Consolidated Financial Statements of

EPCOR UTILITIES INC.

Years ended December 31, 2011 and 2010

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 16, 2012. Financial information presented elsewhere in this annual report 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 examined by KPMG LLP, the Company's external auditors. The external auditors are responsible for examining 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 examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfils 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,

Don Lowry
President and Chief Executive Officer

Mark Wiltzen
Senior Vice President and
Chief Financial Officer

March 16, 2012

EPCOR UTILITIES INC.

Consolidated Financial Statements

Years ended December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of EPCOR Utilities Inc.

We have audited the accompanying consolidated financial statements of EPCOR Utilities Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 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, 2011, December 31, 2010 and January 1, 2010, and the results of its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 16, 2012
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 Income Statements
(In millions of Canadian dollars)

Years ended December 31, 2011 and 2010

	2011	2010
Revenues (note 6)	$ 1,794	$ 1,437
Other income (note 6)	39	52
Electricity purchases and system access fees	(1,076)	(748)
Other raw materials and operating charges	(115)	(116)
Staff costs and employee benefits expenses (note 7)	(236)	(222)
Depreciation and amortization (note 7)	(105)	(98)
Franchise fees and property taxes	(77)	(67)
Other administrative expenses (note 7)	(45)	(35)
Foreign exchange gains (note 30)	9	-
Operating income	188	203
Finance expense (note 8)	(108)	(126)
Equity share of income of Capital Power (note 16)	90	55
Loss on sale of a portion of and net loss on dilutions of investment in Capital Power	(24)	(19)
Income before income taxes	146	113
Income tax expense (note 9)	(2)	(8)
Net income for the period – all attributable to the Owner of the Company	$ 144	$ 105

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

EPCOR UTILITIES INC.

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

Years ended December 31, 2011 and 2010

	2011	2010
Net income for the period	$ 144	$ 105
Other comprehensive income (loss):		
Equity share of other comprehensive loss of Capital Power (note 16)[1]	(4)	(3)
Amounts realized in net income on sale of a portion of and dilutions of investment in Capital Power[2]	5	(3)
Unrealized income on available-for-sale financial assets[3]	1	(1)
Unrealized gain on foreign currency translation[4]	1	-
Other comprehensive income (loss)	3	(7)
Total comprehensive income for the period - all attributable to the Owner of the Company	$ 147	$ 98

[1] For the year ended December 31, 2011, net of income tax recovery of $1 million. For the year ended December 31, 2010, net of income tax recovery of $1 million.

[2] For the year ended December 31, 2011, net of reclassification of income tax recoveries of $1 million. For the year ended December 31, 2010, net of reclassification of income tax amounts of nil.

[3] For the years ended December 31, 2011 and 2010, net of income tax expense of nil.

[4] For the years ended December 31, 2011 and 2010, net of income tax expense of 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, 2011, December 31, 2010 and January 1, 2010

	2011	2010	January 1, 2010
ASSETS			
Current assets:			
Cash and cash equivalents (note 10)	$ 316	$ 104	$ 11
Trade and other receivables (note 11)	372	506	481
Inventories (note 12)	12	10	11
Derivatives (note 30)	11	-	-
	711	620	503
Non-current assets:			
Finance lease receivables (note 13)	127	130	124
Other financial assets (note 14)	402	463	680
Deferred tax assets (note 15)	43	42	41
Investment in Capital Power (note 16)	987	1,192	1,461
Intangible assets (notes 17 and 20)	104	100	110
Property, plant and equipment (note 18)	2,658	2,385	2,235
	4,321	4,312	4,651
TOTAL ASSETS	$ 5,032	$ 4,932	$ 5,154

Approved on behalf of the Board:

Hugh J. Bolton
Director and Chair of the Board

Alexander M. Davidson
Director and Chair of the Audit Committee

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

EPCOR UTILITIES INC.

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

December 31, 2011, December 31, 2010 and January 1, 2010

	2011	2010	January 1, 2010
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables (note 21)	$ 264	$ 259	$ 218
Loans and borrowings (note 22)	17	219	225
Deferred revenue (note 23)	16	12	11
Provisions (note 24)	18	24	16
Other liabilities (note 25)	34	33	31
	349	547	501
Non-current liabilities:			
Loans and borrowings (note 22)	1,682	1,453	1,687
Deferred revenue (note 23)	586	532	505
Deferred tax liabilities (note 15)	1	1	-
Provisions (note 24)	29	27	37
Other liabilities (note 25)	34	30	44
	2,332	2,043	2,273
Total liabilities	2,681	2,590	2,774
Equity attributable to the Owner of the Company:			
Share capital (note 26)	24	24	24
Accumulated other comprehensive income (note 27)	8	5	12
Retained earnings	2,319	2,313	2,344
Total equity	2,351	2,342	2,380
TOTAL LIABILITIES AND EQUITY	$ 5,032	$ 4,932	$ 5,154

Commitments (note 34)

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, 2011 and 2010

	Share capital (note 26)	Cash flow hedges (note 27)	Available-for-sale financial assets (note 27)	Cumulative translation account	Investment in Capital Power (note 16)	Retained earnings	Equity attributable to the Owner of the Company
Balance at January 1, 2011	$ 24	$ (11)	$ 3	$ -	$ 13	$ 2,313	$ 2,342
Net income for the period	-	-	-	-	-	144	144
Other comprehensive income (loss):							
Equity share of other comprehensive loss of Capital Power	-	-	-	-	(4)	-	(4)
Amounts realized in net income upon sale of a portion of and dilutions of investment in Capital Power	-	2	-	-	3	-	5
Unrealized gain on available-for-sale financial assets	-	-	1	-	-	-	1
Unrealized gain on foreign subsidiary	-	-	-	1	-	-	1
Total comprehensive Income (loss)	-	2	1	1	(1)	144	147
Dividends	-	-	-	-	-	(138)	(138)
Balance at December 31, 2011	$ 24	$ (9)	$ 4	$ 1	$ 12	$ 2,319	$ 2,351

	Share capital (note 26)	Cash flow hedges (note 27)	Available-for-sale financial assets (note 27)	Cumulative translation account	Investment in Capital Power (note 16)	Retained earnings	Equity attributable to the Owner of the Company
Balance at January 1, 2010	$ 24	$ (13)	$ 4	$ -	$ 21	$ 2,344	$ 2,380
Net income for the period	-	-	-	-	-	105	105
Other comprehensive income (loss):							
Equity share of other comprehensive loss of Capital Power	-	-	-	-	(3)	-	(3)
Amounts realized in net income upon sale of a portion of investment in Capital Power	-	2	-	-	(5)	-	(3)
Unrealized loss on available-for-sale financial assets	-	-	(1)	-	-	-	(1)
Total comprehensive income (loss)	-	2	(1)	-	(8)	105	98
Dividends	-	-	-	-	-	(136)	(136)
Balance at December 31, 2010	$ 24	$ (11)	$ 3	$ -	$ 13	$ 2,313	$ 2,342

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, 2011 and 2010

	2011	2010
Cash flows from (used in) operating activities:		
Net income for the period	$ 144	$ 105
Reconciliation of net income for the period to cash from operating activities:		
Interest paid	(117)	(133)
Finance expense	114	131
Income taxes paid	(13)	-
Income tax expense	2	8
Depreciation and amortization	105	98
Contributions received (note 23)	57	39
Deferred revenue recognized (note 23)	(12)	(11)
Gain on disposal of floating-rate notes (note 14)	(7)	-
Fair value change on derivative instruments	(11)	-
Fair value (gain) loss on floating-rate notes	1	(5)
Loss on sale of a portion of and net loss on dilutions of investment in Capital Power	24	19
Equity share of income from Capital Power (note 16)	(90)	(55)
Other	11	(3)
	208	193
Change in non-cash operating working capital (note 28)	(85)	(3)
Net cash flows from operating activities	123	190
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets	(338)	(245)
Business acquisition, net of acquired cash (note 5)	(29)	(1)
Change in non-cash investing working capital (note 28)	29	(2)
Proceeds on sale of floating-rate notes (note 14)	48	-
Proceeds on disposal of property, plant and equipment	2	-
Payment of Gold Bar transfer fees	(15)	(15)
Payments received on long-term receivables	233	245
Proceeds on sale of a portion of investment in Capital Power	215	212
Distributions from Capital Power (note 16)	60	86
Net cash flows from investing activities	205	280
Cash flows from (used in) financing activities:		
Proceeds from issuance of long-term loans and borrowings	254	-
Repayment of long-term loans and borrowings	(232)	(241)
Common share dividends paid	(138)	(136)
Net cash flows used in financing activities	(116)	(377)
Increase in cash and cash equivalents	212	93
Cash and cash equivalents, at January 1	104	11
Cash and cash equivalents, at December 31	$ 316	$ 104

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 and conversion to International Financial Reporting Standards

(a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and adopted by the Canadian Institute of Chartered Accountants (CICA) applicable to companies for years beginning on or after January 1, 2011. These are the Company's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1) has been applied.

For prior reporting periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) in effect for those periods.

An explanation of the impact of the transition to IFRS on the financial position, financial performance and cash flows of the Company is provided in note 37.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 16, 2012.

(b) Basis of measurement

The Company's consolidated financial statements are prepared on the historical cost basis, except for valuation of the Company's investment in its floating-rate notes, its beneficial interest in the sinking fund held with the City, and its derivative financial instruments which are measured at fair value. In addition, the Company's defined benefit pension assets are recognized as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

(c) Additional IFRS measure

The Company uses "operating income" as an additional IFRS 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 periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of transition to IFRS, unless otherwise indicated.

(a) Basis of consolidation

These consolidated financial statements include the accounts of EPCOR and its subsidiaries as at December 31, 2011. Subsidiaries are fully consolidated from the date on which EPCOR obtains control, and continue to be consolidated until the date that such control ceases to exist. All intercompany balances and transactions have been eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as EPCOR, using consistent accounting policies.

(b) 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 38.2 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 39% of Capital Power L.P. 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 Company does not control Capital Power's operations as it does not have the power to direct the activities of Capital Power. Accordingly, EPCOR has significant influence in Capital Power and therefore 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 determines at each reporting date, 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 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. The fair value less costs to sell is based on estimated market values based on actual market transactions, if available, or a fair value estimation model. An impairment loss will be recorded as the excess of the carrying amount of the investment in Capital Power over the estimated recoverable amount. If, in a subsequent period, the recoverable amount increases, the impairment loss is reversed to the extent that the carrying amount does not exceed the carrying amount that would have been recorded had no impairment loss been recognized.

(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. Acquisition-related costs 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. Where an acquisition involves consideration contingent on future events, any changes in the amount of consideration paid will be recognized in the income statement.

Goodwill is initially recorded as the cost of an acquisition less the fair value of the net assets of the consolidated business acquired. If the cost of an acquisition is less than the fair value of the Company's share of the net assets acquired, the difference is recognized directly in net income.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually at the cash generating unit level. For the purpose of impairment testing, goodwill acquired in an acquisition is, from the date of acquisition, allocated to each of the Company's cash generating units that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquired business are assigned to those units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when

determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

(d) 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 on the balance sheet date. Other non-monetary assets 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 different functional currency than Canadian dollars are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation gains and losses are deferred and included in other comprehensive income in the translation account.

(e) Intangible assets

Intangible assets are stated at cost, net of accumulated amortization and any impairment losses.

