



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2011**

**CU Inc.**  
**Management's Discussion and Analysis (MD&A)**  
**For the Three Months Ended March 31, 2011**

This MD&A should be read in conjunction with the Corporation's unaudited interim consolidated financial statements for the three months ended March 31, 2011 (2011 Interim Financial Statements), and the audited consolidated financial statements and unaudited MD&A for the year ended December 31, 2010 (2010 MD&A). **Information contained in the 2010 MD&A that is not discussed in this document remains substantially unchanged.** This MD&A is dated April 28, 2011. Additional information relating to the Corporation, including the Corporation's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Terms used throughout this MD&A are defined in the Glossary located at the end of the document.

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## First Quarter Highlights

The following significant events occurred during the quarter ended March 31, 2011. These events are discussed in more detail throughout this MD&A:

- Adjusted Earnings from continuing operations for the quarter ended March 31, 2011 were \$100 million compared to \$97 million in the corresponding period in 2010, an increase of \$3 million (3%);
- Adjusted Earnings were higher mainly due to increased rate base partially offset by the net favourable impact of two ATCO Gas decisions received in 2010;
- ATCO Electric filed its facility application for the 500kV high voltage direct current project with the AUC;
- ATCO Electric received a decision from the AUC on its 2011 and 2012 general tariff application approving increased revenues to recover increased financing, depreciation, and operating costs. In addition, approval was received for construction work in progress relating to AESO direct assigned projects to be included in rate base and Federal deferred income taxes relating to transmission operations to be included in customer rates;
- ATCO Gas received approval from the AUC to transfer the Carbon natural gas storage facility (Carbon Facility) from ATCO Gas to ATCO Midstream; and
- The Corporation adopted International Financial Reporting Standards (IFRS).

## Company Overview

CU Inc. was incorporated under the laws of Canada on March 12, 1999. The Corporation has assets of approximately \$7 billion and more than 4,300 employees.

The consolidated financial statements include the accounts of CU Inc. and all of its subsidiaries. The 2011 Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* using policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRIC). The reporting currency is the Canadian dollar.

The Corporation operates in the following utility businesses:

- the regulated distribution of natural gas by ATCO Gas;
- the regulated transmission of natural gas by ATCO Pipelines; and
- the regulated distribution and transmission of electric energy by ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical.

### Transfer of Alberta Power (2000) to ATCO Power

Effective October 1, 2010, the Corporation transferred ownership of its wholly owned subsidiary, Alberta Power (2000), to ATCO Power Ltd., a wholly owned subsidiary of Canadian Utilities, the Corporation's parent. The Corporation no longer recognizes Alberta Power (2000)'s financial position, results of operations and cash flows in its consolidated financial statements. The results of operations and the cash flows of Alberta Power (2000) for the periods prior to October 1, 2010, have been presented as a discontinued operation in the consolidated financial statements for 2010 and in the comparative figures for the three months ended March 31, 2010 in the 2011 Interim Financial Statements. These amounts were previously recognized in the Energy segment.

## Non-GAAP Measures

The Corporation uses the measures “Funds Generated by Operations” and “Adjusted Earnings” in this MD&A. These measures do not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

Funds Generated by Operations is defined as cash flow from operations before changes in non-cash working capital. In management’s opinion, Funds Generated by Operations is a significant performance indicator of the Corporation’s ability to generate cash during a period to fund its capital expenditures without regard to changes in non-cash working capital during the period.

Adjusted Earnings are defined as earnings attributable to Class A and Class B Shares after adjusting for the timing of revenues and expenses associated with rate regulated activities and equity preferred share dividends. Adjusted Earnings will present earnings from rate regulated activities on the same basis as was used prior to adopting IFRS – that basis being the U.S. accounting principles for rate regulated activities commonly used by rate regulated companies in Canada. Adjusted Earnings also exclude one-time gains and losses and items that are not in the normal course of business or day-to-day operations. It is management’s view that Adjusted Earnings allow for a more effective analysis of operating performance and trends. A reconciliation of Adjusted Earnings to earnings attributable to Class A and Class B Shares is presented in the Results of Operations section.

