



An **ATCO** Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2011**

CU Inc.
Management's Discussion and Analysis (MD&A)
For the Nine Months Ended September 30, 2011

This MD&A should be read in conjunction with the Corporation's unaudited interim consolidated financial statements for the nine months ended September 30, 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 October 27, 2011. Additional information relating to the Corporation, including the Corporation's annual information form, is available on SEDAR at www.sedar.com.

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

Table of Contents

	Page
Third Quarter Highlights.....	2
Company Overview	2
Transfer of Alberta Power (2000) to ATCO Power	2
Non-GAAP Measures	3
International Financial Reporting Standards.....	3
Internal Control Over Financial Reporting	4
Results of Operations	5
Selected Quarterly Information	5
Reconciliation of Adjusted Earnings and Earnings for the Period	7
Consolidated Revenues and Adjusted Earnings	9
Consolidated Expenses	10
Utilities Information	11
Liquidity and Capital Resources	14
Share Capital	15
Business Risks	16
Future Accounting Changes.....	16
Forward-Looking Information	16
Glossary	17
Additional Information	17

Third Quarter Highlights

The following highlights have occurred since the second quarter MD&A dated July 28, 2011. These events are discussed in more detail throughout this MD&A:

- Adjusted Earnings from continuing operations for the quarter ended September 30, 2011, were \$33 million compared to \$43 million in the corresponding period in 2010, a decrease of \$10 million (23%) primarily due to \$14 million recorded in the third quarter of 2010 related to the final AUC decision on ATCO Gas' Carbon Compliance Application.
- On October 24, 2011, the Corporation issued \$500 million of 4.543% debentures maturing on October 24, 2041, and \$200 million of 4.593% debentures maturing on October 24, 2061.
- On October 26 2011, CU Inc. established a new \$600 million credit facility; this facility will expire in October 2014 unless it is extended by the lender. As a result of this change, total committed credit facilities have increased to \$900 million.

Company Overview

CU Inc. was incorporated under the laws of Canada on March 12, 1999. The Corporation has assets of approximately \$8 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. 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 and nine months ended September 30, 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 for the period after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation. Adjusted Earnings 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 for the period 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 interim financial statements for the three months ended March 31, 2011. 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 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 and recognizes costs when they are incurred. Secondly, under rate regulated accounting, 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 rate regulated accounting, 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 rate regulated accounting and IFRS for rate regulated activities are strictly timing in nature. While rate regulated accounting 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 was provided in Note 3 to the interim financial statements for the three months ended March 31, 2011.

Internal Control Over Financial Reporting

There was no change in the Corporation's internal control over financial reporting that occurred during the period beginning July 1, 2011, and ended on September 30, 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

	For the Three Months Ended ^{(2) (5) (7)}			
(\$ millions)	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2011 ⁽³⁾ (IFRS)				
Revenues	474	378	338	-
Earnings for the Period	109	51	41	-
Adjusted Earnings ⁽⁶⁾	100	44	33	
2010 ⁽⁴⁾ (IFRS)				
Revenues	431	334	332	424
Earnings for the Period:				
Continuing Operations	92	35	40	66
Discontinued Operations ⁽¹⁾	11	7	15	-
Total	103	42	55	66
Adjusted Earnings: ⁽⁶⁾				
Continuing Operations	97	33	43	73
Discontinued Operations ⁽¹⁾	11	7	14	-
Total	108	40	57	73

⁽¹⁾ 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).

⁽²⁾ 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.

⁽³⁾ Quarterly information for 2011 has been extracted from the consolidated financial statements, which have been prepared in accordance with IFRS.

⁽⁴⁾ Quarterly information for 2010 has been restated in accordance with IFRS.

⁽⁵⁾ 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.

⁽⁶⁾ Refer to the Reconciliation of Adjusted Earnings and Earnings for the Period section for a description of the reconciling adjustments.

⁽⁷⁾ 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 ⁽¹⁾⁽⁴⁾			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2009 ⁽²⁾ (Canadian GAAP)				
Revenues	-	-	-	368
Earnings attributable to Class A and Class B Shares:				
Continuing Operations	-	-	-	53
Discontinued Operations	-	-	-	13
Total	-	-	-	66
Adjusted Earnings: ⁽³⁾				
Continuing Operations	-	-	-	53
Discontinued Operations	-	-	-	13
Total	-	-	-	66

⁽¹⁾ 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.

