financial statements of EPCOR Utilities Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors’ report is Zarina Bhambhani.

KPMG LLP

Chartered Professional Accountants

Edmonton, Canada

February 18, 2021

EPCOR UTILITIES INC.

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

Years ended December 31, 2020 and 2019

	2020	2019
Revenues (note 7)	$ 1,988	$ 1,864
Operating expenses:		
Energy purchases and system access fees	367	402
Other raw materials and operating charges	263	203
Staff costs and employee benefits expenses (note 8)	353	331
Depreciation and amortization (note 8)	351	328
Franchise fees and property taxes	127	122
Other administrative expenses	98	87
	1,559	1,473
Operating income	429	391
Finance expenses (note 9)	(137)	(125)
Income before income taxes	292	266
Income tax expense (note 10)	(16)	(35)
Net income	276	231
Other comprehensive gain (loss):		
Item that will not be reclassified to net income:		
Re-measurements of net defined benefit plans[1]	(2)	(10)
Items that may subsequently be reclassified to net income:		
Loss on cash flow hedges	-	(9)
Foreign exchange gain on U.S. denominated debt classified as hedge on foreign subsidiaries	7	19
Unrealized loss on foreign currency translation	(23)	(47)
	(16)	(37)
Other comprehensive loss	(18)	(47)
Comprehensive income	$ 258	$ 184

1 For the year ended December 31, 2020, net of income tax recovery of $1 million (2019 - $nil).

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, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents (note 11)	$ 8	$ 33
Trade and other receivables (note 12)	488	473
Inventories	17	18
	513	524
Non-current assets:		
Other financial assets (note 13)	189	127
Deferred tax assets (note 14)	97	102
Property, plant and equipment (note 15)	10,913	10,280
Intangible assets and goodwill (note 16)	468	388
	11,667	10,897
TOTAL ASSETS	$ 12,180	$ 11,421
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables (note 17)	$ 426	$ 431
Loans and borrowings (note 18)	365	55
Deferred revenue (note 19)	83	71
Provisions (note 20)	33	30
Other liabilities (note 21)	49	65
	956	652
Non-current liabilities:		
Loans and borrowings (note 18)	3,207	3,026
Deferred revenue (note 19)	3,909	3,707
Deferred tax liabilities (note 14)	43	56
Provisions (note 20)	109	100
Other liabilities (note 21)	165	176
	7,433	7,065
Total liabilities	8,389	7,717
Equity:		
Share capital (note 22)	798	798
Accumulated other comprehensive income	33	51
Retained earnings	2,960	2,855
Total equity	3,791	3,704
TOTAL LIABILITIES AND EQUITY	$ 12,180	$ 11,421

Commitments, contingencies and guarantees (note 29)

Approved on behalf of the Board,

(signed) "*Janice G. Rennie*"
Janice G. Rennie
Director and Chair of the Board

(signed) "*Vito Culmone*"
Vito Culmone
Director and Chair 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)

Years ended December 31, 2020 and 2019

	Share capital (note 22)	Accumulated other comprehensive income (loss): Cash flow hedges	Cumulative translation account	Employee benefits account	Retained earnings	Equity
Equity at December 31, 2018	$ 798	$ -	$ 107	$ (9)	$ 2,795	$ 3,691
Net income	-	-	-	-	231	231
Other comprehensive gain (loss):						
Re-measurements of net defined benefit plans	-	-	-	(10)	-	(10)
Loss on cash flow hedges	-	(9)	-	-	-	(9)
Foreign exchange gain on U.S. denominated debt classified as hedge on foreign subsidiaries	-	-	19	-	-	19
Unrealized loss on foreign currency translation	-	-	(47)	-	-	(47)
Total comprehensive income (loss)	-	(9)	(28)	(10)	231	184
Dividends	-	-	-	-	(171)	(171)
Equity at December 31, 2019	798	(9)	79	(19)	2,855	3,704
Net income	-	-	-	-	276	276
Other comprehensive gain (loss):						
Re-measurements of net defined benefit plans	-	-	-	(2)	-	(2)
Foreign exchange gain on U.S. denominated debt classified as hedge on foreign subsidiaries	-	-	7	-	-	7
Unrealized loss on foreign currency translation	-	-	(23)	-	-	(23)
Total comprehensive income (loss)	-	-	(16)	(2)	276	258
Dividends	-	-	-	-	(171)	(171)
Equity at December 31, 2020	$ 798	$ (9)	$ 63	$ (21)	$ 2,960	$ 3,791

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, 2020 and 2019

	2020	2019
Cash flows from (used in) operating activities:		
Net income	$ 276	$ 231
Reconciliation of net income to cash from (used in) operating activities:		
Interest paid	(132)	(132)
Finance expenses (note 9)	137	125
Income taxes paid	(15)	(5)
Income tax expense (note 10)	16	35
Depreciation and amortization (note 8)	351	328
Changes in employee benefits provisions	8	2
Contributions received	131	83
Deferred revenue recognized (note 19)	(78)	(70)
Changes in fair value of financial electricity purchase contracts	-	(2)
Other	4	7
Net cash flows from operating activities before non-cash operating working capital changes	698	602
Changes in non-cash operating working capital (note 23)	(10)	(49)
Net cash flows from operating activities	688	553
Cash flows from (used in) investing activities:		
Acquisitions and construction of property, plant and equipment and intangible assets[1]	(924)	(755)
Business acquisitions (note 6)	(2)	(31)
Payment of outstanding consideration for Vista Ridge (note 21)	(12)	-
Proceeds on disposal of property, plant and equipment	7	2
Net payments received (advances) on other financial assets	(65)	3
Payment of Drainage transition cost compensation to the City of Edmonton (note 21)	(14)	(17)
Changes in non-cash investing working capital (note 23)	(18)	28
Net cash flows used in investing activities	(1,028)	(770)
Cash flows from (used in) financing activities:		
Net issuance (repayment) of short-term loans and borrowings (note 24)	133	(16)
Proceeds from issuance of long-term loans and borrowings (note 24)	400	450
Repayments of long-term loans and borrowings (note 24)	(33)	(31)
Debt issuance costs (note 24)	(3)	(3)
Net refunds to customers and developers (note 24)	(1)	(2)
Payments of lease liabilities, net of proceeds from finance lease receivable	(10)	(9)
Dividends paid	(171)	(171)
Net cash flows from financing activities	315	218
Increase (decrease) in cash and cash equivalents	(25)	1
Cash and cash equivalents, beginning of year	33	32
Cash and cash equivalents, end of year	$ 8	$ 33

1 Interest payments of $11 million (2019 - $9 million) have been capitalized and included in acquisitions and construction of property, plant and equipment (PP&E) 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 and infrastructure. 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) and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), and effective on December 31, 2020 and 2019. These consolidated financial statements were approved and authorized for issue by the Board of Directors on February 18, 2021.

(b) Basis of measurement

The Company's consolidated financial statements are prepared on the historical cost basis, except for its derivative financial instruments, long-term investment 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, 2020 and 2019. 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. 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 the nearest million except where otherwise stated.

(b) Changes in significant accounting policies

The Company has adopted amendments to various accounting standards effective January 1, 2020, which did not have a significant impact on these consolidated financial statements.

(c) Business combinations and goodwill

Business combinations 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 transferred, equity instruments issued and liabilities incurred 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 date of acquisition with subsequent changes in the fair value typically 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.

(d) Revenue recognition

The Company recognizes revenue when it transfers control over a promised good or service, a performance obligation under the contract, to a customer and where the Company is entitled to consideration resulting from completion of the performance obligation. Depending on the terms of the contract with the customer, revenue recognition can occur at a point in time or over time. When a performance obligation is satisfied, revenue is measured at the transaction price that is allocated to that performance obligation. For contracts where non-cash consideration is received, revenue is recognized and measured at the fair value of the non-cash consideration.

Customer contracts may include the transfer of multiple goods and services. Where the Company determines that the multiple goods and services are not distinct performance obligations, they are treated as a single performance obligation.

Contract costs for obtaining a customer contract are expensed as incurred unless they create an asset related to future contract activity that the Company expects to recover.

Significant judgment may be required to determine the number of distinct performance obligations within a contract and the allocation of transaction price to multiple performance obligations in a contract, and to determine whether the Company acts as a principal or agent for certain performance obligations. When multiple performance obligations are identified in a contract, the transaction price is allocated based on the stand-alone selling price of each performance obligation. If stand-alone selling price is not observable, the Company estimates the stand-alone selling price for each distinct performance obligation based on the related expected cost plus a margin. The Company is acting as a principal when the Company controls the goods or services before transfer to the customer. The Company is acting as an agent when it is obliged to arrange for the provision of the goods or services by another party, that are not controlled by the Company before transfer to the customer. When the Company acts as an agent, the revenue is recognized net of any related costs incurred.

Revenues are classified as energy and water sales, provision of services, construction revenue and other commercial revenue depending on the nature of each distinct performance obligation. The Company's principal sources of revenue and methods applied to the recognition of the revenues in these consolidated financial statements are as follows:

Energy and water sales

The contracts with customers for the supply of electricity, natural gas and water consist primarily of perpetual contracts that are effective until terminated by the customers or the Company. The Company provides a series of distinct goods, which are simultaneously received and consumed by the customers. Each of the performance obligations is satisfied over time using the output method for revenue recognition, i.e. the units of each good supplied to the customers.

Revenues are calculated based on the customers' usage of the goods during the period, at the applicable rates as per the terms of the respective contracts. Customers are generally billed on a monthly basis and payment is generally due within 30 days of billing the customer.

Provision of services

The contracts with customers for each of electricity and natural gas transmission and distribution services, sanitary and stormwater collection and wastewater treatment services consist primarily of perpetual contracts that are effective until terminated by the customers or the Company. The Company provides a series of distinct services, which are simultaneously received and consumed by the customers. Each of the performance obligations is satisfied over time using the output method for revenue recognition, i.e. quantifiable services rendered to the customers.

