CU INC.
An ATCO Company

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

The following discussion and analysis of financial condition and results of operations of CU Inc. (the "Corporation") should be read in conjunction with the Corporation's unaudited interim financial statements for the nine months ended September 30, 2005, and the audited financial statements and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2004 ("2004 MD&A"). Information contained in the 2004 MD&A that is not discussed in this document remains substantially unchanged. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com.

The common share capital of the Corporation consists of Class A non-voting shares ("Class A shares") and Class B common shares ("Class B shares").

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FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes that the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

In particular, this MD&A contains forward-looking statements pertaining to the impact of changes in government regulation. The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of regulatory decisions, competitive factors in the industries in which the Corporation operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Corporation.

BUSINESS OF THE CORPORATION

The Corporation's financial statements are consolidated from two segments: utilities and power generation (refer to Note 5 of the unaudited interim financial statements for the nine months ended September 30, 2005). Transactions between segments are eliminated in all reporting of the Corporation's consolidated financial information.

TRANSFER OF THE RETAIL ENERGY SUPPLY BUSINESSES

On May 4, 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy Marketing Limited and one of its affiliates (collectively "DEML"), a subsidiary of Centrica plc ("Transfer of the Retail Energy Supply Businesses"). Proceeds of the transfer were $90 million, of which $45 million was paid at closing, and the remainder was paid on May 4, 2005. Net proceeds, after adjustments related to legal, transition and other deferred costs pertaining to the Transfer of the Retail Energy Supply Businesses, resulted in a gain of $63.3 million before income taxes of $8.2 million, and increased earnings by $55.1 million for the nine months ended September 30, 2004.

The Corporation's revenues and natural gas supply and purchased power costs after May 4, 2004, were reduced accordingly for 2004 and thereafter. Subsequent to May 4, 2004, ATCO Gas continued to purchase natural gas on behalf of DEML until the transfer of the relevant ATCO Gas natural gas purchase contracts to DEML was completed in September 2004. There will be no ongoing impact on earnings resulting from the transfer of these businesses as natural gas and electricity have historically been sold to customers on a "no-margin" basis. ATCO Gas and ATCO Electric continue to own and operate the natural gas and electricity distribution systems used to deliver energy.

SELECTED QUARTERLY INFORMATION

	For the Three Months Ended			
($ Millions)	**Mar. 31**	**Jun. 30**	**Sep. 30**	**Dec. 31**
		(unaudited)		
2005				
Revenues (1)	505.7	307.7	294.4	....
Earnings attributable to Class A and Class B shares (4) (5)	58.3	27.3	24.9	....
2004				
Revenues (1)	960.0	480.7	266.3	371.7
Earnings attributable to Class A and Class B shares (2) (4) (5)	63.8	80.3	24.0	53.5
2003				
Revenues	....	....	....	728.1
Earnings attributable to Class A and Class B shares (3) (4) (5)	....	....	....	54.4

Notes:

(1) *Prior to the Transfer of the Retail Energy Supply Businesses on May 4, 2004, the cost of natural gas and electricity purchased for ATCO Gas' and ATCO Electric's customers was included in revenues. As ATCO Gas and ATCO Electric no longer purchase natural gas and electricity for their customers, revenues since May 4, 2004, have decreased accordingly.*

(2) *Includes earnings of $55.1 million on the Transfer of the Retail Energy Supply Businesses for the three months ended June 30, 2004.*

(3) *2003 earnings attributable to Class A and Class B shares have been restated for retroactive changes in the methods of accounting for asset retirement obligations.*

(4) *There were no discontinued operations or extraordinary items during these periods.*

(5) *Due to the seasonal nature of the Corporation's operations and the timing of rate decisions, earnings for any quarter are not necessarily indicative of operations on an annual basis.*

(6) *As all Class A and Class B shares of the Corporation are owned by Canadian Utilities Limited, the disclosure of earnings per share is not provided as it is not considered to be meaningful.*

(7) *The above data has been prepared in accordance with Canadian generally accepted accounting principles and the reporting currency is the Canadian dollar.*

RESULTS OF OPERATIONS

The principal factors that have caused variations in **revenues** and **earnings** over the eight most recently completed quarters necessary to understand general trends that have developed and the seasonality of the businesses disclosed in the 2004 MD&A remain substantially unchanged.