## International Financial Reporting Standards

The Corporation has adopted IFRS as the basis of financial reporting commencing with the 2011 Interim Financial Statements. The transition date from Canadian GAAP to IFRS is January 1, 2010, (Transition Date) and comparative data for 2010 has been restated in accordance with IFRS.

The adoption of IFRS has affected the Corporation’s financial position and operating results in that it no longer recognizes regulatory assets and liabilities associated with its rate regulated activities, thereby resulting in increased volatility of earnings under IFRS. This significant effect is further described below.

IFRS requires expenses to be classified either by nature or by function on the statement of earnings, not as a combination of both. If classified by function on the statement of earnings, the classification by nature is still required to be disclosed in the notes to the financial statements. Therefore the Corporation elected to present costs and expenses solely by their nature as identified in the Results of Operations section in this MD&A.

### ***Accounting for Rate Regulated Activities***

Prior to the adoption of IFRS, the Corporation used accounting principles generally accepted in Canada to recognize and measure assets and liabilities arising from rate regulation on its balance sheet. Because there is currently no specific guidance under IFRS for rate regulated entities, the Corporation does not recognize regulatory assets and liabilities under IFRS. At the Transition Date, all assets and liabilities arising from rate regulation were charged to retained earnings.

Rate regulated accounting under Canadian GAAP reduced the volatility of earnings because the Corporation was able to defer the recognition of cash received in advance of future expenditures. Under IFRS, the Corporation records revenues when amounts are billed to customers, but does not recognize the associated costs until they are incurred. Secondly, under Canadian GAAP, the Corporation was able to recognize revenues associated with recoverable costs in advance of future billings to customers. Under IFRS, the Corporation records costs when incurred, but does not recognize their recovery until changes to

customer rates are reflected in future customer billings. Thirdly, under Canadian GAAP, the Corporation recognized the earnings that arose from a regulatory decision that pertained to current and prior periods upon receipt of the decision. Under IFRS, the Corporation recognizes earnings when customer rates are changed and amounts are billed to customers.

These differences between Canadian GAAP and IFRS for rate regulated activities are strictly timing in nature. While Canadian GAAP followed closely the direction of the regulator in terms of deferral accounts and regulatory decisions, IFRS simply recognizes revenues as they are billed through the earnings statement. It is more volatile, but it is all timing.

Adjusted Earnings are a key measure used by management for purposes of assessing performance and allocating resources. Furthermore, it is management's view that Adjusted Earnings will allow a better assessment of the economics of rate regulation and will facilitate comparability of the Corporation's financial results with peer companies that have either deferred the adoption of IFRS by one year to 2012 as permitted in Canada or utilize U.S. generally accepted accounting principles for rate regulated entities.

The Corporation has disclosed the impacts of rate regulation as an Adjusted Earnings item in this MD&A and in note 4, Segment Information, to the 2011 Interim Financial Statements.

### ***Other***

The transition to IFRS involved a number of other adjustments that did not have a significant effect on the financial position or future earnings of the Corporation. A number of the exemptions taken on transition to IFRS resulted in adjustments being recorded in retained earnings. The adjustments reduced retained earnings by \$87 million. This reduction in retained earnings does not affect the Corporation's ability to pay dividends. A full description of these items is provided in note 3 to the 2011 Interim Financial Statements.

## **Internal Control Over Financial Reporting**

There was no change in the Corporation's internal control over financial reporting that occurred during the period beginning January 1, 2011, and ended on March 31, 2011, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

# Results of Operations

## SELECTED QUARTERLY INFORMATION

### *Prepared In Accordance with IFRS*

(\$ millions)	For the Three Months Ended <sup>(2) (5) (7)</sup>			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
<b>2011 <sup>(3)</sup> (IFRS)</b>				
Revenues	474	-	-	-
Earnings attributable to Class A and Class B Shares	109	-	-	-
Adjusted Earnings <sup>(6)</sup>	100	-	-	-
<b>2010 <sup>(4)</sup> (IFRS)</b>				
Revenues	431	334	332	424
Earnings attributable to Class A and Class B Shares:				
Continuing Operations	92	35	40	66
Discontinued Operations <sup>(1)</sup>	11	7	15	-
Total	103	42	55	66
Adjusted Earnings: <sup>(6)</sup>				
Continuing Operations	97	33	43	73
Discontinued Operations <sup>(1)</sup>	11	7	14	-
Total	108	40	57	73