Revenues are calculated based on the services provided to the customers during the period, at the applicable rates as per the terms of the respective contracts. These revenues include an estimate of the value of services provided to the customers in the reporting period and billed subsequent to the reporting period. Customers are billed generally within a month and payment is generally due within 30 days of billing the customer.

Certain water services contracts include multiple services including operation, maintenance and renewal maintenance of utility infrastructure, each of which the Company typically constitutes distinct performance obligations. Each of the performance obligations in these contracts relates to the provision of a series of distinct services, which are simultaneously received and consumed by the customers. Performance obligations under these contracts are satisfied over time using both input and output methods, depending on the nature of each distinct performance obligation.

The Company has determined that it is acting as an agent related to collection of provincial transmission system access service charges and collection of distribution and transmission charges on behalf of the Alberta Electric System Operator (AESO) and distribution companies, respectively, as the Company does not obtain control of the respective services before they are transferred to the customers. Accordingly, revenues from collection of provincial transmission system access service charges and collection of distribution and transmission charges are recognized net of all related costs paid to the corresponding service providers.

Construction revenue

Revenue from the construction of utility infrastructure and other project upgrades and expansions provided to customers is recognized when control of the promised goods or services is transferred to the customer. Performance obligations under these contracts are satisfied over time using the input or output method, depending on the contracts with customers.

Revenue from construction services includes the initial amount of the transaction price included in the contract plus any expected variable consideration, claims and incentive payments, to the extent it is probable that they will result in consideration receivable and can be reliably measured. Satisfaction of the performance obligation is estimated based on an assessment of progress towards its completion using the ratio of costs incurred to the total projected cost of fulfilling the performance obligation under a construction contract. These estimates may result in the recognition of unbilled receivables as a contract asset when revenues are earned prior to billing the amount to customers or recognition of a contract liability when consideration received under the contract exceeds the revenue recognized to date. When the satisfaction of the performance obligation cannot be measured reliably, contract revenue is recognized only to the extent of contract costs incurred that are probable to be recoverable, until such time the Company can reliably measure the outcome of the performance obligation.

Other commercial revenue

Other commercial revenue is comprised of revenues from the financing of project upgrades and expansions for customers and 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.

Other commercial revenue also includes revenues earned from arrangements where the Company leases utility infrastructure and other assets to customers, which are accounted for as finance leases.

(e) 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 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 and liabilities are not recognized if the temporary difference results 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.

(f) Cash and cash equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments, with original maturities of three months or less on the date of purchase, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Inventories

Small parts and other consumables, the majority of which are consumed by the Company in the provision of its goods and services to customers, 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 PP&E and reports this value as construction work in progress under PP&E.

(h) Leases

At the inception of a contract, the Company determines whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

On initial identification of a lease contract, the Company recognizes a right-of-use (ROU) asset and a lease liability at the commencement of the lease contract. The lease liability is initially measured at the present value of the future unavoidable lease payments under the contract, discounted using the interest rate implicit in the lease contract. Where the implicit rate cannot be readily determined, the Company uses the incremental borrowing rate of the legal entity entering into the lease contract. Lease payments include fixed payments including in-substance fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, the exercise price of a purchase option or optional renewal period that the Company is reasonably certain to exercise and penalties for early termination of a lease contract unless the Company is reasonably certain not to terminate early. Subsequently, the lease liability is measured at amortized cost, using the effective interest method. The lease liability is re-measured to reflect any reassessments or lease modifications. Lease payments are allocated between the principal repayment of the lease liability and finance expense. The finance expense on the lease liability is charged to net income over the term of the lease contract to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period.

The ROU asset is initially measured at cost which includes the initial lease liability, any lease payments made at or before commencement date less any lease incentives received, any initial direct costs and restoration costs. The ROU assets are depreciated on a straight-line basis over the shorter of the respective asset's useful life and the remaining term of the lease contract. The ROU assets are subsequently re-measured to reflect any reassessments or lease modifications. At each reporting date, ROU assets are reviewed for indications of impairment. In case it is determined that indications of impairment exist, the recoverable amount is estimated for ROU assets, which is the greater of value in use and fair value the Company expects to recover from sub-lease of the asset.

The Company presents lease liabilities within other liabilities and ROU assets within PP&E in the consolidated statements of financial position.

The Company has elected not to recognize ROU assets and lease liabilities for lease contracts where the total term of the respective lease contract is less than or equal to 12 months or for low value lease contracts. The Company recognizes the payments relating to such leases (including principal and interest associated with these leases) as an expense on a straight-line basis over the lease term. These payments are presented within other administrative expense in net income.

As a lessor

On initial identification of a lease contract, the Company determines whether the contract is a finance lease or an operating lease. If a contract transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the customer, the contract is classified as a finance lease; otherwise, it is classified as an operating lease. Finance income related to contracts 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. Lease payments received by the Company under operating leases are recognized as lease revenue within other commercial revenue on a straight-line basis over the lease term.

Where the Company is an intermediate lessor, it accounts for interests in the head lease and the sub-lease separately. If the sub-lease is classified as finance lease, the ROU asset relating to the head lease is de-recognized and a finance lease receivable in the sub-lease is recognized and presented within other financial assets in the consolidated statements of financial position.

The Company applies judgment in the determination of the lease term for certain lease contracts with renewal or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which could significantly affect the amount of lease liabilities and ROU assets recorded on the initial recognition or on modification of the lease contract.

(i) 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 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 de-recognized. The costs of day-to-day servicing are expensed as incurred. The cost of a group of PP&E acquired in a transaction, including those acquired in a business combination, is allocated to the individual assets acquired based on their fair value.

Depreciation of cost less residual value is charged on a straight-line basis over the estimated 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 useful lives of assets requires judgment and is generally based on estimates of life characteristics of similar assets. The estimated useful lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

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

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

Water treatment and distribution, and wastewater collection and treatment	2 - 95 years
Energy transmission and distribution	2 - 75 years
Retail systems and equipment	3 - 20 years
Corporate information systems and other	2 - 20 years
Right-of-use assets	1 - 25 years

Gains or 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.

(j) 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 those that take a substantial period of time to construct.

(k) 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 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, to provide operating and maintenance services for water infrastructure 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. Subsequent expenditures are 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 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 useful lives and methods of amortization are reviewed annually with any changes adopted on a prospective basis.

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

Customer rights[1]	20 years
Software	2 - 20 years
Other rights	12 - 75 years
Water rights	100 years

1 Customer rights expired on December 31, 2020, however useful life of 20 years was applicable for years ended December 31, 2020 and 2019.

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.

(l) 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(d) by reference to each activity when the amount of revenue is separately identifiable.

The accounting for 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) and the effective interest rate to be applied to the service concession asset. Contracts falling under IFRIC 12 require the 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.

(m) Deferred revenue

Certain assets are contributed by customers or constructed using non-refundable cash contributions from customers. Non-refundable customer contributions, which are used to provide ongoing goods or services to these customers, are recorded as deferred revenue. Deferred revenue is initially recorded at the fair value of contributed assets, or the amount of cash contributions received, and is recognized as revenue on a straight-line basis over the shorter of estimated lives of the respective contracts with the customers or the useful life of the related asset. Where the contract with a customer is perpetual and the related contributed asset is used to provide ongoing goods or services to the customer, the life of the contract is estimated to be equivalent to the useful life of the asset to which the contribution relates.

Certain assets are acquired or constructed using non-refundable government grants. Government grants are recorded as deferred revenue and are recognized as revenue on a straight-line basis over the estimated useful lives of the assets to which they relate.

Certain assets are contributed / acquired or constructed using non-refundable cash contributions from developers or other unrelated entities. Currently there is no specific IFRS guidance on accounting for contributions received from developers or other unrelated entities. The Company has developed an accounting policy for the initial recognition of such contributions and subsequent recognition of the related revenues. These contributions are recorded as deferred revenue, at the fair value of the contributed assets or the amount of cash contribution received, and are recognized as revenue on a straight-line basis over the estimated useful lives of the assets to which the contribution relates.

(n) 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 finance expense over the estimated 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 consolidated statements of financial position. In addition, quantifying such a provision also involves 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 other entities 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 that are estimated to be refunded in the future are recorded as provisions. The remaining contributions are classified as deferred revenue.

(o) 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 contribute 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 actuarial excess. LAPP is accounted for as a defined contribution plan as the LAPP is not able to provide information that 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 the LAPP comprise less than 16% of total employees (2019 - 15%). The cumulative employee benefits account in other comprehensive income 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.

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.

(p) Derivative financial instruments and hedging activities

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, interest rate swaps and bond forward contracts. 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 quantity of electricity to be consumed, methods used to reduce the risk of adverse price movement for the expected electricity consumption and the electricity selling prices to be charged to these customers are determined by a regulatory approved Energy Price Setting Plan (EPSP). The Company manages its exposure to fluctuating wholesale electricity spot prices and consumption volume by entering into financial electricity purchase contracts up to 120 days in advance of the month of consumption in order to reduce the risk of adverse price movements of electricity under a well-defined risk management process set out in the EPSP. Under these instruments, the Company agrees to exchange, with a counterparty meeting the Company's credit risk parameters, the difference between the AESO market price and the fixed contract price for a forecasted 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 mitigate the risk of adverse price movements of electricity.

Interest rates swaps and bond forward contracts 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.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value of derivatives depends on whether the derivative instrument qualifies for hedge accounting and whether such instrument has been designated as a hedging instrument.

The Company may apply hedge accounting when there is a high degree of correlation between the risk in the item designated as being hedged (the hedged item) and the derivative financial instrument designated as a hedge (the hedging instrument). To apply hedge accounting, at the inception of hedging relationship, the Company formally documents relationships between hedged items and hedging instruments, including its risk management objectives together with the methods to be used to assess the effectiveness of the hedging relationships at each reporting date to ensure that the changes in fair values of the hedged items and the hedging instruments are moving in opposite directions and offsetting each other.