Consolidated Operations

Revenues and earnings attributable to Class A and Class B shares were as follows:

	For the Three Months Ended September 30		**For the Nine Months Ended September 30**	
($ Millions)	**2005**	2004	**2005**	2004
		(unaudited)		
Revenues (1)	**294.4**	266.3	**1,107.8**	1,707.0
Earnings attributable to Class A and Class B shares (2) (3) (4) (5)	**24.9**	24.0	**110.5**	168.1

Notes:

(1) *Prior to the Transfer of the Retail Energy Supply Businesses on May 4, 2004, the cost of natural gas and electricity purchased for ATCO Gas' and ATCO Electric's customers was included in revenues. As ATCO Gas and ATCO Electric no longer purchase natural gas and electricity for their customers, revenues since May 4, 2004, have decreased accordingly.*

(2) *Includes earnings of $55.1 million on the Transfer of the Retail Energy Supply Businesses for the nine months ended September 30, 2004.*

(3) *There were no discontinued operations or extraordinary items during these periods.*

(4) *Due to the seasonal nature of the Corporation's operations and the timing of rate decisions, earnings for any quarter are not necessarily indicative of operations on an annual basis.*

(5) *As all Class A and Class B shares of the Corporation are owned by Canadian Utilities Limited, the disclosure of earnings per share is not provided as it is not considered to be meaningful.*

(6) *The above data has been prepared in accordance with Canadian generally accepted accounting principles and the reporting currency is the Canadian dollar.*

Revenues for the three months ended September 30, 2005, increased by $28.1 million to $294.4 million, primarily due to:

- impact of the interim customer rate increases for ATCO Electric and ATCO Gas (refer to Regulatory Matters – ATCO Electric and ATCO Gas sections);
- 2004 one time impact of the finalization of natural gas supply costs related to the Transfer of the Retail Energy Supply Businesses; and
- 2004 one time impact of 2004 General Rate Application adjustments for ATCO Gas related to the refund of deferred income taxes.

Revenues for the nine months ended September 30, 2005, decreased by $599.2 million to $1,107.8 million, primarily due to:

- lower sales of electricity and natural gas purchased for customers on a "no-margin" basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses in May 2004.

Earnings for the three months ended September 30, 2005, increased by $0.9 million to $24.9 million, primarily due to:

- interim customer rate increases for ATCO Electric and ATCO Gas approved by the AEUB for 2005 recognized in the third quarter which offset higher costs incurred in 2005 in ATCO Gas and ATCO Electric that are not yet fully reflected in current customer rates. The majority of these cost increases are for higher depreciation and financing costs related to rate base additions in late 2004 and to date in 2005, and increased operating costs. Rate applications were filed in May 2005 requesting the AEUB to incorporate these higher costs in customer rates (refer to Regulatory Matters – ATCO Electric and ATCO Gas sections).

This increase was partially offset by:

- higher maintenance and general and administration costs in Alberta Power (2000) operations.

Earnings for the nine months ended September 30, 2005, were $110.5 million. Earnings for the corresponding period in 2004 were $113.0 million, **excluding** the $55.1 million after-tax gain on the Transfer of the Retail Energy Supply Businesses in May 2004. Earnings for the nine months ended September 30, 2004, **including** the impact of the Transfer of the Retail Energy Supply Businesses, were $168.1 million.

Earnings for the nine months ended September 30, 2005, **excluding** the impact of the Transfer of the Retail Energy Supply Businesses, decreased by $2.5 million, primarily due to:

- higher costs incurred in 2005 in ATCO Gas and ATCO Electric that are not yet fully reflected in interim customer rates. The majority of these cost increases are for higher depreciation and financing costs related to rate base additions in late 2004 and to date in 2005, and increased operating costs. Rate applications were filed in May 2005 requesting the AEUB to incorporate these higher costs in customer rates (refer to Regulatory Matters – ATCO Electric and ATCO Gas sections); and
- warmer temperatures in ATCO Gas.

