



An **ATCO** Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2010**

CU Inc.
Management’s Discussion and Analysis (MD&A)
For the Three Months Ended March 31, 2010

This MD&A should be read in conjunction with the Corporation’s unaudited interim consolidated financial statements for the three months ended March 31, 2010, and the audited consolidated financial statements and unaudited MD&A for the year ended December 31, 2009 (2009 MD&A). **Information contained in the 2009 MD&A that is not discussed in this document remains substantially unchanged.** This MD&A is dated April 29, 2010. Additional information relating to the Corporation, including the Corporation’s annual information form, is available on SEDAR at www.sedar.com.

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Glossary

Adjusted Earnings means earnings attributable to Class A and Class B Shares after adjustment for items that are not in the normal course of business or day-to-day operations. These items are usually of a non-recurring or one-time nature.

AESO means the Alberta Electric System Operator.

ATCO I-Tek means ATCO I-Tek Inc., a wholly-owned subsidiary of Canadian Utilities Limited.

ATCO Midstream means ATCO Midstream Ltd., a wholly-owned subsidiary of Canadian Utilities Limited.

AUC means the Alberta Utilities Commission.

Availability is a measure of time, expressed as a percentage of continuous operation, that a generating unit is capable of producing electricity, regardless of whether the unit is actually generating electricity.

Canadian Utilities means Canadian Utilities Limited.

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.

Excess Energy Charges means a form of compensation to the owners of PPA generating units for electrical energy supplied in excess of the committed output capacity defined in the PPA.

GAAP means Canadian generally accepted accounting principles.

GHG means any greenhouse gas which has the potential to retain heat in the atmosphere, including water vapour, carbon dioxide, methane, nitrous oxide and hydrofluorocarbons.

IFRS means International Financial Reporting Standards.

Megawatt (MW) is a measure of electric power equal to 1,000,000 watts.

Megawatt hour (MWh) means a measure of electricity consumption equal to the use of 1,000,000 watts of power over a one-hour period.

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

Placeholder means an AUC approved interim cost which has been included in utility customer rates pending an AUC review in a separate or future proceeding. This cost is subject to adjustment once the separate or future proceeding is completed and may result in refunds to or recoveries from customers.

PPA means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electric utility business in Alberta. The PPAs are legislatively mandated and approved by the AUC.

Company Overview

CU Inc. was incorporated under the laws of Canada on March 12, 1999. The Corporation has assets of approximately \$6.7 billion and more than 4,100 employees.

The consolidated financial statements include the accounts of CU Inc. and all of its subsidiaries. The consolidated financial statements have been prepared in accordance with GAAP and the reporting currency is the Canadian dollar.

The Corporation operates in the following segments:

The **Utilities** Segment includes:

- 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.

The **Energy** Segment includes:

- the regulated supply of electricity by Alberta Power (2000).

Transactions between segments are eliminated in all reporting of the Corporation's consolidated financial information. For additional information on the Corporation's segments, refer to Note 4 to the unaudited interim consolidated financial statements for the three months ended March 31, 2010.

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.

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 GAAP 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 is defined as earnings attributable to Class A and Class B Shares after adjustment for items that are not in the normal course of business or day-to-day operations. These items are usually of a non-recurring or one-time nature. Management believes Adjusted Earnings allow for a more effective analysis of operating performance and trends.

Internal Control Over Financial Reporting

There was no change in the Corporation's internal control over financial reporting that occurred during the period beginning on January 1, 2010, and ended on March 31, 2010, 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

(\$ millions except per share data)	For the Three Months Ended ^{(1) (2) (3) (4)}			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2010				
Revenues	494.0	-	-	-
Earnings attributable to Class A and Class B Shares	107.0	-	-	-
Adjusted Earnings	107.0	-	-	-
2009				
Revenues	476.1	388.0	368.9	444.3
Earnings attributable to Class A and Class B Shares	90.3	49.7	56.5	66.1
Adjusted Earnings	90.3	49.7	39.7	66.1
2008				
Revenues	-	363.9	352.6	413.5
Earnings attributable to Class A and Class B Shares	-	33.5	30.9	58.2
Adjusted Earnings	-	33.5	27.9	53.4

Notes:

⁽¹⁾ There were no discontinued operations or extraordinary items during these periods.