⁽²⁾ Quarterly information for 2009 was extracted from the consolidated financial statements, which were prepared in accordance with Canadian GAAP.

⁽³⁾ 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.

⁽⁴⁾ 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; and
- The impact of the transfer of the Carbon Storage Facility from ATCO Gas to ATCO Midstream, a wholly owned subsidiary of the Corporation's parent, Canadian Utilities, on June 1, 2011.

RECONCILIATION OF ADJUSTED EARNINGS AND EARNINGS FOR THE PERIOD

Adjusted Earnings are earnings for the period after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation. 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 for the period:

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
2011						
Adjusted Earnings	33	-	33	177	-	177
Adjustments for rate regulated activities ⁽¹⁾	2	-	2	6	-	6
Dividends on equity preferred shares of the Corporation	6	-	6	18	-	18
Earnings for the period	41	-	41	201	-	201
2010						
Adjusted Earnings	43	14	57	173	32	205
Adjustments for rate regulated activities ⁽¹⁾	(7)	-	(7)	(21)	-	(21)
Dividends on equity preferred shares of the Corporation	4	1	5	15	1	16
Earnings for the period	40	15	55	167	33	200

(1) Adjustments for Rate Regulated Activities

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
<i>Additional revenues billed in current period:</i>						
Future removal and site restoration costs	6	8	(25%)	26	27	(4%)
Retirement benefits	5	2	150%	14	7	100%
Transmission and distribution system load balancing	3	-	-	3	2	50%
Impact of colder temperatures on revenues	(2)	-	-	8	-	-
Other	11	17	(35%)	22	29	(24%)
	23	27	(15%)	73	65	12%
<i>Revenues to be billed in future period:</i>						
Deferred income taxes	(3)	(16)	81%	(29)	(36)	19%
Transmission access payments	(20)	(5)	(300%)	(34)	(15)	(127%)
Transmission and distribution system load balancing	(2)	-	-	(4)	-	-
Impact of warmer temperatures on revenues	-	2	(100%)	-	(3)	100%
Other	(1)	-	-	(5)	-	-
	(26)	(19)	(37%)	(72)	(54)	(33%)
<i>Regulatory decisions:</i>						
Regulatory decisions related to current and prior periods	5	(15)	133%	5	(32)	116%
	2	(7)	129%	6	(21)	129%

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 revenues billed in current period

These adjustments reflect the situation where the Corporation records revenues when amounts are billed to customers and recognizes costs when 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) Revenues to be billed in 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 Storage 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 rate regulated accounting, 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 Storage 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 rate regulated accounting, 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 September 30, 2011, were relatively **unchanged** compared to the corresponding period in 2010.

Revenues for the nine months ended September 30, 2011 **increased** by \$93 million (8%) over the corresponding period in 2010. This increase was primarily attributable to increased rate base in the Utilities, colder weather and recoveries from customers that commenced in the second quarter of 2010 resulting from the Carbon Storage Facility decisions in ATCO Gas. Also contributing to the increase in revenues were net sales of natural gas by ATCO Gas and ATCO Pipelines to maintain appropriate operating pressures in their distribution and transmission pipeline systems.

Adjusted Earnings from continuing operations for the three months ended September 30, 2011, **decreased** by \$10 million (23%) compared to the corresponding period of 2010. This decrease was mainly due to \$14 million recorded in the third quarter of 2010 related to the final AUC decision on ATCO Gas' Carbon Compliance Application. This decrease in Adjusted Earnings was partially offset by increased rate base in the Utilities.

Adjusted Earnings from continuing operations for the nine months ended September 30, 2011, **increased** by \$4 million (2%) over the corresponding period of 2010. This was mainly due to increased rate base in the Utilities and a \$6 million favourable tax reassessment in ATCO Gas and ATCO Pipelines that permitted the deduction of certain capital costs for 2005 to 2007 for tax purposes. These increases in Adjusted Earnings were partially offset by the impact of two ATCO Gas decisions which were recorded in 2010: \$25 million of higher earnings related to the 2010 Carbon decisions, partially offset by \$7 million lower earnings related to the deferred gas account decision.