Customer rights represent the costs to acquire the rights to provide electricity services to particular customer groups. Rights are recorded at the cost 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 include geographic rights to serve within a defined geographic area and long-term rights to the supply of water.

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.

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

Amortization of the cost less estimated residual value of fixed 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 useful economic lives, methods of amortization and residual values are reviewed annually, with any changes adopted on a prospective basis.

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

Customer rights	10 - 20 years
Software assets	2 – 20 years
Water rights	100 years

(f) Property, plant and equipment

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 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 the 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 useful lives of assets requires significant judgment and is generally based on estimates of life characteristics of similar assets. The useful economic lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

The ranges of estimated useful lives used are as follows:

Water treatment and distribution	4 – 90 years
Electricity transmission and distribution	5 – 65 years
Retail systems and equipment	2 – 65 years
Corporate information systems, equipment	2 – 20 years
Leasehold improvements	20 years

(g) Capitalized borrowing costs

The Company capitalizes interest during construction of an 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.

(h) 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. The asset’s recoverable amount is estimated if any indication of impairment exists. The asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of estimated future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less costs to sell is based on estimated market values based on actual market transactions, if available, or a fair value estimation model.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount, and is recorded in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss will be recorded in net income for the period as the excess of the carrying amount of the asset over its recoverable amount.

At each reporting date, the Company makes an assessment as to whether there is any indication that previously incurred impairment losses have reversed. If such an indication exists, the Company estimates the asset's recoverable amount and compares it to the carrying amount, including accumulated depreciation, that would have been determined had no impairment loss been recognized. Any reversal is limited to this latter amount.

(i) 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.

(j) 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. Each such obligation is discounted using a rate determined by reference to market interest rates at the date of the statement of financial position on high-quality debt instruments with cash flows that match the timing of the payments. 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.

(k) 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 LAPP is a multiemployer defined benefit pension plan. The Trustee of the plan is the Treasurer of Alberta 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 under the plan. 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 plans comprise less than 1% of total employees (2010 – less than 1%).

The Company accrues its obligations for its defined benefit pension plans net of plan assets. The cost of pension benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management’s best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at quoted market value. The discount rate used to calculate the interest cost on the accrued benefit obligation is determined by reference to market interest rates at the date of the statement of financial position on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Past service costs from plan amendments are amortized on a straight-line basis over the estimated average remaining service of employees active at the date of amendment. The excess of the net cumulative unamortized actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the market value of plan assets is amortized over the estimated average remaining service period of the active employees.

The Company's obligation in respect of long-term employee benefits other than pension plans, is the amount of future benefits that employees have earned for their service in the current and past periods, and is actuarially determined using management's best estimate of salary escalation and employee retention. The benefit is discounted using a rate determined by reference to market interest rates at the date of the statement of financial position on high-quality debt instruments with cash flows that match the timing of the expected benefit payments. Any actuarial gains or losses are recognized immediately.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(l) Deferred revenue

Certain assets may be acquired or constructed using non repayable government grants, contributions from developers or customers. 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.

(m) 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, 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 separately. The total contract value is allocated 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 following specific recognition criteria must also be met before revenue is recognized:

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.

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.

Construction contracts

Revenue from the construction of water and wastewater plants and other project upgrades and expansions provided to customers is recognized on the percentage of completion basis. Percentage of completion is estimated based on an assessment of progress towards the completion of contract tasks. These estimates result in the recognition of unbilled receivables when the revenues are earned prior to billing customers. 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 change orders are included in the total estimated contract revenue and expenses when approval is reasonably assured.

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(s).

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.

(n) 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 are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Deferred tax assets are assessed at each reporting date to determine the likelihood that they will be realized from future taxable income and are reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates and interests in joint ventures 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 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.

(o) Cash and cash equivalents

Cash and cash equivalents include cash or highly liquid, investment-grade, short-term investments and are recorded at fair market value.

(p) Non-derivative financial instruments

Financial assets are identified and classified as either held at fair value through profit or loss, loans and receivables, or available-for-sale financial assets. Financial liabilities are classified as either held at fair value through profit or loss or other liabilities.

Financial instruments at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. The Company may designate financial instruments as held 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.

Financial assets held at fair value through profit or loss are measured at fair value with the changes in fair value recognized in net income.

Loans and receivables

Loans and receivables are comprised of trade and other receivables, promissory notes receivable and amounts due from customers more than one year from the balance sheet date.

The Company's loans and receivables are recognized initially at fair value plus any directly attributable transaction costs. 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.

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).

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 loans and borrowings and trade and other payables 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 or cancelled or expire.

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

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.

(q) 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.

The Company sells electricity to customers under a Regulated Rate Tariff (RRT). As part of the RRT, the amount of electricity to be procured, the procurement method and electricity selling prices to be charged to these customers is determined by an Energy Price Setting Plan (EPSP). Under the EPSP commencing July 1, 2011, and unlike the previous EPSP under which the Company's electricity procurement requirements were managed by a third party, the Company manages the procurement of electricity directly. As part of the EPSP, the Company uses financial contracts-for-differences, a type of derivative financial instrument, to economically hedge the Company's exposure to fluctuations in electricity prices. 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 month, all in accordance with the EPSP.

Foreign exchange forward contracts are 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 on the statement of financial position as derivative financial instrument assets or derivative financial instrument liabilities, 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 future 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.

(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 year, 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.

(s) Lease arrangements

At the inception of an arrangement entered into for the use of 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. 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 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 composed of net minimum lease payments and unearned finance income. 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. The Company currently has not entered into any arrangements as a lessee which would be classified as finance leases. Rental payments under arrangements classified as operating leases are expensed on a straight-line basis over the term of the lease.

(t) Investment in Heartland Transmission Project

In 2011, the Company entered into a joint venture to jointly own and control a double circuit 500 kilovolt alternating current electricity transmission line (the Heartland Transmission Project) to be constructed that will connect the 500 kilovolt electricity transmission system on the south side of the city of Edmonton to a new electricity transmission substation to be built in the Fort Saskatchewan region. The consolidated financial statements include EPCOR's proportionate share of the joint venture'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 venture are eliminated to the extent of EPCOR's interest in the joint venture and unrealized losses are eliminated only to the extent there is no evidence of impairment.

(u) Standards and interpretations not yet applied

The following accounting standards and interpretations, which may be significant to the Company, were issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) for application in future periods:

International Accounting Standards (IAS / IFRS)	*Effective for annual periods beginning on or after:*
IFRS 7 (Amendment) – Financial Instruments: Disclosures	July 1, 2011
IAS 1 (Amendment) – Presentation of Financial Statements	July 1, 2012
IFRS 9 – Financial Instruments	January 1, 2015
IFRS 10 – Consolidated Financial Statements	January 1, 2013
IFRS 11 – Joint Arrangements	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13 – Fair Value Measurement	January 1, 2013
IAS 28 (Amendment) – Investments in Associates and Joint Ventures	January 1, 2013
IFRS 7 (Amendment) – Disclosures – Offsetting Financial Assets and Liabilities	January 1, 2013
IAS 32 – Financial Instruments: Presentation	January 1, 2014

IFRS 7 (Amendment) – Financial Instruments, requires additional disclosure with respect to transferred assets that are not derecognized and financial assets which have been derecognized but for which the entity is still involved. The Company does not expect the amendments to have a material impact on the financial statements, because of the nature of the Company's operations and the types of financial assets that it holds.

IAS 1 (Amendment) – Presentation of Financial Statements (IAS 1), requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they might at some point be reclassified from OCI to profit or loss at a later date when specified conditions are met. By requiring items of OCI to be grouped on this basis, their potential effect on profit or loss in future periods will be clearer. The Company does not expect IAS 1 to have a material impact on the financial statements.

IFRS 9 – Financial Instruments (IFRS 9), replaces IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39) and eliminates the existing categories of financial assets and requires financial assets to be classified as either amortized cost or fair value. 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 OCI 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 would 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. The impact on the Company of adoption of IFRS 9 has not yet been determined.

IFRS 10 – Consolidated Financial Statements (IFRS 10), replaces IAS 27 – Consolidated and Separate Financial Statements and Standing Interpretations Committee (SIC) - 12 – Consolidation – Special Purpose Entities (SIC 12) and provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. The Company does not expect this standard to have a material impact on its financial statements as it does not change the control analysis for any of its associates or subsidiaries.

IFRS 11 – Joint Arrangements (IFRS 11), replaces IAS 31 – Interests in Joint Ventures and SIC-13 - Jointly Controlled Entities - Non-Monetary Contributions by Vendors. IFRS 11 draws a distinction between joint operations and joint ventures. Entities which previously accounted for joint ventures using proportionate consolidation will generally be required to account for such ventures using the equity method. The Company does not expect the standard to have any impact on the current treatment of its joint venture.

IFRS 12 – Disclosure of Interest in Other Entities (IFRS 12) contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and / or unconsolidated structured entities. When applied, it is expected that the amendments to IFRS 12 will increase the current level of disclosure of the Company's interest in other entities.

IFRS 13 – Fair Value Measurement (IFRS 13), replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements. The Company does not expect IFRS 13 to have a material impact on the financial statements.

IAS 28 (Amendment) – Investments in Associates and Joint Ventures (IAS 28), was amended to conform with IFRS 10 and IFRS 11 accounting standards. The amendments apply to the measurement of a retained stake in an investment where significant influence is succeeded by joint control, and to the measurement of a retained stake in an investment, a portion of which has been classified as held for sale. The Company does not expect these amendments to have any impact on the financial statements.

IFRS 7 (Amendment) – Disclosures – Offsetting Financial Assets and Financial Liabilities requires additional disclosure when an entity has the right to offset financial assets and financial liabilities and has presented the net amount in the statement of financial position. The Company does not expect this amendment to have a material impact on the financial statements.

IAS 32 – Financial Instruments: Presentation provides additional guidance on the application of offsetting criteria. The Company does not expect this amendment to have a material impact on the financial statements.

4. Use of estimates and judgments

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments, 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.

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.

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(b) – Investment in Capital Power

Note 3(m) – Revenue recognition

Note 3(q) – Derivative financial instruments

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

Revenues

By regulation, wire service providers in Alberta have four months to submit the final 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.

The amount of revenues and related profit recognized under the percentage of completion method for certain plant construction and other project upgrades depends on accuracy of cost, schedule and performance estimates related to the ability to recover additional contract costs through change orders or claims to the customer or contractors.

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.

Pension assets and obligations

Measurement of certain of the Company's pension costs and plan assets and obligations requires the use of estimates with respect to expected plan investment performance, salary escalation, retirement ages of employees, timing of related future cash flows and appropriate discount rates for use in discounted cash flow and actuarial techniques.

Depreciation and amortization

Depreciation and amortization is an estimate to allocate the cost of an asset less its estimated residual value over its estimated useful life on a systematic and rational basis. Estimating the appropriate useful lives of each part of an asset requires significant judgment and is generally based on estimates of common life characteristics of common assets. The estimated useful lives used are provided in notes 3(e) and 3(f). Estimates are reviewed on an annual basis and updated on a prospective basis.