This decrease was partially offset by:

- impact of the AEUB decision adjusting the 2001 and 2002 revenue requirements for changes in deferred income taxes recorded in ATCO Electric (refer to Regulatory Matters – ATCO Electric section).

Operating expenses (consisting of natural gas supply, purchased power, operation and maintenance, selling and administrative and franchise fee costs) for the three months ended September 30, 2005, increased by $17.1 million to $161.7 million, respectively, primarily due to:

- 2004 one time impact of the finalization of natural gas supply costs related to the Transfer of the Retail Energy Supply Businesses;
- higher maintenance and general and administrative costs in Alberta Power (2000) operations; and
- higher franchise fees collected by ATCO Gas.

Operating expenses for the nine months ended September 30, 2005, decreased by $610.5 million to $642.1 million, primarily due to:

- lower costs of electricity and natural gas purchased for customers on a "no-margin" basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses in May 2004; and
- lower natural gas volumes purchased for ATCO Pipelines' customers as a result of customers moving from sales service (commodity and transportation costs) to transportation service only contracts (transportation costs).

This decrease was partially offset by:

- higher operation and maintenance costs in ATCO Gas and ATCO Electric.

Depreciation and amortization expenses for the three and nine months ended September 30, 2005, increased by $3.5 million to $51.7 million, and by $11.0 million to $169.9 million, respectively, primarily due to:

- capital additions in 2005 and 2004.

Interest expense for the three and nine months ended September 30, 2005, increased by $1.7 million to $36.6 million, and by $5.1 million to $112.9 million, respectively, primarily due to:

- interest on new financings issued in 2004 to fund capital expenditures in Utilities operations.

Interest and other income for the three months ended September 30, 2005, increased by $0.7 million to $2.5 million, primarily due to:

- interest income on higher cash balances.

Interest and other income for the nine months ended September 30, 2005, increased by $2.9 million to $7.9 million, primarily due to:

- the recovery of ATCO Electric's carrying costs and interest associated with the AEUB decision adjusting the 2001 and 2002 revenue requirements for changes in deferred income taxes (refer to Regulatory Matters – ATCO Electric section); and
- interest income on higher cash balances.

Income taxes for the three months ended September 30, 2005, increased by $5.6 million to $18.5 million, primarily due to:

- favorable one-time tax adjustment in 2004 for ATCO Gas resulting from a change in income tax methodology as directed by the AEUB in its decision respecting ATCO Gas' 2003/2004 General Rate Application; and
- higher earnings.

Income taxes for the nine months ended September 30, 2005, **including** the $8.2 million of income taxes resulting from the Transfer of the Retail Energy Supply Businesses in May 2004, decreased by $7.6 million to $69.8 million.

Income taxes for the nine months ended September 30, 2005, **excluding** the $8.2 million of income taxes resulting from the Transfer of the Retail Energy Supply Businesses, increased by $0.6 million to $69.8 million, primarily due to:

- favorable one-time tax adjustment in 2004 for ATCO Gas resulting from a change in income tax methodology as directed by the AEUB in its decision respecting ATCO Gas' 2003/2004 General Rate Application.

Segmented Information

Segmented revenues for the three and nine months ended September 30, 2005, were as follows:

	For the Three Months Ended September 30		**For the Nine Months Ended September 30**	
($ Millions)	**2005**	2004	**2005**	2004
	(unaudited)			
Utilities (1)	**221.6**	193.7	**889.6**	1,491.1
Power Generation	**72.8**	72.6	**218.3**	218.2
Corporate and Other	-	-	-	-
Intersegment eliminations	-	-	**(0.1)**	(2.3)
Total	**294.4**	266.3	**1,107.8**	1,707.0

Note:

(1) Prior to the Transfer of the Retail Energy Supply Businesses on May 4, 2004, the cost of natural gas and electricity purchased for ATCO Gas' and ATCO Electric's customers was included in revenues. As ATCO Gas and ATCO Electric no longer purchase natural gas and electricity for their customers, revenues since May 4, 2004, have decreased accordingly.