CONSOLIDATED EXPENSES

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Costs and expenses:						
Salaries, wages and benefits	60	59	2%	196	181	8%
Energy transmission and transportation	3	2	50%	15	6	150%
Plant and equipment maintenance	25	22	14%	59	53	11%
Fuel costs	3	4	(25%)	10	11	(9%)
Purchased power	12	13	(8%)	40	40	-
Franchise fees	30	29	3%	132	126	5%
Other expenses	57	53	8%	178	166	7%
	190	182	4%	630	583	8%
Depreciation and amortization	64	61	5%	188	181	4%
Interest expense	39	42	(7%)	121	133	(9%)
Income taxes	9	15	(40%)	67	56	20%

Costs and expenses for the three months ended September 30, 2011, were relatively **unchanged** compared to the corresponding period in 2010.

Costs and expenses for the nine months ended September 30, 2011, **increased** by \$47 million (8%) over the corresponding period in 2010, mainly due to increased salaries, wages and benefits due to salary escalation and more employees and higher flow through energy transmission and transportation costs due to increased rates to flow gas onto ATCO Pipelines' system from another pipeline.

For the three and nine months ended September 30, 2011, **interest expense decreased** by \$3 million (7%) and \$12 million (9%), respectively, compared to the corresponding periods in 2010, mainly due to the refinancing of \$125 million of 11.4% debentures, which were repaid on August 15, 2010, with \$125 million of 4.947% debentures issued on November 18, 2010, and the repayment of \$100 million of 7.05% debentures on June 1, 2010.

For the three months ended September 30, 2011, **income taxes decreased** by \$6 million (40%) compared to the same period in 2010, primarily due to decreased earnings before income taxes.

For the nine months ended September 30, 2011, **income taxes increased** by \$11 million (20%) compared to the same period in 2010, primarily due to increased earnings before income taxes.

Utilities Information

Northern Alberta Fires

In May 2011, wildfires in northern Alberta, including the Slave Lake region, resulted in the destruction of ATCO Electric and ATCO Gas assets. The Corporation estimates that it will incur approximately \$26 million to repair and replace the assets. This is not expected to have a significant effect on Adjusted Earnings since ATCO Electric and ATCO Gas will apply to the AUC to recover these costs from customers. Under IFRS, the majority of costs will be capitalized to property, plant and equipment and depreciated. Revenues will not be recorded until amounts are approved by the AUC and billed to customers.

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 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 proceeding concluded on September 9, 2011, and a decision is expected in the fourth quarter of 2011.

Pension Hearing

On September 27, 2011, the AUC issued its decision on the Utilities' pension methodology, specifically on the determination of the cost of living allowance (COLA) used in the determination of pension costs included in 2011 and future years' revenue requirements. The AUC decided that the appropriate level for annual COLA adjustments is 50% of the consumer price index (CPI) subject to a maximum COLA adjustment of 3%. This decision is effective for current service funding requirements starting in 2012 and for current service and deficit funding requirements starting in 2013. There is no impact to Adjusted Earnings in 2011. The Utilities intend to file a review and variance application on this decision with the AUC in the fourth quarter of 2011, and have applied to the Alberta Court of Appeal for leave to appeal pending the outcome of the review and variance application.

Information Technology and Customer Care and Billing Services (Evergreen Application)

The Utilities purchase information technology services, and ATCO Electric and ATCO Gas also purchase customer care and billing services, from ATCO I-Tek. The recovery of these costs in customer rates is subject to AUC approval.

On May 26, 2011, the AUC approved final rates for information technology and customer care and billing services provided by ATCO I-Tek that can be included in customer rates for 2008 and 2009. The adjustments to placeholder amounts previously included in customer rates did not have a significant impact on Adjusted Earnings.

A further regulatory process to deal with rates for information technology and customer care and billing services provided by ATCO I-Tek for 2010 and beyond has been established and a decision is expected in the second quarter of 2012.

