Consolidated Financial Statements of

EPCOR UTILITIES INC.

Years ended December 31, 2013 and 2012

Management's responsibility for financial reporting

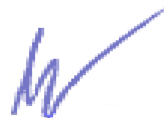
The preparation and presentation of the accompanying consolidated financial statements of EPCOR Utilities Inc. are the responsibility of management and the consolidated financial statements have been approved by the Board of Directors. In management's opinion, the consolidated financial statements have 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 March 12, 2014. 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 reliable financial information is relevant, accurate and available on a timely basis. The internal control systems are monitored by management, and evaluated by an internal audit function that regularly reports its findings to management and the Audit Committee of the Board of Directors.

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

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, which is comprised 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,



David Stevens
President and Chief Executive Officer

Guy Bridgeman
Senior Vice President and Chief Financial Officer

March 12, 2014

EPCOR UTILITIES INC.

Consolidated Financial Statements

Years ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of EPCOR Utilities Inc.

We have audited the accompanying financial statements of EPCOR Utilities Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EPCOR Utilities Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
March 12, 2014
Edmonton, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

EPCOR UTILITIES INC.
Consolidated Statements of Comprehensive Income
(In millions of Canadian dollars)

Years ended December 31, 2013 and 2012

	2013	2012
Revenues and other income:		
Revenues (note 5)	$ 1,929	$ 1,931
Other income (note 5)	26	28
	1,955	1,959
Operating expenses:		
Electricity purchases and system access fees	950	1,006
Other raw materials and operating charges	144	145
Staff costs and employee benefits expenses (notes 3(b) and 6)	280	280
Depreciation and amortization (note 6)	145	133
Franchise fees and property taxes	89	84
Other administrative expenses (note 6)	58	57
Foreign exchange loss (gain)	(1)	2
	1,665	1,707
Operating income	290	252
Finance expenses (note 7)	(107)	(116)
Equity share of income of Capital Power (note 16)	66	41
Loss on sale of a portion of investment in Capital Power (note 16)	(16)	(36)
Impairment of investment in Capital Power (note 8)	(43)	(124)
Income before income taxes	190	17
Income tax recovery (expense) (note 9)	(15)	2
Net income for the year – all attributable to the Owner of the Company	175	19
Other comprehensive income (loss):		
Item that will not be reclassified to net income:		
Re-measurements of net defined benefit plans[1] (note 3(b))	3	(7)
Items that may subsequently be reclassified to net income:		
Equity share of other comprehensive income (loss) of Capital Power[2] (note 16)	(10)	11
Amounts realized in net income on sale of a portion of investment in Capital Power[3] (note 16)	(3)	(2)
Unrealized loss on available-for-sale financial assets[4]	(1)	(2)
Unrealized gain (loss) on foreign currency translation[5]	17	(1)
	3	6
	6	(1)
Comprehensive income for the year - all attributable to the Owner of the Company	$ 181	$ 18

[1] For the year ended December 31, 2013, net of income tax expense of $2 million (2012 – income tax recovery of $1 million).

[2] For the year ended December 31, 2013, net of income tax recovery of $3 million (2012 – income tax expense of $3 million).

[3] For the year ended December 31, 2013, net of reclassification of income tax recoveries of $1 million (2012 – nil).

[4] For the year ended December 31, 2013, net of income tax recovery of nil (2012 – $1 million).

[5] For the year ended December 31, 2013, net of income tax expense of nil (2012 – 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, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents (note 10)	$ 130	$ 232
Trade and other receivables (note 11)	360	359
Inventories (note 12)	14	13
	504	604
Non-current assets:		
Finance lease receivables (note 13)	122	125
Other financial assets (note 14)	367	383
Deferred tax assets (note 15)	53	52
Investment in Capital Power (note 16)	385	621
Property, plant and equipment (note 17)	3,776	3,417
Intangible assets and goodwill (note 18)	240	222
	4,943	4,820
TOTAL ASSETS	$ 5,447	$ 5,424
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables (note 19)	$ 245	$ 303
Loans and borrowings (note 20)	15	14
Deferred revenue (note 21)	23	21
Provisions (notes 3(b) and 22)	29	29
Derivatives (note 23)	1	2
Other liabilities (note 24)	28	31
	341	400
Non-current liabilities:		
Loans and borrowings (note 20)	1,957	1,956
Deferred revenue (note 21)	783	741
Deferred tax liabilities (note 15)	12	4
Provisions (notes 3(b) and 22)	80	83
Other liabilities (note 24)	12	18
	2,844	2,802
Total liabilities	3,185	3,202
Equity attributable to the Owner of the Company:		
Share capital (note 25)	24	24
Accumulated other comprehensive income (notes 3(b) and 26)	13	7
Retained earnings (note 3(b))	2,225	2,191
Total equity	2,262	2,222
TOTAL LIABILITIES AND EQUITY	$ 5,447	$ 5,424

Commitments and contingencies (note 32)

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

EPCOR UTILITIES INC.

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

December 31, 2013 and 2012

		Accumulated other comprehensive income (loss)						
	Share capital (note 25)	Cash flow hedges (note 26)	Available-for-sale financial assets (note 26)	Cumulative translation account (note 26)	Employee benefits account (notes 3(b) and 26)	Investment in Capital Power (note 26)	Retained earnings (note 3(b))	Equity attributable to the Owner of the Company
Equity at December 31, 2012	$ 24	$ (7)	$ 2	$ -	$ (7)	$ 19	$ 2,191	$ 2,222
Net income for the year	-	-	-	-	-	-	175	175
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	3	-	-	3
Equity share of other comprehensive loss of Capital Power	-	-	-	-	-	(10)	-	(10)
Amounts realized in net income on sale of a portion of investment in Capital Power	-	2	-	-	-	(5)	-	(3)
Unrealized loss on available-for-sale financial assets	-	-	(1)	-	-	-	-	(1)
Unrealized gain on foreign subsidiary	-	-	-	17	-	-	-	17
Total comprehensive income (loss)	-	2	(1)	17	3	(15)	175	181
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2013	$ 24	$ (5)	$ 1	$ 17	$ (4)	$ 4	$ 2,225	$ 2,262

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

EPCOR UTILITIES INC.

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

December 31, 2013 and 2012

		Accumulated other comprehensive income (loss)						
	Share capital (note 25)	Cash flow hedges (note 26)	Available-for-sale financial assets (note 26)	Cumulative translation account (note 26)	Employee benefits account (notes 3(b) and 26)	Investment in Capital Power (note 26)	Retained earnings (note 3(b))	Equity attributable to the Owner of the Company
Equity at December 31, 2011	$ 24	$ (9)	$ 4	$ 1	$ -	$ 12	$ 2,313	$ 2,345
Net income for the year	-	-	-	-	-	-	19	19
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	(7)	-	-	(7)
Equity share of other comprehensive income of Capital Power	-	-	-	-	-	11	-	11
Amounts realized in net income on sale of a portion of investment in Capital Power	-	2	-	-	-	(4)	-	(2)
Unrealized loss on available-for-sale financial assets	-	-	(2)	-	-	-	-	(2)
Unrealized loss on foreign subsidiary	-	-	-	(1)	-	-	-	(1)
Total comprehensive income (loss)	-	2	(2)	(1)	(7)	7	19	18
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2012	$ 24	$ (7)	$ 2	$ -	$ (7)	$ 19	$ 2,191	$ 2,222

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, 2013 and 2012

	2013	2012
Cash flows from (used in) operating activities:		
Net income for the year	$ 175	$ 19
Reconciliation of net income for the year to cash from (used in) operating activities:		
Interest paid	(108)	(115)
Finance expense (note 7)	107	116
Income taxes paid	(7)	(4)
Income tax expense (recovery) (note 9)	15	(2)
Depreciation and amortization (note 6)	145	133
Contributions received	29	22
Deferred revenue recognized (note 21)	(20)	(20)
Fair value change on derivative instruments (note 23)	(1)	13
Loss on sale of a portion of investment in Capital Power (note 16)	16	36
Equity share of income from Capital Power (note 16)	(66)	(41)
Impairment of investment in Capital Power (note 8)	43	124
Foreign exchange loss (gain)	(1)	2
Other	-	(9)
Funds from operations	327	274
Change in non-cash operating working capital (note 27)	(66)	75
Net cash flows from operating activities	261	349
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets	(444)	(360)
Business acquisition, net of acquired cash	(4)	(460)
Change in non-cash investing working capital (note 27)	7	(21)
Proceeds on disposal of property, plant and equipment	2	7
Payment of Gold Bar transfer fees	(10)	(12)
Payments received on long-term receivables	14	25
Proceeds on sale of a portion of investment in Capital Power	194	221
Distributions received from Capital Power	36	42
Net cash flows used in investing activities	(205)	(558)
Cash flows from (used in) financing activities:		
Proceeds from issuance of long-term loans and borrowings (note 20)	-	300
Repayment of long-term loans and borrowings	(14)	(35)
Provisions	(3)	1
Common share dividends paid	(141)	(141)
Net cash flows from (used in) financing activities	(158)	125
Decrease in cash and cash equivalents	(102)	(84)
Cash and cash equivalents, beginning of year	232	316
Cash and cash equivalents, end of year	$ 130	$ 232

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

1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure, and provides electricity and water services and products to residential and commercial customers.

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

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

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 12, 2014.

(b) Basis of measurement

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

(c) Additional IFRS financial measure

The Company uses “operating income” as an additional IFRS financial measure. In management’s opinion, the measure is a more effective indicator of the Company’s and reportable business segments’ operating performance than net income because it only includes items directly related to or resulting from management’s operating decisions and actions.