#### Notes:

- <sup>(1)</sup> Discontinued operations consist of Alberta Power (2000), which was transferred to ATCO Power, a wholly owned subsidiary of the Corporation's parent, Canadian Utilities, on October 1, 2010 (refer to Company Overview – Transfer of Alberta Power (2000) to ATCO Power section).
- <sup>(2)</sup> Due to certain factors, revenues, earnings and Adjusted Earnings for any quarter are not necessarily indicative of operations on an annual basis. These factors include the seasonal nature of the Corporation's operations and the timing of rate decisions.
- <sup>(3)</sup> Quarterly information for 2011 has been extracted from the consolidated financial statements, which have been prepared in accordance with IFRS.
- <sup>(4)</sup> Quarterly information for 2010 has been restated in accordance with IFRS.
- <sup>(5)</sup> As all the Class A and Class B Shares are owned by Canadian Utilities, the disclosure of earnings per share is not provided as it is not considered to be meaningful.
- <sup>(6)</sup> Refer to the Reconciliation of Adjusted Earnings and Earnings Attributable to Class A and Class B Shares section for a description of the reconciling adjustments.
- <sup>(7)</sup> The reporting currency is the Canadian dollar.

### ***Prepared in Accordance with Canadian GAAP***

Securities regulations require the presentation of selected financial information for the most recent eight quarters. IFRS does not require the restatement of financial information prior to the transition date which was January 1, 2010. Therefore, quarterly information for 2009 is as reported in the 2010 MD&A under Canadian GAAP and does not conform to current presentation under IFRS.

(\$ millions)	For the Three Months Ended <sup>(1) (4)</sup>			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
<b>2009 <sup>(2)</sup> (Canadian GAAP)</b>				
Revenues	-	312	290	368
Earnings attributable to Class A and Class B Shares:				
Continuing Operations	-	39	23	53
Discontinued Operations	-	11	33	13
Total	-	50	56	66
Adjusted Earnings: <sup>(3)</sup>				
Continuing Operations	-	39	23	53
Discontinued Operations	-	11	16	13
Total	-	50	39	66

Notes:

- <sup>(1)</sup> Due to certain factors, revenues, earnings and Adjusted Earnings for any quarter were not necessarily indicative of operations on an annual basis. These factors included the seasonal nature of the Corporation's operations and the timing of rate decisions.
- <sup>(2)</sup> Quarterly information for 2009 was extracted from the consolidated financial statements, which were prepared in accordance with Canadian GAAP.
- <sup>(3)</sup> Adjusted Earnings were defined in the 2010 MD&A. Please refer to the Significant Non-Operating Financial Items section of that document for a description of the reconciling adjustments.
- <sup>(4)</sup> The reporting currency is the Canadian dollar.

**Principal Factors Affecting Financial Condition and Results of Operations**

The principal factors that caused variations in **financial condition** and **results of operations** over the past eight quarters necessary to understand general trends that have developed and the seasonality of the businesses disclosed in the 2010 MD&A remain substantially unchanged except for:

- The adoption of IFRS in 2011 with a transition date of January 1, 2010. Financial information for 2010 has been restated in accordance with IFRS. Financial information for 2009 was prepared in accordance with Canadian GAAP and has not been restated.

**RECONCILIATION OF ADJUSTED EARNINGS AND EARNINGS ATTRIBUTABLE TO CLASS A AND CLASS B SHARES**

Adjusted Earnings are earnings attributable to Class A and Class B Shares after adjusting for the timing of revenues and expenses associated with rate regulated activities and equity preferred share dividends. Adjusted Earnings also exclude one-time gains and losses and items that are not in the normal course of business or day-to-day operations. The following table reconciles Adjusted Earnings to earnings attributable to Class A and Class B Shares.