⁽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, changes in electricity prices in Alberta and the timing of rate decisions.

⁽³⁾ The above data (other than Adjusted Earnings) has been extracted from the consolidated financial statements, which have been prepared in accordance with GAAP and the reporting currency is the Canadian dollar.

⁽⁴⁾ As all the 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.

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 2009 MD&A remain substantially unchanged.

CONSOLIDATED REVENUES AND EARNINGS

Revenues for the three months ended March 31, 2010, **increased** by \$17.9 million (4%) over the same period in 2009. This increase was primarily attributable to a \$22.2 million (6%) increase in the Utilities Segment, partially offset by a \$4.3 million (5%) decrease in the Energy Segment.

The **increase in revenues** was primarily attributable to increased rate base in ATCO Electric (refer to Segmented Information – Utilities – Regulatory Developments – ATCO Electric – 2009 and 2010 General Tariff Application section) and the impact of the AUC approved interim Carbon recovery riders (Interim Carbon Recovery Riders) in ATCO Gas (refer to Segmented Information – Utilities – Regulatory Developments – ATCO Gas – Carbon Natural Gas Storage Facility section). These increases in revenues were partially offset by the impact of the deferred gas account decision by the Alberta Court of Appeal (Deferred Gas Account Decision) in ATCO Gas (refer to Segmented Information – Utilities – Regulatory Developments – ATCO Gas – Deferred Gas Account) and the 2009 impact of recognizing the 2008 portion of higher AUC approved customer rates resulting from ATCO Pipelines' negotiated settlement decision for 2008 and 2009 (ATCO Pipelines 2008 and 2009 Negotiated Settlement) (refer to Segmented

Information – Utilities – Regulatory Developments – ATCO Pipelines – 2008 and 2009 General Rate Application section).

Earnings and Adjusted Earnings for the three months ended March 31, 2010, **increased** by \$16.7 million (18%) over the same period in 2009. This increase was attributable to a \$16.4 million (20%) increase in the Utilities Segment and a \$0.3 million (3%) increase in the Energy Segment.

The **increase** in Adjusted Earnings was mainly due to the impact of the Interim Carbon Recovery Riders in ATCO Gas and increased rate base in ATCO Electric. These increases in Adjusted Earnings were partially offset by the impact of the Deferred Gas Account Decision in ATCO Gas and the 2009 impact of recognizing the 2008 portion of the ATCO Pipelines 2008 and 2009 Negotiated Settlement.

Interest and other income for the three months ended March 31, 2010, **increased** by \$3.4 million (71%), over the same period in 2009 mainly due to increased interest income received relating to regulatory decisions in the Utilities Segment.

CONSOLIDATED EXPENSES

(\$ millions)	For the Three Months Ended March 31		
	2010	2009	Change to 2010 (2010-2009)
Operating expenses:			
Natural gas supply	0.4	0.4	0%
Purchased power	15.0	15.7	(4%)
Operation and maintenance	113.7	113.9	(0%)
Selling and administrative	62.0	60.6	2%
Franchise fees	61.0	62.3	(2%)
	252.1	252.9	(0%)
Depreciation and amortization	65.4	59.6	10%
Interest	50.3	47.0	7%
Income taxes	21.9	28.1	(22%)
Dividends on equity preferred shares	5.5	3.0	83%

Operating expenses for the three months ended March 31, 2010, are essentially **unchanged** at \$252.1 million, compared to the same period in 2009.

For the three months ended March 31, 2010, **depreciation and amortization expenses increased** by \$5.8 million (10%) over the same period in 2009, primarily due to capital additions in 2009 in the Utilities Segment.