Segmented earnings attributable to Class A and Class B shares for the three and nine months ended September 30, 2005, were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
($ Millions)	**2005**	2004	**2005**	2004
	(unaudited)			
Utilities (1)	**13.4**	10.1	**73.5**	130.0
Power Generation	**11.5**	13.5	**36.9**	37.1
Corporate and Other	**-**	0.4	**0.1**	1.0
Intersegment eliminations	**-**	-	**-**	-
Total	**24.9**	24.0	**110.5**	168.1

Note:
(1) *Earnings for the nine months ended September 30, 2004, include earnings of $55.1 million from the Transfer of the Retail Energy Supply Businesses.*

Utilities

Revenues from Utilities operations for the three months ended September 30, 2005, increased by $27.9 million to $221.6 million, primarily due to:

- impact of the interim customer rate increases for ATCO Electric and ATCO Gas (refer to Regulatory Matters – ATCO Electric and ATCO Gas sections);
- 2004 one time impact of the finalization of natural gas supply costs related to the Transfer of the Retail Energy Supply Businesses; and
- 2004 one time impact of 2004 General Rate Application adjustments for ATCO Gas related to the refund of deferred income taxes.

This increase was partially offset by:

- lower natural gas volumes purchased for ATCO Pipelines' customers as a result of customers moving from sales service (commodity and transportation revenues) to transportation service only contracts (transportation revenue).

Temperatures in ATCO Gas for the three months ended September 30, 2005, were 27.3% colder than normal, compared to 15.8% colder than normal for the corresponding period in 2004.

Revenues for the nine months ended September 30, 2005, decreased by $601.5 million to $889.6 million, primarily due to:

- lower sales of electricity and natural gas purchased for customers on a "no-margin" basis by ATCO Electric and ATCO Gas due to the Transfer of the Retail Energy Supply Businesses in May 2004;
- lower natural gas volumes purchased for ATCO Pipelines' customers as a result of customers moving from sales service (commodity and transportation revenues) to transportation service only contracts (transportation revenue); and
- warmer temperatures in ATCO Gas, which were 3.8% warmer than normal, compared to 1.3% colder than normal for the corresponding period in 2004.

This decrease was partially offset by:

- impact of the interim customer rate increases for ATCO Electric and ATCO Gas (refer to Regulatory Matters – ATCO Electric and ATCO Gas sections);
- higher franchise fees collected by ATCO Gas;
- higher transmission revenue as a result of increased rate base in 2004 due to higher capital expenditures in ATCO Electric;
- customer additions in ATCO Gas; and

- impact of the AEUB decision adjusting the 2001 and 2002 revenue requirements for changes in deferred income taxes recorded in ATCO Electric (refer to Regulatory Matters – ATCO Electric section).

Earnings for the three months ended September 30, 2005, increased by $3.3 million to $13.4 million, primarily due to:

- interim customer rate increases for ATCO Electric and ATCO Gas approved by the AEUB for 2005 recognized in the third quarter which offset higher costs incurred in 2005 in ATCO Gas and ATCO Electric that are not yet fully reflected in current customer rates. The majority of these cost increases are for higher depreciation and financing costs related to rate base additions in late 2004 and to date in 2005, and increased operating costs. Rate applications were filed in May 2005 requesting the AEUB to incorporate these higher costs in customer rates (refer to Regulatory Matters – ATCO Electric and ATCO Gas sections).

Earnings for the nine months ended September 30, 2005, were $73.5 million. Earnings for the corresponding period in 2004 were $74.9 million, **excluding** the $55.1 million after-tax gain on the Transfer of the Retail Energy Supply Businesses in May 2004. Earnings for the nine months ended September 30, 2004, **including** the impact of the transfer of the Retail Energy Supply Businesses, were $130.0 million.