**For the Three Months Ended  
March 31**

(\$ millions)	Continuing Operations	Discontinued Operations	Total
<b>2011</b>			
Adjusted Earnings	<b>100</b>	-	<b>100</b>
Adjustments for Rate Regulated Activities <sup>(1)</sup>	<b>3</b>	-	<b>3</b>
Dividends on equity preferred shares	<b>6</b>	-	<b>6</b>
Earnings attributable to Class A and Class B Shares	<b>109</b>	-	<b>109</b>
<b>2010</b>			
Adjusted Earnings	97	11	108
Adjustments for Rate Regulated Activities <sup>(1)</sup>	(10)	-	(10)
Dividends on equity preferred shares	5	-	5
Earnings attributable to Class A and Class B Shares	92	11	103

**(1) Adjustments for Rate Regulated Activities**

**For the Three Months Ended  
March 31**

(\$ millions)	2011	2010	Change (2011-2010)
<i>Additional revenue billed in current period:</i>			
Future removal and site restoration costs	<b>12</b>	11	9%
Retirement benefits	<b>5</b>	-	-
Transmission and distribution system load balancing	-	5	(100%)
Impact of colder temperatures on revenues	<b>9</b>	-	-
Other	<b>6</b>	7	(14%)
	<b>32</b>	23	39%
<i>Revenue to be billed in future period:</i>			
Deferred income taxes	<b>(12)</b>	(14)	14%
Transmission access payments	<b>(4)</b>	-	-
Transmission and distribution system load balancing	<b>(6)</b>	-	-
Impact of warmer temperatures on revenues	-	(6)	100%
Other	<b>(1)</b>	(4)	75%
	<b>(23)</b>	(24)	4%
<i>Regulatory decisions:</i>			
Regulatory decisions related to current and prior periods	<b>(6)</b>	(9)	33%
	<b>3</b>	(10)	130%

The adjustments for rate regulated activities, which are strictly timing in nature, generally fall into the three following categories. Certain adjustments may transfer from one category to another depending upon whether more or less revenue has been billed to customers than expected.

*(i) Additional revenue billed in the current period*

These adjustments reflect the situation where the Corporation records revenues when amounts are billed to customers, but does not recognize the associated costs until they are incurred. This category includes:

- Future removal and site restoration costs, where customers are billed over the life of the associated assets in advance of future expenditures;
- Retirement benefits, where the Corporation recovers the amounts paid under defined benefit pension plans and other post employment benefit plans, which are currently higher than the accrued costs expensed and capitalized;
- ATCO Gas' and ATCO Pipelines' net sales of natural gas to maintain appropriate operating pressures on their distribution and transmission pipeline systems (Load Balancing), which are refunded to customers in future periods; and
- The impact of colder temperatures on ATCO Gas' revenues, where customer rates are based on a forecast of normal temperatures, but colder than normal temperatures will result in more revenue being recovered from customers than forecast. Colder temperatures will result in a refund to customers of excess revenues.

*(ii) Revenue to be billed in a future period*

These adjustments reflect the situation where the Corporation records costs when incurred, but does not recognize their recovery or refund until changes to customer rates are reflected in future customer billings. This category includes:

- Deferred income taxes, which are not recovered from customers until income taxes are paid;
- ATCO Electric's transmission access payments, where actual costs that vary from the forecast costs included in customer rates are recovered from or refunded to customers in future periods;
- ATCO Gas' and ATCO Pipelines' net purchases of natural gas for Load Balancing, which are recovered from customers in future periods; and
- The impact of warmer temperatures on ATCO Gas' revenues, where customer rates are based on a forecast of normal temperatures, but warmer than normal temperatures will result in less revenue being recovered from customers than forecast. Warmer temperatures will result in a recovery from customers of revenue shortfall.