Interest expense for the three months ended March 31, 2010, **increased** by \$3.3 million (7%) over the same period in 2009. This increase was primarily attributable to the impact of the Deferred Gas Account Decision in ATCO Gas and increased amounts of debt outstanding (net of redemptions) resulting from new financings issued in 2009 to fund capital expenditures in the Utilities Segment.

For the three months ended March 31, 2010, **income taxes decreased** by \$6.2 million (22%) compared to the same period in 2009, primarily due to higher income tax deductions in the Utilities Segment resulting from the flow-through method of income tax accounting and the impact of a \$3.0 million tax benefit related to ATCO Pipelines successful negotiation with the Canada Revenue Agency on the tax

classification of certain assets for the years 2000 to 2004. These decreases were partially offset by higher earnings before income taxes.

Dividends on equity preferred shares for the three months ended March 31, 2010, **increased** by \$2.5 million (83%) over the same period in 2009, as a result of the issue of \$160.0 million of 6.70% Cumulative Redeemable Preferred Shares Series 2 on March 27, 2009.

SEGMENTED INFORMATION

(\$ millions)	For the Three Months Ended March 31				
	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Total
2010					
Revenues	419.3	74.7	-	-	494.0
Earnings attributable to Class A and Class B Shares and Adjusted Earnings ⁽¹⁾	96.9	10.2	(0.1)	-	107.0
2009					
Revenues	397.1	79.0	-	-	476.1
Earnings attributable to Class A and Class B Shares and Adjusted Earnings ⁽¹⁾	80.5	9.9	(0.1)	-	90.3

Notes:

⁽¹⁾ There were no adjustments to earnings for the three months ended March 31, 2010, or for the corresponding period in 2009, and consequently earnings and Adjusted Earnings are identical.

Utilities

Utilities **revenues** for the three months ended March 31, 2010 **increased** by \$22.2 million (6%) over the corresponding period in 2009. This increase was primarily attributable to increased rate base in ATCO Electric (refer to Regulatory Developments – ATCO Electric – 2009 and 2010 General Tariff Application section) and the impact of Interim Carbon Recovery Riders in ATCO Gas (refer to Regulatory Developments – ATCO Gas – Carbon Natural Gas Storage Facility). These increases in revenues were partially offset by the impact of the Deferred Gas Account Decision in ATCO Gas (refer to – Regulatory Developments – ATCO Gas – Deferred Gas Account) and the 2009 impact of recognizing the 2008 portion of the ATCO Pipelines 2008 and 2009 Negotiated Settlement (refer to Regulatory Developments – ATCO Pipelines – 2008 and 2009 General Rate Application section).

For the three months ended March 31, 2010, **earnings** and **Adjusted Earnings** were \$96.9 million, an **increase** of \$16.4 million (20%) over the same period of 2009. The primary reasons for higher Adjusted Earnings were the impact of the Interim Carbon Recovery Riders in ATCO Gas and the impact of increased rate base in ATCO Electric. These increases in Adjusted Earnings were partially offset by the impact of the Deferred Gas Account Decision in ATCO Gas and the 2009 impact of recognizing the 2008 portion of the ATCO Pipelines 2008 and 2009 Negotiated Settlement.

Regulatory Developments

AUC Initiative to Reform Rate Regulation

On February 26, 2010, the AUC advised that it was beginning an initiative to reform utility rate regulation in Alberta and invited interested parties to participate in a round table discussion to determine scheduling

and scope issues. The rate regulation initiative will begin with the reform of rate regulation for electricity and natural gas distribution services. The reform of rate regulation for electricity and natural gas transmission is excluded from this initiative at this time. The intent of this initiative is to move to a form of rate regulation referred to as “performance based regulation” in which prevailing rates are adjusted annually by a formula that recognizes inflation and productivity improvements. The AUC has advised that the target date for the implementation of performance based regulation will be July 1, 2012, based on applications filed by the utilities in the first quarter of 2011. The impact of this initiative on ATCO Gas’ and ATCO Electric’s distribution operations cannot be determined at this time.