Earnings for the nine months ended September 30, 2005, **excluding** the impact of the Transfer of the Retail Energy Supply Businesses, decreased by $1.4 million, primarily due to:

- higher costs incurred in 2005 in ATCO Gas and ATCO Electric that are not yet fully reflected in interim customer rates. The majority of these cost increases are for higher depreciation and financing costs related to rate base additions in late 2004 and to date in 2005, and increased operating costs. Rate applications were filed in May 2005 requesting the AEUB to incorporate these higher costs in customer rates (refer to Regulatory Matters – ATCO Electric and ATCO Gas sections); and
- warmer temperatures in ATCO Gas.

This decrease was partially offset by:

- impact of the AEUB decision adjusting the 2001 and 2002 revenue requirements for changes in deferred income taxes recorded in ATCO Electric (refer to Regulatory Matters – ATCO Electric section); and
- customer additions in ATCO Gas.

Power Generation

Revenues from Power Generation operations for the three months ended September 30, 2005, increased by $0.2 million to $72.8 million, essentially unchanged.

Revenues for the nine months ended September 30, 2005, increased by $0.1 million to $218.3 million, primarily as a result of:

- higher energy charges due to increased generation at the Battle River generating plant.

This increase was partially offset by:

- lower cost of service revenues in Alberta Power (2000) for the H.R. Milner generating plant which was sold by the Alberta Balancing Pool on January 29, 2004.

Earnings for the three and nine months ended September 30, 2005, decreased by $2.0 million to $11.5 million, and by $0.2 million to $36.9 million, respectively, primarily due to:

- higher maintenance and general and administrative costs in Alberta Power (2000) operations.

During the three months ended September 30, 2005, Alberta Power (2000)'s **deferred availability incentive** account decreased by $2.0 million to $45.3 million. The decrease was due to planned outages and amortization in excess of additional availability incentives received for plant availability. During the three months ended September 30, 2005, the amortization of deferred availability incentives, recorded in revenues, increased by $0.2 million to $2.2 million as compared to the same period in 2004.

During the nine months ended September 30, 2005, Alberta Power (2000)'s **deferred availability incentive** account decreased by $0.8 million to $45.3 million. The decrease was due to planned outages and amortization in excess of additional availability incentive payments received for plant availability. During the nine months ended September 30, 2005, the amortization of deferred availability incentives, recorded in revenues, increased by $0.6 million to $6.2 million as compared to the same period in 2004.

REGULATORY MATTERS

Regulated operations are conducted by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, the ATCO Gas and ATCO Pipelines divisions of ATCO Gas and Pipelines Ltd. and the generating plants of Alberta Power (2000), all of which are wholly owned subsidiaries of the Corporation.

In July 2004, the AEUB issued its generic cost of capital decision. The decision established a standardized approach for each utility company regulated by the AEUB for determining the rate of return on common equity based upon a return of 9.60% on common equity. This rate of return will be adjusted annually by 75% of the change in long term Canada bond yield as forecast in the November Consensus Forecast, adjusted for the average difference between the 10 year and 30 year Canada bond yields for the month of October as reported in the National Post. This adjustment mechanism is the same as the National Energy Board uses in determining its formula based rate of return. The AEUB will undertake a review of this mechanism for the year 2009 or if the rate of return resulting from the formula is less than 7.6% or greater than 11.6%. The AEUB also noted that any party, at any time, could petition for a review of the adjustment formula if that party can demonstrate a material change in facts or circumstances.

The decision also established the appropriate capital structure for each utility regulated by the AEUB. The AEUB determined that any proposed changes to the approved capital structure which result from a material change in the investment risk of a utility will be addressed at utility specific rate applications.

In November 2004, the AEUB announced a generic return on common equity of 9.50% for 2005. The AEUB also announced that the 2005 generic return on equity would only apply to utilities which file rate applications in 2005. If no rate applications are filed, then existing return on common equity rates will continue to apply.

In July 2004, ATCO Gas and ATCO Electric filed applications with the AEUB addressing the impact on the 2003 and 2004 revenue requirements of the transfer of the retail energy supply business to DEML and the customer care volume forecast for services provided by ATCO I-Tek Business Services for 2003 and 2004. In April and May 2005, the AEUB issued decisions which resulted in an increase to revenues and earnings of $2.4 million and $1.6 million, respectively.