Deferred taxes

Significant estimation and judgement 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. Acquisition of Chaparral City Water Company

On May 31, 2011, the Company completed the acquisition of 100% of the common shares of Chaparral City Water Company (Chaparral) from American States Water Company for total consideration of $30 million (US$30 million) and the assumption of $5 million (US$5 million) in long-term debt. Chaparral is a public utility company engaged principally in the purchase, production, distribution and sale of water to approximately 13,000 customers in the Town of Fountain Hills, Arizona and a small area within Scottsdale, Arizona. Chaparral was acquired as the initial step in the Company's strategic plan to expand operations into the U.S.

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

Cash and cash equivalents	$	1
Current assets		1
Goodwill		9
Property, plant and equipment		39
Intangible assets (excluding goodwill)		3
Current liabilities		(1)
Loans and borrowings		(5)
Deferred revenue		(12)
Other non-current liabilities		(5)
	$	30

The goodwill of $9 million included within intangible assets on the statement of financial position arising from the acquisition, consists largely of the benefits to growth strategies and future synergies which may result as the Company's operations in the U.S. expand. In October 2011, a joint election was filed with the U.S. Internal Revenue Service to treat the acquisition as an asset purchase and permit the goodwill to be deductible for income tax purposes.

Revenues of $6 million and profits of $1 million contributed by Chaparral since May 31, 2011 are included in the consolidated statements of income and comprehensive income. Had Chaparral been consolidated from January 1, 2011, the consolidated statements of income and comprehensive income would have included revenue of $10 million and net income of $2 million to December 31, 2011.

6. Revenues and other income

	2011	2010
Revenue		
Electricity and water sales	$ 1,347	$ 1,049
Provision of services	416	349
Finance lease income	14	12
Construction revenues	17	27
	$ 1,794	$ 1,437

Other income		
Interest income on long-term receivable with Capital Power	$ 38	$ 51
Other	1	1
	$ 39	$ 52

7. Expense analysis

	2011	2010
Included in depreciation and amortization		
Depreciation of property, plant and equipment	$ 89	$ 79
Loss on disposals of property, plant and equipment	4	4
Decrease in decommissioning provision	(4)	(4)
Amortization of intangible assets	16	19
	$ 105	$ 98

Included in staff costs and employee benefits expenses		
Post-employment defined contribution plan expense	$ 23	$ 20
Post-employment defined benefit plan expense	5	4
Included in other administrative expenses		
Operating lease expenses	6	5

8. Finance expense

	2011	2010
Interest on loans and borrowings	$ 119	$ 138
Capitalized interest	(5)	(6)
Interest expense	114	132
Net fair value (gain) loss on floating-rate notes	1	(5)
Net gain on disposal of floating-rate notes	(7)	-
Interest received on floating-rate notes	-	(1)
	$ 108	$ 126

9. Income tax expense

	2011	2010
Current tax expense	$ 3	$ 7
Deferred tax expense		
Relating to origination and reversal of temporary differences	(6)	(11)
Write-down of previously recognized deferred tax assets	5	12
	(1)	1
Total income tax expense	$ 2	$ 8

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

	2011	2010
Income before taxation	$ 146	$ 113
Income tax at the statutory rate of 26.5% (2010 - 28%)	39	32
Increase / (decrease) resulting from:		
Income exempt from income taxes at statutory rates	(39)	(38)
Unrecognized deferred income tax assets	6	7
Adjustment for enacted changes in income tax law and rates and other tax rate differences	(3)	-
Other	(1)	7
	$ 2	$ 8

The reduction in the applicable statutory income tax rate is a result of the decrease in Canadian federal income tax rates from 18% in 2010 to 16.5% in 2011.

10. Cash and cash equivalents

	2011	2010	January 1, 2010
Bank balances	$ 102	$ 67	$ 11
Short-term investments	214	37	-
	$ 316	$ 104	$ 11

Restricted balances

Under the prudential support required by the Natural Gas Exchange from the Company for the purchase of electricity derivative financial contracts in 2011, the Company established separate bank accounts under its control through which the settlement of the electricity derivative financial contracts are processed. The Company's use of this cash is restricted to these purposes. At December 31, 2011, $2 million (2010 - nil) is held in these bank accounts.

Under the prudential support required by the AESO from the Company on behalf of the purchaser of certain competitive mass-market contracts in 2004, the Company had established separate bank accounts under its control through which billings collected from the contracts and payments of related costs are processed. The Company's use of this cash was

restricted to these purposes. At December 31, 2010, $18 million of the Company's cash resides in these bank accounts. The arrangement terminated on November 30, 2011. No amounts were held in these bank accounts at December 31, 2011.

In accordance with the terms of its long-term debt agreements, Chaparral 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. As of December 31, 2011, Chaparral had $1 million (2010 - nil) in this account.

11. Trade and other receivables

	2011	2010	January 1, 2010
Trade receivables	$ 213	$ 166	$ 125
Accrued revenues	123	100	97
Gross accounts receivable	336	266	222
Allowance for doubtful accounts	(4)	(3)	(3)
Net accounts receivable	332	263	219
Prepaid expenses	3	3	3
Income tax recoverable	5	-	2
	340	266	224
Current portion of finance lease receivables (note 13)	3	3	2
Current portion of long-term receivables (note 14)	29	237	255
	$ 372	$ 506	$ 481

Details of the aging of accounts receivables and analysis of the changes in the allowance for doubtful accounts are provided in note 32.

12. Inventories

During the year ended December 31, 2011, $26 million was expensed to other raw materials and operating charges (2010 - $20 million).

An inventory write-down of nil was recognized in the year ended December 31, 2011 (2010 - nil). No reversals of previous write-downs were recorded in the years ended December 31, 2011 or 2010.

At December 31, 2011 or 2010, 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.

	Minimum lease receivable			Present value of minimum lease receivable		
	2011	2010	January 1, 2010	2011	2010	January 1, 2010
Within one year	$ 15	$ 14	$ 13	$ 3	$ 3	$ 2
Between one and five years	59	59	55	16	14	12
More than five years	186	201	201	111	116	112
Less: unearned finance income	(130)	(141)	(143)	-	-	-
	130	133	126	130	133	126
Less: current portion[1] (included in trade and other receivables)	3	3	2	3	3	2
	$ 127	$ 130	$ 124	$ 127	$ 130	$ 124

[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 primarily for its head office (head office lease). The agreement, which became effective in the fourth quarter of 2011, has an initial lease term of approximately 20 years, expiring on December 31, 2031, and provides for three successive five-year renewal options. Under the terms of the lease, the Company has committed to make annual payments of $7 million for the period of January 1, 2012 through December 31, 2021 and $8 million for the period of January 1, 2022 through December 31, 2031, net of annual payments committed to be paid to the Company by Capital Power under the sub-lease receivable.

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

	Minimum lease payable	
	2011	2010
Within one year	$ 19	$ 8
Between one to five years	73	64
More than five years	265	262
	$ 357	$ 334

Operating lease receivable

The Company has sub-leased approximately 34% 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.

Approximate future payments to the Company under this sub-lease are as follows:

	Minimum lease receivable	
	2011	2010
Within one year	$ 6	$ 2
Between one to five years	21	20
More than five years	84	86
	$ 111	$ 108

14. Other financial assets

	2011	2010	January 1, 2010
Held at fair value through profit or loss – floating-rate notes	$ -	$ 42	$ 37
Long-term loans receivable from Capital Power	379	613	857
Loans and other long-term receivables	51	44	41
Other	1	1	-
	431	700	935
Less: current portion (included in trade and other receivables)	29	237	255
	$ 402	$ 463	$ 680

Floating-rate notes

At December 31, 2010, the Company held $42 million in floating-rate notes. In June 2011, the Company sold its floating-rate notes for $48 million compared to their fair value at March 31, 2011 of $41 million. The gain of $7 million is included in financing expenses on the consolidated income statement.

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:

	2011	2010	January 1, 2010
Within one year	$ 25	$ 233	$ 245
Between one to five years	170	56	280
More than five years	184	324	332
	$ 379	$ 613	$ 857

15. Deferred tax

Deferred tax assets are attributable to the following:

	2011	2010	January 1, 2010
Losses carried forward	$ 60	$ 68	$ 81
Decommissioning provisions and assets	14	14	14
Deferred income in partnership	-	-	2
Intangible assets	8	8	8
Contributed capital	6	1	1
Other items	3	4	6
Tax assets	91	95	112
Set off of tax	(48)	(53)	(71)
Net tax assets	$ 43	$ 42	$ 41

Deferred tax liabilities are attributable to the following:

	2011	2010	January 1, 2010
PP&E – difference in net book value and undepreciated capital cost	$ 11	$ 7	$ 9
Decommissioning provisions and assets	6	6	6
Deferred income in partnership	-	7	12
Investment in partnership	29	31	41
Loans and borrowings	1	1	1
Other items	2	2	2
Tax liabilities	49	54	71
Set off of tax	(48)	(53)	(71)
Net tax liabilities	$ 1	$ 1	$ -

Deferred net tax assets and liabilities are attributable to the following:

	2011	2010	January 1, 2010
Losses carried forward	$ 60	$ 68	$ 81
PP&E – difference in net book value and undepreciated capital cost	(11)	(7)	(9)
Decommissioning provisions and assets	8	8	8
Deferred income in partnership	-	(7)	(10)
Investment in partnership	(29)	(31)	(41)
Intangible assets	8	8	8
Loans and borrowings	(1)	(1)	(1)
Contributed capital	6	1	1
Other	1	2	4
Net tax assets	$ 42	$ 41	$ 41

The changes in temporary differences during the years ended December 31, 2011 and 2010 were as follows:

	Balance at January 1, 2011	Recognized in net income	Recognized in other comprehensive income	Recognized directly in equity	Balance at December 31, 2011
Losses carried forward	$ 68	$ (8)	$ -	$ -	$ 60
PP&E - difference in net book value and undepreciated capital cost	(7)	(4)	-	-	(11)
Decommissioning provisions and assets	8	-	-	-	8
Deferred income in partnership	(7)	7	-	-	-
Investment in partnership	(31)	2	-	-	(29)
Intangible assets	8	-	-	-	8
Loans and borrowings	(1)	-	-	-	(1)
Contributed capital	1	5	-	-	6
Other	2	(1)	-	-	1
	$ 41	$ 1	$ -	$ -	$ 42

	Balance at January 1, 2010	Recognized in net income	Recognized in other comprehensive income	Recognized directly in equity	Balance at December 31, 2010
Losses carried forward	$ 81	$ (13)	$ -	$ -	$ 68
PP&E - difference in net book value and undepreciated capital cost	(9)	2	-	-	(7)
Decommissioning provisions and assets	8	-	-	-	8
Deferred income in partnership	(10)	3	-	-	(7)
Investment in partnership	(41)	9	1	-	(31)
Intangible assets	8	-	-	-	8
Loans and borrowings	(1)	-	-	-	(1)
Contributed capital	1	-	-	-	1
Other	4	(2)	-	-	2
	$ 41	$ (1)	$ 1	$ -	$ 41

There were no reclassifications from equity to net income during the year (2010 – nil).

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

	2011	2010
Non-capital losses	$ 214	$ 136
Capital losses	257	322
Other deductible temporary differences	15	21

The non-capital losses expire between the years 2013 and 2031.

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 $38 million (2010 - $39 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 both 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, 2011, the Company owned 38.2 million (2010 – 47.4 million) exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on an one-for-one basis), representing a 39% (2010 – 61%) economic interest in Capital Power. In November 2011, EPCOR sold 9.2 million common shares of Capital Power at $24.40 per share for net proceeds of $215 million after direct expenses. 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 shares, diluting EPCOR's economic interest in Capital Power.