Benchmarking

ATCO Electric, ATCO Gas, and ATCO Pipelines (collectively referred to as ATCO Utilities) purchase information technology services from ATCO I-Tek. 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. Since 2003, the costs have been approved on a Placeholder basis, and are subject to final AUC approval after completion of a collaborative benchmarking process.

The benchmarking report, dealing with the period of 2003-2007, was received on January 23, 2008. In February 2008, the benchmarking report along with an application to adjust the Placeholder rates was filed with the AUC. A hearing was held in December 2009 and an AUC decision was issued on March 8, 2010 in which it addressed the 2003-2007 Placeholder amounts for the ATCO Utilities. The AUC decision approved the adjustments to the Placeholder amounts as filed based on fair market value resulting in no material changes to earnings. In April 2010 the City of Calgary filed a Leave to Appeal this decision with the Alberta Court of Appeal.

For the 2008 and 2009 period, there will be a separate regulatory process to approve rates for information technology and customer care and billing services provided by ATCO I-Tek that can be included in customer rates. The 2008-2009 proceeding is scheduled to be completed in the third quarter of 2010 and a decision is expected in the fourth quarter of 2010.

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 the AUC is expected to set a schedule for this regulatory process after the completion of the 2008–2009 process.

In addition to the rates, this process included the review of three options for the future provision of information technology and customer care and billing services. The options are (i) the repatriation of these services back into the ATCO Utilities; (ii) moving to a third party service provider; or (iii) renewing with ATCO I-Tek, the current service provider. On December 11, 2009, the AUC issued a decision approving the implementation of the new Master Service Agreements (excluding the rates therein) with ATCO I-Tek for information technology and customer care and billing services effective January 1, 2010 for an interim period, the term of which will be determined in the upcoming regulatory process.

ATCO Electric

2009 and 2010 General Tariff Application

In July 2008, ATCO Electric filed a general tariff application with the AUC for 2009 and 2010 requesting, among other things, increased revenues to recover increased financing, depreciation and operating costs associated with increased rate base in Alberta. In December 2008, ATCO Electric received a decision approving interim refundable rate increases relating to 50% of the requested increase for transmission operations and 25% of the requested increase for distribution operations. Furthermore, in April 2009, ATCO Electric received a subsequent decision increasing the interim refundable rates for

distribution operations to 67% of the requested increase. Finally, on July 2, 2009, the AUC issued a decision on ATCO Electric's 2009 and 2010 general tariff application.

In the first quarter of 2009, ATCO Electric was operating under the initial interim rates from the December 2008 decision, whereas, in the first quarter of 2010, ATCO Electric was operating under the revised rates approved in the July 2009 decision. Revenues and earnings for the first quarter of 2010 were higher by \$7.8 million and \$6.6 million, respectively, as a result of these rate changes.

In addition, the increased rate base for 2010 resulted in additional revenues and earnings of \$18.8 million and \$3.3 million, respectively, for the three months ended March 31, 2010.

Therefore, the combination of the timing of the rate increases and additional rate base in 2010 compared to 2009 results in an overall increase in first quarter revenues and earnings of \$26.6 million and \$9.9 million, respectively.

ATCO Gas

Carbon Natural Gas Storage Facility

ATCO Gas owns a 43.5 petajoule natural gas storage facility located at Carbon, Alberta (Carbon Facility). Since April 1, 2005, ATCO Gas has leased the entire storage capacity of the Carbon Facility to ATCO Midstream. Due to the deregulation of the natural gas market, ATCO Gas notified the AUC that the Carbon Facility was no longer required for the provision of utility service as of April 1, 2005. As a result of numerous regulatory and legal proceedings, ATCO Gas has received approval from the AUC to remove the Carbon Facility from regulation. On December 16, 2009, a Review and Variance decision issued by the AUC confirmed the effective date of removing the Carbon Facility from regulation to be April 1, 2005.