Derivative financial instruments may be designated as either fair value hedges or cash flow hedges. If the derivative financial instrument is designated as a fair value hedge, changes in the fair value of the derivative financial instrument and in the fair value of the underlying hedged item are recognized in net income. If the derivative financial instrument is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative financial instrument are initially recorded in other comprehensive income and are subsequently recognized in net income when the underlying hedged item is realized. Ineffective portions of the changes in the fair value of cash flow hedges are recognized in net income immediately. Changes in the fair value of a derivative financial instrument designated as fair value hedge or cash flow hedge are recognized in the same line item in net income as the underlying hedged item.

Subsequent changes in the fair value of derivative financial instruments that are not designated as hedges, are recorded in net income. At initial recognition, transaction costs attributable to the derivative financial instruments are recognized in net income.

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 for similar instruments. Fair value amounts reflect management's best estimates using external readily observable market data, such as forward prices, interest rates and foreign exchange rates. 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.

(q) Non-derivative financial instruments

Financial assets are identified and classified based on the business model used by the Company for managing those financial assets, as one of the following: at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss. Financial liabilities are classified as measured at fair value through profit or loss or at amortized cost.

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

Recognition and measurement

At amortized cost

Cash and cash equivalents, other financial assets and trade and other receivables except for derivative assets and long-term investment, which are classified as financial assets measured at fair value through profit or loss, are classified as financial assets measured at amortized cost. These financial assets are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost when they are held for collection of cash flows, where those cash flows solely represent payments of principal and interest using the effective interest method less any impairment as described in note 3(r). The effective interest method calculates the amortized cost of a financial asset and allocates the finance income over the term of the financial asset using an effective interest rate. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset, or a shorter period when appropriate, to the gross carrying amount of the financial asset.

The Company's trade and other payables, loans and borrowings except debt issuance costs, refundable contributions from customers and developers classified within provisions, and other liabilities, except for contingent consideration and derivative liabilities which are classified as financial liabilities measured at fair value through profit or loss, are classified as financial liabilities measured at amortized cost and are recognized on the date at which the Company becomes a party to the contractual arrangement. Financial liabilities are initially recognized at fair value including 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 method.

At fair value through other comprehensive income

Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows solely represent payments of principal and interest, are classified as financial assets at fair value through other comprehensive income. These financial assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income, except for the recognition of impairment losses, reversal of impairment losses, interest income and foreign exchange gains and losses, which are recognized in net income. On de-recognition of the financial asset, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to net income. Interest income from these financial assets is recognized as other income using the effective interest method. As of December 31, 2020, the Company does not have any financial assets, classified at fair value through other comprehensive income.

At fair value through profit or loss

Financial instruments at fair value through profit or loss include instruments that are designated as financial instruments at fair value through profit or loss or those financial instruments that do not meet the criteria for classification under any other category.

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.

De-recognition

Financial assets are de-recognized when the rights to receive cash flows from the financial assets have expired or have been transferred, and the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are de-recognized when the contractual obligations are discharged, cancelled or expire.

(r) Impairment of financial assets

The Company uses the "expected credit loss" (ECL) model for calculating impairment and recognizes ECL as a loss allowance for financial assets measured at amortized cost or at fair value through other comprehensive income. At each reporting date, the Company measures the loss allowance for financial assets, except for trade receivables without a significant financing component, at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If it is determined that the credit risk on a financial asset has not increased significantly, the Company measures the loss allowance for that financial asset at an amount equal to the 12-month ECL.

For trade receivables without significant financing component, the Company applies the simplified approach and uses a provision matrix, which is based on the Company's historical credit loss experience, current market conditions and forward-looking information, to estimate and recognize the lifetime ECL. Trade and other receivables that are not assessed for impairment individually are assessed for impairment on a collective basis taking into consideration the unique risk factors associated with each customer group.

(s) 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 PP&E and intangible assets with definite useful lives, the recoverable amount is estimated when an indication of impairment exists. 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 CGU 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 an after-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 tested as CGU. CGUs are smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. 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 or the 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.

(t) 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 except for foreign exchange gains or losses on monetary liabilities designated as hedges on net investment in foreign subsidiaries, which are recorded in other comprehensive income. The cumulative deferred translation gains or losses related to hedges on net investment in foreign subsidiaries are reclassified to net income at the earlier of de-recognition of a monetary liability or on disposal of the foreign operations.

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. The cumulative deferred translation gains or losses on the foreign operations are reclassified to net income, only on disposal of the foreign operations.

(u) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it earns revenues and incurs 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 results for all operating segments, for which discrete financial information is available, are reviewed regularly by the Company's executive management to assess their 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.

The Company uses 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.

(v) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations of standards have been issued by the IASB and the IFRIC, the application of which is effective for periods beginning on or after January 1, 2021. The Company does not expect the implementation of these new accounting pronouncements to have a significant impact on its accounting policies.

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 combinations and goodwill
Note 3(d) – Revenue recognition
Note 3(h) – Leases
Note 3(i) – Property, plant and equipment
Note 3(l) – Service concession arrangements
Note 3(n) – Provisions

(b) Estimates

The Company reviews its estimates and assumptions on an ongoing basis, 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 and energy purchases and system access fees

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 sales revenues and electricity purchase 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

Certain accounting measures such as determining asset impairments, purchase price allocations for business combinations, and recording certain financial and non-financial assets and liabilities, require the Company to estimate an item's fair value. 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.

Deferred taxes

Significant estimation 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.

5. Novel coronavirus

In March 2020, the global outbreak of the novel coronavirus (COVID-19) was declared a pandemic by the World Health Organization. In response to the outbreak, governmental authorities globally introduced various recommendations and measures to try to limit spread of the pandemic, including non-essential business closures, quarantines, travel restrictions, self-isolation, social and physical distancing and shelter-in-place. These measures caused disruptions to businesses globally resulting in an economic slowdown. While the majority of the Company's operations consist of the provision of essential utility services, the Company experienced a decline in the sale of water and electricity to its commercial customers, which was largely offset by increase in sales to residential and multi-residential customers, as well as additional costs incurred to mitigate risks of the outbreak. During the year ended December 31, 2020, the COVID-19 pandemic did not result in any material impact on the financial results of the Company.

In Canada, the spread of COVID-19 showed signs of slowing down in the second and third quarters of the year, and most of the restrictions were gradually lifted by the provincial governments. However, in the fourth quarter of the year, the number of COVID-19 cases started to rise and the federal and provincial governments imposed restrictions again. In the U.S., the rate of COVID-19 outbreaks still remains high and plans to ease government restrictions vary amongst states. Any prolonged restrictions could disrupt business activities, which could negatively affect one or more factors that are essential for maintaining regular operations of the Company including, but not limited to, availability of employees for delivery of goods or services, availability of supplies and equipment for operations and planned construction of plants and other assets. The ultimate duration and magnitude of the impact on the economy and consequential financial effect on the Company, is unknown at this time.

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

6. Business acquisitions

Brooke Utility Inc,

On August 20, 2020, EPCOR purchased the assets of Brooke Water LLC (Brooke) for cash consideration of $2 million. Brooke is located near the Town of Parker, near EPCOR's existing service area in Lake Havasu City, Arizona. Brooke is currently serving approximately 2,100 water customers.

The consideration of $2 million was allocated to PP&E based on the fair value of the assets acquired.

Rio Verde Utilities Inc.

On February 28, 2019, EPCOR acquired 100% of the stock of Rio Verde Utilities Inc. (Rio Verde) in Arizona, U.S. for cash consideration of $31 million (US$24 million).

Rio Verde is located northeast of Scottsdale and the Greater Phoenix metropolitan area and 10 miles north of the Company's Chaparral service area in Fountain Hills. Rio Verde's regulated operations include 2,220 water and 1,876 wastewater service connections along with irrigation water service for five golf courses.

The fair value of assets acquired of $29 million and liabilities assumed of $10 million, primarily consist of PP&E, intangible assets, customer / developer contributions and deferred tax liabilities. The excess of purchase consideration over the fair value of the net assets acquired of $12 million was recorded as goodwill.

7. Revenues

Revenues disaggregated by major goods or services, excluding intersegment revenues, are as follows:

Year ended December 31, 2020	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Consolidated
Energy and water sales	$ 232	$ -	$ 394	$ 208	$ 51	$ 885
Provision of services	432	480	21	78	13	1,024
Construction revenue	7	-	-	-	65	72
Other commercial revenue	5	-	-	-	2	7
	$ 676	$ 480	$ 415	$ 286	$ 131	$ 1,988

Year ended December 31, 2019	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Consolidated
Energy and water sales	$ 219	$ -	$ 446	$ 182	$ 45	$ 892
Provision of services	410	429	23	68	14	944
Construction revenue	11	-	-	-	8	19
Other commercial revenue	6	-	-	-	3	9
	$ 646	$ 429	$ 469	$ 250	$ 70	$ 1,864

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

Revenues from contracts with customers expected to be recognized in future periods related to performance obligations that are unsatisfied or partially satisfied at December 31, 2020, are as follows:

	2021	2022	2023	2024	2025	2026 and thereafter	Total
U.S. operations water supply commercial contracts[1]	$ 8	$ 9	$ 9	$ 9	$ 9	$ 250	$ 294
Other – natural gas transportation contracts[2]	2	2	2	2	1	13	22
Contract liabilities - contributions received from customers, developers and government grants[3]	72	72	72	72	72	3,600	3,960
Total	$ 82	$ 83	$ 83	$ 83	$ 82	$ 3,863	$ 4,276

1 The Company has contracts for supply of water to a city and certain commercial customers in the state of Texas. Under these contracts, the customers have committed to take or pay for a contracted quantity of water. The terms of these contracts range between 18 to 41 years.

