



Direct EnergyTM
Regulated Services

DIRECT ENERGY REGULATED SERVICES - GAS & ELECTRICITY
(A business unit of Direct Energy Marketing Limited)
Balance Sheet as at December 31
 (in 000's)

(Unaudited)

	2004 Actual (May to Dec)	2005 Forecast	2006 Forecast
ASSETS			
Current			
Cash	\$ 22,162	\$ 22,100	\$ 22,100
Short Term Investments	16,627	16,600	16,600
Accounts Receivable	352,931	352,900	352,900
Deferred Charges	1,338	832	(68)
Prepays	84	100	100
	<u>393,141</u>	<u>392,532</u>	<u>391,632</u>
Capital Assets, net (note 4)	<u>9,015</u>	<u>7,793</u>	<u>8,817</u>
	<u>\$ 402,157</u>	<u>\$ 400,325</u>	<u>\$ 400,449</u>
LIABILITIES			
Current			
Accounts Payable	\$ 276,031	\$ 276,000	\$ 276,000
Customer Deposits	12,711	16,535	16,535
	<u>288,742</u>	<u>292,535</u>	<u>292,535</u>
Inter-company	<u>114,462</u>	<u>105,882</u>	<u>103,007</u>
	403,203	398,417	395,542
ACCUMULATED (DEFICIT) EARNINGS	<u>(1,047)</u>	<u>1,908</u>	<u>4,907</u>
	<u>\$ 402,157</u>	<u>\$ 400,325</u>	<u>\$ 400,449</u>

Statement of Operations and Deficit
 For the Year Ended December 31
 (in 000's)

	(Unaudited)		
	2004 Actual (May to Dec)	2005 Forecast	2006 Forecast
REVENUE	\$ 1,016,095	\$ 2,063,888	\$ 2,086,217
EXPENSES			
Gas supply cost	834,807	1,766,730	1,785,314
Electricity supply cost	142,263	221,310	223,137
Customer Care	29,663	55,557	55,739
General & administrative	11,106	13,259	14,375
Amortization	1,120	2,108	2,653
	<u>1,018,959</u>	<u>2,058,964</u>	<u>2,081,218</u>
(DEFICIT) EARNINGS BEFORE TAXES	<u>(2,864)</u>	<u>4,924</u>	<u>4,999</u>
INCOME TAXES (REFUND)	(1,818)	1,970	2,000
NET (LOSS) INCOME	<u><u>(\$ 1,047)</u></u>	<u><u>\$ 2,954</u></u>	<u><u>\$ 2,999</u></u>

Notes to the Financial Information
For the Period from May 4, 2004 to December 31, 2004

1. BASIS OF PRESENTATION

This financial information of Direct Energy Regulated Services – Gas and Electricity (“DERS”) has been prepared by the management of Direct Energy Marketing Limited (“Direct Energy”) on a stand-alone basis for regulatory purposes. DERS is a business unit of Direct Energy an incorporated entity. The ultimate parent of Direct Energy is Centrica plc, a company incorporated in the United Kingdom.

This financial information includes the results of operations of DERS for the period from May 4, 2004 to December 31, 2004. The financial information does not include the cost of Direct Energy’s investment in DERS or any expenses related to that acquisition.

2. PURCHASE OF RETAIL OPERATION

Purchase of Retail Operations from ATCO Gas and Pipelines Ltd. (“ATCO Gas”) and ATCO Electric Ltd. (“ATCO Electric”)

On May 4th, 2004, Direct Energy purchased the retail energy businesses of ATCO Gas and ATCO Electric Ltd. both of which are business units of ATCO Gas and Pipelines Ltd. ATCO Gas and Pipelines Ltd. is a wholly owned subsidiary of Canadian Utilities Limited which is a wholly owned subsidiary of CU Inc.

The transaction was subject to the satisfaction of certain conditions, including the receipt of required regulatory approvals.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regulation and Basis of Accounting

DERS is regulated by the AEUB, which administers the acts and regulations covering such matters as rates, financing, accounting, operations and service areas.

The financial statements have been prepared in accordance with accounting policies used by Direct Energy. These accounting policies are in accordance with Canadian generally accepted accounting principles (“GAAP”), including certain principles that apply to regulated enterprises.

Revenue Recognition

Revenues are recognized on the accrual basis, which includes an estimate of the value of gas and electricity consumed by customers in the year, but billed subsequent to year-end.