On an annual basis, the amount refunded to customers through the customer rate riders (Carbon Rate Riders) was approximately \$25.0 million. In addition, on an annual basis, the revenue recovered from customers as a result of costs for the Carbon Facility was approximately \$13.5 million. ATCO Gas, effective July 1, 2008, received approval from the AUC to suspend on an interim basis Carbon Rate Riders that were approved in the past to distribute net revenues related to the Carbon Facility to customers. Therefore, the annual pre-tax financial impact to ATCO Gas of the suspension of Carbon Rate Riders net of the costs for the Carbon Facility is approximately \$11.5 million per year. The annual increase to ATCO Gas' earnings is approximately \$8.3 million. These amounts can vary on a year to year basis as a result of changes in the price of natural gas.

Suspension of Carbon Rate Riders

Further to its decision suspending Carbon Rate Riders on an interim basis effective July 1, 2008, the AUC on July 28, 2009 issued a decision approving a refund to customers related to the costs of the Carbon facility that were included in ATCO Gas' rates from January through June 2008. In the third quarter of 2009, ATCO Gas recorded the impact of the suspension of the Carbon Rate Riders for the period January 1, 2008 to June 30, 2008 based on a decision received on July 28, 2009. ATCO Gas recognized increased revenues of \$13.8 million for the impact of the Carbon Rate Rider revenue for the period January 1, 2008 to June 30, 2008 which was previously refunded to customers and decreased revenues of \$7.6 million as a result of excluding any costs for the Carbon Facility in its 2008-2009 general rate application. The net impact was an increase to ATCO Gas' revenues and earnings of \$6.2 million and \$4.5 million, respectively, in the third quarter of 2009.

For the remaining period of April 1, 2005 to December 31, 2007, ATCO Gas is seeking to recover from customers additional amounts that would result in an estimated increase to its earnings of \$22.8 million, excluding interest. As a result of a process with interveners, ATCO Gas filed an update to its Carbon compliance application with the AUC increasing the amount it is seeking to recover from customers related to the April 1, 2005 to December 31, 2007 timeframe. This has increased the previously reported potential earnings impact from \$20.5 million to \$22.8 million. On April 20, 2010, ATCO Gas received a decision from the AUC approving, on an interim refundable basis, the implementation of Carbon recovery riders resulting in an increase in ATCO Gas' revenues and earnings of \$15.7 million and \$11.3 million, respectively. The financial impact of this decision was recorded in the first quarter of 2010. The final decision on the amount to be recovered from customers is expected in the fourth quarter of 2010.

The City of Calgary and the Utilities Consumer Advocate have filed a joint Leave to Appeal application with the Alberta Court of Appeal regarding the December 16, 2009 decision. As a result of the Leave to Appeal, the effective removal date of the Carbon assets of April 1, 2005 could be impacted, which could affect the amount ATCO Gas is seeking to recover from customers. A hearing for the Leave to Appeal application was held on April 28, 2010.

Deferred Gas Account

ATCO Gas filed an application with the AUC to address, among other things, corrections required to historical transportation imbalances (the process whereby third party natural gas supplies are reconciled to amounts actually shipped in the Corporation's pipelines) that have impacted ATCO Gas' deferred gas account. In April 2005, the AUC issued a decision resulting in a 15% decrease in the transportation imbalance adjustments sought by ATCO Gas. The decision resulted in ATCO Gas recovering \$9.2 million in natural gas supply costs from customers. This decision has been the subject of a number of legal appeal proceedings initiated by the City of Calgary. The City of Calgary's current appeal with respect to this decision was heard by the Alberta Court of Appeal on January 13, 2010. On April 23, 2010, the Alberta Court of Appeal issued a decision allowing the appeal and vacating orders under appeal and returned the matter to the AUC for consideration. Pending final resolution of this matter, the timing of which is uncertain, ATCO Gas has recorded a contingent liability of \$11.6 million, including interest, in the first quarter of 2010 resulting in a decrease to ATCO Gas' earnings of \$8.4 million.