2 The Company has contracts for transportation of natural gas to certain industrial customers in Ontario. Under the terms of these contracts, the customers pay committed fees for reserved capacity of the natural gas pipeline. The terms of these contracts range between 4 to 15 years.

3 The Company has contract liabilities recorded as deferred revenue in the consolidated statements of financial position related to contributions received from customers, developers, other unrelated entities and government grants. Revenues will be recognized in future periods, as described in note 3(m), over periods ranging up to 95 years.

The Company has numerous contracts with customers for supply of each of electricity, natural gas and water as well as provision of sanitary and stormwater collection and wastewater treatment services. These contracts are perpetual with no agreed fixed term and can be terminated at any time by either the customer or the Company. Under the terms of the contracts, in case of termination of these contracts, the Company has the right to receive payment for the performance obligation satisfied to the termination date.

8. Expenses

	2020	2019
Included in staff costs and employee benefits expenses		
Post-employment defined contribution plan expense	$ 44	$ 43
Post-employment defined benefit plan expense	6	5
Included in depreciation and amortization		
Depreciation of property, plant and equipment	321	296
Amortization of intangible assets	24	23
Loss on disposal of assets	6	9
	351	328

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

9. Finance expenses

		2020		2019
Interest on loans and borrowings	$	(142)	$	(133)
Interest on lease liabilities		(3)		(3)
Unwinding of interest related to contingent consideration (note 21)		(3)		(3)
Unwinding of interest related to Drainage transition cost compensation (note 21)		-		(1)
Fair value adjustment related to revaluation of contingent consideration (note 21)		-		6
Capitalized interest		11		9
	$	(137)	$	(125)

10. Income tax expense

		2020		2019
Current income tax expense	$	(22)	$	(5)
Deferred income tax recovery (expense)				
Relating to origination and reversal of temporary differences		6		(14)
Change in tax rates		(2)		(17)
Other		2		1
		6		(30)
	$	(16)	$	(35)

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

		2020		2019
Income before income taxes	$	292	$	266
Income taxes at the statutory rate of 24% (2019 - 26.5%)		(70)		(70)
Decrease (increase) resulting from:				
Income exempt from income taxes at statutory rates		56		49
Change in tax rates on deferred taxes[1]		(2)		(17)
Effect of lower tax rate in the U.S.		-		1
Other		-		2
	$	(16)	$	(35)

1 In June 2019, the Government of Alberta enacted Bill 3, which introduced a phased reduction in provincial corporate tax rates from 12% to 8% by January 1, 2022. The revised rates were effective from July 1, 2019. The change resulted in a deferred tax expense of $17 million due to re-measurement of deferred tax assets and liabilities related to the Company's Alberta operations.

Subsequently in December 2020, the Government of Alberta enacted Bill 35, which accelerated the reduction in provincial corporate tax rates from 10% to 8% effective July 1, 2020. The change resulted in a deferred tax expense of $2 million due to re-measurement of deferred tax assets and liabilities related to the Company's Alberta operations.

11. Cash and cash equivalents

		2020		2019
Cash on deposit	$	8	$	28
Cash equivalents		-		5
	$	8	$	33

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

Restricted cash balances

Under agreement between the Company and the Natural Gas Exchange (NGX) for the purchase of electricity price forward contracts, the Company established separate bank accounts through which the settlement of the electricity price forward 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, 2020, $2 million (2019 - $6 million) of the cash on deposit balance was held in these bank accounts.

12. Trade and other receivables

	2020	2019
Trade receivables	$ 286	$ 279
Accrued revenues	204	180
Gross accounts receivable	490	459
Expected credit loss allowance (note 27)	(17)	(4)
Net accounts receivable	473	455
Income tax recoverable	-	1
Prepaid expenses	9	11
	482	467
Current portion of other financial assets (note 13)	6	6
	$ 488	$ 473

Details of the aging of accounts receivable and analysis of the changes in the ECL allowance are provided in note 27.

13. Other financial assets

	2020	2019
Long-term receivables from service concession arrangements	$ 77	$ 79
Finance lease receivables	105	39
Long-term investment	7	7
Loans and other long-term receivables	6	7
Other	-	1
	195	133
Less: current portion (included in trade and other receivables) (note 12)	6	6
	$ 189	$ 127

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 recorded as long-term receivables. The significant terms of the arrangements 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 and the construction of the plant was completed in December 2017. The contract includes operation of both facilities for a term of 30 years. As of December 31, 2020, an amount of $74 million (2019 - $75 million) has been recorded as a financial asset which will be recovered along with financing revenue at the interest rate established in the arrangement over the remaining life of the arrangement.

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

(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 facility was completed in August 2014 following which the Company started operating and maintaining the facility. As of December 31, 2020, an amount of $3 million (2019 - $4 million) has been recognized as a financial asset which will be recovered along with financing revenue at the interest rate established in the arrangement over the remaining life of the arrangement.

Finance lease receivables

Approximate future payments to the Company under the finance lease receivables are as follows:

	2020	2019
Within one year	$ 5	$ 4
After one year but not more than five years	53	16
More than five years	128	28
Unearned finance income	(81)	(9)
	$ 105	$ 39

The finance lease receivables primarily consist of the Company's sub-lease of a portion of its head office space and lease of electricity infrastructure. Details of the sub-lease of office space are provided in other liabilities (note 21).

During the year, the Company entered into an agreement to design, build, own, maintain and transfer the sub-station electricity infrastructure related to the Trans Mountain Pipeline expansion project. The construction of the electricity infrastructure is in progress and is expected to be completed by November 2021, with a maintenance period of 20 years after completion of the construction.

The Company has recognized the investment of $68 million on the electricity infrastructure as a finance lease receivable, which will be recovered over the term of 20 years. The Company has also recognized construction revenue related to the construction of the electricity infrastructure of $55 million, which has been recorded within revenues (note 7).

During the year ended December 31, 2020, the Company received lease rental payments of $3 million (2019 - $4 million), including finance income.

Long-term investment

Long-term investment represents the fair value of the Company's ownership of a 5% equity interest in Vista Ridge LLC (Vista Ridge) at December 31, 2020 and 2019. Vista Ridge owns a water pipeline in the central part of the state of Texas, which supplies water to the San Antonio Water System.

14. Deferred tax assets / liabilities

Deferred tax assets are attributable to the following:

	2020	2019
Non-capital losses carried forward	$ 72	$ 77
Investment in partnerships	11	10
Canadian resource expenditures	7	7
Provisions	14	14
Deferred revenue	88	77
Other	13	13
Deferred tax assets	205	198
Set off by deferred tax liabilities	(108)	(96)
Net deferred tax assets	$ 97	$ 102

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

Deferred tax liabilities are attributable to the following:

	2020	2019
Other financial assets	$ 1	$ 1
Property, plant and equipment	122	126
Intangible assets and goodwill	28	25
Deferred tax liabilities	151	152
Set off by deferred tax assets	(108)	(96)
Net deferred tax liabilities	$ 43	$ 56

The changes in temporary differences during the years ended December 31, 2020 and 2019 were as follows:

	Balance, beginning of 2020	Recognized in net income	Recognized in other comprehensive income	Foreign currency valuation adjustment and other	Balance, end of 2020
Non-capital losses carried forward	$ 77	$ (5)	$ -	$ -	$ 72
Investment in partnerships	10	1	-	-	11
Canadian resource expenditures	7	-	-	-	7
Provisions	14	(1)	1	-	14
Deferred revenue	77	12	-	(1)	88
Other financial assets	(1)	-	-	-	(1)
Intangible assets and goodwill	(25)	(3)	-	-	(28)
Property, plant and equipment	(126)	2	-	2	(122)
Other	13	-	-	-	13
	$ 46	$ 6	$ 1	$ 1	$ 54

	Balance, beginning of 2019	Recognized in net income	Recognized on business acquisition	Foreign currency valuation adjustment and other	Balance, end of 2019
Non-capital losses carried forward	$ 108	$ (31)	$ -	$ -	$ 77
Investment in partnerships	10	-	-	-	10
Canadian resource expenditures	8	(1)	-	-	7
Provisions	16	(2)	-	-	14
Deferred revenue	79	1	-	(3)	77
Other financial assets	(1)	-	-	-	(1)
Intangible assets and goodwill	(21)	(3)	(2)	1	(25)
Property, plant and equipment	(133)	4	(3)	6	(126)
Other	11	2	-	-	13
	$ 77	$ (30)	$ (5)	$ 4	$ 46

The Company also has taxable temporary differences of $285 million (2019 - $264 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 2030 and 2040.

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

The Company has recognized deferred tax assets in the amount of $97 million (2019 - $102 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 $280 million (2019 - $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.