In June 2005, as part of their rate applications, ATCO Electric and ATCO Gas submitted a filing to the AEUB that addressed certain common matters. ATCO Pipelines is also a party to this filing as the concerns are common to all three utilities. This filing included evidence regarding the appropriate ratemaking approach in the determination of utility revenue requirements as well as treatment of deferred pension costs, executive compensation, head office rent expense and the continued use of preferred shares as a form of financing for the three utilities. The AEUB is expected to hear this filing in May 2006 and a decision is expected in the fourth quarter of 2006.

ATCO Electric

In May 2005, ATCO Electric filed a general tariff application with the AEUB for the 2005 and 2006 test years requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. A decision from the AEUB on the general tariff application is not expected until early in 2006. In May and June 2005, ATCO Electric filed applications requesting interim refundable rates for distribution and transmission operations, pending the AEUB's decision on the general tariff application. On July 14, 2005, ATCO Electric received a decision from the AEUB approving its requested interim refundable rates for distribution operations. On September 7, 2005, ATCO Electric received a decision from the AEUB approving an interim refundable rate increase of $5.0 million for transmission operations. Revenues associated with the interim refundable rates for the nine months ended September 30, 2005, were recognized in the third quarter.

In August 2002, the AEUB issued a decision in which it denied ATCO Electric's application to adjust its 2001 and 2002 transmission and distribution revenue requirements by $4.6 million for changes in the amounts of deferred income taxes recorded. In November 2002, ATCO Electric filed a review and variance application of the August 2002 decision with the AEUB. In May 2005, the AEUB changed its August 2002 decision and allowed ATCO Electric to increase its revenues and earnings by $4.6 million.

ATCO Gas

In May 2005, ATCO Gas filed a general rate application with the AEUB for the 2005, 2006 and 2007 test years requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. A decision from the AEUB on the general rate application is not expected until early in 2006. In June 2005, ATCO Gas filed an application requesting interim refundable rates pending the AEUB's decision on the general rate application. On August 28, 2005, ATCO Gas received a decision from the AEUB approving an interim refundable rate increase, to be collected from northern customers, of $7.0 million. Revenues associated with the interim refundable rates for the nine months ended September 30, 2005, were recognized in the third quarter.

In October 2001, the AEUB approved the sale by ATCO Gas of certain properties in the City of Calgary, known as the Calgary Stores Block, for $6.6 million (excluding costs of disposition) and allocated $4.1 million of the proceeds to customers and $1.8 million to ATCO Gas. In January 2004, the Alberta Court of Appeal overturned this decision and directed the AEUB to allocate $5.4 million of the proceeds to ATCO Gas. The City of Calgary has appealed this decision to the Supreme Court of Canada, which has also granted ATCO Gas leave to cross-appeal the decision. The Supreme Court of Canada heard the appeal on May 11, 2005 and ATCO Gas is currently awaiting a decision. Accordingly, ATCO Gas has not yet recorded the impact of the Alberta Court of Appeal decision.

In March 2004, the AEUB directed ATCO Gas to continue to reserve for the benefit of utility customers 16.7 petajoules of storage capacity at its Carbon storage facility for the 2004/2005 storage year, which ended on March 31, 2005, and allowed ATCO Midstream to continue to utilize the remaining uncontracted capacity at a rate of $0.45 per gigajoule, up from $0.41 per gigajoule. ATCO Gas was granted leave to appeal this AEUB decision to the Alberta Court of Appeal. On June 17, 2005 the appeal was dismissed. On September 16, 2005, ATCO Gas filed for leave to appeal the Alberta Court of Appeal's decision to the Supreme Court of Canada.