*(iii) Regulatory Decisions*

These adjustments reflect the situation where the Corporation recognizes in Adjusted Earnings the impact related to current and prior periods upon receipt of a decision, but IFRS requires that such revenues not be recognized until customer rates are changed and amounts are billed to customers in future periods. For example, the AUC issued decisions in 2010 for ATCO Gas' Carbon Facility (refer to the 2010 MD&A). As these decisions related to prior periods, the Corporation recognized Adjusted Earnings in full in 2010. However, under IFRS, earnings are not recognized upon receipt of the decisions, but instead are recognized when the amounts to be collected from customers are billed in 2010 and 2011.

The change in this category was mainly the result of two significant decisions: the 2010 Carbon decisions described above and a decision regarding ATCO Gas' deferred gas account.

Under Canadian GAAP, in the first and third quarters of 2010, ATCO Gas recorded Adjusted Earnings of \$11 million and \$14 million, respectively, pertaining to decisions for the Carbon Facility. Under IFRS, these earnings are being recognized starting in the second quarter of 2010 and continuing in 2011 as they are being billed to customers.

Also in the first quarter of 2010 under Canadian GAAP, ATCO Gas recorded a contingent liability and a reduction in Adjusted Earnings of \$8 million for a decision regarding amounts previously recovered from customers for historical transportation imbalances. The AUC's final decision resulted in a reversal of \$1 million of the contingent liability in the third quarter of 2010. Under IFRS, the net \$7 million earnings reduction was recorded in the fourth quarter of 2010 when it was refunded to customers.

## CONSOLIDATED REVENUES AND ADJUSTED EARNINGS

**Revenues** for the three months ended March 31, 2011 **increased** by \$43 million (10%) over the corresponding period in 2010. This increase was primarily attributable to increased rate base in ATCO Electric, colder weather and recoveries from customers resulting from the Carbon Storage Facility decisions in ATCO Gas that commenced in the second quarter of 2010. These increases were partially offset by lower revenues due to increased purchases of natural gas by ATCO Gas to maintain appropriate operating pressures in its distribution pipeline system.

Reported revenues have not been adjusted for regulatory items as revenues are not viewed by management as a key measure of performance for this segment. As a result changes in revenues may not be indicative of a change in Adjusted Earnings due to the timing of recognition of revenues under IFRS as compared to rate regulated accounting.

**Adjusted Earnings from continuing operations increased** by \$3 million (3%) over the corresponding period of 2010. The primary reason for the increase in Adjusted Earnings was increased rate base in ATCO Electric, ATCO Gas and ATCO Pipelines. Partially offsetting these increases were two ATCO Gas decisions which were recorded in the first quarter of 2010: \$11 million of higher earnings related to the 2010 Carbon decision, partially offset by \$8 million lower earnings related to the deferred gas account decision.

## CONSOLIDATED EXPENSES

(\$ millions)	For the Three Months Ended March 31		
	2011	2010	Change (2011-2010)
Costs and expenses:			
Salaries, wages and benefits	68	57	19%
Energy transmission and transportation	8	2	300%
Plant and equipment maintenance	15	15	0%
Fuel costs	4	4	0%
Purchased power	16	15	7%
Franchise fees	62	61	2%
Other expenses	58	53	9%
	<b>231</b>	<b>207</b>	<b>12%</b>
Depreciation and amortization	61	60	2%
Interest expense	42	47	(11%)
Income taxes	37	32	16%

**Costs and expenses** for the three months ended March 31, 2011, **increased** by \$24 million (12%) over the same period in 2010, mainly due to increased salaries, wages and benefits due to salary escalation and more employees.

For the three months ended March 31, 2011, **interest expense decreased** by \$5 million (11%) compared to the corresponding period in 2010, mainly due to the refinancing of \$125 million 11.4% debentures, which were repaid on August 15, 2010, with \$125 million 4.947% debentures issued on November 18, 2010.

For the three months ended March 31, 2011, **income taxes increased** by \$5 million (16%) compared to the same period in 2010, primarily due to increased earnings before income taxes partially offset by lower income tax rates.