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, its wholly-owned subsidiaries and joint arrangements at December 31, 2013. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from the performance of the entity and has the ability to affect those returns through its control over the entity. Subsidiaries are fully consolidated from the date on which EPCOR obtains control, and continue to be consolidated until the date that such control ceases to exist. All intercompany balances and transactions have been eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company’s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. The financial statements of the subsidiaries are prepared for the same reporting period as EPCOR, using consistent accounting policies.

(b) Changes in significant accounting policies

The Company has adopted the following accounting policies as a result of the new and amended accounting standards relevant to EPCOR effective January 1, 2013:

IFRS 7 – Financial Instruments – Disclosures – Offsetting Financial Assets and Liabilities (Amendment)
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements (IFRS 11)
IFRS 12 – Disclosure of Interests in Other Entities (IFRS 12)
IFRS 13 – Fair Value Measurement
IAS 1 – Presentation of Items of Other Comprehensive Income (Amendment)
IAS 19 – Employee Benefits (Amendment) (IAS 19)
IAS 28 – Investments in Associates and Joint Ventures (Amendment)
IAS 34 – Interim Financial Reporting (Amendment)

Of the new and amended accounting standards which became effective January 1, 2013, the following had an impact on these consolidated financial statements as a result of the accounting policies adopted effective January 1, 2013:

IFRS 11 was issued to replace IAS 31 – Interest in Joint Ventures. The new standard classifies joint arrangements into two types – joint operations and joint ventures. The standard defines a joint operation as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement and are required to recognize assets, liabilities, revenues and expenses in proportion to its interest in the joint arrangement. The standard defines a joint venture as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and are required to recognize and account for the investment in the joint arrangement using the equity method. The Company applied the new standard effective January 1, 2013 and classified its interest in the Heartland Transmission project as a joint operation. As a result, the consolidated financial statements include EPCOR's relative share of the joint operation's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis. Unrealized gains and losses on transactions between EPCOR and the joint operation are eliminated to the extent of EPCOR's interest in the joint operation and unrealized losses are eliminated only to the extent there is no evidence of impairment.

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. As a result, the Company has expanded its disclosures about its interest in subsidiaries, joint operation and associate.

IAS 19 was amended to: (a) eliminate the option to defer the recognition of actuarial gains and losses associated with net defined benefit liabilities (assets); (b) require a new method of calculating finance costs on defined benefit plans whereby a single discount rate is applied to the net pension assets or obligations; and (c) enhance the disclosure requirements to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in these plans. In accordance with the transitional provisions of revised IAS 19, the Company applied the revised standard commencing January 1, 2013 with retrospective application from January 1, 2012. The Company recognized in retained earnings, $1 million of unrecognized actuarial gains related to 2012 and $6 million of unrecognized actuarial losses related to years prior to 2012, and in accumulated other comprehensive income, $8 million ($7 million net of tax) of re-measurement effects related to years prior to 2013. In addition, the Company increased non-current provisions by $13 million.

(c) Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in net income. Transaction costs that the Company incurs in connection with a business combination, other than those

associated with the issue of debt or equity securities, are expensed as incurred.

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

Goodwill is initially recorded at the consideration paid for at acquisition less the fair value of the net assets of the consolidated business acquired. Subsequently, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognized.

(d) Revenue recognition

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

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

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

Sale of goods

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

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

Provision of services

Revenues from the provision of electricity distribution and transmission services and wastewater treatment services are recognized over the period in which the service is performed and collectability is reasonably assured.

Construction contracts

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

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

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

Revenues earned under finance leases

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

Interest income

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

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

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates and interests in joint arrangements except where the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and interests in joint ventures are only recognized to the extent that the temporary difference will reverse in the foreseeable future and the Company judges that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill arising from a business combination or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects

neither taxable income nor accounting income.

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

(f) Cash and cash equivalents

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

(g) Inventories

Small parts and other consumables, the majority of which are consumed by the Company in the provision of its goods and services, are valued at the lower of cost and net realizable value. Cost includes the purchase price, transportation costs and other costs to bring the inventories to their present location and condition. The costs of inventory items that are interchangeable are determined on an average cost basis. For inventory items that are not interchangeable, cost is assigned using specific identification of their individual costs. Previous write downs of inventories from cost to net realizable value can be fully or partially reversed if supported by economic circumstances. 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.

(h) Lease arrangements

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

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

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

(i) Investment in Capital Power

In these consolidated financial statements, Capital Power refers to Capital Power Corporation and its subsidiaries, including Capital Power L.P., except where otherwise noted or the context indicates otherwise.

The Company holds 18.8 million exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on a one-for-one basis) which represents 19% of Capital Power. Each exchangeable limited partnership unit is accompanied by a special voting share in Capital Power Corporation which entitles the holder to a vote at Capital Power Corporation shareholder meetings, subject to the restriction that such special voting shares must at all times represent not more than 49% of the votes attached to all Capital Power Corporation common shares and special voting shares, taken together. The special voting shares also entitle EPCOR, voting separately as a class, to nominate and elect a maximum of four out of the twelve directors of Capital Power Corporation. The number of Capital Power directors which EPCOR is entitled to nominate reduces, in stages, as EPCOR's percentage interest in Capital Power declines.

As a result, the key judgment in determining the appropriate accounting treatment for the investment in Capital Power is that EPCOR exercises significant influence over Capital Power but does not control Capital Power's operations as it does not have the power to direct the activities of Capital Power. Accordingly, EPCOR uses the equity method to account for its investment in Capital Power.

The investment in Capital Power was recognized initially at cost. The consolidated financial statements include the Company's equity share of the income and expenses and equity movements of Capital Power, after adjustments to align its accounting policies with those of the Company, from the date that significant influence exists until the date that significant influence ceases.

The Company applies judgment at each reporting date to determine whether there is objective evidence that the equity investment in Capital Power is impaired. An impairment will be recorded when the carrying amount of its investment in Capital Power exceeds its estimated recoverable amount. The recoverable amount is the higher of the investment's fair value less costs to sell the investment, and its value in use. The fair value of the investment is based on the market price of Capital Power Corporation shares (CPX) traded on the Toronto Stock Exchange. The value in use of an asset is the present value of estimated future cash flows, applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(j) Property, plant and equipment

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

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

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

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

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

The ranges of estimated economic useful lives used are as follows:

Water and wastewater treatment and distribution	3 – 90 years
Electricity transmission and distribution	4 – 65 years
Retail systems and equipment	4 – 20 years
Corporate information systems, equipment	2 – 20 years
Leasehold improvements	8 – 25 years

(k) Capitalized borrowing costs

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

(l) Intangible assets

Intangible assets with definite lives are stated at cost, net of accumulated amortization and impairment losses, if any. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination

that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair value.

Customer rights represent the costs to acquire the rights to provide electricity services to particular customer groups for a finite period of time. Customer rights are recorded at cost at the date of acquisition. A subsequent expenditure is capitalized only when it increases the future economic benefit in the specific asset to which it relates.

Other rights represent the costs to acquire the rights, for finite periods of time, to access electricity delivery corridors, to the supply of water, to provide sewage treatment and transportation services, to withdraw groundwater and to the supply of potable water for emergency and peak purposes.

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

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

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

Customer rights	10 – 20 years
Software assets	2 – 20 years
Other rights	50 years
Water rights	100 years

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

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

(m) Deferred revenue

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

(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 financing expense over the estimated time period until settlement of the obligation.

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

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

(o) Employee future benefits

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

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.

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

The Company maintains additional defined contribution and defined benefit pension plans to provide pension benefits to those employees who are not otherwise served by the LAPP, including employees of new or acquired operations. Employees participating in such defined benefit and contribution plans comprise less than 17% of total employees (2012 – 18%).

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.

(p) Derivative financial instruments

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

The Company sells electricity to customers under a Regulated Rate Tariff (RRT). As part of the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by an Energy Price Setting Plan (EPSP). Under the EPSP, the Company manages its exposure to fluctuating wholesale electricity spot prices by entering into financial electricity purchase contracts up to 120 days in advance of the month of consumption in order to economically hedge the price of electricity under a well-defined risk management process set out in the EPSP. Under these instruments, the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the Alberta Electric System Operator (AESO) market price and the fixed contract price for a specified volume of electricity for the forward months, all in accordance with the EPSP.

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

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

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

of such variations could be material.

(q) Non-derivative financial instruments

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

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

Financial instruments at fair value through profit or loss

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

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

Loans and receivables

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

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

Available-for-sale financial assets

The Company's beneficial interest in the sinking fund with the City does not meet the criteria for classification in any of the previous categories and is classified as an available-for-sale financial asset and measured at fair value with changes in fair value reported in other comprehensive income until it is disposed of or becomes impaired, as described in note 3(r).

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in other categories. These assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value with unrealized gains and losses, other than impairment losses, recognized in other comprehensive income and presented within equity in the fair value reserve.

On derecognition of an available-for-sale financial asset, the cumulative gain or loss that was previously held in equity is transferred to net income.

Other liabilities

The Company’s trade and other payables, loans and borrowings and other liabilities are recognized on the date at which the Company becomes a party to the contractual arrangement. Other liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

Other liabilities are recognized initially at fair value including debenture discounts and premiums, plus directly attributable transaction costs, such as issue expenses, if any. Subsequently, these liabilities are measured at

amortized cost using the effective interest rate method.