In July 2004, the AEUB initiated a written process to consider its role in regulating the operations of the Carbon storage facility. On June 15, 2005, the AEUB issued a decision with respect to this process. In addition to addressing other matters, the decision found that the AEUB has the authority, when necessary in the public interest, to direct a utility to utilize a particular asset in a specific manner, even over the objection of the utility. ATCO Gas has filed for leave to appeal the decision with the Alberta Court of Appeal. On October 3, 2005, the AEUB established processes to review the use of the Carbon Storage Facility for utility purposes.

ATCO Gas' position is that the Carbon storage facility is no longer required for utility service. Accordingly, in March 2005, ATCO Gas filed a letter with the AEUB in which it withdrew all evidence previously filed by it with respect to the 2005/2006 Carbon Storage Plan, thus providing notice that none of the related costs and revenues will form part of regulated operations on or after April 1, 2005. On March 23, 2005, the AEUB issued an interim order directing ATCO Gas to maintain the Carbon storage facility in rate base and confirming a lease of the entire storage capacity to ATCO Midstream at a placeholder rate of $0.45 per gigajoule until otherwise determined by the AEUB. ATCO Gas filed for leave to appeal the interim order on April 15, 2005.

ATCO Gas has filed an application with the AEUB to address, among other things, corrections required to historical transportation imbalances that have impacted ATCO Gas' deferred gas account. In April 2005, the AEUB issued a decision resulting in a 15% decrease in the transportation imbalance adjustments sought by ATCO Gas. The decision resulted in a decrease to revenues and earnings of $1.8 million and $1.2 million, respectively. The City of Calgary has filed for leave to appeal the AEUB's decision. ATCO Gas has filed a cross appeal of the AEUB's decision. The cross appeal is contingent upon the granting of the City of Calgary's leave to appeal which is scheduled to be heard in February 2006.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations provides a substantial portion of the Corporation's cash requirements. Additional cash requirements are met externally through bank borrowings and the issuance of long term debt and preferred shares. Commercial paper borrowings and short term bank loans are used to provide flexibility in the timing and amounts of long term financing.

Cash flow from operations for the three months ended September 30, 2005, decreased by $4.5 million to $83.0 million, primarily due to:

- one time recovery in August 2004 of $10.4 million of availability incentive payments associated with a force majeure claim for curtailed production of electricity at Alberta Power (2000)'s Battle River generating plant.

This decrease was partially offset by:

- higher earnings.

Cash flow from operations for the nine months ended September 30, 2005, increased by $22.3 million to $293.0 million, primarily due to:

- increased cash flow after removal of non-cash adjustments.

Investing for the three months ended September 30, 2005, increased by $8.2 million to $116.8 million, primarily due to:

- increased capital expenditures.

This increase was partially offset by:

- changes in non-cash working capital in respect of investing activities.

Capital expenditures for the three months ended September 30, 2005, increased by $17.1 million to $127.4 million, primarily due to:

- increased investment in regulated natural gas transportation and electric transmission and distribution projects.

Investing for the nine months ended September 30, 2005, increased by $9.4 million to $287.1 million, respectively, primarily due to:

- changes in non-cash working capital in respect of investing activities.

This increase was partially offset by:

- increased proceeds from the Transfer of the Retail Energy Supply Businesses.

Capital expenditures for the nine months ended September 30, 2005, increased by $2.7 million to $324.9 million, primarily due to:

- increased investment in electric distribution and natural gas transportation and distribution projects.

These increases were partially offset by:

- lower investment in power generation and electric transmission projects.

During the nine months ended September 30, 2005, the Corporation **redeemed**:

- $125.0 million of 8.43% Debentures 1995 Series.

Contractual obligations disclosed in the 2004 MD&A remain substantially unchanged as at September 30, 2005.

At September 30, 2005, the Corporation had the following credit lines that enable it to obtain funding for general corporate purposes.

	Total	Used	Available
($ Millions)			
Short term committed	300.0	3.0	297.0
Uncommitted	29.0	0.2	28.8
Total	329.0	3.2	325.8

The amount and timing of future financings will depend on market conditions and the specific needs of the Corporation.