## **UTILITIES INFORMATION**

### ***Regulatory Developments***

#### **Generic Cost of Capital**

On December 16, 2010, the AUC initiated a 2011 Generic Cost of Capital proceeding, the scope of which includes, among other things, a full review of cost of capital matters including capital structure and the return on equity (ROE) for 2011. It will also include consideration of whether a formula approach to ROE can be reinstated for 2012. In the absence of a formula approach to ROE, the AUC will then consider how the ROE will be set for 2012. The scope also includes consideration of a management fee on customer contributed assets and how such a fee would be accounted for. The hearing is scheduled to commence on June 20, 2011 and be completed in the third quarter of 2011, with a final a decision expected in the fourth quarter of 2011.

#### **ATCO Electric**

##### **2011 and 2012 General Tariff Application**

In May 2010, ATCO Electric filed a general tariff application with the AUC for 2011 and 2012 requesting, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. The application also requested that construction work in progress for projects that are directly assigned from the AESO be included in rate base and that the recovery of Federal deferred income taxes for transmission operations be included in customer rates. The inclusion of construction work in progress and Federal deferred income taxes in customer rates would not significantly impact Adjusted Earnings but would result in an improvement to reported earnings under IFRS and cash flows during the construction of the major transmission projects currently being undertaken.

In November 2010, ATCO Electric filed an application requesting interim adjustable rate increases amounting to 37% of the requested increase for transmission operations and 90% of the requested increase for distribution operations, pending the AUC's decision on the 2011 and 2012 general tariff application. ATCO Electric excluded the impact of construction work in progress and the recovery of Federal deferred income taxes from its requested interim rates increases for transmission operations. In December 2010, the AUC issued a decision approving ATCO Electric's interim adjustable rate increases as filed.

On April 13, 2011, the AUC issued a decision on ATCO Electric's 2011 and 2012 general tariff application approving, among other things, the inclusion of construction work in progress and Federal deferred income taxes for transmission operations as requested. There was no significant impact to Adjusted Earnings for the quarter ended March 31, 2011 as a result of the decision given the interim adjustable rate increases previously approved by the AUC. As discussed above, the inclusion of construction work in progress and Federal deferred income taxes in customer rates does not significantly

impact Adjusted Earnings but will result in an improvement to reported earnings under IFRS and cash flows in future periods.

### **Transmission Infrastructure Projects**

#### **500kV High Voltage Direct Current (“HVDC”) Project**

In 2009, ATCO Electric was authorized by the Alberta Minister of Energy to prepare a facility application to build and operate a new 500kV HVDC transmission line along a corridor on the east side of the province between Edmonton and Calgary. Following approval of the facility application by the AUC, ATCO Electric will construct and operate the new line. On March 29, 2011, ATCO Electric filed its facility application with the AUC, with an estimated project cost, excluding capitalized interest during construction, of \$1.6 billion and a mid 2014 in service date. Final approval is not anticipated until the first quarter of 2012. Approval of the facility application is required before construction can commence. It is anticipated that the majority of the project costs will be incurred in 2012 through 2014.

#### **Hanna Region Transmission Development (“HRTD”) Project**

In 2010, the AUC approved the need for major transmission reinforcement in the Hanna area located in the southeast region of the province. ATCO Electric’s share of the Hanna Region Transmission Development, or “HRTD”, is comprised of six distinct developments comprising approximately 375 kilometres of transmission line projects, the construction of seven new substations and modifications and expansions to a further 13 existing substations. The in-service dates for the majority of these six developments are anticipated to be in late 2012 with an estimated cost for the HRTD of approximately \$800 million. ATCO Electric has received approval from the AUC to proceed with the construction of three developments for an estimated cost of \$20 million and is awaiting approval of facility applications filed with the AUC for one further development with an estimated cost of \$730 million. Facility applications for the remaining two developments with an estimated cost of \$50 million are expected to be filed with the AUC by the end of the second quarter of 2011. Final approvals are expected in the first quarter of 2012. It is anticipated that the majority of these costs will be incurred in 2012.