Natural Gas Supply Costs

Natural gas supply costs are based on the forecast cost of natural gas included in customer rates. In accordance with GAAP for regulated enterprises, variances from forecast costs are deferred until such time as approval from the AEUB is obtained for refund to, or collection from, customers through revised rates; natural gas supply expense is adjusted accordingly to account for the deferred variance from forecast cost.

Electricity Supply Costs

Electricity supply costs are based on the actual cost of electricity purchases. However, variances in the cost of supply may arise due to differences in initial and final settlement, between final settlement and consumption billed to customers, and final adjustments in electricity prices. In accordance with GAAP, revenues are adjusted for variances from forecast cost, and the variances are deferred until such time as approval from AEUB is obtained for the refund to, or collection from, customers.

Income Taxes

DERS uses the normalized deferred method to account for federal income taxes and the flow through method to account for provincial income taxes to the extent that such taxes are applicable.

DERS itself is not specifically subject to income taxes and is not required to file an income tax return on its specific business activities. To account for the income tax attributable to the activities of DERS, DERS's share of Direct Energy's income tax provision is apportioned to the business unit as if it were a stand-alone legal entity.

Cash & Short term

Cash balances are balances held in banks.

Short Term investments

Short term investments consist of customer deposits held in trust.

Accounts Receivable

Accounts receivable include amounts for billed and unbilled energy consumption and is reduced by a provision for bad debts.

Deferred charges

The Alberta Energy Utility Board (AEUB), through its decision, has approved the use of deferral accounts. Hearing costs include expenses incurred to apply to the AEUB for rates for 2004.

Financial Instruments

The fair values of cash, accounts receivable and payable, and short term investments approximate the carrying amounts of these instruments due to the short period to maturity.

4. CAPITAL ASSETS

Capital assets and leasehold improvements are recorded at cost and depreciated over five years on a straight-line bases, in accordance with the ruling by the AEUB.

	2004 (\$000's)		
	Cost	Accumulated Depreciation	Net Book Value
Software & Hardware	9,991	1,133	8,858
Leasehold Improvements	146	16	130
Furniture & Equipment	30	3	27
	10,167	1,152	9,015

5. GUARANTEES

Centrica plc provides a number of guarantees related to the DERS obligations. These guarantees cover the following items:

<u>Type of Guarantee</u>	<u>Amount (000's)</u>
Standby Letters of Credit	\$ 120
Guarantees for Gas Supply Contracts	120
Guarantee under the Master Service Agreement for the supply of customer related support services	44,800

The fees associated with these guarantees and letters of credit are included in the costs of supply, except for the fees associated with the guarantee under the Master Service Agreement, which are included in customer care costs on the income statement.

6. CONTRACTUAL OBLIGATIONS

Direct Energy has entered into a ten year Master Service Agreement with ATCO I-Tek Business Services Ltd. ("ATCO I-Tek"). ATCO I-Tek will provide customer care, billing, credit, and collection services for customers of DERS at competitive monthly rates. Direct Energy may terminate this agreement without cause on the fifth, sixth, seventh, eighth or ninth anniversaries of the service date.

7. SEGMENTED INFORMATION

DERS is responsible for the management of two regulated operations, one related to the provision of regulated retail gas services, the other the regulated retail electric services. The segmented information related to these operations is shown below:

	Gas (May to Dec) (\$000's)	Electric (May to Dec) (\$000's)
Revenue	866,458	149,636
Expenses	868,372	150,587
Earnings before taxes (loss)	(1,914)	(591)
Income taxes (refunds)	(1,345)	(473)
Net income (loss)	(569)	(478)
Fixed Assets (net)	5,941	3,074

8. RELATED PARTY TRANSACTIONS

<u>Entity</u>	<u>Relationship</u>	<u>Transaction</u>	<u>Recorded As</u>	<u>2004</u>
Direct Energy Marketing Ltd. (DEML)	Affiliate	Corporate charges	General & administrative	\$ 2,494
Energy Management Group (a division of DEML)	Affiliate	Gas supply costs	Gas supply cost	621,923
		Electricity supply costs	Electricity supply cost	78,135
		Salaries	General & administrative	57

All of the above transactions are considered to be in the normal course of business and are measured at the exchange amount.

9. COMPARATIVE DATA

Direct Energy Regulated Services began operations at May 4, 2004 and therefore have no comparative information for the prior year.