(r) Impairment of financial assets

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

- For listed and unlisted investments in equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.
- For all other financial assets, including finance lease receivables, objective evidence of impairment includes significant financial difficulty of the counterparty or default or delinquency in interest or principal payments.
- Trade receivables and other assets that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the Company's past experience of collecting payments as well as observable changes in national or local economic conditions.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted within net income.

(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 intangible assets, goodwill and PP&E. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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 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 re-translated unless they are carried at fair value. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting foreign exchange gains and losses are included in net income.

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 average 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 functional currency of the Company's U.S. operations is the U.S. dollar.

(u) Investment in Heartland Transmission Project

In 2011, the Company entered into a joint arrangement to jointly own and control a double-circuit 500 kilovolt alternating current electricity transmission line (the Heartland Transmission Project) extending the 500 kilovolt electricity transmission system from the south Edmonton area to the Industrial Heartland area near the Fort Saskatchewan. The Company has rights to the assets and obligations for the liabilities of the Heartland Transmission Project. Accordingly, the Company classifies its interest in the Heartland Transmission Project as a joint operation. As a result, the consolidated financial statements include EPCOR's 50% share of the joint operation's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis. Unrealized gains and losses on transactions between EPCOR and the joint operation are eliminated to the extent of EPCOR's interest in the joint operation and unrealized losses are eliminated only to the extent there is no evidence of impairment.

(v) Segment reporting

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

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

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

The Canadian and U.S. water operating segments are aggregated as one reportable segment since both operating segments offer the same water and wastewater services, the processes to treat water and wastewater are similar in both operating segments, the customer bases for each operating segment are similar, both segments operate under similar rate regulations and the margins earned by both segments are similar.

(w) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations were issued by the IASB and the International Financial Reporting Interpretations Committee for application beginning on or after January 1, 2014. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 9 – Financial Instruments which replaces IAS 39 – Financial Instruments: Recognition and Measurement, eliminates the existing classification of financial assets and requires financial assets to be measured based on the business model in which they are held and the characteristics of their contractual cash flows. Gains and losses on re-measurement of financial assets at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. Changes in fair value attributable to changes in credit risk of financial liabilities measured under the fair value option will be recognized in other comprehensive income with the remainder of the change recognized in profit or loss unless an accounting mismatch in profit or loss occurs at which time the entire change in fair value will be recognized in profit or loss. Derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument must be measured at fair value. This standard is still under development. The effective date, initially set for annual periods beginning on or after January 1, 2015, has been removed by the IASB. A new date will be determined by the IASB when the entire IFRS 9 project is close to completion.

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(i) – Investment in Capital Power
Note 3(v) – Segment reporting

(b) Estimates

Significant accounting estimates were made in determining the fair value of identifiable assets acquired and liabilities assumed in connection with the Water Arizona and Water New Mexico acquisition including discount rates, future income and cash flows, replacement costs, useful lives, residual values and weighted average cost of capital and the provision for refundable contributions. The fair values were determined using generally accepted methods, as described in note 34, and the assistance of a third party valuation expert.

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

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

Revenues

By regulation, electricity wire service providers in Alberta have four months (2012 – four months) to submit the final electricity load settlement data after the month in which such electricity was consumed. The data and associated processes and systems used by the Company to estimate electricity revenues and costs, including unbilled consumption, are complex. The Company's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents.

Fair value measurement

For certain accounting measures such as determining asset impairments, purchase price allocations for business combinations, recording financial assets and liabilities, recording certain non-financial assets and for certain disclosures, the Company is required to estimate the fair value of certain assets or obligations. Estimates of fair value may be based on readily determinable market values or on depreciable replacement cost or discounted cash flow

techniques employing estimated future cash flows based on a number of assumptions and using an appropriate discount rate. Financial instruments that are not classified as loans and receivables are recorded at fair value, which may require the use of estimated future prices.

Deferred taxes

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

5. Revenues and other income

	2013	2012
Revenue		
Electricity and water sales	$ 1,392	$ 1,445
Provision of services	491	456
Finance lease income	14	14
Construction revenues	32	16
	1,929	1,931
Other income		
Interest income on long-term receivable with Capital Power	23	25
Other	3	3
	26	28
	$ 1,955	$ 1,959

6. Expense analysis

	2013	2012
Included in staff costs and employee benefits expenses		
Post-employment defined contribution plan expense	$ 27	$ 25
Post-employment defined benefit plan expense (note 3(b))	4	1
Included in depreciation and amortization		
Depreciation of property, plant and equipment	123	114
Amortization of intangible assets	16	15
Loss on disposal of assets	6	3
Loss in decommissioning provision	-	1
	145	133
Included in other administrative expenses		
Operating lease expenses	13	13
Lease recoveries through sub-lease	(4)	(4)

7. Finance expenses

	2013	2012
Interest on loans and borrowings	$ 120	$ 123
Capitalized interest (note 17)	(13)	(7)
	$ 107	$ 116

8. Impairment of investment in Capital Power

During the fourth quarter, it was determined that the carrying amount of the Company's investment in exchangeable limited partnership units of Capital Power L.P. exceeded the recoverable amount of the investment. The recoverable amount was based on an estimate of the investment's fair value less costs to sell. Fair value was derived from the price of Capital Power Corporation shares at the close of the Toronto Stock Exchange on December 31, 2013, less estimated underwriting fees and selling costs of 4% of the total fair value. As a result, the Company recorded a pre-tax impairment charge of $43 million ($43 million after tax, 2012 – $124 million pre-tax and after tax), allocated to the corporate business segment.

9. Income tax expense

	2013	2012
Current income tax expense	$ 7	$ 5
Deferred income tax expense		
Relating to origination and reversal of temporary differences	2	(40)
Recognition of previously unrecognized deferred tax assets	(3)	-
Write-down of deferred tax assets	9	33
	8	(7)
Total income tax expense (recovery)	$ 15	$ (2)

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

	2013	2012
Income before taxation	$ 190	$ 17
Income tax at the statutory rate of 25.0% (2012 – 25.0%)	48	4
Increase (decrease) resulting from:		
Income exempt from income taxes at statutory rates	(46)	(36)
Unrecognized deferred tax assets	10	33
Effect of higher tax rate in the U.S.	1	2
Adjustments for income tax relating to prior periods	-	(5)
Other	2	-
Total income tax expense (recovery)	$ 15	$ (2)

10. Cash and cash equivalents

	2013	2012
Cash on deposit	$ 120	$ 127
Cash equivalents	10	105
	$ 130	$ 232

Restricted balances

Under certain agreements between the Company and the Natural Gas Exchange (NGX) for the purchase of electricity derivative financial instruments, the Company established separate bank accounts through which the settlement of the electricity derivative financial contracts are processed in conjunction with letters of credit and cash as collateral. As security for the payment and performance of its obligations, the Company assigned a first ranking security interest on the balance of these accounts to the NGX. The Company's use of this cash is restricted to these purposes. At December 31, 2013, $23 million (2012 – $14 million) was held in these bank accounts.

In accordance with the terms of a U.S. subsidiary's long-term debt agreement, the Company is required to maintain amounts on deposit in a trust account for payment of principal and interest. The funds in this account will be maintained until such time that the terms of the financing agreement are fully satisfied. The balance in this account at December 31,

2013 was $1 million (2012 – $1 million).

11. Trade and other receivables

	2013	2012
Trade receivables	$ 209	$ 222
Accrued revenues	117	115
Gross accounts receivable	326	337
Allowance for doubtful accounts	(4)	(4)
Net accounts receivable	322	333
Prepaid expenses	4	2
	326	335
Current portion of finance lease receivables (note 13)	4	3
Current portion of long-term receivables (note 14)	30	21
	$ 360	$ 359

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

12. Inventories

During the year ended December 31, 2013, $23 million (2012 – $29 million) was expensed to other raw materials and operating charges.

No significant inventory write-downs were recognized in the years ended December 31, 2013 or 2012. No reversals of previous write-downs were recorded in the years ended December 31, 2013 or 2012.

At December 31, 2013 or 2012, no inventories were pledged as security for liabilities.

13. Leases

Finance lease receivables

In 2009, the Company acquired potable water and wastewater treatment plant assets for approximately $100 million and agreed to lease the assets back to the vendor for a 20-year term after which the vendor has the option to purchase the assets from the Company for a specified price. As part of the arrangement, the Company also agreed to construct additional water and wastewater treatment plant assets for the vendor and to operate and maintain the original assets acquired and leased back to the vendor and the additional constructed assets over the 20-year lease term.

Approximate future payments to the Company are as follows:

	Minimum lease receivable		Present value of minimum lease receivable	
	2013	2012	2013	2012
Within one year	$ 15	$ 15	$ 4	$ 3
Between one and five years	60	59	20	18
More than five years	160	174	102	107
Less: unearned finance income	(109)	(120)	-	-
	126	128	126	128
Less: current portion[1] (included in trade and other receivables) (note 11)	4	3	4	3
	$ 122	$ 125	$ 122	$ 125

[1] Net of unearned finance income

Operating leases payable

The Company has entered into operating leases for premises.