### **ATCO Gas**

#### **2011 and 2012 General Rate Application**

In December 2010, ATCO Gas filed a general rate application with the AUC for 2011 and 2012 requesting, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. A decision is expected in the fourth quarter of 2011. ATCO Gas also filed an application requesting interim adjustable rates pending the AUC’s decision on the general rate application. A decision was received in April 2011 approving interim adjustable rates effective May 1, 2011, equal to 60% of ATCO Gas’ requested revenue increase. ATCO Gas’ Adjusted Earnings increased by \$3 million in the first quarter of 2011 as a result of this decision. Earnings under IFRS will not be recognized until interim rates are billed to customers starting in May 2011.

#### **Carbon Natural Gas Storage Facility**

ATCO Gas owns a 43.5 petajoule natural gas storage facility located at Carbon, Alberta. The Carbon Facility is not used by ATCO Gas for the provision of utility service and the entire storage capacity is leased to ATCO Midstream. On March 29, 2011, ATCO Gas received approval from the AUC for the internal transfer of the Carbon facility from ATCO Gas to ATCO Midstream. The transfer, which will be measured at carrying value, is expected to be completed in the second quarter of 2011.

## ATCO Pipelines

### Alberta System Integration

In 2008, ATCO Pipelines and NOVA Gas Transmission Ltd. (NOVA) announced a proposed agreement to provide natural gas transmission service to their customers. The proposal will allow ATCO Pipelines and NOVA to utilize their physical assets under a single rates and services structure with a single commercial interface for Alberta customers. Each company would separately manage assets within distinct operating territories within Alberta. This proposal, if approved by the AUC, is expected to end duplicate tolling and operational activities and result in more efficient regulatory processes.

The AUC issued a decision on May 27, 2010, approving the integration, but requested ATCO Pipelines to submit subsequent applications to address the specific details of (i) the transition of ATCO Pipelines' customers to NOVA, and (ii) the asset swap between ATCO Pipelines and NOVA in order to establish operating areas. On April 20, 2011, the AUC approved ATCO Pipelines' application to address the transition of customers. An application to address the asset swap is expected to be submitted to the AUC in the second quarter of 2011.

### Other Matters

The Corporation has a number of other less significant regulatory filings and regulatory hearing submissions before the AUC for which decisions have not been received. The outcome of these matters cannot be determined at this time.

## Liquidity and Capital Resources

The Corporation has access to short term bank loans and commercial paper borrowings to provide flexibility in the timing and amounts of long term financing.

### SUMMARY OF CASH FLOW

(\$ millions)	For the Three Months Ended		
	March 31		
	2011	2010	Change (2011-2010)
<b>Cash position, beginning of period</b>	<b>(56)</b>	64	(188%)
Cash provided by (used in)			
Operating activities:			
Funds Generated by Operations	<b>249</b>	224	11%
Changes in non-cash working capital	<b>25</b>	37	(32%)
Cash flow from operations	<b>274</b>	261	5%
Cash flow from discontinued operations	-	28	(100%)
Investing activities	<b>(197)</b>	(179)	(10%)
Financing activities	<b>(28)</b>	(37)	24%
<b>Cash position, end of period</b>	<b>(7)</b>	137	(105%)

## OPERATING ACTIVITIES

For the three months ended March 31, 2011, **Funds Generated by Operations** were \$249 million, an **increase** of \$25 million (11%) compared to the corresponding period of 2010. This increase was primarily due to higher earnings. For the three months ended March 31, 2011, **cash flow from operations** was \$274 million, an **increase** of \$13 million (5%) over the corresponding period of 2010. This increase was primarily due to the increase in Funds Generated by Operations, partially offset by a reduction in changes in non-cash working capital. The reduction in changes in non-cash working capital was primarily due to higher accounts receivable in ATCO Gas due to colder weather.

## INVESTING ACTIVITIES

For the three months ended March 31, 2011, **cash used in investing activities increased** by 10% compared to the corresponding period of 2010, primarily due to increased capital investment in regulated transmission infrastructure projects in ATCO Electric.