15. 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	Right-of-use assets[2]	Total
Cost								
Balance, beginning of 2020	$ 405	$ 307	$ 9,295	$ 3,144	$ 4	$ 71	$ 89	$ 13,315
Additions[1]	833	-	155	3	-	-	8	999
Additions through business acquisitions	-	-	2	-	-	-	-	2
Disposals and retirements[3]	(1)	(2)	(27)	(19)	-	(1)	(2)	(52)
Transfers into service	(883)	16	515	340	-	12	-	-
Transfers	(5)	-	-	-	-	-	-	(5)
Foreign currency valuation adjustments	(2)	-	(34)	(1)	-	-	-	(37)
Balance, end of 2020	347	321	9,906	3,467	4	82	95	14,222
Accumulated depreciation								
Balance, beginning of 2020	-	-	2,129	856	2	38	10	3,035
Depreciation	-	-	204	96	1	10	10	321
Disposals and retirements[3]	-	-	(21)	(17)	-	-	(1)	(39)
Foreign currency valuation adjustments	-	-	(8)	-	-	-	-	(8)
Balance, end of 2020	-	-	2,304	935	3	48	19	3,309
Net book value, end of 2020	$ 347	$ 321	$ 7,602	$ 2,532	$ 1	$ 34	$ 76	$ 10,913

(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	Right-of-use assets[2]	Total
Cost								
Balance, beginning of 2019	$ 293	$ 299	$ 8,719	$ 2,980	$ 3	$ 69	$ -	$ 12,363
Assets recognized on implementation of IFRS 16	-	-	-	-	-	-	84	84
Adjusted balance, beginning of 2019	293	299	8,719	2,980	3	69	84	12,447
Additions[1]	713	8	223	3	-	-	5	952
Additions through business acquisitions	-	-	19	-	-	-	-	19
Disposals and retirements[3]	-	-	(28)	(8)	-	(4)	-	(40)
Transfers into service	(605)	-	426	172	1	6	-	-
Transfers	9	-	-	-	-	-	-	9
Foreign currency valuation adjustments	(5)	-	(64)	(3)	-	-	-	(72)
Balance, end of 2019	405	307	9,295	3,144	4	71	89	13,315
Accumulated depreciation								
Balance, beginning of 2019	-	-	1,974	773	1	33	-	2,781
Depreciation	-	-	187	89	1	9	10	296
Disposals and retirements[3]	-	-	(19)	(6)	-	(4)	-	(29)
Foreign currency valuation adjustments	-	-	(13)	-	-	-	-	(13)
Balance, end of 2019	-	-	2,129	856	2	38	10	3,035
Net book value, end of 2019	$ 405	$ 307	$ 7,166	$ 2,288	$ 2	$ 33	$ 79	$ 10,280

1 Additions include non-cash contributed assets of $171 million (2019 - $235 million) and assets constructed using cash contributions of $131 million (2019 - $83 million).

2 The ROU assets primarily consist of land and buildings (including office spaces).

3 Gains or losses on disposals are recognized within depreciation and amortization expense.

Borrowing costs capitalized during the year ended December 31, 2020, were $9 million (2019 - $8 million). The weighted average rates used to determine the borrowing costs eligible for capitalization ranged from 3.46% to 4.49% (2019 - 3.38% to 5.26%).

There are no security charges over the Company's PP&E, except as described in note 18.

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

16. Intangible assets and goodwill

	Goodwill	Customer rights[1]	Other rights (including water rights)	CCN	Software	Total
Cost						
Balance, beginning of 2020	$ 80	$ 51	$ 110	$ 87	$ 220	$ 548
Additions	-	-	-	-	75	75
Internally generated additions	-	-	-	-	1	1
Disposals and retirements[2]	-	(51)	-	-	(22)	(73)
Change in construction work in progress	-	52	-	-	(24)	28
Transfers	-	-	5	-	-	5
Foreign currency translation adjustments	(1)	-	(1)	(2)	(1)	(5)
Balance, end of 2020	79	52	114	85	249	579
Accumulated amortization						
Balance, beginning of 2020	-	49	12	-	99	160
Amortization	-	2	3	-	19	24
Disposals and retirements[2]	-	(51)	-	-	(22)	(73)
Balance, end of 2020	-	-	15	-	96	111
Net book value, end of 2020	$ 79	$ 52	$ 99	$ 85	$ 153	$ 468

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

	Goodwill	Customer rights[1]	Other rights (including water rights)	CCN	Software	Total
Cost						
Balance, beginning of 2019	$ 71	$ 51	$ 114	$ 91	$ 190	$ 517
Additions	-	-	-	-	22	22
Additions through business acquisitions	12	-	9	-	-	21
Internally generated additions	-	-	-	-	1	1
Disposals and retirements[2]	-	-	-	-	(12)	(12)
Change in construction work in progress	-	-	2	-	18	20
Transfers	-	-	(10)	-	1	(9)
Foreign currency translation adjustments	(3)	-	(5)	(4)	-	(12)
Balance, end of 2019	80	51	110	87	220	548
Accumulated amortization						
Balance, beginning of 2019	-	46	11	-	92	149
Amortization	-	3	1	-	19	23
Disposals and retirements[2]	-	-	-	-	(12)	(12)
Balance, end of 2019	-	49	12	-	99	160
Net book value, end of 2019	$ 80	$ 2	$ 98	$ 87	$ 121	$ 388

1 The Company's customer rights consist of rights to operate in the FortisAlberta Service territory. The existing customer rights expired on December 31, 2020, and were re-acquired during the year, for a term of eight years effective January 1, 2021.

2 Gains or losses on disposals are recognized within depreciation and amortization expense.

Borrowing costs capitalized during the year ended December 31, 2020, were $2 million (2019 - $1 million). The weighted average rates used to determine the borrowing costs eligible for capitalization ranged from 4.07% to 4.49% (2019 - 4.49% to 5.16%).

There are no security charges over the Company's intangible assets, except as described in note 18.

For purposes of impairment testing, CCN has been allocated to CGUs as follows:

	2020	2019
Cash-generating unit:		
U.S. operations segment - Water Arizona	$ 83	$ 85
U.S. operations segment - other	2	2
	$ 85	$ 87

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

For purposes of impairment testing, goodwill acquired through business combinations has been allocated to CGUs as follows:

		2020		2019
Cash-generating unit:				
U.S. operations segment - Water Arizona	$	52	$	53
U.S. operations segment - other		8		8
Other - Canadian operations		19		19
	$	79	$	80

The most recent impairment testing for goodwill was performed in the fourth quarter for each CGU.

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 electricity, natural gas and water supply in a rate-regulated environment. In the case of CGUs 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 CGUs, 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 CGUs is most sensitive to the following assumptions:

Discount rates

The after-tax discount rates used ranged from 3.96% - 5.85% (2019 - 4.30% - 5.85%), which were estimated based on the weighted average cost of capital for the CGUs.

Timing of future rate increases

Revenue growth is forecast at average from 1.53% to 19.40% per annum (2019 - from 1.76% to 11.90% per annum). 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. In the case of non-regulated businesses, delays in execution of additional long-term contracts could affect cash flows from revenues.

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 CGU.

17. Trade and other payables

		2020		2019
Trade payables	$	263	$	236
Accrued liabilities		106		149
Accrued interest		27		26
Due to employees		24		20
Income tax payable		6		-
	$	426	$	431

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

18. Loans and borrowings

	Effective interest rate	Principal payment terms	2020	2019
Long-term loans and borrowings				
Municipal debt obligations				
Obligation to the City				
At 7.01%, due between 2020 and 2023[1]	6.99%	Annual installments	$ 5	$ 8
At 5.20%, due between 2020 and 2034[2]	5.36%	Semi-annual installments	44	49
At 3.41%, due between 2020 and 2042[3]	3.42%	Periodic installments	508	534
			557	591
Obligation to the Town of Collingwood				
At 3.97% due between 2020 and 2043[4]	3.94%	Periodic installments	7	8
			564	599
Public debentures				
At 1.95%, due in 2022	2.11%	Due at maturity	100	100
At 1.30%, due in 2023[5]	1.45%	Due at maturity	100	-
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	400
At 3.95%, due in 2048	4.03%	Due at maturity	200	200
At 3.11%, due in 2049	3.17%	Due at maturity	350	350
At 2.90%, due in 2050[5]	2.95%	Due at maturity	300	-
			2,500	2,100
Private debt notes				
Bonds at 3.74%, due in 2021	3.80%	Due at maturity	176	179
Bonds at 3.94%, due between 2020 and 2029	4.01%	Monthly installments	1	1
Bonds at 5.00%, due in 2041	5.08%	Due at maturity	143	145
Bonds at 3.63% due in 2041	3.71%	Due at maturity	51	51
			371	376
			3,435	3,075
Debt issuance costs			(18)	(16)
Total long-term loans and borrowings			3,417	3,059
Short-term debt – commercial papers			155	22
Total loans and borrowings			3,572	3,081
Less: current portion			365	55
			$ 3,207	$ 3,026

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, 2020, debt obligations totaling $5 million (2019 - $8 million) are due to the City.

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

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. The Company's obligation to the City matches the City's obligation pursuant to those debentures and at December 31, 2020, debt obligations totaling $44 million (2019 - $49 million) are due to the City.

3 In 2017, the City transferred the sanitary and stormwater services business (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, representing EPCOR's proportionate share of the City's debt obligations in respect of Drainage operations.

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.

Obligation to the Town of Collingwood

4 In 2018, the Company acquired Collingwood PowerStream Utility Services Corp. (Collus). As part of the acquisition, the Company assumed long-term debt of $8 million payable to the Town of Collingwood. The debt is fully secured by the assets of the Collus utility.

Public debentures

5 During the year, the Company issued $400 million dual-tranche long-term public debentures, consisting of a $100 million three-year note maturing in 2023 and a $300 million 30-year note maturing in 2050.

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 consists of all notes issued in U.S. dollars. These notes 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.

19. Deferred revenue

	2020	2019
Balance, beginning of year	$ 3,778	$ 3,532
Contributions received[1]	290	328
Revenue recognized	(78)	(70)
Transfers from provisions	11	2
Recognized on business acquisition	-	3
Foreign currency valuation adjustments	(9)	(17)
Balance, end of year	3,992	3,778
Less: current portion	83	71
	$ 3,909	$ 3,707

1 Contributions received include cash contributions of $107 million (2019 - $74 million), accruals for contributions receivable of $24 million (2019 - $24 million) and non-cash contributions of $159 million (2019 - $230 million).

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

20. Provisions

	2020	2019
Contributions from customers and developers[1]	$ 20	$ 20
Post-employment benefit obligation	70	64
Other long-term employee benefit obligation	25	22
Short-term employee benefit obligation	25	22
Other	2	2
	142	130
Less: current portion	33	30
	$ 109	$ 100

1 During the year, the Company received non-cash contributed assets of $12 million (2019 - $5 million).

Post-employment benefits

Total cash payments for pension benefits for the year ended December 31, 2020, 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 $48 million (2019 - $47 million). Total contributions expected to be paid in 2021 to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan are $49 million.