As described in note 3(b), 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 increased 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 decreased by the limited partnership distributions paid by

Capital Power, the Company's equity share of Capital Power's other comprehensive loss, and subsequent disposals of portions of the Company's investment.

Capital Power Corporation is listed on the Toronto Stock Exchange. The quoted market price of the common shares of Capital Power Corporation at December 31, 2011 was $25.12 per common share (December 31, 2010 - $23.65 per common share and January 1, 2010 - $21.37 per common share).

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

	December 31, 2011	December 31, 2010
Opening balance	$ 1,192	$ 1,461
Equity share of net income	90	55
Equity share of other comprehensive loss	(5)	(4)
Capital Power distributions	(57)	(86)
Sale of a portion of the investment and dilutions	(233)	(234)
Closing balance	$ 987	$ 1,192

Summarized financial information of Capital Power L.P.:

Statement of Financial Position:	December 31, 2011	December 31, 2010	January 1, 2010
Current assets	$ 395	$ 541	$ 539
Non-current assets	4,402	4,784	4,597
Current liabilities	(394)	(703)	(709)
Non-current liabilities	(1,823)	(2,083)	(1,812)
Non-controlling interests	(97)	(581)	(670)
Net assets classified as held for sale	-	-	36
Net assets	$ 2,483	$ 1,958	$ 1,981

Consolidated Income Statement:	December 31, 2011	December 31, 2010
Revenue and other income	$ 1,763	$ 1,742
Net income attributable to partners	213	82

17. Intangible assets

	Goodwill	Customer Rights	Other Rights	Software	Total
Cost					
Balance at January 1, 2011	$ 2	$ 70	$ 3	$ 167	$ 242
Additions through acquisition	-	-	-	1	1
Additions through business combination	9	-	3	-	12
Internally generated additions	-	-	1	6	7
Disposals and retirements	-	(19)	-	(12)	(31)
Balance at December 31, 2011	11	51	7	162	231
Accumulated amortization					
Balance at January 1, 2011	-	(44)	(1)	(97)	(142)
Disposals and retirements	-	19	-	12	31
Amortization	-	(2)	-	(14)	(16)
Balance at December 31, 2011	-	(27)	(1)	(99)	(127)
Net book value					
Balance at December 31, 2011	$ 11	$ 24	$ 6	$ 63	$ 104

	Goodwill	Customer Rights	Other Rights	Software	Total
Cost					
Balance at January 1, 2010	$ 2	$ 70	$ 3	$ 165	$ 240
Internally generated additions	-	-	-	9	9
Disposals and retirements	-	-	-	(7)	(7)
Balance at December 31, 2010	2	70	3	167	242
Accumulated amortization					
Balance at January 1, 2010	-	(40)	(1)	(89)	(130)
Disposals and retirements	-	-	-	7	7
Amortization	-	(4)	-	(15)	(19)
Balance at December 31, 2010	-	(44)	(1)	(97)	(142)
Net book value					
Balance at January 1, 2010	$ 2	$ 30	$ 2	$ 76	$ 110
Balance at December 31, 2010	$ 2	$ 26	$ 2	$ 70	$ 100

No borrowing costs were capitalized on intangible assets during the year ended December 31, 2011 (2010 - nil). 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. The customer rights have a remaining amortization period of 9 years.

18. 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 at January 1, 2011	$ 71	$ 30	$ 1,867	$ 1,209	$ 15	$ 79	$ 3,271
Additions	63	-	98	129	1	36	327
Additions through business combinations	1	-	38	-	-	-	39
Disposals and retirements	-	-	(6)	(5)	(2)	(39)	(52)
Transfers into service	(39)	-	16	21	-	2	-
Foreign currency valuation adjustments	-	-	2	-	-	-	2
Balance at December 31, 2011	96	30	2,015	1,354	14	78	3,587
Accumulated Depreciation							
Balance at January 1, 2011	-	-	(461)	(365)	(7)	(53)	(886)
Depreciation	-	-	(39)	(38)	(1)	(10)	(88)
Disposals and retirements	-	-	5	3	2	36	46
Other changes and movements	-	-	(1)	-	-	-	(1)
Balance at December 31, 2011	-	-	(496)	(400)	(6)	(27)	(929)
Net book value							
Balance at December 31, 2011	$ 96	$ 30	$ 1,519	$ 954	$ 8	$ 51	$ 2,658

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance at January 1, 2010	$ 66	$ 29	$ 1,759	$ 1,103	$ 16	$ 79	$ 3,052
Additions	44	1	84	102	-	2	233
Disposals and retirements	-	-	(1)	(9)	(1)	(3)	(14)
Transfers into service	(39)	-	25	13	-	1	-
Balance at December 31, 2010	71	30	1,867	1,209	15	79	3,271
Accumulated Depreciation							
Balance at January 1, 2010	-	-	(426)	(336)	(7)	(48)	(817)
Depreciation	-	-	(36)	(34)	(1)	(8)	(79)
Disposals and retirements	-	-	1	5	1	3	10
Balance at December 31, 2010	-	-	(461)	(365)	(7)	(53)	(886)
Net book value							
Balance at January 1, 2010	$ 66	$ 29	$ 1,333	$ 767	$ 9	$ 31	$ 2,235
Balance at December 31, 2010	$ 71	$ 30	$ 1,406	$ 844	$ 8	$ 26	$ 2,385

Borrowing costs capitalized during the year ended December 31, 2011 were $5 million (2010 - $6 million) (note 8). The weighted average rate used to determine the borrowing costs eligible for capitalization was 5.94% (2010 – 5.81%).

Restrictions on assets

Assets with a net book value of $41 million have been pledged as security against bonds with a net carrying amount of $5 million (note 22)

19. Investment in Heartland Transmission Project

EPCOR owns a 50% interest in the Heartland electricity transmission line as described in note 3(t). The financial statements of the joint venture have been incorporated into these consolidated financial statements using the proportionate consolidation method. The project did not have any revenues or expenses during 2011.

The summarized financial information of the Heartland Transmission Project joint venture is detailed as follows:

Statement of Financial Position:	December 31, 2011
Intangible assets	$ 2
Property, plant and equipment	81
Net assets	$ 83

The joint venture's capital commitments in relation to the joint venture total $259 million. The joint venture's total expected project cost is $400 million.

20. Goodwill

	2011	2010
Cost		
Balance at January 1	$ 2	$ 2
Additions from business combinations	9	-
Balance at December 31	11	2
Accumulated impairment		
Balance at January 1	-	-
Impairments	-	-
Balance at December 31	-	-
Net book value at December 31	$ 11	$ 2

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

	2011	2010	January 1, 2010
Cash generating unit:			
Water segment - French Creek	$ 1	$ 1	$ 1
Water segment - White Rock	1	1	1
Water segment – Chaparral	9	-	-
	$ 11	$ 2	$ 2

The most recent reviews of goodwill were performed in November 2011 for each cash generating unit. Management has reviewed conditions since the last review and has determined that there are no circumstances that have occurred since November 2011 that would cause 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 for the twenty year period were based on cash flow projections for the most recent rate applications, which covered periods up to 3 years, with the projections for the balance of the twenty year period extrapolated using growth rates between 2.0% and

2.6% (2010 – 2.1%) that are in line with the long-term average growth rate for the industry. The pre-tax discount rate applied to cash flow projections for White Rock was 7.82% (2010 - 7.82%), for French Creek was 8.16% (2010 – 7.80%) and for Chaparral was 7.50% (2010 – nil).

Key assumptions used in value in use calculations

The future cash flows of the underlying business 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 Company's weighted average cost of capital.

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

Discount rates

The discount rate used was 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.

21. Trade and other payables

	2011	2010	January 1, 2010
Trade payables	$ 151	$ 122	$ 62
Accrued liabilities	50	23	35
Accrued interest	28	31	31
Due to related parties	22	64	78
Due to employees	13	13	12
Income tax payable	-	6	-
	$ 264	$ 259	$ 218

22. Loans and borrowings

	Effective interest rate	2011	2010	January 1, 2010
Obligation to the City, net of sinking fund				
Due in 1-5 years at 8.91% (2010 - 9.31%) (January, 1 2010 - 9.72%)	10.30%	$ 11	$ 35	$ 64
Due in 6-10 years at 8.50% (2010 - 8.50%) (January, 1 2010 - 8.50%)	11.04%	45	51	57
Due in 11-15 years at 7.01% (2010 - 7.01%) (January 1, 2010 7.01%)	7.01%	22	23	24
Due in 16-25 years at 5.21% (2010 - 5.21%) (January 1, 2010 - 5.21%)	5.36%	94	96	101
		172	205	246
Public debentures				
At 6.95%, due in 2010	7.12%	-	-	200
At 6.60%, due in 2011	6.88%	-	200	200
At 6.75%, due in 2016	6.94%	130	130	130
At 5.80%, due in 2018	6.03%	400	400	400
At 6.80%, due in 2029	7.05%	150	150	150
At 5.65%, due in 2035	5.88%	200	200	200
At 6.65%, due in 2038	6.83%	200	200	200
At 5.75%, due in 2039	5.88%	200	200	200
		1,452	1,685	1,926
Private debt notes				
Bonds at 3.74% due in 2021	3.83%	140	-	-
Bonds at 5.00% due in 2041	5.09%	114	-	-
Bonds at 5.40% due in 2022	5.55%	5	-	-
Bonds at 5.30% due in 2022	5.44%	1	-	-
		1,712	1,685	1,926
Other borrowings				
Deferred debt issue costs		(13)	(13)	(14)
		1,699	1,672	1,912
Less: current portion		17	219	225
		$ 1,682	$ 1,453	$ 1,687

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 portion of the 8.50% debentures, maturing in the year 2018 and totaling $46 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.

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 long-term debt bears interest at a weighted average rate of approximately 5.21%.

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.

Revolving extendible credit facilities

A $500 million extendible syndicated bank revolving credit facility, consisting of two tranches of $250 million each with one committed until 2014 and the other until 2016, is available to the Company. At December 31, 2011, the Company had nil outstanding under this facility (2010 – nil), other than $203 million of letters of credit issued against it (2010 - $72 million).

Commercial paper and bankers' acceptances

Bank lines of credit are unsecured and are available to the Company up to an amount of $640 million, comprised of committed amounts of $500 million as described above and uncommitted amounts of $140 million. Letters of credit totaling $272 million (2010 - $135 million) have been issued under these facilities as described in note 35. 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 and an issuance limit of $225 million under the committed credit facilities. 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, 2011 and 2010.

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 $41 million have been pledged as security. The notes are redeemable prior to maturity at a price specified under the terms of the private debt notes.

23. Deferred revenue

	2011	2010
Balance at January 1	$ 544	$ 516
Contributions received	57	39
Acquired on business combination	12	-
Revenue recognized	(12)	(11)
Foreign currency valuation adjustments	1	-
	602	544
Less current portion	16	12
Balance at December 31	$ 586	$ 532

24. Provisions

	2011	2010	January 1, 2010
Decommissioning	$ 4	$ 11	$ 19
Employee benefits	43	40	34
	47	51	53
Less: current portion	18	24	16
	$ 29	$ 27	$ 37

Decommissioning provision

	2011	2010
Balance at January 1	$ 11	$ 19
Arising during the period	(3)	4
Utilized	(4)	(9)
Disposal	-	(3)
Balance at December 31	$ 4	$ 11

The carrying amount of the decommissioning provision has not been discounted as the obligation is expected to be settled in 2012.