In 2007, the Company entered into a long-term agreement to lease commercial space in a new office tower in Edmonton, Canada, primarily for its head office (head office lease). The agreement, which became effective in the fourth quarter of 2011, has an initial lease term of approximately 20 years, expiring on December 31, 2031, and provides for three successive five-year renewal options. The Company's annual lease commitments, net of annual payments to be paid to the Company by Capital Power and another company under the sub-leases receivable discussed below, under the terms of the lease are as follows:

	Minimum lease payable	
	2013	2012
January 1, 2014 through December 31, 2022	$ 6	$ 6
January 1, 2023 through December 31, 2023	7	7
January 1, 2024 through December 31, 2031	8	8

Approximate gross future payments under this and other operating leases payable for premises are as follows:

	Minimum lease payable	
	2013	2012
Within one year	$ 13	$ 14
Between one to five years	53	56
More than five years	156	180
	$ 222	$ 250

Operating lease receivable

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

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

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

	Minimum lease receivable	
	2013	2012
Within one year	$ 5	$ 4
Between one to five years	20	20
More than five years	58	63
	$ 83	$ 87

14. Other financial assets

	2013	2012
Long-term loans receivable from Capital Power	$ 340	$ 354
Loans and other long-term receivables	56	49
Other	1	1
	397	404
Less: current portion (included in trade and other receivables) (note 11)	30	21
	$ 367	$ 383

Long-term loans receivable from Capital Power

On July 9, 2009, EPCOR received $896 million in long-term loans receivable from Capital Power as part of the consideration on the sale of the power generation business. These loans effectively mirror certain long-term debt obligations of EPCOR. The interest rates on the long-term loans receivable range from 5.8% to 9.0% and the remaining balance will be repaid at various dates out to June 30, 2018 as follows:

	2013	2012
Within one year	$ 8	$ 14
Between one to five years	332	166
More than five years	-	174
	$ 340	$ 354

15. Deferred tax assets / liabilities

Deferred tax assets are attributable to the following:

	2013	2012
Losses carried forward	$ 38	$ 49
Deferred income in partnership	6	7
Intangible assets	7	8
Deferred revenue	67	59
Decommissioning provisions and assets	14	10
Other items	5	4
Tax assets	137	137
Set off by tax liabilities	(84)	(85)
Net tax assets	$ 53	$ 52

Deferred tax liabilities are attributable to the following:

	2013	2012
Investment in partnership	$ 2	$ 8
Deferred income in partnership	1	3
Intangible assets	9	5
Goodwill	1	1
Property, plant and equipment	79	63
Decommissioning provisions and assets	-	6
Other items	4	3
Tax liabilities	96	89
Set off by tax assets	(84)	(85)
Net tax liabilities	$ 12	$ 4

The changes in temporary differences during the years ended December 31, 2013 and 2012 were as follows:

	Balance, beginning of 2013	Recognized in net income	Recognized in other comprehensive income	Recognized through business combinations	Balance, end of 2013
Losses carried forward	$ 49	$ (11)	$ -	$ -	$ 38
Investment in partnership	(8)	3	3	-	(2)
Deferred income in partnership	4	1	-	-	5
Intangible assets	3	(5)	-	-	(2)
Goodwill	(1)	-	-	-	(1)
Property, plant and equipment	(63)	(16)	-	-	(79)
Deferred revenue	59	8	-	-	67
Decommissioning provisions and assets	4	10	-	-	14
Other items	1	2	(2)	-	1
	$ 48	$ (8)	$ 1	$ -	$ 41

	Balance, beginning of 2012	Recognized in net income	Recognized in other comprehensive income	Recognized through business combinations	Balance, end of 2012
Losses carried forward	$ 60	$ (11)	$ -	$ -	$ 49
Investment in partnership	(29)	24	(3)	-	(8)
Deferred income in partnership	-	4	-	-	4
Intangible assets	4	(1)	-	-	3
Goodwill	-	(1)	-	-	(1)
Property, plant and equipment	(7)	(3)	-	(53)	(63)
Loans and borrowings	(1)	-	1	-	-
Deferred revenue	6	-	-	53	59
Decommissioning provisions and assets	8	(4)	-	-	4
Other items	1	(1)	1	-	1
	$ 42	$ 7	$ (1)	$ -	$ 48

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

	2013	2012
Non-capital losses	$ 210	$ 152
Capital losses	366	282
Other deductible temporary differences	5	105

The non-capital losses expire between the years 2026 and 2033.

Deferred tax assets have been recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. The Company has recognized deferred tax assets in the amount of $48 million (2012 – $47 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.

16. Investment in Capital Power

At December 31, 2013, the Company owned 18.8 million (2012 – 28.4 million) exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on a one-for-one basis), representing a 19% (2012 – 29%) economic interest in Capital Power. Capital Power builds, owns and operates power plants in North America and manages its related electricity and natural gas portfolios by undertaking trading and marketing activity. In October 2013, EPCOR exchanged 9,600,000 limited partnership units for an equal number of shares of Capital Power which were immediately sold at an offering price of $21.00 per share for aggregate gross proceeds of $202 million. The Company recorded a $16 million non-cash loss on the sale. The Company's economic interest in Capital Power decreases when it sells a portion of its investment in Capital Power and when Capital Power Corporation issues more common shares, diluting EPCOR's economic interest in Capital Power.

As described in note 3(i), EPCOR does not control Capital Power. The investment in Capital Power represents an investment subject to significant influence and is accounted for using the equity method from the effective date of the sale of the power generation business by EPCOR in early July 2009. The investment was initially recorded at the initial cost of the net assets of the power generation business retained by EPCOR in the form of its initial 72% interest in Capital Power. The investment subsequently increases by the Company's equity share of earnings of Capital Power and the Company's equity share of Capital Power's other comprehensive income, and decreases by the limited partnership distributions paid by Capital Power, the Company's equity share of Capital Power's other comprehensive loss, subsequent disposals of portions of the Company's investment and impairment adjustments.

The quoted market price of the common shares of Capital Power Corporation at December 31, 2013 was $21.30 per common share (December 31, 2012 – $22.73 per common share). Fair value of the Company's investment in Capital Power at December 31, 2013 was $401 million (2012 – $646 million).

The investment in Capital Power L.P. is detailed as follows:

	2013	2012
Balance, beginning of year	$ 621	$ 987
Equity share of net income	66	41
Equity share of other comprehensive income (loss)	(13)	14
Distributions declared	(33)	(39)
Sale of a portion of the investment	(213)	(258)
Impairment (note 8)	(43)	(124)
Balance, end of year	$ 385	$ 621

Summarized financial information of Capital Power L.P.:

	2013	2012
Statements of Financial Position		
Current assets	$ 429	$ 525
Non-current assets	4,808	4,638
Current liabilities	(687)	(363)
Non-current liabilities	(1,856)	(2,183)

	2013	2012
Statements of Comprehensive Income		
Revenue and other income	$ 1,383	$ 1,291
Net income attributable to non-controlling interests	(11)	(10)
Net income attributable to partners	240	120
Total net income	229	110
Other comprehensive income all attributable to the partners of Capital Power L.P.	(47)	42
Total comprehensive income	$ 182	$ 152

Other information on EPCOR's investment in Capital Power L.P.:

	2013	2012
Weighted average percentage of ownership interest	27%	32%
Fair value adjustments at acquisition	$ 7	$ 7

17. Property, plant and equipment

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2013	$ 168	$ 35	$ 2,642	$ 1,513	$ 7	$ 82	$4,447
Additions[1]	420	-	19	2	-	4	445
Additions through business combinations	-	-	10	-	-	-	10
Disposals and retirements	-	-	(10)	(10)	(1)	(3)	(24)
Transfers into service	(468)	13	112	342	1	-	-
Foreign currency valuation adjustments	1	-	39	-	-	-	40
Other movements	-	-	-	2	-	(2)	-
Balance, end of 2013	121	48	2,812	1,849	7	81	4,918
Accumulated depreciation							
Balance, beginning of 2013	-	-	553	438	3	36	1,030
Depreciation	-	-	67	46	1	9	123
Disposals and retirements	-	-	(5)	(6)	(1)	(1)	(13)
Foreign currency valuation adjustments	-	-	2	-	-	-	2
Other movements	-	-	-	1	-	(1)	-
Balance, end of 2013	-	-	617	479	3	43	1,142
Net book value, end of 2013	$ 121	$ 48	$ 2,195	$ 1,370	$ 4	$ 38	$3,776

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2012	$ 96	$ 30	$ 2,015	$ 1,354	$ 14	$ 78	$3,587
Additions[1]	341	-	23	4	1	4	373
Additions through business combinations	8	6	501	-	-	-	515
Disposals and retirements	-	(1)	(8)	(6)	(8)	-	(23)
Transfers into service	(277)	-	116	161	-	-	-
Foreign currency valuation adjustments	-	-	(5)	-	-	-	(5)
Balance, end of 2012	168	35	2,642	1,513	7	82	4,447
Accumulated depreciation							
Balance, beginning of 2012	-	-	496	400	6	27	929
Depreciation	-	-	62	42	1	9	114
Disposals and retirements	-	-	(5)	(4)	(4)	-	(13)
Balance, end of 2012	-	-	553	438	3	36	1,030
Net book value, end of 2012	$ 168	$ 35	$ 2,089	$ 1,075	$ 4	$ 46	$3,417

1. Additions include non-cash contributed assets of $21 million (2012 – $23 million) (note 21).

Borrowing costs capitalized during the year ended December 31, 2013 were $13 million (2012 – $7 million) (note 7). The weighted average rates used to determine the borrowing costs eligible for capitalization ranged from 4.30% to 5.85% (2012 – 4.30% to 7.91%).

Restrictions on assets

Assets with a net book value of $45 million (2012 – $41 million) have been pledged as security against certain subsidiary bonds with a net carrying amount of $5 million (2012 – $5 million) (note 20).