21. Other liabilities

	2020	2019
Customer deposits	$ 30	$ 29
Drainage transition cost compensation	15	29
Lease liabilities	124	128
Contingent consideration	45	43
Consideration payable - long-term investment in Vista Ridge	-	12
	214	241
Less: current portion	49	65
	$ 165	$ 176

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. The change in the liability for Drainage transition cost compensation was as follows:

	2020	2019
Balance, beginning of year	$ 29	$ 45
Payment during the year	(14)	(17)
Unwinding of interest included within finance expenses (note 9)	-	1
Balance, end of year	$ 15	$ 29

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

Lease liabilities

The changes in lease liabilities during the year were as follows:

	2020	2019
Balance, beginning of year	$ 128	$ -
Lease liabilities recognized on implementation of IFRS 16	-	136
Lease contracts executed during the year	8	4
Payments during the year	(12)	(12)
Balance, end of year	$ 124	$ 128

Approximate future payments by the Company with respect to its lease liabilities are as follows:

	2020	2019
Within one year	$ 16	$ 17
After one year but not more than five years	55	55
More than five years	77	84
Unrecognized finance expense	(24)	(28)
	$ 124	$ 128

The lease liabilities primarily consist of the Company's leases for land and buildings including office space in Edmonton, Canada. In 2007, the Company entered into a long-term agreement to lease commercial space in an office tower in Edmonton, Canada, primarily for its head office. 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. The Company is not reasonably certain whether it will exercise the renewal options under the lease, accordingly, the Company has not recognized a ROU asset or lease liability related to the renewal options.

The Company has sub-leased a portion of the space under its office lease to a third party under the same terms and conditions as the Company's head lease with its landlord. The Company has classified the sub-lease as a finance lease. Accordingly, the Company de-recognized the portion of ROU assets related to sub-lease and recognized the finance lease receivable, which is included in other financial assets (note 13) in the consolidated statements of financial position.

In addition to the above sub-lease, effective November 1, 2013, the Company sub-leased another 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. The Company has recognized the sub-lease as an operating lease. Approximate future payments to the Company under the operating lease are as follows:

	2020	2019
Within one year	$ 1	$ 1
After one year but not more than five years	3	4
	$ 4	$ 5

Contingent consideration

The contingent consideration represents the present value of the Company's commitment to pay approximately US$33 million on securing newly executed long-term contracts for the supply of water by EPCOR 130 Project Inc. and finalization of certain pending agreements with third parties, and approximately US$8 million on securing additional customer connections for natural gas by EPCOR Gas Texas. 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 changes in the liability for contingent consideration were as follows:

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

	2020	2019
Balance, beginning of year	$ 43	$ 49
Changes in fair value of contingent consideration included within finance expense (note 9)	-	(6)
Unwinding of interest included within finance expenses (note 9)	3	3
Foreign currency valuation adjustments	(1)	(3)
Balance, end of year	$ 45	$ 43

In 2019, the Company recognized $6 million related to change in fair value of contingent consideration resulting from changes in expected timing of payments.

22. 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. As of December 31, 2020, the Company had accumulated capital contributions of $798 million (2019 - $798 million).

23. Changes in non-cash working capital

	2020	2019
Trade receivables (note 12)	$ (17)	$ (35)
Prepaid expenses (note 12)	2	(4)
Inventories	1	1
Trade and other payables (note 17)	(5)	16
	$ (19)	$ (22)

	2020	2019
Included in specific items on consolidated statements of cash flows:		
Interest received	$ 1	$ 6
Income tax expense	7	-
Contributions and government grants received	-	(15)
Other	1	8
	9	(1)
Operating activities	(10)	(49)
Investing activities	(18)	28
	$ (19)	$ (22)

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

24. Changes in liabilities arising from financing activities:

	At December 31, 2019	Issued or received	Redemptions, repayments or payments	Foreign currency valuation adjustments	Other	At December 31, 2020
Long-term loans and borrowings (including current portion):						
Obligation to the City	$ 591	$ -	$ (32)	$ -	$ (2)	$ 557
Obligation to the Town of Collingwood	8	-	(1)	-	-	7
Public debentures	2,100	400	-	-	-	2,500
Private debt notes	376	-	-	(7)	2	371
Debt issuance costs	(16)	(3)	-	-	1	(18)
Total long-term loans and borrowings (including current portion)	$ 3,059	$ 397	$ (33)	$ (7)	$ 1	$ 3,417
Short-term loans and borrowings	$ 22	$ 1,968	$ (1,835)	$ -	$ -	$ 155
Contributions from customers and developers	$ 20	$ 2	$ (3)	$ -	$ 1	$ 20
Lease liabilities	$ 128	$ -	$ (12)	$ -	$ 8	$ 124

	At December 31, 2018	Issued or received	Redemptions, repayments or payments	Foreign currency valuation adjustments	Other	At December 31, 2019
Long-term loans and borrowings (including current portion):						
Obligation to the City	$ 622	$ -	$ (30)	$ -	$ (1)	$ 591
Obligation to the Town of Collingwood	8	-	-	-	-	8
Public debentures	1,650	450	-	-	-	2,100
Private debt notes	396	-	(1)	(19)	-	376
Debt issuance costs	(14)	(3)	-	-	1	(16)
Total long-term loans and borrowings (including current portion)	$ 2,662	$ 447	$ (31)	$ (19)	$ -	$ 3,059
Short-term loans and borrowings	$ 38	$ 1,730	$ (1,746)	$ -	$ -	$ 22
Contributions from customers and developers	$ 19	$ 1	$ (3)	$ (2)	$ 5	$ 20
Lease liabilities	$ -	$ -	$ (12)	$ -	$ 140	$ 128

25. Related party balances and transactions

Compensation of key management personnel

	2020	2019
Salaries and short-term employee benefits	$ 6	$ 6
Post-employment benefits	1	2
Other long-term employee benefits	2	2
	$ 9	$ 10

The Company provides utility services to key management personnel, comprised of the executive leadership team, 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.

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

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:

	2020	2019
Consolidated Statements of Comprehensive Income		
Revenues (a)	$ 50	$ 54
Other raw materials and operating charges (b)	14	20
Other administrative expenses (c)	2	2
Franchise fees and property taxes (d)	117	113
Finance expenses (e)	21	22

(a) Included within revenues are energy and water sales of $2 million (2019 - $5 million), provision of service including the wastewater and stormwater services of $4 million (2019 - $3 million), maintenance, repair and construction services of $40 million (2019 - $42 million) and customer billing services of $4 million (2019 - $4 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) Includes franchise fees of $64 million at 0.46 cents per kilowatt hour of electric distribution sales volume for direct connect customers and 0.90 cents per kilowatt hour for all other customers (2019 - $62 million at 0.41 cents per kilowatt hour of electric distribution sales volume for direct connect customers and 0.85 cents per kilowatt hour for all other customers), franchise fees of $23 million at 8% (2019 - $22 million at 8%) of qualifying revenues of water services and waste water services, franchise fees of $10 million at 8% (2019 - $9 million at 8%) of qualifying revenue of sanitary services and property taxes of $20 million (2019 - $20 million) on properties owned within the City municipal boundaries.

(e) Finance expenses on the long-term loans and borrowings obligation to the City at interest rates ranging from 3.41% to 7.01% (2019 - 3.41% to 7.01%).

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

	2020	2019
Consolidated Statements of Financial Position		
Trade and other receivables	$ 61	$ 78
Property, plant and equipment (f)	40	73
Trade and other payables	21	21
Loans and borrowings (note 18)	557	591
Deferred revenue (g)	63	75
Other liabilities (note 21)	15	29

(f) During the year, the City transferred contributed assets of $28 million (2019 - $72 million) for various Drainage projects to the Company. In addition, the City provided services of $12 (2019 - $1 million) for capital construction for electric and water distribution infrastructure and sanitary and stormwater infrastructure.

(g) Includes contributed assets received and contributions received and accrued for capital projects during the years 2020 and 2019.

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

26. Financial instruments

Classification

The classifications of the Company's financial instruments measured at fair value at December 31, 2020 and 2019 are summarized as follows:

	Fair value hierarchy
Long-term investment	Level 3
Derivative financial instruments	
Financial electricity purchase contracts	Level 1
Other liabilities	
Contingent consideration	Level 3

Fair value

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

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

		2020		2019	
	Fair value hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
Non-current portion of other financial assets[1]	Level 2	$ 182	$ 187	$ 120	$ 121
Loans and borrowings (note 18)	Level 2	3,572	4,374	3,081	3,602
Other liabilities (note 21)					
Drainage transition cost compensation	Level 2	15	15	29	29

1 Excluding long-term investment in Vista Ridge of $7 million (2019 - $7 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 using 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.

Long-term investment

The long-term investment consists of the Company's 5% equity interest in Vista Ridge. Vista Ridge is a privately owned company therefore the equity instruments of Vista Ridge are not traded in active market and the fair value of equity is not readily observable. Accordingly, the fair value of long-term investment in Vista Ridge is determined based on unobservable inputs including the expected future cash flows from the investment discounted at a risk-adjusted discount rate.

Derivative financial instruments

The derivative financial instruments consist of financial electricity purchase contracts.

The fair value of the Company's financial electricity purchase contracts is determined based on exchange index prices in active markets and are based on the external readily observable market data such as forward electricity prices. It is possible that the fair value amounts will differ from future outcomes and the impact of such variations could be material.

Derivative financial assets are presented within trade and other receivables whereas derivative financial liabilities are presented within trade and other payables in the consolidated statements of financial position. At December 31, 2020 and 2019 the derivative financial instruments had a $nil balance.