ATCO Electric

2011 and 2012 General Tariff Application

On April 13, 2011, the AUC issued a decision on ATCO Electric's 2011 and 2012 general tariff application approving, among other things, increased revenues to recover increased financing, depreciation, and operating costs associated with increased rate base in Alberta. The decision also approved ATCO Electric's request 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 does not significantly impact Adjusted Earnings but does result in an improvement to reported earnings under IFRS and cash flows during the construction of the major transmission projects currently being undertaken. As the AUC had previously approved an interim adjustable rate increase, there was no significant impact to Adjusted Earnings as a result of this decision.

Transmission Infrastructure Projects

Eastern Alberta Transmission Line (EATL) Project

In 2009, the Alberta government deemed ATCO Electric's EATL project to be Critical Transmission Infrastructure (CTI) and the AESO directed ATCO Electric to: (i) prepare a facility application to build and operate a new 500kV high voltage direct current transmission line along a corridor on the east side of the province between Edmonton and Calgary, and (ii) undertake pre-construction activities, including engineering and ordering of long lead-time materials, to achieve a mid to late 2014 in-service date.

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. On October 21, 2011, the AUC, in response to a request from the Alberta government, suspended the regulatory process for both the Eastern Alberta Transmission Line project, as well as the Western Alberta Transmission Line project, pending a government review of its approach to these two CTI projects in the province. It is too early to determine what, if any, changes will be made to the government's approach or how ATCO Electric's EATL project could be affected.

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 HRTD project is comprised of six distinct developments comprising approximately 380 kilometres of transmission line projects, the construction of nine new substations and modifications and expansions to a further 14 existing substations. All of the six developments are anticipated to be in-service by the end of the second quarter of 2013 with an estimated project cost, excluding capitalized interest during construction, for the HRTD of approximately \$765 million. ATCO Electric has received approval from the AUC to proceed with the construction of three developments for an estimated cost of \$15 million and is awaiting approval of facility applications filed with the AUC for two further developments with an estimated cost of \$735 million. The facility application for the remaining development with an estimated cost of \$15 million is expected to be filed with the AUC in the fourth 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. As a result of this decision, ATCO Gas recorded increased Adjusted Earnings of \$2 million in the third quarter of 2011 and \$7 million for the nine months ended September 30, 2011. Earnings under IFRS increased by \$3 million in the third quarter of 2011 and by \$5 million for the nine months ended September 30, 2011, as billing of interim rates to customers commenced May 1, 2011.

Carbon Natural Gas Storage Facility

ATCO Gas owned a 43.5 petajoule natural gas storage facility located at Carbon, Alberta. The Carbon Storage Facility was not used by ATCO Gas for the provision of utility service and the entire storage capacity was leased to ATCO Midstream. On March 29, 2011, ATCO Gas received approval from the AUC for the transfer of the Carbon Storage Facility from ATCO Gas to ATCO Midstream. The transfer, which was measured at the carrying value of assets of \$43 million and liabilities of \$6 million, was completed for cash consideration of \$37 million on June 1, 2011.

ATCO Pipelines

Alberta System Integration

ATCO Pipelines and NOVA Gas Transmission Ltd. (NOVA) entered into an agreement with respect to natural gas transmission service that 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 will separately manage assets within distinct operating territories within Alberta. This integration will 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, which took place on October 1, 2011. An application to address the asset swap is expected to be submitted to the AUC in the fourth 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 September 30			For the Nine Months Ended September 30		
	2011	2010	Change (2011-2010)	2011	2010	Change (2011-2010)
Cash position, beginning of period	(204)	57	(458%)	(56)	64	(188%)
Cash provided by (used in)						
Operating activities:						
Funds Generated by Operations	159	153	4%	579	516	12%
Changes in non-cash working capital	(19)	(18)	(6%)	12	(4)	400%
Cash flow from operations	140	135	4%	591	512	15%
Cash flow from discontinued operations	-	(6)	100%	-	56	(100%)
Investing activities	(325)	(187)	(74%)	(741)	(529)	(40%)
Financing activities	(28)	(162)	83%	(211)	(266)	21%
Cash position, end of period	(417)	(163)	(156%)	(417)	(163)	(156%)

OPERATING ACTIVITIES

For the three months ended September 30, 2011, **Funds Generated by Operations** and **cash flow from operations** were relatively unchanged.