Net current and long term future income tax liabilities of $69.8 million at September 30, 2005, are attributable to differences between the financial statement carrying amounts of assets and liabilities and their tax bases. These differences result primarily from recognizing revenue and expenses in different years for financial and tax reporting purposes. Future income taxes will become payable when such differences are reversed through the settlement of liabilities and realization of assets.

OUTSTANDING SHARE DATA

At October 24, 2005, the Corporation had outstanding 124 Class A shares and 76 Class B shares, all of which are owned by Canadian Utilities Limited.

BUSINESS RISKS

On February 16, 2005, the Kyoto Protocol came into effect. The Corporation is unable to determine what impact the protocol may have on its operations as the Government of Canada has not yet provided industry specific details for its 2005 Climate Change Plan. It is anticipated that the Corporation's power purchase arrangements relating to its coal-fired generating plants will allow the Corporation to recover any increased costs associated with the implementation of the protocol.

ATCO Electric, ATCO Gas and ATCO Pipelines are regulated primarily by the AEUB, which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The AEUB may approve interim rates, subject to final determination. These subsidiaries are subject to the normal risks faced by companies that are regulated. These risks include the approval by the AEUB of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on rate base. The Corporation's ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process.

Transfer of the Retail Energy Supply Businesses

Although ATCO Gas and ATCO Electric have transferred to DEML certain retail functions, including the supply of natural gas and electricity to customers and billing and customer care functions, the legal obligations of ATCO Gas and ATCO Electric remain if DEML fails to perform. In certain events (including where DEML fails to supply natural gas and/or electricity and ATCO Gas and/or ATCO Electric are ordered by the AEUB to do so), the functions will revert to ATCO Gas and/or ATCO Electric with no refund of the transfer proceeds to DEML by ATCO Gas and/or ATCO Electric.

Centrica plc, DEML's parent, has provided a $300 million guarantee, supported by a $235 million letter of credit in respect of DEML's obligations to ATCO Gas, ATCO Electric and ATCO I-Tek Business Services in respect of the ongoing relationships contemplated under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to cover all of the costs that could arise in the event of a reversion of such functions.

Canadian Utilities Limited has provided a guarantee of ATCO Gas', ATCO Electric's and ATCO I-Tek Business Services' payment and indemnity obligations in respect of the ongoing relationships to DEML contemplated under the transaction agreements.

As a result of the agreements with DEML, ATCO Gas and ATCO Electric are no longer involved in arranging for the supply and sale of natural gas and electricity to customers, but will continue to own the assets and provide the transportation and distribution services under AEUB approved rates that provide for a recovery of costs of service and a fair return

Late Payment Penalties on Utility Bills

As a result of recent decisions of the Supreme Court of Canada in Garland vs. Consumers' Gas Co., the imposition of late payment penalties on utility bills has been called into question. The Corporation is unable to determine at this time the impact, if any, that these decisions will have on the Corporation.

Alberta Power (2000)

As a result of unprecedented drought conditions, the water levels in the cooling pond used by the Battle River generating plant in its production of electricity had fallen to all-time lows in early 2003 and in 2004 and the Corporation was forced to curtail production of electricity. Water levels in the cooling pond have returned to normal for this time of year and there has been no curtailment of production to date in 2005.

On June 10, 2005, Alberta Environment announced that it will begin to implement mercury emission standards for coal-fired generating plants through a new provincial regulation that is expected to be in place in late 2005. Owners of coal-fired generating plants are required to submit proposals on capturing at least 70% of the mercury in the coal burned in their plants by March 2007. Technology for mercury emission reduction must be in place by the end of 2010. It is anticipated that the Corporation's power purchase arrangements relating to its coal-fired generating plants will allow the Corporation to recover any increased costs associated with complying with the new regulation.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2005, the Corporation prospectively adopted the Canadian Institute of Chartered Accountants guideline pertaining to the consolidation of variable interest entities. The guideline requires the Corporation to identify variable interest entities in which it has an interest, determine whether it is the primary beneficiary of such entities, and, if so, to consolidate them. This change in accounting had no effect on the consolidated financial statements for the three and nine months ended September 30, 2005.

October 24, 2005