## FINANCING ACTIVITIES

For the three months ended March 31, 2011, **interest paid decreased** by \$9 million compared to the corresponding period in 2010, mainly due to the refinancing of \$125 million 11.4% debentures, which were repaid on August 15, 2010, with \$125 million 4.947% debentures issued on November 18, 2010. Interest on the 11.4% debentures was paid semi-annually in February and August whereas the first interest payment on the 4.947% debentures will not be payable until May 2011.

## SHORT TERM INVESTMENT POLICY

The Corporation has a long-standing policy not to invest any of its cash balances in asset-backed securities. Cash and short term investment credit risk is reduced by investing 100% in short term money market instruments of Canadian financial institutions and Government of Canada treasury bills as at March 31, 2011.

## LINES OF CREDIT

At March 31, 2011, the Corporation had the following credit lines that enable it to obtain funding for general corporate purposes.

	<b>Total</b>	<b>Used</b>	<b>Available</b>
(\$ millions)			
Short term committed	300	23	277
Uncommitted	28	1	27
<b>Total</b>	<b>328</b>	<b>24</b>	<b>304</b>

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

## CONTRACTUAL OBLIGATIONS

Contractual obligations disclosed in the 2010 MD&A remain substantially unchanged as at March 31, 2011.

## Share Capital

The equity securities of the Corporation consist of Class A Shares and Class B Shares.

At April 27, 2011, the Corporation had outstanding 3,286,124 Class A Shares and 2,014,076 Class B Shares, all of which are owned by Canadian Utilities.

## Business Risks

**Information contained in the 2010 MD&A related to Business Risks remains substantially unchanged.**

## Future Accounting Changes

Certain new or revised standards or interpretations have been issued by the IASB or IFRIC that are not required to be adopted in the current period. The Corporation has not early adopted these standards or interpretations.

IFRS 9 *Financial Instruments*, effective for annual periods beginning on or after January 1, 2013, is part of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The Corporation is evaluating the potential effect of this new standard.

There are no other standards and interpretations that have been issued, but are not yet effective, that the Corporation anticipates will have a material effect on the consolidated financial statements once adopted.

## Forward-Looking Information

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as “anticipate”, “plan”, “estimate”, “expect”, “may”, “will”, “intend”, “should”, and similar expressions. Forward-looking information involves 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 information. The Corporation believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

## Glossary

**Adjusted Earnings** means earnings attributable to Class A and Class B Shares after adjusting for the timing of revenues and expenses associated with rate regulated activities and equity preferred share dividends. Adjusted Earnings will present earnings from rate regulated activities on the same basis as was used prior to adopting IFRS – that basis being the U.S. accounting principles for rate regulated activities commonly used by rate regulated companies in Canada. Adjusted Earnings also exclude one-time gains and losses and items that are not in the normal course of business or day-to-day operations. Refer to Reconciliation of Adjusted Earnings and Earnings Attributable to Class A and Class B Shares section for a description of all adjustments.

**AESO** means the Alberta Electric System Operator.

**Alberta Power (2000)** means Alberta Power (2000) Ltd., the wholly owned subsidiary of CU Inc. that was transferred to ATCO Power Ltd. on October 1, 2010.

**AUC** means the Alberta Utilities Commission.

**Canadian Utilities** means Canadian Utilities Limited.

**Canadian GAAP** means Canadian generally accepted accounting principles that were in effect prior to the adoption of IFRS effective January 1, 2010.

**Class A Shares** means Class A non-voting shares of the Corporation.

**Class B Shares** means Class B common shares of the Corporation.

**Corporation** means CU Inc. and, unless the context otherwise requires, includes its subsidiaries.

**IFRS** means International Financial Reporting Standards.

**Petajoule (PJ)** means a unit of energy equal to approximately 948.2 billion British thermal units.

**U.S.** means United States of America.

## **Additional Information**

Canadian Utilities has published its unaudited consolidated interim financial statements and its MD&A for the three months ended March 31, 2011. Copies of these documents may be obtained upon request from the Corporate Secretary of Canadian Utilities at 1400 ATCO Centre, 909-11th Avenue S.W., Calgary, Alberta, T2R 1N6, telephone 403-292-7500 or fax 403-292-7623.