Employee benefits

	2011	2010	January 1, 2010
Other short-term employee benefit obligation	$ 14	$ 16	$ 11
Post-employee benefit obligation	15	13	11
Other long-term employee benefit obligation	14	11	12
	$ 43	$ 40	$ 34

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

Multiemployer defined benefit pension plan and defined contribution pension plan:

Over 99% of the Company's employees are either members of the LAPP or its registered defined contribution plan. Accordingly, the majority of the Company's pension costs and obligations are accounted for as defined contribution plans. Contributions to defined contribution plans are recognized as part of staff costs and other benefits. The amounts expensed in respect of the defined contribution plans are presented in note 7.

Post-employment defined benefit plans:

The effective date for the latest actuarial valuations of both the Company's registered and supplemental pension plans was December 31, 2010. The effective date of the next valuation for funding purposes is no later than December 31, 2013 for both plans. The date used to measure the plan assets and the accrued benefit obligation was December 31, 2010. The supplemental pension plan is a non-contributory plan that is unfunded at December 31, 2011.

Post-employment defined benefit plan costs:

		2011		2010
Current service costs	$	1	$	1
Interest on obligation		1		-
Actuarial losses recognized in the year		3		3
	$	5	$	4

Interest on the defined benefit obligation is recognized as part of finance expenses. All other costs are recorded as part of staff costs and employee benefits expense as presented in note 7.

Post-employment defined benefit plan assets and obligations:

		2011		2010
Unfunded defined benefit obligations				
Present value of net obligations	$	(19)	$	(14)
Unrecognized actuarial losses		6		3
Recognized liability for defined benefit obligations	$	(13)	$	(11)

Reconciliation of present value of defined benefit obligation and fair value of plan assets:

		2011		2010
Defined benefit obligation				
Balance at January 1	$	14	$	10
Current service cost		1		1
Interest cost		1		-
Actuarial losses recognized in the year		3		3
Balance at December 31	$	19	$	14

		2011		2010
Plan assets				
Balance at January 1	$	-	$	1
Employee contributions		1		1
Benefits paid		(1)		-
Settlement of registered defined benefit pension plan		-		(2)
Balance at December 31	$	-	$	-

Significant Assumptions:

(Expressed as weighted averages):	2011	2010
Defined benefit obligation		
Discount rate	4.50%	5.25%
Expected rate of salary increases	4.25%	4.00%
Benefit cost		
Discount rate	5.25%	6.00%
Expected rate of salary increases	4.00%	4.00%

Total cash payments for pension benefits for the year ended December 31, 2011, 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 $23 million (2010 - $20 million). Total contributions expected to be paid in 2012 to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan are $27 million.

Experience gains and losses

The history of experience on the plans for the current and previous financial years is a follows:

	2011	2010	2009	2008	2007
Defined benefit obligation	$ (13)	$ (11)	$ (11)	$ (23)	$ (23)
Fair value of plan assets	-	-	1	9	9
Deficit	$ (13)	$ (11)	$ (10)	$ (14)	$ (14)

25. Other liabilities

	2011	2010	January 1, 2010
Gold Bar transfer fee payable	$ 29	$ 43	$ 58
Customer deposits	26	20	17
Leasehold inducements	13	-	-
	68	63	75
Less: current portion	34	33	31
	$ 34	$ 30	$ 44

26. Share capital

Authorized shares

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

Issued shares

Three common shares for nominal value to the City.

27. Accumulated other comprehensive income

Investment in Capital Power

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

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.

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.

28. Changes in non-cash working capital

	2011	2010
Net accounts receivable (note 11)	$ (69)	$ (44)
Income taxes recoverable	(4)	2
Inventories	(2)	1
Trade and other payables	5	41
Other current liabilities	1	2
	$ (69)	$ 2

	2011	2010
Included in specific items on statements of cash flows:		
Finance expense	$ (3)	$ (1)
Income tax expense	(10)	8
Distributions from Capital Power	3	-
Payment of Gold Bar transfer fees	(2)	-
	(12)	7
Decrease in working capital resulting from a change in current portion of long-term receivable	(1)	-
Operating activities	(85)	(3)
Investing activities	29	(2)
	$ (69)	$ 2

29. Related party balances and transactions

Compensation of key management personnel

	2011	2010
Short-term employee benefits	$ 3	$ 3
Post-employment benefits	1	1
Other long-term benefits	1	-
	$ 5	$ 4

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 to the City, along with customer billing services and purchases printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements from the City. 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 Company has a 39% interest in Capital Power. The investment is treated as an associate as the Company has significant influence over Capital Power. The Company provides distribution and transmission services to Capital Power and up to June 30, 2011, Capital Power provided electricity under contracts to the Company. Transactions are in the normal course of operations and are based on normal commercial rates, as approved by regulation.

To provide for the continuity of operations and services, and to govern the ongoing relationships between EPCOR and Capital Power, EPCOR and Capital Power entered into various agreements to provide for certain aspects of the separation

of the power generation business from EPCOR. These transitional services were primarily for general shared service administrative functions. The monthly fee was the sum of all direct costs incurred for those services plus overhead on operating costs plus one per cent of the sum of those amounts. Transitional services ended on December 31, 2010.

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

		2011		2010
Consolidated income statement				
Revenues - (a)	$	90	$	80
Other raw materials and operating charges (b)		14		13
Franchise fees and property taxes (c)		76		66
Finance expense (d)		25		34
Consolidated statement of financial position				
Trade and other receivables (e)		23		14
Property, plant and equipment (f)		3		4
Trade and other payables (g)		20		18
Other current liabilities (h)		12		14
Loans and borrowings (note 22)		172		208
Deferred revenue (i)		20		-
Other liabilities (h) (note 25)		17		29
Equity attributable to the Owner of the Company		24		24

a) Included within revenue are electricity and water sales of $2 million (2010 - $2 million). Service revenue includes the provision of maintenance, repair and construction services of $81 million (2010 - $72 million), and customer billing services of $7 (2010 - $6 million).

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

c) Franchise fee of $49 million (2010 - $41 million) at 0.66 cents per kilowatt (2010 – 0.567 cents per kilowatt). Franchise fees of $15 million at 8% of qualifying revenues of water services and Gold Bar (2010 - $15 million at 7.6% effective January 1, 2010 to March 31, 2010 and 8% effective April 1, 2010 to December 31, 2010). Property taxes of $12 million (2010 - $10 million) on property owned within the City municipal boundaries.

d) Interest expense on the obligation to the City at interest rates ranging from 5.21% to 9.01%.

e) During the year ended December 31, 2011, the Company received nil (2010 - nil) of the accounts receivable balance relating to the negotiated sharing of the earnings of the City sinking fund.

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

g) Includes $2 million for drainage and construction services provided by the City (2010 - $4 million).

h) Relates to the current portion of the transfer fee payable to the City for Gold Bar. The non-current portion of $17 million (2010 - $29 million) is included within other non-current liabilities.

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

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

	2011	2010
Consolidated income statement		
Revenues – electricity sales (j)	$ 23	$ 30
Revenues – other (k)	39	51
Other income (l)	6	6
Electricity purchases (m)	230	360
Other administrative expenses (n)	7	9
Equity share of income of Capital Power (note 16)	90	55
Other comprehensive income statement		
Equity other comprehensive loss (note 16)	(5)	(4)
Consolidated statement of financial position		
Trade and other receivables (o)	22	28
Other financial assets (note 14)	379	613
Deferred revenue (p)	(7)	(7)
Trade and other payables (q)	2	46

j) Relates to electricity distribution and transmission services provided to Capital Power of $23 million (2010 - $30 million).

k) Financing revenue on long-term receivable from Capital Power.

l) Includes revenues for the provision of services by EPCOR to Capital Power under services agreements.

m) Relates to electricity purchases from Capital Power.

n) Includes utility bills and charges for provision of transitional services by Capital Power to EPCOR under the services agreements.

o) Includes $6 million relating to the accrued interest on the long-term receivable from Capital Power (note 14) (2010 - $9 million), and nil for operational cost recoveries relating to services agreement (2010 - $1 million).

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

q) Includes nil relating to electricity purchases from Capital Power (2010 - $42 million).

30. Derivatives

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

The derivative instruments assets and liabilities used for risk management purposes as described in note 32 consist of the following:

	December 31, 2011		
	Electricity	Foreign exchange	Total
Derivative instruments assets			
Fair value	$ (14)	$ 10	$ (4)
Cash paid to counterparty	15	-	15
Net fair value	$ 1	$ 10	$ 11
Net notional buys			
Megawatt hours of electricity (millions)	0.8	-	
Foreign currency (U.S. dollars)	-	205	
Range of contract terms in years	0.1	0.3	

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

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 future 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.

Changes in fair value on electricity derivative financial instruments are recorded in electricity purchases. Changes in fair value on financial foreign exchange derivatives are recorded in foreign exchange gains and losses.

At December 31, 2010, the Company held no derivative financial instruments.

31. Fair values of financial instruments

The classification, carrying amounts and fair values of the Company's other financial instruments at December 31, 2011 and 2010 is summarized as follows:

		2011		2010	
	Classification	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (note 10)	Fair value through profit or loss	$ 316	$ 316	$ 104	$ 104
Trade and other receivables (note 11)	Loans and receivables	340	340	266	266
Finance lease receivables (note 13)	Loans and receivables	130	145	133	171
Other financial assets (note 14)					
Floating-rate notes	Fair value through profit or loss	-	-	42	42
Loans and other long-term receivables (including current portion)	Loans and receivables	431	486	658	721
Trade and other payables (note 21)	Other liabilities	264	264	259	259
Loans and borrowings (note 22)					
Debentures and borrowings	Other liabilities	1,943	2,336	1,966	2,235
Beneficial interest in sinking fund	Available for sale	(244)	(244)	(294)	(294)

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. The Company's interest in the sinking fund has been categorized as a Level 1 valuation for December 31, 2011 and December 31, 2010.

Financial instruments were classified as follows:

	2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 316	$ -	$ -	$ 316

	2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 104	$ -	$ -	$ 104
Floating-rate notes	-	42	-	42

Cash and cash equivalents

The fair value of cash and cash equivalents is determined by unadjusted quoted prices from active markets. Cash and cash equivalents are classified in Level 1.

Trade and other receivables

Trade and other receivables are initially measured at cost and after initial recognition, are measured at amortized cost. Due to the short-term nature of these assets, fair value is not materially different from carrying amount.

Finance lease receivables

The fair values of the Company's finance lease receivables are based on the estimated interest rates implicit in comparable lease arrangements or loans plus an estimated credit spread based on the counterparty risk as at December 31, 2011 and 2010.

Floating-rate notes

The Company sold its floating-rate notes in June 2011 for total proceeds of $48 million. Historically, EPCOR estimated their fair value using a probability-weighted discounted cash flow approach based on the assumed credit ratings and potential ratings actions on the applicable floating-rate notes, observable interest rates and credit spreads for estimating future interest payments and applicable discount rates, the cost of margin call facilities, estimated recovery periods based on the estimated lives of the underlying assets associated with the floating-rate notes and ranges of recoverability based on publicly available default statistics for credit-rated entities.