For the nine months ended September 30, 2011, **Funds Generated by Operations** and **cash flow from operations increased** by \$63 million (12%) and by \$79 million (15%), respectively, over 2010. This increase was primarily due to increased contributions by utility customers for extensions to plant and higher earnings, partially offset by higher income taxes paid.

INVESTING ACTIVITIES

For the three and nine months ended September 30, 2011, **cash used in investing activities increased** by \$138 million (74%) and \$212 million (40%), respectively, compared to the corresponding periods of 2010, primarily due to increased capital investment in regulated distribution and transmission infrastructure projects in ATCO Electric and regulated natural gas distribution projects in ATCO Gas.

FINANCING ACTIVITIES

On June 1, 2011, the Corporation repaid \$100 million of 7.05% debentures.

For the three and nine months ended September 30, 2011, **interest paid decreased** by \$8 million and \$13 million, respectively, compared to the corresponding periods in 2010, mainly due to the refinancing of \$125 million of 11.4% debentures, which were repaid on August 15, 2010, with \$125 million of 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 was paid in May 2011.

On October 24, 2011, the Corporation, issued \$500 million of 4.543% debentures maturing on October 24, 2041, and \$200 million of 4.593% debentures maturing on October 24, 2061.

The Corporation intends to redeem all outstanding Series U Perpetual Cumulative Second Preferred Shares totaling \$20 million. The redemption is expected to occur in the fourth quarter and will be financed with available cash reserves.

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 September 30, 2011.

LINES OF CREDIT

At September 30, 2011, the Corporation had the following credit lines that enable it to obtain funding for general corporate purposes.

	Total	Used	Available
(\$ millions)			
Long term committed	300	13	287
Uncommitted	28	2	26
Total	328	15	313

A committed credit facility of \$300 million, which was previously reported under short term commitments, was renewed in September 2011 by the Corporation. This facility will now expire in September 2013, unless extended by the lender. This credit facility is now reported as a long term commitment.

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

Changes to Lines of Credit Subsequent to September 30, 2011

On October 26, 2011, CU Inc. established a new \$600 million credit facility; this facility will expire in October 2014 unless it is extended by the lender. As a result of this change, total committed credit facilities have increased to \$900 million.

CONTRACTUAL OBLIGATIONS

Contractual obligations disclosed in the 2010 MD&A remain substantially unchanged as at September 30, 2011.

Share Capital

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

At October 26, 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 amended standards have been issued by the IASB that are not required to be adopted in the current period. The Corporation has not early adopted these standards. The standards which the Corporation anticipates will have a material effect on the consolidated financial statements or note disclosures are described below:

IFRS 12 *Disclosure of Interests in Other Entities* sets out the required disclosures for entities reporting under the consolidation and joint arrangements standards. The standard describes the disclosures required for entities reporting under IFRS 10 *Consolidation* and IFRS 11 *Joint Arrangements*. The disclosure is designed to help users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates and joint arrangements. The standard includes disclosure about significant judgments and assumptions made in determining whether the entity controls, jointly controls or has significant influence over other entities. The new standard is effective for annual periods beginning on or after January 1, 2013, and will result in additional disclosures.

IFRS 13 *Fair Value Measurement* explains how to measure fair value and aims to enhance fair value disclosures. Under this new standard, a company would maximize the use of quoted prices for the same or similar assets in active markets in determining fair value. For non financial assets where there is no active market, a company would consider the best use that another market participant would have for the asset even though that is not what the company currently uses it for. The effect of any changes for the Corporation is limited to fair value disclosures for financial instruments and in asset impairment calculations. This IFRS is effective for financial statements beginning on and after January 1, 2013.

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 for the period after adjusting for the timing of revenues and expenses associated with rate regulated activities and dividends on equity preferred shares of the Corporation. Adjusted Earnings 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 the Reconciliation of Adjusted Earnings and Earnings for the Period 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 nine months ended September 30, 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.