2005, 2006, and 2007 General Rate Application

In May 2006, the City of Calgary filed a review and variance application with the AUC, alleging that the AUC made errors in ATCO Gas' 2005-2007 general rate application decision related to the calculation of working capital needed by ATCO Gas to operate its Carbon natural gas storage facility. The AUC issued a decision on January 17, 2007, denying the City of Calgary's application. On February 15, 2007, the City of Calgary filed for a Leave to Appeal this decision with the Alberta Court of Appeal. On June 19, 2007, the appeal was heard with the Court granting the City of Calgary leave to appeal on August 3, 2007. A hearing was held on March 11, 2010 and a decision dismissing the appeal was issued by the Alberta Court of Appeal on March 24, 2010.

ATCO Pipelines

2008 and 2009 General Rate Application

In November 2008, ATCO Pipelines filed an application requesting the AUC approve a negotiated settlement with its customers of ATCO Pipelines' 2008 and 2009 revenue requirements. On March 18, 2009, the AUC issued a decision approving the negotiated settlement, including, among other things, a rate of return on common equity of 8.75% and a common equity ratio of 43% for each of 2008 and 2009.

As a result of the decision, ATCO Pipelines recognized additional earnings over existing interim rates of \$4.5 million in the first quarter of 2009, of which \$3.7 million related to 2008.

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.

Energy

Energy **revenues** for the three months ended March 31, 2010, **decreased** by \$4.3 million (5%) to \$74.7 million compared to the same period in 2009. This was primarily attributable to lower Excess Energy Charges at the Battle River and Sheerness generating plants due to lower pool prices and lower generation at the Rainbow Lake generating plant.

Earnings and Adjusted Earnings for the three months ended March 31, 2010, were \$10.2 million, an **increase** of \$0.3 million (3%) over the same period in 2009. The primary reasons for the increase were a lower effective tax rate in 2010, partially offset by lower Excess Energy Charges at the Battle River and Sheerness generating plants and lower generation at the Rainbow Lake generating plant.

Availability of the generating plants is set forth below:

	For the Three Months Ended		
	March 31		
	2010	2009	Change to 2010 (2010-2009)
Alberta Power (2000) ⁽¹⁾ :			
Canada	83.8%	85.9%	(2.1%)

Note:

⁽¹⁾ *Generating plant availability will fluctuate due to the timing and duration of outages.*

Alberta Power (2000)

Under the terms of the PPAs, Alberta Power (2000) is subject to an incentive/penalty regime related to generating unit availability. Incentives are payable by the PPA counterparties for availability in excess of predetermined targets, and penalties are payable by Alberta Power (2000) when the availability targets are not achieved. These amounts are amortized based on estimates of future generating unit availability and future electricity prices over the term of the PPAs.

During the three months ended March 31, 2010, the **deferred availability incentive** account **decreased** by \$3.9 million to \$63.2 million, mainly due to lower availability arising from planned outages and amortization. During the three months ended March 31, 2010, the amortization of deferred availability incentives, recorded in revenues, decreased by \$0.4 million to \$4.1 million, primarily as a result of lower forecast prices for electricity.

Liquidity and Capital Resources

A major portion of the Corporation's operating income and funds generated by operations is generated from its utility operations. The Corporation uses 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		
	2010	2009	Change to 2010 (2010-2009)
Cash position, beginning of period	64.1	(9.0)	812%
Cash provided by (used in)			
Operating activities:			
Funds generated by operations	163.0	164.3	(1%)
Changes in non-cash working capital	68.4	38.1	80%
Cash flow from operations	231.4	202.4	14%
Investing activities	(158.6)	(228.7)	(31%)
Financing activities	0.1	424.8	(100%)
Cash position, end of period	137.0	389.5	(65%)

OPERATING ACTIVITIES

For the three months ended March 31, 2010, **funds generated by operations** were \$163.0 million, a **decrease** of \$1.3 million (1%) compared to the corresponding period of 2009. This decrease was primarily due to decreased deferred availability incentives in Alberta Power (2000). For the three months ended March 31, 2010, **cash flow from operations** was \$231.4 million, an **increase** of \$29.0 million (14%) over the corresponding period of 2009. This increase was primarily due to changes in non-cash working capital.