Contingent consideration

The contingent consideration is payable in U.S. dollars and payment is mainly 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 EPCOR Gas Texas Inc., the timing of which is uncertain. The fair value of the Company's contingent consideration is determined based on the expected timing of securing new contracts and customer connections and the resulting cash flows are then discounted at risk-adjusted discount rates. Any change in the timing of securing new contracts and additional customer connections, discount rate or foreign exchange rate can have a significant impact on the fair value of contingent consideration.

Timing of securing new contracts and additional customer connections

If the timing of securing new contracts and additional customer connections is advanced by two years, the fair value of the contingent consideration will increase by $5 million (2019 - $5 million). Alternatively, if the timing of securing new contracts and additional customer connections is delayed by two years then the fair value of the contingent consideration will decrease by $5 million (2019 - $4 million).

Discount rate

A 50 basis point change in the discount rate will change the fair value of the contingent consideration by $1 million (2019 - $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 (2019 - $4 million).

Non-current portion of other financial assets

The fair values of the Company's long-term 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, 2020 and 2019. The fair value of finance lease receivables is based on the estimated current market rates for similar assets discounted at the prevailing interest rates for comparable investments plus an estimated credit spread based on counterparty risks at December 31, 2020 and 2019.

Loans and borrowings

The fair value of the Company's long-term public debt is based on the pricing sourced from market data as of December 31, 2020 and 2019. 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, 2020 and 2019. 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.

Short-term loans and borrowings are measured at amortized cost and their carrying value approximate their fair value due to the short-term nature of these financial instruments.

Drainage transition cost compensation

The transition cost compensation is payable in installments to the City to compensate for stranded costs related to the transfer of the Drainage business. The carrying value of the Drainage transition cost compensation represents the present value of the liability, discounted using interest rates prevailing at the time of initial recognition of liability. The fair value of the Drainage transition cost compensation is determined based on the future cash outflows discounted at risk-adjusted discount rates prevailing at December 31, 2020 and 2019.

27. 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 provides the Board of Directors with an enterprise risk assessment on a quarterly basis. 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 flows.

Financial risk management, including foreign exchange risk, interest rate risk, liquidity risk and the associated credit risk, 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 monitor compliance.

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 financial 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 financial 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 quantity of electricity consumption, method used to reduce the risk of adverse price movement for the expected electricity consumption, and the electricity selling prices to be charged to these customers are determined by the EPSP. Under the EPSP, the Company uses financial contracts to mitigate the risk of adverse price movement of electricity under the RRO requirements and incorporate the price into customer rates for the applicable month. The Company enters into financial contracts-for-differences for forecasted volumes of electricity to mitigate the risk of adverse price movement up to 120 days in advance of the month in which the electricity (load) is expected to be consumed by the RRO customers. The volume of electricity is based on load (usage) forecasts for the consumption month. When consumption varies from forecast consumption patterns, EPCOR is exposed to prevailing market prices on fifty percent of the load when the volume of electricity contracted under the financial contracts-for-differences is short of actual load requirements or greater than the actual load requirements. Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and extreme weather patterns.

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

Under contracts-for-differences the Company agrees to exchange, with a counterparty meeting the Company's credit risk parameters, the difference between the AESO electricity spot market price and the fixed contract price for a forecasted volume of electricity up to 120 days 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 mitigate the risk of adverse movement in the price of electricity.

At December 31, 2020, the Company has entered in the following electricity price forward contracts:

	2020	2019
Electricity price forward contracts		
Net notional buys		
Terawatt hours of electricity	1.0	1.0
Range of contract terms (in years)	0.1 to 0.3	0.1 to 0.3

At December 31, 2020, holding all other variables constant, a $5 per megawatt hour change in the forward electricity spot price would increase or decrease net income by approximately $5 million (2019 - $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 $23 million (2019 - $21 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, 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. dollar 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.

The Company designates a portion of private debt notes denominated in U.S. dollars as foreign exchange hedges on its net investment in foreign subsidiaries to mitigate the foreign currency risk. Accordingly, from the date of designation, foreign exchange gains or losses on translation of the debts denominated in U.S. dollars are recorded in other comprehensive income, which minimizes volatility in earnings resulting from the foreign currency conversion. During the year ended December 31, 2020, the Company recorded a foreign exchange gain of $7 million (2019 - $19 million) on private debt notes designated as hedges on its net investment in foreign subsidiaries in other comprehensive income.

At December 31, 2020, holding all other variables constant, a 10% change in the U.S. dollar exchange rate would change the private debt balance by $37 million (2019 - $38 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. Interest rate risk associated with short-term loans and borrowings is immaterial due to its short-term maturity. At December 31, 2020 and 2019, all long-term debt was fixed rate.

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

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 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.

The COVID-19 outbreak and resulting measures introduced by various governments and municipalities have resulted in economic slowdown. The economic slowdown together with measures by various governments preventing utility companies from disconnecting customers for non-payment and allowing certain utility customers to defer payments of their utility bills for a limited period, have increased the credit risk of the Company.

To manage and mitigate credit risk, the Company employs various credit mitigation practices such as master netting agreements, pre-payment arrangements from 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:

	2020	2019
Cash and cash equivalents[1] (note 11)	$ 8	$ 33
Trade and other receivables[1 & 2] (note 12)	473	455
Other financial assets[3] (note 13)	188	126
	$ 669	$ 614

1 This table does not take into account collateral held. At December 31, 2020, the Company held cash deposits of $30 million (2019 - $29 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 comprised of $360 million (2019 - $343 million) related to rate-regulated customer balances. At December 31, 2020, the Company held credit enhancements to mitigate credit risk on trade and other receivables in the form of letters of credit of $3 million (2019 - $9 million), performance bonds of $54 million (2019 - $28 million) and parental guarantees of $350 million (2019 - $282 million).

3 Excluding long-term investment in Vista Ridge.

Credit quality and concentrations

The Company is exposed to credit risk on outstanding trade receivables associated with its energy and water related activities, 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 financial instruments, finance lease receivables and long-term financing arrangements receivable.

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

The credit quality of the Company's trade and other receivables, by major credit concentrations, cash and cash equivalents, and other financial assets at December 31, 2020 and 2019, are as follows:

	2020		2019	
	Investment grade or secured[1,2]	Unrated	Investment grade or secured[1,2]	Unrated
	%	%	%	%
Trade and other receivables				
Rate-regulated customers[3]	12	64	11	64
Non rate-regulated customers	10	14	13	12
Total trade and other receivables	22	78	24	76
Cash and cash equivalents	100	-	100	-
Other financial assets				
Finance lease receivables	100	-	100	-
Long-term receivables	100	-	100	-

1 Credit ratings are based on the Company's internal criteria and analysis, 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 sales and distribution and transmission services, 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 areas 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 energy and water supply rates is generally limited to amounts due from customers for energy and water consumed, and collection and conveyance of sanitary and stormwater as well as treatment of wastewater services provided 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, cash deposits or letters of credit. The Company monitors credit risk for this portfolio at the gross exposure level.

Trade and other receivables and expected credit loss allowance

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 Company provides for an allowance for lifetime ECL.

The Company calculates the ECL on accounts receivable using a provision matrix approach, which is based on the Company's historical credit loss experience and current economic conditions (including forward-looking information) for accounts receivables to estimate the ECL. The provision matrix specifies fixed provision rates depending on the number of days that a trade receivable is due or past due in each business unit. The Company, in view of the COVID-19 pandemic and related economic impacts including the temporary deferral of customer payments, has adjusted the ECL provision matrix to account for higher level of potential customer defaults. This adjustment in ECL provision matrix has resulted in recording of additional provision for ECL of $11 million for the year ended December 31, 2020. The total ECL allowance at December 31, 2020 was $17 million (2019 - $4 million).

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

The gross amounts of trade receivables and corresponding ECL allowance are as follows:

December 31, 2020	Gross accounts receivable	Expected credit loss allowance	Net accounts receivable
Current[1]	$ 418	$ (3)	$ 415
Outstanding 31 to 60 days	19	(2)	17
Outstanding 61 to 90 days	8	(1)	7
Outstanding more than 90 days	45	(11)	34
	$ 490	$ (17)	$ 473

December 31, 2019	Gross accounts receivable	Expected credit loss allowance	Net accounts receivable
Current[1]	$ 393	$ (1)	$ 392
Outstanding 31 to 60 days	27	(1)	26
Outstanding 61 to 90 days	8	-	8
Outstanding more than 90 days	31	(2)	29
	$ 459	$ (4)	$ 455

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

Given the high degree of volatility caused by the COVID-19 outbreak, the estimates and judgments made by management in the preparation of the ECL allowance are subject to a higher degree of estimation uncertainty compared to previous years. The Company continues to monitor the situation, including information related to realized credit losses from customers and further pronouncements from governments and regulators, and if required, will make adjustments to the ECL allowance in future periods.

During the year, the Company recognized $23 million (2019 - $10 million) of ECL as an expense, including an additional expense of $11 million resulting from the COVID-19 impacts, in net income relating to customer amounts that the Company determined may not be fully collectable. The ECL allowance is determined by each business unit considering the unique factors of the business unit's trade and other receivables. 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 receivables and the related ECL allowance is recorded when the Company has determined that recovery is not possible.

The changes in the ECL allowance are as follows:

	2020	2019
Balance, beginning of year	$ (4)	$ (5)
Additional allowances created	(23)	(10)
Recovery of receivables	(3)	(3)
Receivables written off	13	14
Balance, end of year	$ (17)	$ (4)

At December 31, 2020, the Company held $25 million (2019 - $25 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 financial 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.