Loans and other long-term receivables

The fair value of the Company's unsecured long-term receivable with Capital Power is based on a current yield for the Company's receivable as at December 31, 2011 and December 31, 2010. 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 as at December 31, 2011 and December 31, 2010.

Trade and other payables

Trade and other payables are initially measured at cost and after initial recognition, are measured at amortized cost. Due to the short-term nature of these liabilities, fair value is not materially different from carrying amount.

Loans and borrowings

Short-term debt is measured at amortized cost and its fair value is not materially different from its carrying amount due to its short-term nature.

The fair value of the Company's long-term loans and borrowings is based on determining a current yield for the Company's debt as at December 31, 2011 and December 31, 2010. 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.

32. 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, manage and mitigate 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. The Director of Risk, Assurance and Advisory Services provides a quarterly assessment to the Board of Directors on enterprise risk. 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.

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.

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 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.

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.

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 contacts-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. The amount of electricity to be procured, the procurement method and electricity selling prices to be charged to these customers is determined by the EPSP under which the Company directly manages procurement of the electricity for the RRO customers. All electricity for the RRO customers is purchased in real time from the AESO in the spot market. Under the EPSP, the Company uses financial contracts to hedge the RRO requirements and incorporate the price into customer rates for the applicable month. Fixed volumes of electricity are purchased at fixed prices using financial contracts-for-differences up to 45 days in advance of the month in which the electricity (load) is consumed by the RRO customers. The volume of electricity purchased in advance is based on load (usage) forecasts for the consumption month. When consumption varies from historical consumption patterns, EPCOR is exposed to prevailing market prices because it must either buy electricity if its volumes procured are short of actual load requirements or sell the electricity if its volumes procured are greater than the actual load requirements (long). Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and unusual weather patterns.

Under contracts-for-differences the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the AESO electricity spot market price and the fixed contract price for a specified volume of electricity up to 45 days in advance of the consumption date, all in accordance with the EPSP. The contracts-for-differences are referenced to the AESO electricity spot price and any movement in the AESO price results in changes in the contract settlement amount. If the risks of the EPSP were to become untenable, EPCOR could test the market and potentially re-contract the procurement risk under an outsourcing arrangement at a certain cost that would likely increase procurement costs and reduce margins.

As at December 31, 2011, holding all other variables constant, a $1 per megawatt hour increase / decrease in the forward electricity spot price would increase / decrease net income by approximately $1 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 $25 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 entities.

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 U.S. dollar denominated transactional exposure. The Company looks to limit foreign currency exposures as a percentage of estimated future cash flows. The direct foreign currency exposures of the Company at December 31, 2011 are not material. As at December 31, 2011, holding all other variables constant, a $0.05 strengthening or weakening of the Canadian dollar against the U.S. dollar would increase or decrease net income by approximately $10 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, 2011 and December 31, 2010 all long-term debt was fixed rate. The Company may also use derivative financial instruments to manage interest rate risk. At December 31, 2011 and December 31, 2010, 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. 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. 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 was represented by the carrying amount of the following financial assets:

	2011	2010
Cash and cash equivalents	$ 316	$ 104
Trade receivables and accrued revenues[1]	332	263
Floating-rate notes	-	42
Loans and other long-term receivables	431	658
Finance lease receivables	130	133
Other investments	987	1,192
Financial guarantees to third parties	-	18
	$ 2,196	$ 2,410

[1] The Company's maximum exposures related to trade and other receivable by major credit concentration is comprised of maximum exposures of $282 (2010 - $234) related to rate regulated customer balances.

This table does not take into account collateral held. At December 31, 2011, the Company held cash deposits of $23 million (2010 - $36 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. At December 31, 2011, the Company also held other forms of credit enhancement in the form of letters of credit of $2 million (2010 - $8 million) and parental guarantees of $16 million (2010 - $6 million).

Credit quality and concentrations

The Company is exposed to credit risk on outstanding accounts receivable 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 (including short-term investments), financial and non-financial derivative instruments, and long-term financing arrangements.

The credit quality of the Company's accounts receivable, by major credit concentrations, and other financial assets are the following:

At December 31, 2011:

	Investment grade or secured[1,2]	Unrated
	%	%
Accounts receivable		
Rate regulated customers[3]	-	100%
Technologies (transportation services customers)	83%	17%
Water customers	28%	72%
Cash and cash equivalents	100%	-
Loans and other long-term receivables	100%	-

At December 31, 2010:

	Investment grade or secured[1,2]	Unrated
	%	%
Accounts receivable		
Rate regulated customers[3]	-	100%
Technologies	90%	10%
Water customers	25%	75%
Cash and cash equivalents	100%	-
Loans and other long-term receivables	100%	-
Floating-rate notes	81%	19%

[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 accounts receivable 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 power supply receivables. Under the Alberta Electric and 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 power 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 power 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.

Accounts receivable and allowance for doubtful accounts

Accounts receivable consist primarily of amounts due from retail customers including industrial and commercial customers, other retailers, government-owned or sponsored entities, regulated public utility distributors, and other counterparties. Larger commercial and industrial customer contracts and contracts-for-differences provide for performance assurances

including letters of credit. 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 Company also has credit exposures to large suppliers of electricity. The Company mitigates these exposures by dealing with creditworthy counterparties and, when appropriate and contractually allowed, taking back appropriate security from the supplier.

The aging of trade and other receivables was:

	December 31, 2011		
	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current[1]	$ 304	$ -	$ 304
Outstanding 31 to 60 days	18	-	18
Outstanding 61 to 90 days	10	3	7
Outstanding more than 90 days	4	1	3
	$ 336	$ 4	$ 332

	December 31, 2010		
	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current[1]	$ 243	$ -	$ 243
Outstanding 31 to 60 days	12	-	12
Outstanding 61 to 90 days	5	1	4
Outstanding more than 90 days	6	2	4
	$ 266	$ 3	$ 263

[1] Current amounts represent accounts receivable outstanding zero to 30 days. Amounts outstanding for more than 30 days are considered past due.

Bad debt expense of $7 million recognized in the period (2010 - $5 million) 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 accounts receivable. Allowances and write-offs are determined by each business unit, either by applying specific risk factors to customer groups' aged balances in accounts receivable or by reviewing material accounts on a case-by-case basis. Reductions in 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:

	2011	2010
Balance at January 1	$ 3	$ 3
Additional allowances created	6	4
Recovery of receivables	1	1
Receivables written off	(6)	(5)
Balance at December 31	$ 4	$ 3

At December 31, 2011, the Company held $26 million (2010 - $20 million) of customer deposits for the purpose of mitigating the credit risk associated with accounts receivable from residential and business customers.

At December 31, 2011, there was no provision for credit losses (2010 - nil) associated with accounts receivable from treasury-counterparties as all balances are considered to be fully collectable.

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.

At December 31, 2011, the Company had operating lines of credit, and undrawn and committed bank credit facilities of $298 million (2010 - $428 million), $250 million committed until November 2014 and $48 million committed until November 2016. The Company has credit ratings of BBB+ and A (low), assigned by Standard and Poor's and DBRS Limited, respectively. In January 2012, the Company established a new $400 million committed syndicated bank credit facility in order to provide an additional source of liquidity. The new facility can only be used to provide letters of credit. The Company's existing letters of credit will be cancelled and replaced with new letters of credit under the new facility, thereby increasing the Company's credit availability under the existing syndicated bank credit facility.

In addition, the Company has in place a Canadian base shelf prospectus, which expires January 1, 2014, under which it may raise up to $1 billion of debt, with maturities of not less than one year. At December 31, 2011, the available amount remaining under the Canadian base shelf prospectus was $1 billion (2010 – $1 billion).

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, as at December 31, 2011:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after More than 5 years	Total contractual cash flows
Financial liabilities							
Loans and borrowings	$ 25	$ 18	$ 15	$ 15	$ 145	$ 1,494	$ 1,712
Interest payments on loans and borrowings	118	109	104	103	98	1,142	1,674
Trade and other payables[1]	236	-	-	-	-	-	236
Other liabilities (current)	26	-	-	-	-	-	26
Gold Bar transfer fee liability	12	10	6	1	-	-	29
Other liabilities (non-current)	-	6	1	1	1	8	17
	$ 417	$ 143	$ 126	$ 120	$ 244	$ 2,644	$ 3,694

[1] Excluding accrued interest on loans and borrowings of $28 million.

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, as at December 31, 2010:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after more than 5 years	Total contractual cash flows
Financial liabilities							
Loans and borrowings	$ 232	$ 24	$ 18	$ 14	$ 14	$ 1,383	$ 1,685
Interest payments on loans and borrowings	130	107	97	92	92	1,060	1,578
Trade and other payables[1]	228	-	-	-	-	-	228
Other liabilities (current)	20	-	-	-	-	-	20
Gold Bar transfer fee liability	14	12	10	6	1	-	43
	$ 624	$ 143	$ 125	$ 112	$ 107	$ 2,443	$ 3,554

[1] Excluding accrued interest on loans and borrowings of $31 million.

The Company's undiscounted cash flow requirements and contractual maturities in the next twelve months of $417 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 Company has long-term loans receivable from Capital Power which 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 as at December 31, 2011:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due more than 5 years	Total
Loans and receivables from Capital Power	$ 25	$ 14	$ 8	$ 9	$ 139	$ 184	$ 379
Interest payments on loans receivable from Capital Power	25	23	22	22	16	16	124
	$ 50	$ 37	$ 30	$ 31	$ 155	$ 200	$ 503

The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power as at December 31, 2010:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after more than 5 years	Total
Loans and receivables from Capital Power	$ 233	$ 25	$ 14	$ 8	$ 9	$ 324	$ 613
Interest payments on loans receivable from Capital Power	41	25	23	22	21	32	164
	$ 274	$ 50	$ 37	$ 30	$ 30	$ 356	$ 777

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.

33. 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 comparative 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:

		2011		2010
Loans and borrowing (including current portion) (note 22)	$	1,699	$	1,672
Cash and cash equivalents		(316)		(104)
Net debt		1,383		1,568
Total equity		2,351		2,342
Total capital	$	3,734	$	3,910

The Company has the following externally imposed requirements on its capital as a result of its credit facilities and certain debt covenants:

- 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 1.0 if the Company's credit rating falls below investment grade; and
- Limitation on debt issued by subsidiaries.

These capital restrictions are defined in accordance with the respective agreements. For the year ended December 31, 2011, the Company complied with all externally imposed capital restrictions.

34. 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 2011 and 2012, as directed by the AESO. The total estimated project costs are $40 million (2010 - $14 million). The Company has incurred costs of $23 million (2010 - $8 million).

(b) 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.

35. The estimated annual installments remaining to be paid on the outstanding balance are as follows:

2012	$	12
2013		10
2014		6
2015		1
	$	29

(c) 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.

35. Guarantees

At December 31, 2011, the Company had letters of credit outstanding of $272 million (2010 - $135 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

In the normal course of business, the Company provides financial support and performance assurances including guarantees, letters of credit and surety bonds to third parties in respect of its subsidiaries. The liabilities associated with the underlying subsidiary obligations are included on the consolidated statement of financial position.

The Company has no other material guarantee obligations outstanding in respect of third parties at December 31, 2011.