INVESTING ACTIVITIES

For the three months ended March 31, 2010, **cash used in investing activities decreased** by 31% compared to the corresponding period of 2009, primarily due to changes in non-cash working capital and lower capital expenditures, partially offset by lower contributions by utility customers for extensions to plant.

Capital expenditures for the three months ended March 31, 2010, **decreased** by \$30.0 million compared to the corresponding period of 2009. This decrease was primarily due to decreased transmission and distribution projects in ATCO Electric, decreased investment in natural gas distribution projects in ATCO Gas and decreased natural gas transmission projects in ATCO Pipelines.

FINANCING ACTIVITIES

For the three months ended March 31, 2010, the Corporation had no change in **net debt**.

For the three months ended March 31, 2010, the Corporation had no **issue** of equity preferred shares, compared to the issue of \$160.0 million of 6.70% Cumulative Redeemable Preferred Shares Series 2 for the corresponding period of 2009.

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, 2010.

LINES OF CREDIT

At March 31, 2010, 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	24.0	276.0
Uncommitted	28.7	1.9	26.8
Total	328.7	25.9	302.8

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 2009 MD&A remain substantially unchanged as at March 31, 2010.

Share Capital

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

At April 28, 2010, 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 2009 MD&A related to Business Risks which is not discussed in this section remains substantially unchanged.

ENVIRONMENTAL MATTERS

Battle River Water Levels

As a result of below average precipitation and below normal reservoir storage in the Battle River Watershed, the water level in the cooling reservoir used by the Battle River generating plant in its production of electricity is below normal. These conditions have not resulted in significant curtailments of production of electricity in 2010; however, continued drought conditions could result in future curtailments of production. Should the plant experience significant curtailments due to this issue, the

Battle River PPA provides for force majeure protection and, as a result, the plant's earnings will not be materially affected.

REGULATED OPERATIONS

Benchmarking

The ATCO Utilities purchase information technology services from ATCO I-Tek. 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. Since 2003, the costs have been approved on a Placeholder basis, and are subject to final AUC approval after completion of a collaborative benchmarking process.

The benchmarking report, dealing with the period of 2003-2007, was received on January 23, 2008. In February 2008, the benchmarking report along with an application to adjust the Placeholder rates was filed with the AUC. A hearing was held in December 2009 and an AUC decision was issued on March 8, 2010 in which it addressed the 2003-2007 Placeholder amounts for the ATCO Utilities. The AUC decision approved the adjustments to the Placeholder amounts as filed based on fair market value resulting in no material changes to earnings. In April 2010 the City of Calgary filed a Leave to Appeal this decision with the Alberta Court of Appeal.

For the 2008 and 2009 period, there will be a separate regulatory process to approve rates for information technology and customer care and billing services provided by ATCO I-Tek that can be included in customer rates. The 2008-2009 proceeding is scheduled to be completed in the third quarter of 2010 and a decision is expected in the fourth quarter of 2010.

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 the AUC is expected to set a schedule for this regulatory process after the completion of the 2008-2009 process.

In addition to the rates, this process included the review of three options for the future provision of information technology and customer care and billing services. The options are (i) the repatriation of these services back into the ATCO Utilities; (ii) moving to a third party service provider; or (iii) renewing with ATCO I-Tek, the current service provider. On December 11, 2009, the AUC issued a decision approving the implementation of the new Master Service Agreements (excluding the rates therein) with ATCO I-Tek for information technology and customer care and billing services effective January 1, 2010 for an interim period, the term of which will be determined in the upcoming regulatory process.