18. Intangible assets and goodwill

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2013	$ 36	$ 51	$ 38	$ 62	$ 163	$ 350
Additions through acquisition	-	-	10	-	9	19
Additions through business combination	1	-	-	-	-	1
Internally generated additions	-	-	-	-	6	6
Disposals and retirements	-	-	-	-	(4)	(4)
Change in construction work in progress	-	-	(1)	-	(1)	(2)
Foreign currency translation adjustments	2	-	2	5	-	9
Balance, end of 2013	39	51	49	67	173	379
Accumulated amortization						
Balance, beginning of 2013	-	30	2	-	96	128
Amortization	-	3	1	-	12	16
Disposals and retirements	-	-	-	-	(5)	(5)
Balance, end of 2013	-	33	3	-	103	139
Net book value, end of 2013	$ 39	$ 18	$ 46	$ 67	$ 70	$ 240

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2012	$ 11	$ 51	$ 7	$ -	$ 162	$ 231
Additions through acquisition	-	-	-	-	10	10
Additions through business combination	25	-	31	63	-	119
Internally generated additions	-	-	-	-	5	5
Disposals and retirements	-	-	-	-	(14)	(14)
Foreign currency translation adjustments	-	-	-	(1)	-	(1)
Balance, end of 2012	36	51	38	62	163	350
Accumulated amortization						
Balance, beginning of 2012	-	27	1	-	99	127
Amortization	-	3	1	-	11	15
Disposals and retirements	-	-	-	-	(14)	(14)
Balance, end of 2012	-	30	2	-	96	128
Net book value, end of 2012	$ 36	$ 21	$ 36	$ 62	$ 67	$ 222

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

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

	2013	2012
Cash generating unit:		
Water segment – Water Arizona	$ 65	$ 60
Water segment – Water New Mexico	2	2
	$ 67	$ 62

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

	2013	2012
Cash generating unit:		
Water segment – French Creek	$ 1	$ 1
Water segment – White Rock	1	1
Water segment – Chaparral	10	9
Water segment – Water Arizona	23	22
Water segment – Water New Mexico	4	3
	$ 39	$ 36

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

The recoverable amount of the cash generating units was determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a twenty year period. The projections were based on cash flow projections for the most recent long term plan, which covered periods up to five years, with the projections for the balance of the twenty-year period extrapolated using growth rates between 2.1% and 3.56% (2012 – between 2.1% and 2.6%) that are in line with the long-term average growth rate for the industry. The pre-tax discount rates applied to cash flow projections are as follows:

	2013	2012
Cash generating unit:		
Water segment – French Creek	7.69%	8.18%
Water segment – White Rock	8.49%	7.82%
Water segment – Chaparral	8.25%	7.58%
Water segment – Water Arizona	6.39%	6.97%
Water segment – Water New Mexico	5.95%	7.00%

Key assumptions used in value in use calculations

The future cash flows of the underlying businesses are relatively stable, since they relate to ongoing water supply in a rate regulated environment. As the cash generating units operate 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.

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

Discount rates

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

Timing of future rate increases

Revenue growth is forecast to continue at the same rate as operating costs. If future rate filings are delayed, rate increases and increased cash flows from revenues would be affected.

Sensitivity to changes in assumptions

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

19. Trade and other payables

	2013	2012
Trade payables	$ 138	$ 204
Accrued liabilities	54	40
Accrued interest	27	29
Due to related parties	10	13
Due to employees	16	15
Income tax payable	-	2
	$ 245	$ 303

20. Loans and borrowings

	Effective interest rate	2013	2012
Obligation to the City, net of sinking fund			
Due in 1-5 years at 8.50% (2012 – 8.76%)	11.04%	$ 33	$ 4
Due in 6-10 years at 7.01% (2012 – 8.14%)	7.01%	19	58
Due in 11-15 years at 0.00% (2012 – 6.18%)	0.00%	-	1
Due in 16-25 years at 5.20% (2012 – 5.20%)	5.36%	82	88
		134	151
Public debentures			
At 6.75%, due in 2016	6.94%	130	130
At 5.80%, due in 2018	6.02%	400	400
At 6.80%, due in 2029	7.05%	150	150
At 5.65%, due in 2035	5.88%	200	200
At 6.65%, due in 2038	6.83%	200	200
At 5.75%, due in 2039	5.88%	200	200
At 4.55%, due in 2042	4.65%	300	300
		1,580	1,580
Private debt notes			
Bonds at 3.74%, due in 2021	3.80%	147	137
Bonds at 5.40%, due in 2022	5.55%	4	4
Bonds at 5.30%, due in 2022	5.44%	1	1
Bonds at 5.00%, due in 2041	5.08%	119	111
		271	253
		1,985	1,984
Other borrowings			
Deferred debt issue costs		(13)	(14)
		1,972	1,970
Less: current portion		15	14
		$ 1,957	$ 1,956

Obligation to the City

Debentures were issued, 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 the debentures. The 8.50% debentures, maturing in the year 2018 and totaling $33 million, rank as subordinated debt. In the event of default on other interest obligations, the coupon and sinking fund payments on the subordinated debt may be deferred for a period of up to five years, not exceeding the maturity date. If still in default at the end of five years, all unpaid payments plus accrued interest thereon may be repaid by issuing common shares to the City. Except for the subordinated debt, the obligation to the City will rank at least equal to all future debt that may be issued by the Company.

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

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 remaining long-term debt bears interest at a weighted average rate of approximately 5.20%.

Public debentures

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.

Commercial paper and bankers' acceptances

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. Bank lines of credit are unsecured and are available to the Company up to an amount of $946 million (2012 – $945 million), comprised of committed amounts of $900 million (2012 – $900 million) and uncommitted amounts of $46 million (2012 – $45 million) as described in note 30. Letters of credit totaling $100 million (2012 – $139 million) have been issued under these facilities to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements. Amounts borrowed, and letters of credit issued, if any, under these facilities which are not payable within one year are classified as non-current loans and borrowings.

The Company's commercial paper program has an authorized capacity of $500 million (2012 – $500 million). The commercial paper issuance limit of $225 million was removed from the committed credit facilities effective January 31, 2012. The Company had no commercial paper outstanding at December 31, 2013 and 2012.

Private debt notes

The private debt notes due in 2021 and 2041 were issued in U.S. dollars, are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The private debt notes are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the private debt notes.

The private debt notes due in 2022 were issued in U.S. dollars and are secured direct obligations of the Company. Assets with a net book value of $45 million (2012 – $41 million) have been pledged as security (note 17). The notes are redeemable prior to maturity at a price specified under the terms of the private debt notes.

21. Deferred revenue

	2013	2012
Balance, beginning of year	$ 762	$ 602
Contributions received	51	45
Acquired on business combination	3	137
Revenue recognized	(20)	(20)
Foreign currency valuation adjustments	10	(2)
	806	762
Less: current portion	23	21
Balance, end of year	$ 783	$ 741

Contributions received include non-cash contributions of $21 million (2012 – $23 million) (note 17).

22. Provisions

	2013	2012
Contributions from customers and developers	$ 31	$ 31
Decommissioning	-	1
Employee benefits (note 3(b))	78	80
	109	112
Less: current portion	29	29
	$ 80	$ 83

Contributions from customers and developers

	2013	2012
Balance, beginning of year	$ 31	$ 5
Contributions received	1	4
Acquired on business combination	4	25
Contributions refunded	(4)	(3)
Non-refundable contribution transferred	(1)	-
Balance, end of year	$ 31	$ 31

Decommissioning

	2013	2012
Balance, beginning of year	$ 1	$ 4
Utilized	(1)	(3)
Balance, end of year	$ -	$ 1

Employee benefits

	2013	2012
Other short-term employee benefit obligation	$ 21	$ 18
Post-employment benefit obligation (note 3(b))	34	37
Other long-term employee benefit obligation	23	25
	$ 78	$ 80

Other long-term employee benefits

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

Post-employment benefits

Total cash payments for pension benefits for the year ended December 31, 2013, 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 $30 million (2012 – $27 million). Total contributions expected to be paid in 2014 to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan are $34 million (2012 – $29 million).

23. Derivatives

Derivative financial instruments are held for the purpose of electricity price risk management.

The derivative instruments assets and liabilities used for risk management purposes as described in note 30 consist of the following:

	2013	2012
Derivative instruments assets (liabilities)		
Fair value	$ (4)	$ (4)
Cash paid to counterparty	3	2
Net fair value	$ (1)	$ (2)
Net notional buys		
Megawatt hours of electricity (millions)	1.1	0.7
Range of contract terms (in years)	0.1	0.1

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

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

Changes in fair value on electricity derivative financial instruments are recorded in electricity purchases.

24. Other liabilities

	2013	2012
Gold Bar transfer fee payable	$ 7	$ 17
Customer deposits	21	20
Leasehold inducements	12	12
	40	49
Less: current portion	28	31
	$ 12	$ 18

25. Share capital

Authorized shares

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

Issued shares

Three common shares to the City.

26. Accumulated other comprehensive income

Cash flow hedges

This comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred prior to the disposal of the power generation business in 2009. On any disposition of the Company's investment in Capital Power, the Company will recognize a portion of these losses in net income in proportion to the remaining interest in Capital Power sold.

Available-for-sale financial assets

This comprises the cumulative net change in the fair value of the Company's beneficial interest in the sinking fund, until the investment is derecognized or impaired.

Cumulative translation accounts

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

Employee benefits account

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

Investment in Capital Power

The investment in Capital Power comprises the Company's equity share in other comprehensive income and loss of Capital Power.