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

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:

December 31, 2020	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2024	$ 600	$ 154	$ -	$ 446
Uncommitted					
Bank credit facilities[2]	No expiry	200	-	85	115
Bank credit facility	No expiry	25	-	-	25
Bank credit facility	November 2021	13	-	-	13
Total uncommitted		238	-	85	153
		$ 838	$ 154	$ 85	$ 599

December 31, 2019	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2024	$ 600	$ 22	$ -	$ 578
Uncommitted					
Bank credit facilities[2]	No expiry	200	-	99	101
Bank credit facility	No expiry	25	-	-	25
Bank credit facility	November 2020	13	-	-	13
Total uncommitted		238	-	99	139
		$ 838	$ 22	$ 99	$ 717

1 The Company's $600 million committed syndicated bank credit facility is entirely available and primarily used for 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 gives the Company the option each year to re-price and extend the term 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. At December 31, 2020, commercial paper totaling $154 million was issued and outstanding (2019 - $22 million).

2 The Company's uncommitted bank credit facility consists of five bilateral credit facilities (totaling $200 million) which are restricted to letters of credit. At December 31, 2020, letters of credit totaling $85 million have been issued and outstanding (2019 - $99 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

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, 2020, the available amount remaining under this Canadian base shelf prospectus was $1.6 billion (2019 - $2 billion). The Canadian base shelf prospectus expires in December 2021.

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

The undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments at December 31, 2020, are as follows:

	2021	2022	2023	2024	2025	2026 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 399	$ -	$ -	$ -	$ -	$ -	$ 399
Loans and borrowings[2]	365	135	132	33	34	2,889	3,588
Interest payments on loans and borrowings	140	133	129	127	125	1,908	2,562
Other liabilities[3]	56	26	59	13	13	79	246
	$ 960	$ 294	$ 320	$ 173	$ 172	$ 4,876	$ 6,795

1 Excluding accrued interest on loans and borrowings of $27 million.

2 Excluding debt issuance costs of ($18) million and fair value adjustment on the City debt of $2 million.

3 Including undiscounted liabilities for contingent consideration, Drainage transition cost compensation and lease liabilities.

The Company's undiscounted cash flow requirements and contractual maturities in the next 12 months of $960 million are expected to be funded from operating cash flows, 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.

28. 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.

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 financial 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:

	2020	2019
Loans and borrowings (note 18)[1]	$ 3,588	$ 3,094
Cash and cash equivalents (note 11)	(8)	(33)
Net debt	3,580	3,061
Total equity	3,791	3,704
Total capital	$ 7,371	$ 6,765

1 Excluding debt issuance costs of ($18) million (2019 - ($16) million) and fair value adjustment on the City debt of $2 million (2019 - $3 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% (2019 - 80%);

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

- Maintenance of consolidated senior debt to consolidated capitalization ratio, as defined in the debt agreements, of not more than 75% (2019 - 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, 2020 and 2019, the Company complied with all externally imposed capital restrictions.

29. Commitments, contingencies and guarantees

Commitments

The following represent the Company's commitments at December 31, 2020, not otherwise disclosed in these consolidated financial statements:

	2021	2022	2023	2024	2025	2026 and thereafter	Total
Distribution and Transmission segment capital projects[1]	$ 36	$ 5	$ 12	$ -	$ -	$ -	$ 53
Developer funded sanitary and stormwater capital projects[2]	26	9	-	-	-	-	35
Various sanitary and capital project service agreements[3]	82	62	33	-	-	-	177
U.S. Operations Johnson Utilities LLC. asset purchase agreement[4]	134	-	-	6	-	-	140
U.S. Operations Water purchase and transportation of water agreements[5]	7	2	3	3	2	-	17
South Bruce natural gas infrastructure project[6]	20	-	-	-	-	-	20
Renewable electricity credits purchase contract[7]	-	-	1	2	2	24	29
Design and build subcontract for electrical infrastructure related to the Trans Mountain Pipeline expansion project[8]	28	-	-	-	-	-	28
Other	23	10	6	6	3	3	51
	$ 356	$ 88	$ 55	$ 17	$ 7	$ 27	$ 550

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.

3 The Company has executed various non-cancellable purchase commitments related to sanitary and stormwater related Master Service Agreements for engineering services and construction contractors for various capital projects, as well as, commitment related to rehabilitate and upgrade the sanitary sewers in the city of Edmonton.

4 The Company entered into an asset purchase agreement with Johnson Utilities Inc., which provides water treatment and distribution, and wastewater collection and treatment services to customers in southeast of the greater metropolitan Phoenix area. For more details, refer to subsequent event (note 31).

5 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.

6 The Company has entered into a design and build agreement for construction of natural gas infrastructure to connect new customers in the Southern Bruce area.

7 The Company has entered into a contract with Renewable Energy Systems Canada Inc. to acquire renewable electricity credits (RECs) sourced from a new wind farm in southern Alberta for a term of 20 years. The procurement of RECs is sized to match EPCOR's grid electricity consumption for all of its operations within the city of Edmonton, net of expected generation from a solar farm near E.L. Smith water treatment plant. The construction of the new wind farm is proposed to be complete by end of 2022.

8 The Company has entered into a subcontract with Kiewit and Western Pacific Enterprises, for design and build of the electricity infrastructure facilities related to the Trans Mountain pipeline expansion project.

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 and performance assurance bonds on behalf of its subsidiaries to meet the conditions of the agreements with third parties. At December 31, 2020, guarantees totaling $511 million (2019 - $442 million) have been issued to various third parties.

30. Segment information

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, 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 design, 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 the RRO electricity service and default supply electricity services to customers in Alberta. This segment also provides competitive electricity and natural gas products under the Encor brand.

U.S. Operations

U.S. Operations is primarily involved in the treatment, transmission, distribution and sale of water, the collection and treatment of wastewater, and operating and maintenance services within the Southwestern U.S. This segment also provides natural gas distribution and transmission services in Texas. 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 Ontario natural gas and electricity distribution businesses, certain Canadian business development projects including the electrical infrastructure related to the Trans Mountain pipeline expansion project and the cost of the Company's net unallocated corporate office expenses.

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

Year ended December 31, 2020	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 676	$ 480	$ 415	$ 286	$ 131	$ -	$ 1,988
Inter-segment revenue	-	14	18	-	-	(32)	-
Total revenues	676	494	433	286	131	(32)	1,988
Energy purchases and system access fees	-	-	315	3	49	-	367
Other raw materials and operating charges	93	54	-	57	65	(6)	263
Staff costs and employee benefits expenses	146	80	36	42	58	(9)	353
Depreciation and amortization	163	96	6	61	25	-	351
Franchise fees and property taxes	35	83	-	8	1	-	127
Other administrative expenses	34	16	36	18	11	(17)	98
Operating expenses	471	329	393	189	209	(32)	1,559
Operating income (loss) before corporate income (charges)	205	165	40	97	(78)	-	429
Corporate income (charges)	(33)	(22)	(13)	(6)	74	-	-
Operating income (loss)	172	143	27	91	(4)	-	429
Finance recoveries (expenses)	(76)	(59)	(4)	(48)	50	-	(137)
Income tax expense	-	-	-	(11)	(5)	-	(16)
Net income	$ 96	$ 84	$ 23	$ 32	$ 41	$ -	$ 276
Capital additions	$ 448	$ 218	$ 53	$ 117	$ 88	$ -	$ 924

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

Year ended December 31, 2019	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
External revenues	$ 646	$ 429	$ 469	$ 250	$ 70	$ -	$ 1,864
Inter-segment revenue	-	12	16	-	1	(29)	-
Total revenues	646	441	485	250	71	(29)	1,864
Energy purchases and system access fees	-	-	355	4	43	-	402
Other raw materials and operating charges	102	44	-	52	11	(6)	203
Staff costs and employee benefits expenses	140	78	30	34	56	(7)	331
Depreciation and amortization	151	93	8	54	22	-	328
Franchise fees and property taxes	33	80	-	8	1	-	122
Other administrative expenses	30	15	28	15	15	(16)	87
Operating expenses	456	310	421	167	148	(29)	1,473
Operating income (loss) before corporate income (charges)	190	131	64	83	(77)	-	391
Corporate income (charges)	(32)	(22)	(10)	(6)	70	-	-
Operating income (loss)	158	109	54	77	(7)	-	391
Finance recoveries (expenses)	(75)	(59)	(3)	(41)	53	-	(125)
Income tax expense	-	-	-	(7)	(28)	-	(35)
Net income	$ 83	$ 50	$ 51	$ 29	$ 18	$ -	$ 231
Capital additions	$ 333	$ 237	$ 2	$ 103	$ 80	$ -	$ 755

The Company's assets and liabilities by business segment at December 31, 2020 and 2019 are summarized as follows:

December 31, 2020	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 7,204	$ 2,636	$ 253	$ 1,547	$ 4,817	$ (4,277)	$ 12,180
Total liabilities	5,594	1,787	206	1,240	3,839	(4,277)	8,389

December 31, 2019	Water Services	Distribution & Transmission	Energy Services	U.S. Operations	Other	Intersegment Elimination	Consolidated
Total assets	$ 6,762	$ 2,529	$ 210	$ 1,492	$ 4,363	$ (3,935)	$ 11,421
Total liabilities	5,217	1,733	185	1,207	3,310	(3,935)	7,717

Non-current assets by geography

	2020	2019
Canada	$ 10,175	$ 9,449
U.S.	1,492	1,448
	$ 11,667	$ 10,897

31. Subsequent event

Business acquisition of Johnson Utilities LLC.

On January 29, 2021, the Company assumed operations and acquired substantially all of the water treatment and distribution and wastewater collection and treatment assets of Johnson Utilities LLC., for consideration of $140 million (US$110 million) including cash consideration of $127 million (US$100 million) and long-term debt of $13 million (US$10 million). The acquired assets are located southeast of the greater metropolitan Phoenix area, providing services to approximately 30,000 water and 42,000 wastewater customers and holding a certificate of convenience and necessity that covers 160 square miles. The operations of the utility are regulated by the Arizona Corporation Commission.

The acquisition of the assets will be accounted for as a business combination 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. The allocation of the purchase price to assets acquired and the liabilities assumed is being finalized, and will be reported in future periods.