Future Accounting Changes

International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed in 2008 that the use of International Financial Reporting Standards (IFRS) by publicly accountable enterprises will be required in 2011. The Corporation will need to begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

The Corporation has established a Steering Committee, a project team, and working groups to review the adoption of IFRS. The project team and working groups provide position papers and regular updates to management, the Steering Committee and the Audit Committee. Education sessions have been, and will

continue to be, provided for employees, senior management and the Audit Committee to increase knowledge and awareness of IFRS and its impacts.

IFRS Conversion Project Status

The Corporation completed the Assessment and Diagnostic and Design and Planning phases of its IFRS Conversion Project in 2009 and is currently in the Implementation and Review phase. The Implementation and Review phase involves making changes to accounting policies and procedures and financial information systems and training staff on the implementation of the new standards. Financial information in accordance with IFRS is being collected in 2010 to allow for comparative reporting in 2011. The Corporation has completed the majority of the necessary changes to its financial reporting computer systems.

Position papers on issue-specific accounting differences between Canadian GAAP and IFRS and the impact on financial reporting computer systems are substantially complete and they have been discussed with the Corporation's external auditor. As a number of the IFRS standards are changing, the position papers will be updated to reflect any changes resulting from the final standards.

The Corporation has completed an initial review of the impact of IFRS on financial covenants. This review will be updated for changes in standards. Based on the work performed to date the Corporation believes it will be in compliance with covenant terms using IFRS financial information.

The Corporation is continuing to evaluate the impact of IFRS on internal controls over financial reporting.

The Corporation is evaluating the optional exemptions available under IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") and has not made final determinations at this time.

On July 23, 2009, the International Accounting Standards Board (IASB) issued an exposure draft on rate regulated activities (the Exposure Draft). Subsequently, the IASB staff issued a summary of their analysis of the responses to the Exposure Draft. The IASB will continue to research and analyse this project with a focus on whether the existence of regulatory assets and liabilities is consistent with other international standards. A date for issuing a standard was not identified by the IASB. The Corporation is continuing to monitor the situation but cannot determine the impact that the possible changes to the Exposure Draft and the timeline for issuing a final standard will have on the Corporation. In the absence of a rate regulated activities standard the Corporation will follow the existing IFRS standards and framework to determine the appropriate accounting treatment of these assets and liabilities.

Summary of Significant Accounting Differences between Canadian GAAP and IFRS

The IASB has issued a proposed amendment to the IFRS 1 exemptions for rate regulated entities' initial adoption of IFRS. This exemption allows entities to use the carrying amount of property, plant and equipment determined under previous GAAP as initial cost on transition to IFRS. If adopted, the opening balance of the utility companies' property, plant and equipment on transition to IFRS would remain unchanged.

Based on initial assessments, the Corporation has identified that the following areas have the greatest potential impact on the Corporation's accounting: employee benefits and customer contributions.

Employee Benefits

Employee benefits consist of pensions and other retirement benefits, including life insurance and medical care. IFRS 1 allows an entity to recognize in retained earnings as at January 1, 2010 all unamortized experience and transitional gains and losses. IFRS also allows an entity to subsequently recognize experience gains and losses in other comprehensive income.

Customer Contributions

The Corporation obtains contributions from utility customers to construct assets in situations where it is not economic to provide service to the customer at the approved rate charged to other customers. Under Canadian GAAP, the contributions are deducted from property, plant and equipment and amortized over the life of the related asset. Under IFRS, this contribution will be accounted for as deferred revenue on the basis that there is no stand-alone value for utility customers who provide these contributions without ongoing service by the Corporation. The deferred revenue will be amortized over the life of the related asset. The transition to IFRS will result in an increase to assets and liabilities of approximately \$880.0 million as unamortized customer contributions are reclassified from an offset to Property, Plant and Equipment to Other Liabilities on the Consolidated Balance Sheet.