27. Change in non-cash working capital

	2013	2012
Trade receivables (note 11)	$ 11	$ (1)
Prepaid expenses (note 11)	(2)	1
Income tax recoverable	-	5
Inventories	(1)	(1)
Finance lease receivables (note 13)	2	2
Other financial assets (note 14)	7	27
Trade and other payables (note 19)	(58)	39
	$ (41)	$ 72

	2013	2012
Included in specific items on statements of cash flows:		
Finance expenses	$ (1)	$ 1
Income tax expense	-	(6)
Distributions from Capital Power	3	3
Acquisition of Water Arizona and Water New Mexico	-	(5)
	2	(7)
Change in working capital resulting from a change in current portion of long-term receivable	16	25
Operating activities	(66)	75
Investing activities	7	(21)
	$ (41)	$ 72

28. Related party balances and transactions

Compensation of key management personnel

	2013	2012
Short-term employee benefits	$ 4	$ 4
Post-employment benefits	2	1
Other long-term benefits	4	2
Termination benefits	2	-
	$ 12	$ 7

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

Other related party transactions

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

Transactions between EPCOR and its subsidiary companies are eliminated on consolidation.

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

	2013	2012
Consolidated Statements of Comprehensive Income		
Revenues (a)	$ 83	$ 97
Other raw materials and operating charges (b)	14	15
Franchise fees and property taxes (c)	84	79
Finance expense (d)	13	17

(a) Included within revenues are electricity and water sales of $3 million (2012 – $3 million), service revenue including the provision of maintenance, repair and construction services of $73 million (2012 – $86 million), and customer billing services of $7 million (2012 – $8 million).

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

(c) Comprised of franchise fees of $54 million (2012 – $50 million) at 0.71 cents per kilowatt hour of electric distribution capacity (2012 – 0.66 cents per kilowatt hour), franchise fees of $17 million at 8% (2012 – $16 million at 8%) of qualifying revenues of water services and Gold Bar, and property taxes of $13 million (2012 – $13 million) on properties owned within the City municipal boundaries.

(d) Comprised of interest expense on the obligation to the City at interest rates ranging from 5.20% to 8.50% (2012 – 5.20% to 9.00%).

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

	2013	2012
Consolidated Statements of Financial Position		
Trade and other receivables	$ 42	$ 30
Property, plant and equipment (e)	3	2
Trade and other payables (f)	8	11
Loans and borrowings (note 20)	134	151
Deferred revenue (g)	25	26
Other liabilities (h) (note 24)	7	17
Equity attributable to the Owner of the Company	24	24

(e) Costs of capital construction for water distribution mains and infrastructure.

(f) Includes $2 million (2012 – $2 million) for drainage and construction services provided by the City.

(g) Capital contributions received for capital projects and rebates relating to maintenance, repair and construction services.

(h) Relates to a transfer fee payable to the City for Gold Bar of which $6 million (2012 – $10 million) is the current portion and $1 million (2012 – $7 million) is the non-current portion.

The Company has a 19% (2012 – 29%) economic interest in Capital Power. The Company provides electricity distribution and transmission services to Capital Power. Transactions are in the normal course of operations and are based on normal commercial rates, as approved by regulation.

The following summarizes the Company's related party transactions with Capital Power:

	2013	2012
Consolidated Statements of Comprehensive Income		
Revenues (i)	$ 23	$ 25
Other income (j)	23	25
Other raw materials and operating charges (k)	9	8
Other administrative expenses (l)	(6)	(6)
Equity share of income of Capital Power (note 16)	66	41
Equity share of other comprehensive income (loss) (note 16)	(13)	14

(i) Relates to electricity distribution and transmission services provided to Capital Power by EPCOR.

(j) Relates to financing revenue on the long-term receivable.

(k) Relates to utility bills and charges for provision of transitional services by Capital Power to EPCOR under services agreements.

(l) Relates to the provision of services by EPCOR to Capital Power under services agreements.

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

	2013	2012
Consolidated Statements of Financial Position		
Trade and other receivables (m)	$ 14	$ 18
Other financial assets (note 14)	340	354
Trade and other payables	2	2
Deferred revenue (n)	(6)	(7)

(m) Includes $6 million (2012 – $6 million) relating to the accrued interest on the long-term receivable from Capital Power (note 14).

(n) Contributions for the construction of aerial and underground transmission lines.

29. Financial instruments

Classification

The classification of the Company's financial instruments at December 31, 2013 and 2012 is summarized as follows:

	Classification				
	Fair value through profit or loss	Loans and receivables	Other liabilities	Available-for-sale	Fair value hierarchy
Measured at fair value					
Beneficial interest in sinking fund (note 20)				X	Level 1
Derivatives (note 23)	X				Level 1
Measured at amortized cost					
Cash and cash equivalents (note 10)		X			Level 2
Trade and other receivables (note 11)		X			Level 3
Other financial assets (note 14)		X			Level 2
Trade and other payables (note 19)			X		Level 3
Debentures and borrowings (note 20)			X		Level 2
Customer deposits (note 24)			X		Level 3
Gold Bar transfer fee payable (note 24)			X		Level 3

Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables, current portion of other financial assets, trade and other payables and certain other liabilities (including customer deposits and Gold Bar transfer fee payable) 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 liabilities are as follows:

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current portion of other financial assets (note 14)	$ 367	$ 402	$ 383	$ 426
Loans and borrowings (note 20)				
Debentures and borrowings	2,039	2,238	2,128	2,561
Beneficial interest in sinking fund	(67)	(67)	(158)	(158)
Derivatives (note 23)	(1)	(1)	(2)	(2)

Fair value hierarchy

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

Loans and other long-term receivables

The fair value of the Company's unsecured long-term receivable from Capital Power is based on a current yield for the Company's receivable at December 31, 2013 and December 31, 2012. This yield is based on an estimated credit spread for Capital Power over the yields of long-term Government of Canada bonds that have similar maturities to the Company's receivable. The estimated credit spread is based on Capital Power's indicative spread as published by independent financial institutions.

The fair values of the Company's other long-term loans and receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at December 31, 2013 and December 31, 2012.

Loans and borrowings

The fair value of the Company's long-term loans and borrowings is based on determining a current yield for the Company's debt at December 31, 2013 and December 31, 2012. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds for Canadian dollar loans and U.S. Treasury bonds for U.S. dollar loans that have similar maturities to the Company's debt. The estimated credit spread is based on the Company's indicative spread as published by independent financial institutions. The Company's long-term loans and borrowings (including the current portion) include City debentures which are offset by payments made by the Company into the sinking fund. The Company's beneficial interest in the sinking fund is a related party balance and has been recorded at fair value as it has been classified as an available-for-sale financial asset. The fair value of the beneficial interest in the sinking fund is based on quoted market values as determined by the City at or near the reporting date.

Derivatives

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

30. Financial risk management

Overview

The Company is exposed to a number of different financial risks, arising from business activities and its use of financial instruments, including market risk, credit risk, and liquidity risk. The Company's overall risk management process is designed to identify, assess, measure, manage, mitigate and report on business risk which includes, among other risks, 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 of Risk, Assurance and Advisory Services provides the Board of Directors with an enterprise risk assessment quarterly. Risk management strategies, policies, and limits are designed to help ensure the risk exposures are managed within the Company's business objectives and risk tolerance. The Company's financial risk management objective is to protect and minimize volatility in earnings and cash flow.

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

Risks related to investment in Capital Power

Significant reliance is placed on the capacity of Capital Power to honor its back-to-back debt obligations with EPCOR. While EPCOR has a significant economic interest in Capital Power, EPCOR does not control Capital Power. Should Capital Power fail to satisfy these obligations, EPCOR's capacity to satisfy its debt obligations would be reduced and EPCOR would need to satisfy its own debt obligations by other means. The back-to-back debt obligations may be called by EPCOR for repayment as its ownership interest in Capital Power is below 20%. The repayment must occur within 180

days of notice if the principal balance outstanding is less than $200 million or 365 days of notice if the principal balance outstanding is equal to or greater than $200 million.

In addition, EPCOR relies on the cash flow from Capital Power partnership distributions as one of the Company's funding sources. The Capital Power distributions are paid at the discretion of the general partner of Capital Power L.P., which EPCOR does not control. There can be no assurance that Capital Power L.P. will continue to pay distributions at current levels as the distributions may be reduced or eliminated entirely in the future.

Underlying these risks are the specific business risks of Capital Power. EPCOR has no ability to manage these risks directly. EPCOR, by virtue of its holdings of exchangeable units in Capital Power L.P., has two (2012 – four) elected directors on the Board of Capital Power. This does give EPCOR some input into certain of the operating and strategic decisions made by Capital Power, including risk management. EPCOR can indirectly reduce its exposure to these risks by reducing its interest in Capital Power.

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

Market risk

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

The sensitivities provided in each of the following risk discussions disclose the effect of reasonably possible 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 contracts. The Company's actual exposure to market risks is constantly changing as the Company's portfolio of debt, foreign currency and commodity contracts changes. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

Electricity price and volume risk

EPCOR sells electricity to regulated rate option (RRO) customers under a RRT. All electricity for the RRO customers is purchased in real time from the AESO in the spot market. Under the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by the EPSP. Under the EPSP, the Company uses financial contracts to economically hedge the RRO requirements and incorporate the price into customer rates for the applicable month. Fixed volumes of electricity are economically hedged using financial contracts-for-differences up to 120 days (2012 – 45 days) in advance of the month in which the electricity (load) is consumed by the RRO customers. The volume of electricity economically hedged in advance is based on load (usage) forecasts for the consumption month. When consumption varies from forecast consumption patterns, EPCOR is exposed to prevailing market prices when the volume of electricity economically hedged is short of actual load requirements or greater than the actual load requirements (long). Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and unusual weather patterns. In January 2013, the Government of Alberta announced that the province will extend the purchasing window from 45 days to 120 days. As a result, EPCOR's EPSP was amended in August 2013 to extend the purchase window to 120 days.