36. Segment disclosures

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

During the period, the management of certain commercial services (Technologies) including the maintenance and repair of City-owned street lighting and transportation support facilities were transferred from Water Services to Distribution and Transmission. Current year and prior year segment disclosures were restated to reflect this change. The segment reporting for the year ended December 31, 2011 includes Technologies revenue of $87 million and related expenses of $79 million. The segment reporting for the year ended December 31, 2010 reflects the transfer of revenue of $73 million and expenses of $66 million.

Water Services

Water Services is primarily involved in the treatment and distribution 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 complementary 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.

37. Business information

	Year ended December 31, 2011					
	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 312	$ 330	$ 1,152	$ 39	$ -	$ 1,833
Inter-segment revenue	-	152	11	-	(163)	-
Total revenue and other income	312	482	1,163	39	(163)	1,833
Electricity purchases and system access fees	-	(143)	(1,077)	-	144	(1,076)
Other raw materials and operating charges	(82)	(40)	(1)	-	8	(115)
Staff costs and employee benefits	(85)	(84)	(19)	(48)	-	(236)
Depreciation and amortization	(41)	(41)	(9)	(14)	-	(105)
Franchise fees and property taxes	(16)	(61)	-	-	-	(77)
Other administrative expenses	(11)	(12)	(26)	(7)	11	(45)
Foreign exchange gain (loss)	(1)	-	-	10	-	9
Operating expenses	(236)	(381)	(1,132)	(59)	163	(1,645)
Operating income (loss) before corporate charges	76	101	31	(20)	-	188
Corporate charges (income)	24	32	15	(71)	-	-
Operating income	52	69	16	51	-	188
Finance expense	(48)	(31)	(8)	(21)	-	(108)
Equity share of income of Capital Power	-	-	-	90	-	90
Loss on sale of a portion of and net loss on dilutions of investment in Capital Power	-	-	-	(24)	-	(24)
Income tax expense	-	-	(2)	-	-	(2)
Net income	$ 4	$ 38	$ 6	$ 96	$ -	$ 144
Total assets	$ 1,795	$ 1,174	$ 279	$ 1,801	$ (17)	$ 5,032
Investment in Capital Power	$ -	$ -	$ -	$ 987	$ -	$ 987
Total liabilities	$ 1,441	$ 807	$ 244	$ 206	$ (17)	$ 2,681
Capital additions	$ 108	$ 188	$ 1	$ 41	$ -	$ 338

	Year ended December 31, 2010					
	Water Services[1]	Distribution & Transmission[1]	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 310	$ 266	$ 861	$ 52	$ -	$ 1,489
Inter-segment revenue	-	122	11	-	(133)	-
Total revenue and other income	310	388	872	52	(133)	1,489
Electricity purchases and system access fees	-	(85)	(776)	-	113	(748)
Other raw materials and operating charges	(82)	(44)	-	1	9	(116)
Staff costs and employee benefits	(75)	(77)	(21)	(49)	-	(222)
Depreciation and amortization	(38)	(39)	(12)	(9)	-	(98)
Franchise fees and property taxes	(16)	(51)	-	-	-	(67)
Other administrative expenses	(10)	(7)	(24)	(5)	11	(35)
Operating expenses	(221)	(303)	(833)	(62)	133	(1,286)
Operating income (loss) before corporate charges	89	85	39	(10)	-	203
Corporate charges (income)	25	30	12	(67)	-	-
Operating income	64	55	27	57	-	203
Finance expense	(43)	(29)	(6)	(48)	-	(126)
Equity share of income of Capital Power	-	-	-	55	-	55
Loss on sale of portion of investment in Capital Power	-	-	-	(19)	-	(19)
Income tax expense	(1)	-	(6)	(1)	-	(8)
Net income	$ 20	$ 26	$ 15	$ 44	$ -	$ 105
Total assets	$ 1,672	$ 989	$ 204	$ 2,079	$ (12)	$ 4,932
Investment in Capital Power	$ -	$ -	$ -	$ 1,192	$ -	$ 1,192
Total liabilities	$ 1,335	$ 683	$ 159	$ 425	$ (12)	$ 2,590
Capital additions	$ 108	$ 129	$ -	$ 8	$ -	$ 245

[1] During the third quarter of 2011, management of Technologies was transferred from Water Services to Distribution and Transmission and the related 2010 revenues and expenses were reclassified for comparative purposes.

Geographic information

	Year ended December 31, 2011				Year ended December 31, 2010			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
Revenues – external revenues and other income	$ 1,827	$ 6	$ -	$ 1,833	$ 1,489	$ -	$ -	$ 1,489
Inter-segment revenues	163	-	(163)	-	133	-	(133)	-
Total revenues and other income	$ 1,990	$ 6	$ (163)	$ 1,833	$ 1,622	$ -	$ (133)	$ 1,489

37. Transition to IFRS

As described in note 2, this is the first year in which the Company's consolidated financial statements have been presented in accordance with IFRS. For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with previous Canadian GAAP (CGAAP) in effect for those periods.

In accordance with the CICA's adoption of IFRS, the Company has prepared consolidated financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2010. In preparing these consolidated financial statements, the Company's opening statement of consolidated financial position was prepared as at January 1, 2010. This note explains the principal adjustments made by the Company in restating its CGAAP consolidated statement of financial position, and its previously published CGAAP financial statements for the year ended December 31, 2010.

The Company has applied the following exemptions and exceptions in its transition from CGAAP to IFRS:

Business combinations

IFRS 1 provides the option to apply IFRS 3 - Business Combinations, retrospectively or prospectively from any date prior to the date of transition. The Company has elected not to retrospectively apply IFRS 3 – Business Combinations, to business combinations that occurred prior to the date of transition and such business combinations have not been restated.

Employee benefits

IFRS 1 provides the option to retrospectively apply IAS 19 - Employee Benefits, for the recognition of actuarial gains and losses, or to recognize all cumulative gains and losses deferred under CGAAP in opening retained earnings at the date of transition. The Company has elected to recognize all cumulative actuarial gains and losses that existed at its date of transition for all of its employee benefit plans.

Cumulative translation account

IFRS 1 provides the option to deem all foreign currency translation differences held in accumulated other comprehensive income at the date of transition to be nil. The Company has elected to take this option and on transition the cumulative translation account has been reset to nil.

Reconciliation of equity reported under CGAAP to equity under IFRS at January 1, 2010:

	CGAAP	Measurement adjustments	Presentation adjustments	IFRS
Current assets:				
Cash and cash equivalents	$ 11	$ -	$ -	$ 11
Trade and other receivables[1] (a)	502	(21)	-	481
Inventories	11	-	-	11
Deferred tax assets (b)	1	-	(1)	-
	525	(21)	(1)	503
Non-current assets:				
Other assets (a, c, d)	164	(1)	(163)	-
Finance lease receivables (c)	-	-	124	124
Other financial assets (c)	643	-	37	680
Deferred tax assets (b)	40	-	1	41
Investment in Capital Power (e)	1,481	(20)	-	1,461
Intangible assets (d, f)	110	(2)	2	110
Property, plant and equipment (a, f, g, h)	1,778	(75)	532	2,235
	4,216	(98)	533	4,651
Total assets	$ 4,741	$ (119)	$ 532	$ 5,154
Current liabilities:				
Trade and other payables[2] (a, i)	$ 241	$ (7)	$ (16)	$ 218
Loans and borrowings	225	-	-	225
Deferred revenue (h)	1	-	10	11
Provisions (i)	-	-	16	16
Other liabilities	31	-	-	31
	498	(7)	10	501
Non-current liabilities:				
Loans and borrowings (j)	1,692	(5)	-	1,687
Deferred revenue (g, h)	-	(17)	522	505
Provisions (a, i, k)	-	-	37	37
Other liabilities (i)	81	-	(37)	44
	1,773	(22)	522	2,273
Total liabilities	2,271	(29)	532	2,774
Equity attributable to the Owner of the Company:				
Share capital	24	-	-	24
Accumulated other comprehensive income (loss) (e, j, l, m)	(16)	28	-	12
Retained earnings (a, e, f, h, k, l, m)	2,462	(118)	-	2,344
Total equity	2,470	(90)	-	2,380
Total liabilities and equity	$ 4,741	$ (119)	$ 532	$ 5,154

Reconciliation of equity reported under CGAAP to equity under IFRS at December 31, 2010:

	CGAAP	Measurement adjustments	Presentation adjustments	IFRS
Current assets:				
Cash and cash equivalents	$ 104	$ -	$ -	$ 104
Trade and other receivables[1] (a)	519	(13)	-	506
Inventories	10	-	-	10
Deferred tax assets (b)	1	-	(1)	-
	634	(13)	(1)	620
Non-current assets:				
Other assets (a, c, d)	178	(2)	(176)	-
Finance lease receivables (c)	-	-	130	130
Other financial assets (c)	419	-	44	463
Deferred tax assets (b)	41	-	1	42
Investment in Capital Power (e)	1,235	(43)	-	1,192
Intangible assets (d, f)	100	(2)	2	100
Property, plant and equipment (f, g, h)	1,907	(80)	558	2,385
	3,880	(127)	559	4,312
Total assets	$ 4,514	$ (140)	$ 558	$ 4,932
Current liabilities:				
Trade and other payables[2] (a, i)	$ 279	$ 4	$ (24)	$ 259
Loans and borrowings	219	-	-	219
Deferred revenue (h)	3	-	9	12
Provisions (i)	-	-	24	24
Other liabilities	33	-	-	33
	534	4	9	547
Non-current liabilities:				
Loans and borrowings (j)	1,456	(3)	-	1,453
Deferred revenue (g, h)	-	(17)	549	532
Deferred tax liabilities	1	-	-	1
Provisions (a, i, k)	-	(1)	28	27
Other liabilities (i)	58	-	(28)	30
	1,515	(21)	549	2,043
Total liabilities	2,049	(17)	558	2,590
Equity attributable to the Owner of the Company:				
Share capital	24	-	-	24
Accumulated other comprehensive income (loss) (e, j, l, m)	(18)	23	-	5
Retained earnings (a, e, f, h, k, l, m)	2,459	(146)	-	2,313
Total equity	2,465	(123)	-	2,342
Total liabilities and equity	$ 4,514	$ (140)	$ 558	$ 4,932

[1] Trade and other receivables include accounts receivable, income taxes recoverable, prepaid expenses and the current portion of long-term receivables.

[2] Trade and other payables include accounts payable and accrued liabilities and income taxes payable.

Notes to the reconciliations:

(a) IFRS does not currently contain any separate guidance relating to recognition of assets and liabilities that have arisen as a result of rate regulation. Under current IFRS, such items were not recognized on transition. The impact of this at January 1, 2010 was to reduce trade and other receivables by $21 million, other assets by $1 million, PP&E by $1 million, trade and other payables by $7 million and non-current provisions by $2 million with a charge to retained earnings of $14 million. At December 31, 2010, the impact was to reduce trade and other receivables by $13 million, other assets by $2 million and non-current provisions by $2 million and increase trade and other payables by $4 million with a $17 million charge to retained earnings.

(b) In accordance with IAS 12 - Income Taxes, all deferred tax balances are classified as non-current, irrespective of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The effect was to reclassify $1 million at January 1, 2010 and December 31, 2010 from current deferred tax assets to non-current deferred tax assets.

(c) In accordance with IAS 1 - Financial Statements (IAS 1), financial assets should be separately presented from other assets. The effect was to reclassify $161 million at January 1, 2010 and $174 million at December 31, 2010 from other assets. At January 1, 2010, $124 million is presented as finance lease receivables and $37 million is presented as other financial assets. At December 31, 2010, $130 million is presented as finance lease receivables and $44 million is presented as other financial assets.