Under contracts-for-differences the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the AESO electricity spot market price and the fixed contract price for a specified volume of electricity up to 120 days (45 days prior to August 2013) 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.

At December 31, 2013, holding all other variables constant, a $5 per megawatt hour increase / decrease in the forward electricity spot price would increase / decrease net income by approximately $6 million (2012 – $3 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 $36 million (2012 – $19 million) with a corresponding change to net income.

Foreign exchange risk

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

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

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

At December 31, 2013, holding all other variables constant, a 10% change in exchange rate would change the private debt balance by $26 million.

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents, and floating-rate short-term and long-term loans and obligations. The Company is also exposed to interest rate risk from the possibility that changes in the interest rates will affect future cash flows or the fair values of its financial instruments. At December 31, 2013 and December 31, 2012 all long-term debt was fixed rate. The Company may also use derivative financial instruments to manage interest rate risk. At December 31, 2013 and December 31, 2012, the Company did not hold any interest rate derivative financial instruments.

Credit risk

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

Maximum credit risk exposure

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

	2013	2012
Cash and cash equivalents[1] (note 10)	$ 130	$ 232
Trade and other receivables[2] (note 11)	322	333
Finance lease receivables (note 13)	126	128
Loans and other long-term receivables (note 14)	397	404
	$ 975	$ 1,097

[1] This table does not take into account collateral held. At December 31, 2013, the Company held cash deposits of $43 million (2012 – $34 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 $256 million (2012 – $269 million) related to rate regulated customer balances. At December 31, 2013, the Company held credit enhancements to mitigate credit risk on trade and other receivables in the form of letters of credit of $1 million (2012 – $1 million) and parental guarantees of $28 million (2012 – $23 million).

Credit quality and concentrations

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

The credit quality of the Company's trade and other receivables, by major credit concentrations, and other financial assets at December 31, 2013 and 2012 are as follows:

	2013		2012	
	Investment grade or secured[1,2]	Unrated	Investment grade or secured[1,2]	Unrated
	%	%	%	%
Trade and other receivables				
Rate regulated customers[3]	-	100%	-	100%
Distribution and Transmission customers	88%	12%	87%	13%
Water customers	46%	54%	29%	71%
Cash and cash equivalents	100%	-	100%	-
Loans and other long-term receivables	100%	-	100%	-

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

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

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

Rate-regulated customer credit risk

Credit risk exposure for residential and commercial customers under default electricity and regulated water supply rates is generally limited to amounts due from customers for electricity and water consumed but not yet paid for. The Company mitigates credit risk from counterparties under RRT electricity supply rates by performing credit checks and on higher risk customers, by taking pre-payments or cash deposits. For rate-regulated customers, regulations allow for the recovery of a percentage of unforecasted credit losses through a deferral account. The Company monitors credit risk for this portfolio at the gross exposure level.

Trade and other receivables and allowance for doubtful accounts

Trade and other receivables consist primarily of amounts due from retail customers including commercial customers, other retailers, government-owned or sponsored entities, regulated public utility distributors, and other counterparties. Commercial customer contracts provide for performance assurances including 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 doubtful accounts on estimated credit losses.

The aging of trade and other receivables was:

December 31, 2013	Gross trade and other receivables	Allowance for doubtful accounts	Net trade and other receivables
Current[1]	$ 282	$ -	$ 282
Outstanding 31 to 60 days	19	-	19
Outstanding 61 to 90 days	9	2	7
Outstanding more than 90 days	16	2	14
	$ 326	$ 4	$ 322

December 31, 2012	Gross trade and other receivables	Allowance for doubtful accounts	Net trade and other receivables
Current[1]	$ 296	$ -	$ 296
Outstanding 31 to 60 days	29	-	29
Outstanding 61 to 90 days	7	2	5
Outstanding more than 90 days	5	2	3
	$ 337	$ 4	$ 333

[1] Current amounts represent trade and other receivables outstanding up to 30 days. Amounts outstanding for more than 30 days are considered past due.

Bad debt expense of $7 million (2012 – $9 million) recognized in the year relates to customer amounts that the Company determined would not be fully collectable. Allowances for doubtful accounts are determined by each business unit, within each operating segment, considering the unique factors of the business unit's trade and other receivables. Allowances and write-offs are determined by each business unit, either by applying specific risk factors to customer groups' aged balances in trade and other receivables or by reviewing material accounts on a case-by-case basis. Reductions in trade and other accounts receivable and the related allowance for doubtful accounts are recorded when the Company has determined that recovery is not possible.

The changes in the allowance for doubtful accounts were as follows:

	2013	2012
Balance, beginning of year	$ 4	$ 4
Additional allowances created	6	8
Recovery of receivables	1	1
Receivables written off	(7)	(9)
Balance, end of year	$ 4	$ 4

At December 31, 2013, the Company held $21 million (2012 – $20 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 also by matching the maturity profiles of financial assets and liabilities to identify financing requirements. The financing requirements are addressed through a combination of committed and demand revolving credit facilities and financings in public or private debt capital markets.

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, 2013	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2016	$ 400	$ -	$ 100	$ 300
Syndicated bank credit facility Tranche A	November 2016	250	-	-	250
Syndicated bank credit facility Tranche B	November 2018	250	-	-	250
Total committed		900	-	100	800
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Bank line of credit	November 2014	21	-	-	21
Total uncommitted		46	-	-	46
		$ 946	$ -	$ 100	$ 846

December 31, 2012	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2015	$ 400	$ -	$ 139	$ 261
Syndicated bank credit facility Tranche A	November 2015	250	-	-	250
Syndicated bank credit facility Tranche B	November 2017	250	-	-	250
Total committed		900	-	139	761
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Bank line of credit	November 2013	20	-	-	20
Total uncommitted		45	-	-	45
		$ 945	$ -	$ 139	$ 806

[1] Restricted to letters of credit.

The Company has credit ratings of BBB+ and A (low), assigned by Standard and Poor's and DBRS Limited, respectively. The extension feature of EPCOR's committed syndicated bank credit facilities give the Company the option each year to re-price and extend the terms of the facilities by one or more years subject to agreement with the lending syndicate.

The Company has a Canadian shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At December 31, 2013, the available amount remaining under this shelf prospectus was $1 billion. The shelf prospectus expires in December 2015.

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

At December 31, 2013:

	2014	2015	2016	2017	2018	2019 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 218	$ -	$ -	$ -	$ -	$ -	$ 218
Loans and borrowings	15	15	145	15	413	1,382	1,985
Interest payments on loans and borrowings	118	117	112	108	96	1,294	1,845
Other liabilities	22	1	1	1	1	7	33
Gold Bar transfer fee liability[2]	6	1	-	-	-	-	7
	$ 379	$ 134	$ 258	$ 124	$ 510	$ 2,683	$ 4,088

At December 31, 2012:

	2013	2014	2015	2016	2017	2018 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 274	$ -	$ -	$ -	$ -	$ -	$ 274
Loans and borrowings	18	14	15	145	15	1,777	1,984
Interest payments on loans and borrowings	122	117	117	112	107	1,379	1,954
Other liabilities	21	1	1	1	1	7	32
Gold Bar transfer fee liability[2]	10	6	1	-	-	-	17
	$ 445	$ 138	$ 134	$ 258	$ 123	$ 3,163	$ 4,261

[1] Excluding accrued interest on loans and borrowings of $27 million (2012 – $29 million).

[2] In 2009, the City transferred Gold Bar to EPCOR. In exchange for the net assets transferred, EPCOR agreed to pay a total transfer fee of $75 million, of which $7 million (2012 – $17 million) remains payable.

The Company's undiscounted cash flow requirements and contractual maturities in the next twelve months of $379 million (2012 – $445 million) are expected to be funded from operating cash flows, partnership distributions from Capital Power L.P., interest and principal payments related to the unsecured long-term receivable from Capital Power, commercial paper issuance and the Company's credit facilities. In addition, the Company may issue medium-term notes or sell a portion of the investment in Capital Power or other assets to fund its obligations or investments. The key factors in determining whether to issue medium-term notes or sell a portion of the investment in Capital Power are the expected interest rates for medium-term notes, the estimated demand by investors for EPCOR debt, the state of debt capital markets generally, the quoted price of Capital Power common shares, potential limits posed by the underlying agreements with Capital Power, the estimated demand by equity investors, and the state of equity capital markets.

The Company has long-term loans receivable from Capital Power which effectively match certain of the long-term loans and borrowings above. The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power at December 31, 2013:

	2014	2015	2016	2017	2018	2019 and thereafter	Total
Long-term loans receivable from Capital Power (note 14)	$ 8	$ 9	$ 139	$ 10	$ 174	$ -	$ 340
Interest payments on loans receivable from Capital Power	22	21	16	11	6	-	76
	$ 30	$ 30	$ 155	$ 21	$ 180	$ -	$ 416

The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power at December 31, 2012:

	2013	2014	2015	2016	2017	2018 and thereafter	Total
Long-term loans receivable from Capital Power (note 14)	$ 14	$ 8	$ 9	$ 139	$ 10	$ 174	$ 354
Interest payments on loans receivable from Capital Power	23	22	21	16	11	6	99
	$ 37	$ 30	$ 30	$ 155	$ 21	$ 180	$ 453

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

31. Capital management

The Company’s primary objectives when managing capital are to safeguard the Company’s ability to continue as a going concern, pay dividends to its shareholder in accordance with the Company’s dividend policy, maintain a suitable 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 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:

	2013	2012
Loans and borrowing (including current portion) (note 20)	$ 1,972	$ 1,970
Cash and cash equivalents	(130)	(232)
Net debt	1,842	1,738
Total equity (note 3(b))	2,262	2,222
Total capital	$ 4,104	$ 3,960

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 85%;
- Maintenance of consolidated senior debt to consolidated capitalization ratio, as defined in the debt agreements, of not more than 70%;
- Maintenance of interest coverage ratio, as defined in the debt agreements, of not less than 1.75 to 1.00 if the Company’s credit rating falls below investment grade; and
- Limitation on external debt issued by subsidiaries.