(d) In accordance with IAS 1, goodwill should be presented either on the face of the consolidated statement of financial position or as part of intangible assets. Under CGAAP, goodwill was presented as part of other assets. The effect was to reclassify $2 million at January 1, 2010 and December 31, 2010 from other assets to intangible assets.

(e) The Company has restated its investment in Capital Power to recognize its equity share of Capital Power's IFRS adjustments. The impact was a reduction in the investment of $20 million at January 1, 2010 and $43 million at December 31, 2010, an increase in accumulated other comprehensive income by $10 million at January 1, 2010 and by $6 million at December 31, 2010 and a charge to retained earnings of $30 million at January 1, 2010 and $49 million at December 31, 2010.

(f) The Company previously accounted for certain transactions in accordance with applicable rate regulation (regulatory accounting). As permitted previously under CGAAP, the Company applied Financial Accounting Standards Codification Section 980 – Regulated Operations, as issued by the Financial Accounting Standards Board in the U.S. as another source of GAAP.

Under regulatory accounting, gains and losses on the disposal of the Company's rate-regulated assets were previously deferred within PP&E or intangible assets. The Company also previously capitalized non-directly attributable overhead within PP&E and intangible assets where it was included within the Company's rate-regulated asset base.

Under IAS 16 - Property, Plant and Equipment (IAS 16) and IAS 38 – Intangible Assets (IAS 38), assets are required to be derecognized on disposal and any associated gain or loss should be recognized in net income. Overhead may only be capitalized where it is considered to be directly attributable to the construction of the asset.

The effect of this was to reduce the net book value of PP&E by $59 million at January 1, 2010 and $65 million at December 31, 2010. Intangible assets were reduced by $2 million at January 1, 2010 and at December 31, 2010. The overall reduction in retained earnings was $61 million at January 1, 2010 and $67 million at December 31, 2010.

(g) Although the determination of whether an arrangement contains a lease is broadly similar between CGAAP and IFRS, CGAAP contained more quantitative criteria in determining whether a lease is treated as capital or operating. As a result, a lease agreement which was set up as a capital asset with deferred revenue offset under CGAAP was determined to be a finance lease with a net balance of zero under IAS 17 – Leases. The impact was a reduction in PP&E of $15 million at January 1, 2010 and December 31, 2010, which was offset by a reduction in deferred revenue

of $15 million at January 1, 2010 and December 31, 2010.

(h) Under CGAAP, contributions that were received from developers and customers and used to construct items of PP&E were offset against the cost of the constructed asset. Under International Financial Reporting Interpretations Committee (IFRIC) 18 - Transfers of Assets from Customers (IFRIC 18), contributions received in order to construct an item of PP&E that is used to provide ongoing access to electricity and water are treated as deferred revenues. The effect of this was to reclassify $532 million at January 1, 2010 and $558 million at December 31, 2010 from PP&E to deferred revenues.

In addition, $2 million at January 1, 2010 and December 31, 2010 was recorded in net income relating to insurance proceeds that, under CGAAP, were being deferred and amortized over the life of the replacement asset. Under IAS 16 – Plant, Property and Equipment, such proceeds should be recognized in net income on settlement of the claim.

(i) Under IAS 1, provisions should be separately presented on the face of the consolidated statement of financial position. The effect was to reclassify $16 million at January 1, 2010 and $24 million at December 31, 2010 from trade and other payables to current provisions and to reclassify $37 million at January 1, 2010 and $28 million at December 31, 2010 from other non-current liabilities to non-current provisions.

(j) In accordance with IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39), any asset that is classified as available-for-sale should be recorded at fair value, with any changes in fair value recognized in other comprehensive income. Under CGAAP, the Company's beneficial interest in the sinking fund is not quoted in an active market and was therefore recorded at cost. The impact was a reduction in loans and borrowings of $5 million at January 1, 2010 and $3 million at December 31, 2010 with a corresponding increase in accumulated other comprehensive income to recognize the difference between fair value and the CGAAP exchange amount.

(k) As permitted by IFRS 1 – First Time Adoption of International Financial Reporting Standards (IFRS 1), the Company has elected to recognize all cumulative actuarial gains and losses that existed at its date of transition in opening retained earnings for all of its employee benefit plans. The effect was to increase non-current provisions by $2 million at January 1, 2010 and by $1 million at December 31, 2010.

(l) As permitted by IFRS 1, the Company has elected to reset its cumulative translation account to nil at the date of transition. The impact of this was a reclassification of $19 million from accumulated other comprehensive income to retained earnings at January 1, 2010 and December 31, 2010.

(m) The Company recognized an increase in retained earnings of $6 million at January 1, 2010 and $5 million at December 31, 2010, offset by a decrease in accumulated other comprehensive income of $6 million at January 1, 2010 and $5 million at December 31, 2010 to reflect the deferred tax impact of the adjustments noted above relating to the Company's entities subject to income tax.

Reconciliation of total comprehensive income reported under CGAAP to total comprehensive income under IFRS for the year ended December 31, 2010:

	CGAAP	Measurement adjustments	Presentation adjustments	IFRS
Revenues and other income (n, o)	$ 1,473	$ 4	$ 12	$ 1,489
Electricity purchases and system access fees (n)	(746)	(2)	-	(748)
Operations, maintenance and administration (p)	(366)	-	366	-
Other raw materials and operating charges (p, r)	-	(1)	(115)	(116)
Staff costs and employee benefits (p)	-	-	(222)	(222)
Depreciation and amortization (o, q)	(88)	2	(12)	(98)
Franchise fees and property taxes (n)	(61)	(6)	-	(67)
Other administrative expenses (p, r)	-	(6)	(29)	(35)
Operating income	212	(9)	-	203
Finance expense (s)	(127)	1	-	(126)
Equity share of income of Capital Power (t)	88	(33)	-	55
Loss on sale of a portion of investment in Capital Power and other (t)	(33)	14	-	(19)
Net income before income taxes	140	(27)	-	113
Income tax expense (u)	(7)	(1)	-	(8)
Net income	133	(28)	-	105
Other comprehensive loss:				
Unrealized loss on available-for-sale financial assets (v)	-	(1)	-	(1)
Equity share of other comprehensive loss of Capital Power (t)	(4)	1	-	(3)
Loss realized in net income upon sale of a portion of investment in Capital Power (t)	2	(5)	-	(3)
Other comprehensive loss	(2)	(5)	-	(7)
Total comprehensive income - all attributable to the Owner of the Company	$ 131	$ (33)	$ -	$ 98

Notes to the reconciliations:

(n) As identified in note 37(f), the Company previously used regulatory accounting to recognize certain assets, liabilities, revenues and expenses. As a result, the timing of the Company's recognition of certain revenues and expenses differed from IFRS, which requires that revenues and expenses are recognized as incurred. For the year ended December 31, 2010, the impact was an increase in revenues of $4 million, an increase in electricity purchases and system access fees of $2 million, and an increase in franchise fees and property taxes of $6 million for an overall reduction in net income of $4 million.

(o) Under CGAAP, the amortization of contributions received towards the construction of PP&E used to provide ongoing access to electricity and water supply was treated as depreciation. Under IFRIC 18, such amortization is treated as revenue. The effect was to reclassify $12 million from depreciation to revenues for the year ended December 31, 2010.

(p) Under IAS 1, expenses must be presented using either a functional presentation or according to their nature. The Company has adopted presentation by nature. The effect was to reclassify salary, wages and employee benefit costs of $222 million to staff costs and employee benefits from operations, maintenance and administration for the year ended December 31, 2010. The remaining operations, maintenance and administrative costs were reclassified as other raw material and operating charges and other administrative expenses.

(q) As identified in note 37(f), PP&E and intangible assets have been adjusted for the removal of non-directly attributable overhead and deferred gains and losses on derecognized assets. As a result of this, and as a result of the review of the useful lives of the components of the Company's assets as required by IAS 16, there was a reduction in depreciation and amortization of $6 million offset by an additional $4 million loss on disposal of assets for the year ended December 31, 2010.

(r) Under CGAAP, overheads are capitalized as part of PP&E or intangible assets if they are permitted or required to be included in the Company's rate-regulated asset base. Under IAS 16 and IAS 38, overheads may only be capitalized if they are directly attributable to the construction of PP&E or intangible assets. The effect of this was an increase to other administrative expenses of $6 million combined with an increase of $1 million to other raw materials and operating charges for the year ended December 31, 2010.

(s) Under CGAAP, an allowance for funds used during construction was capitalized if it was approved or required by the regulator to be included in the Company's rate-regulated asset base. Under IAS 23 – Borrowing Costs, there are more detailed rules on the methodology for capitalizing borrowing costs. As a result of the change in methodology, the Company recognized an increase in capitalized interest of $1 million for the year ended December 31, 2010.

(t) The Company's income from its equity investment in Capital Power was decreased by $33 million for the year ended December 31, 2010 which reflected the Company's equity share of the adjustments recognized on transition to IFRS by Capital Power. The Company's other comprehensive income from the investment in Capital Power was increased by $1 million for the year ended December 31, 2010.

    As a result of the restatement of the investment in Capital Power, the loss recognized in net income on disposal of a portion of interest in Capital Power was reduced by $14 million for the year ended December 31, 2010 and losses transferred to net income from other comprehensive income on disposal of a portion of interest in Capital Power were reduced by $5 million.

(u) As a result of the adjustments above, the Company recognized an increase in income tax expense of $1 million for the year ended December 31, 2010.

(v) As identified in note 37(j), the Company's beneficial interest in the sinking fund is measured at fair value under IFRS. As a result, the Company recognized a decrease in other comprehensive income of $1 million for the year ended December 31, 2010.

38. Subsequent events

(a) On January 31, 2012, the Company completed the acquisition of 100% of the stock of Arizona-American Water Company and New Mexico-American Water Company, Inc. from American Water Works Company, Inc. for cash consideration of $460 million (US$461 million) and the assumption of $9 million (US$9 million) in long-term debt, subject to certain adjustments. Arizona-American Water Company and New Mexico-American Water Company, Inc. are public utility companies engaged principally in the purchase, production, distribution and sale of water to approximately 123,000 customers and wastewater treatment and related services to approximately 51,000 customers. These customers live in 13 municipalities in the states of Arizona and New Mexico. This investment provides the Company with a strong hub in the U.S. Southwest, consistent with the Company's strategic plan for expansion.

Due to the short time frame between the close of the acquisition and the approval of these consolidated financial statements, we have not completed the initial accounting of the fair value of the net assets acquired, liabilities assumed and contingent consideration. The details of the accounting and allocation of the purchase price will be disclosed in the 2012 consolidated financial statements.

(b) On January 31, 2012, the Company established a new $400 million committed syndicated bank credit facility in order to provide an additional source of liquidity. The new facility can only be used to provide letters of credit.

(c) On February 28, 2012, the Company issued $300 million, 4.55% medium-term notes due February 28, 2042 under its base shelf prospectus. The notes were priced to yield 4.565%, pay interest semi-annually and rank equally, except as to sinking fund and statutory preferred exceptions, with all other unsecured and unsubordinated indebtedness of the Company. The notes were used to pay down commercial paper indebtedness and for general corporate purposes.