These capital restrictions are defined in accordance with the respective agreements. For the year ended December 31, 2013, the Company complied with all externally imposed capital restrictions.

32. Commitments and contingencies

The following are EPCOR's commitments and contingencies not otherwise disclosed in these financial statements:

(a) The Company has committed to various distribution and transmission projects through 2014, as directed by the AESO. The estimated remaining project costs are $9 million (2012 – $13 million). The Company has incurred costs to date of $4 million (2012 – $2 million).

(b) The Company has a remaining capital commitment in the Heartland Transmission Project of $9 million (2012 - $105 million).

(c) 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, certain minimum payments of approximately $0.5 million are due each year in order to maintain the agreements until they expire. Additional payment obligations related to orders placed in the fall of each year for water to be purchased and transported the following year, commit the Company only for the amount of the water ordered. The obligations are $8 million in total from 2014 through 2018 (2013 through 2017 - $8 million) and $2 million in aggregate thereafter (2018 and thereafter - $3 million).

(d) The Company has entered into an agreement for billing and customer care services for Water Arizona and Water New Mexico. The contract term is ten years, expiring on August 31, 2021. The payments are estimated to be $20 million in total from 2014 through 2018 (2013 through 2017 – $21 million) and $8 million in aggregate thereafter (2018 and thereafter – $10 million).

(e) 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.

33. Segment disclosures

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

Water Services

Water Services is primarily involved in the treatment, distribution and sale of water and the treatment of wastewater within Edmonton and other communities throughout Western Canada and the Southwestern U.S.

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 maintenance and repair of the City-owned street lighting and transportation support facilities.

Energy Services

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to residential, small commercial and agricultural customers in Alberta.

Corporate

Corporate reflects the costs of the Company’s net unallocated corporate office expenses and financing revenues on the long-term receivable from Capital Power. Corporate holds the investment in Capital Power.

Lines of business information

Year ended December 31, 2013	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 520	$ 387	$ 1,022	$ 26	$ -	$ 1,955
Inter-segment revenue	-	152	11	-	(163)	-
Total revenues and other income	520	539	1,033	26	(163)	1,955
Electricity purchases and system access fees	-	154	937	-	(141)	950
Other raw materials and operating charges	118	36	-	1	(11)	144
Staff costs and employee benefits expenses	118	101	23	38	-	280
Depreciation and amortization	72	51	7	14	1	145
Franchise fees and property taxes	23	66	-	-	-	89
Other administrative expenses	23	13	22	12	(12)	58
Foreign exchange gain	-	-	-	(1)	-	(1)
Operating expenses	354	421	989	64	(163)	1,665
Operating income (loss) before corporate charges	166	118	44	(38)	-	290
Corporate (charges) income	(26)	(28)	(12)	66	-	-
Operating income	140	90	32	28	-	290
Finance expenses	(78)	(31)	(8)	10	-	(107)
Equity share of income of Capital Power	-	-	-	66	-	66
Loss on sale of a portion of investment in Capital Power	-	-	-	(16)	-	(16)
Impairment of investment in Capital Power	-	-	-	(43)	-	(43)
Income tax expense	(5)	-	(6)	(4)	-	(15)
Net income	$ 57	$ 59	$ 18	$ 41	$ -	$ 175
Total assets	$ 2,618	$ 1,674	$ 310	$ 845	$ -	$ 5,447
Investment in Capital Power	-	-	-	385	-	385
Total liabilities	2,022	914	227	22	-	3,185
Capital additions	153	276	5	10	-	444

Year ended December 31, 2012	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 465	$ 352	$ 1,114	$ 28	$ -	$ 1,959
Inter-segment revenue	-	164	11	-	(175)	-
Total revenues and other income	465	516	1,125	28	(175)	1,959
Electricity purchases and system access fees	-	134	1,024	-	(152)	1,006
Other raw materials and operating charges	108	45	1	1	(10)	145
Staff costs and employee benefits expenses	111	92	22	55	-	280
Depreciation and amortization	65	46	8	14	-	133
Franchise fees and property taxes	21	63	-	-	-	84
Other administrative expenses	20	13	26	11	(13)	57
Foreign exchange loss	-	-	-	2	-	2
Operating expenses	325	393	1,081	83	(175)	1,707
Operating income (loss) before corporate charges	140	123	44	(55)	-	252
Corporate (charges) income	(33)	(39)	(15)	87	-	-
Operating income	107	84	29	32	-	252
Finance expenses	(71)	(31)	(9)	(5)	-	(116)
Equity share of income of Capital Power	-	-	-	41	-	41
Loss on sale of a portion of investment in Capital Power	-	-	-	(36)	-	(36)
Impairment of investment in Capital Power	-	-	-	(124)	-	(124)
Income tax recovery (expense)	(4)	-	(5)	11	-	2
Net income (loss)	$ 32	$ 53	$ 15	$ (81)	$ -	$ 19
Total assets [1]	$ 2,376	$ 1,413	$ 323	$ 1,330	$ (18)	$ 5,424
Investment in Capital Power	-	-	-	621	-	621
Total liabilities [1]	1,886	793	273	268	(18)	3,202
Capital additions	126	222	5	7	-	360

[1] $332 million in total liabilities have been reclassified to current asset to conform with the presentation of the current year.

Geographic information

	Year ended December 31, 2013				Year ended December 31, 2012			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	$ 1,808	$ 147	$ -	$ 1,955	$ 1,833	$ 126	$ -	$1,959
Inter-segment revenues	163	-	(163)	-	175	-	(175)	-
Total revenues and other income	$ 1,971	$ 147	$ (163)	$ 1,955	$ 2,008	$ 126	$ (175)	$1,959

Non-current assets

	December 31, 2013	December 31, 2012
Canada	$ 4,190	$ 4,109
U.S.	753	711
	$ 4,943	$ 4,820

34. Acquisition of Water Arizona and Water New Mexico

On January 31, 2012, the Company completed the acquisition of 100% of the stock of Arizona-American Water Company (renamed EPCOR Water Arizona Inc.) and New Mexico-American Water Company, Inc. (renamed EPCOR Water New Mexico Inc.) from American Water Works Company, Inc. for cash consideration of $460 million (US$459 million) and the assumption of $9 million (US$9 million) in long-term debt. Water Arizona and Water New Mexico are public utility companies engaged principally in the purchase, treatment, distribution and sale of water to approximately 126,000 customers in ten water utility districts and wastewater treatment and related services to approximately 52,000 customers in five wastewater utility districts in the states of Arizona and New Mexico. This investment provides the Company with a strong hub in the Southwestern U.S., consistent with the Company's strategic plan for expansion.

Significant judgment was applied in the determination of the fair value of the assets acquired and liabilities assumed, the allocation of the purchase price to those assets and liabilities, and the determination of goodwill. The fair value assessment was supported by a third party valuation. The valuation employed three standard valuation methodologies. Discounted cash flows were used to arrive at enterprise values, using a discount rate of 7% based on prevailing interest rates and the capital structures of the acquired businesses. Other key assumptions were future growth rates and asset terminal values. Depreciated replacement cost techniques were used to estimate the fair values of the non-financial assets acquired. Market comparators were used to determine other financial assets and liabilities. The allocation of the purchase price was determined from the valuation, and where necessary by allocation to assets and liabilities based on relative fair values. Goodwill was estimated based on the applicable incremental benefits of the acquisition, including expected growth in the underlying rate base and the assembled workforce that came with the acquired companies. A 1% increase in the discount rate would have resulted in a reduction of the estimated fair value and increase in the amount of goodwill of $69 million.

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

Trade and other receivables	$ 11
Intangible assets	94
Goodwill	25
Property, plant and equipment	515
Trade and other payables	(5)
Loans and borrowings	(9)
Deferred revenue	(137)
Provisions (note 3(n))	(33)
Other non-current liabilities	(1)
	$ 460

The carrying amount of the acquired trade and other receivables and payables approximate the fair value due to their short-term nature.

The $25 million of goodwill arising from the acquisition consisted of the value of an assembled skilled workforce, the expectation of future cash flows and rate recoveries, and the benefits to the Company's growth strategies and future synergies which may result from the Company's expanded operations in the U.S.

The loans and borrowings were repaid in February 2012.

The current amount of provisions for estimated refundable contributions is $3 million.

In October 2012, under the terms of the agreement to acquire Water Arizona and Water New Mexico, the Company exercised its option to file jointly with the vendor a U.S. Internal Revenue Service tax election to treat the acquisition as an asset purchase for income tax purposes. Among other things, this election permits the goodwill to be deductible for income tax purposes.

Revenues of $117 million and net income of $24 million contributed by Water Arizona and Water New Mexico from the date of acquisition to December 31, 2012 are included in the consolidated income statement. The consolidated income statement would have included estimated revenue of $124 million and estimated net income of $24 million to December 31, 2012 had the Company owned the Water Arizona and Water New Mexico operations from the beginning of 2012.