



An **ATCO** Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2010**

CU Inc.
Management's Discussion and Analysis (MD&A)
For the Nine Months Ended September 30, 2010

This MD&A should be read in conjunction with the Corporation's unaudited interim consolidated financial statements for the nine months ended September 30, 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 October 28, 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. Refer to Reconciliation of Earnings Attributable to Class A and Class B Shares and Adjusted Earnings section for a description of these items (non-GAAP item).

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 owner of a PPA generating unit 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 \$7 billion and approximately 4,200 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 nine months ended September 30, 2010.

TRANSFER OF ALBERTA POWER (2000) LTD. TO ATCO POWER LTD.

Effective October 1, 2010, the Corporation transferred ownership of its wholly-owned subsidiary, Alberta Power (2000) Ltd., to ATCO Power Ltd., a wholly-owned subsidiary of Canadian Utilities Limited, the Corporation's parent. As this is a related party transaction by entities under common control, it will be accounted for by the Corporation at the carrying amount. Commencing October 1, 2010, the Corporation will no longer recognize Alberta Power (2000) Ltd.'s financial position, results of operations and cash flows in its consolidated financial statements. The Energy segment will no longer include any balance sheet amounts and will include earnings and cash flows up to the nine months ended September 30, 2010.

ATCO Electric, ATCO Gas and ATCO Pipelines will continue to be owned and financed by the Corporation. As a result of this transfer, the Corporation will be comprised of rate regulated utility operations in natural gas and electricity transmission and distribution, and the power generation assets formerly owned by the Corporation will be owned by ATCO Power Ltd.

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. A reconciliation of Adjusted Earnings to earnings attributable to Class A and Class B Shares is presented in the Results of Operations – Reconciliation of Earnings Attributable to Class A and Class B Shares and Adjusted Earnings section.

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 July 1, 2010, and ended on September 30, 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)	For the Three Months Ended ^{(1) (2) (3) (4)}			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2010				
Revenues	494.0	400.7	394.1	-
Earnings attributable to Class A and Class B Shares	107.0	41.7	55.9	-
Adjusted Earnings ⁽⁵⁾	107.0	41.7	55.9	-
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 ⁽⁵⁾	90.3	49.7	39.7	66.1
2008				
Revenues	-	-	-	413.5
Earnings attributable to Class A and Class B Shares	-	-	-	58.2
Adjusted Earnings ⁽⁵⁾	-	-	-	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, the disclosure of earnings per share is not provided as it is not considered to be meaningful.

⁽⁵⁾ Refer to Significant Non-Operating Financial Items section for a description of the adjustments made to earnings attributable to Class A and Class B Shares to obtain Adjusted Earnings.

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.

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

Adjusted Earnings are referred to in various sections of this MD&A. The following table reconciles Adjusted Earnings, which are earnings attributable to Class A and Class B Shares after adjustments 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. A description of each adjustment is provided in the Significant Non-Operating Financial Items section.

(\$ millions)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
Earnings attributable to Class A and Class B Shares	55.9	56.5	(1%)	204.6	196.5	4%
H.R. Milner Income Tax Reassessment ⁽¹⁾	-	(16.8)	(100%)	-	(16.8)	(100%)
Adjusted Earnings	55.9	39.7	41%	204.6	179.7	14%

SIGNIFICANT NON-OPERATING FINANCIAL ITEMS

(1) H.R. Milner Income Tax Reassessment

In 2006, Canada Revenue Agency (CRA) issued an income tax reassessment for Alberta Power (2000)'s 2001 taxation year which treated the proceeds received from the sale of the H.R. Milner generating plant to the Balancing Pool as income rather than as a sale of an asset. The Corporation disagreed with CRA's position and appealed the reassessment to the Tax Court of Canada. Due to the uncertainty as to whether the reassessment would ultimately be resolved in the Corporation's favour, the Corporation made a \$28.8 million payment and reduced earnings by \$12.4 million in 2006.

On August 21, 2009, Alberta Power (2000) received a judgment from the Tax Court of Canada ordering CRA to reverse its 2006 reassessment of Alberta Power (2000)'s 2001 tax return. On September 30, 2009, the appeal period for the judgment elapsed without an appeal from CRA.

The impact of the judgment was a \$13.7 million recovery of income tax and related interest expense reassessed by CRA in 2006. In addition, Alberta Power (2000) received interest income of approximately \$3.1 million earned on such amounts paid to CRA. These adjustments resulted in a \$16.8 million increase in earnings for the three and nine months ended September 30, 2009. In total, Alberta Power (2000) received refunds of approximately \$28.0 million, including interest, and net of consequential adjustments to other taxation years arising from the judgment.

CONSOLIDATED REVENUES AND ADJUSTED EARNINGS

Revenues for the three months ended September 30, 2010, **increased** by \$25.2 million (7%) over 2009. This increase was primarily attributable to a \$29.0 million (10%) increase in the Utilities Segment due to increased rate base in ATCO Electric and the AUC decision received on the Carbon Compliance Application, partially offset by Carbon decisions recorded in 2009, (Carbon Decisions) in ATCO Gas (refer to Segmented Information – Utilities section). This increase was partially offset by a decrease of \$3.8 million (5%) in the Energy Segment due to lower Excess Energy Charges in Alberta Power (2000) resulting from lower pool prices.

Revenues for the nine months ended September 30, 2010, **increased** by \$55.8 million (5%) over 2009. This increase was primarily attributable to a \$65.2 million (7%) increase in the Utilities Segment due to the impact of increased rate base in ATCO Electric and the Carbon Decisions in ATCO Gas, partially offset by the deferred gas account decision by the Alberta Court of Appeal (Deferred Gas Account Decision) in ATCO Gas. This increase was partially offset by decreases of \$9.4 million (4%) in the Energy Segment due to lower generation and lower amortization of deferred availability incentives in Alberta Power (2000).

Adjusted Earnings for the three months ended September 30, 2010, **increased** by \$16.2 million (41%) over 2009. This increase was primarily attributable to a \$20.1 million (86%) increase in the Utilities Segment due to the impact of the Carbon Decisions in ATCO Gas and increased rate base in ATCO Electric, partially offset by decreases of \$3.9 million (24%) in the Energy Segment due to higher maintenance expenses and lower amortization of deferred availability incentives in Alberta Power (2000).

Adjusted Earnings for the nine months ended September 30, 2010, **increased** by \$24.9 million (14%) over 2009. This increase was primarily attributable to a \$30.5 million (21%) increase in the Utilities Segment due to the impact of the Carbon Decisions in ATCO Gas and increased rate base in ATCO Electric, partially offset by the Deferred Gas Account Decision in ATCO Gas. This increase was partially offset by decreases of \$5.6 million (15%) in the Energy Segment due to higher maintenance expenses and lower amortization of deferred availability incentives in Alberta Power (2000).

Interest and other income for the three months ended September 30, 2010, **decreased** by \$5.4 million (31%) to \$11.9 million compared to the same period in 2009 mainly due to interest income recognized in 2009 on the H.R. Milner Income Tax Reassessment in Alberta Power (2000), partially offset by interest income on ATCO Gas' Carbon Compliance Decision (refer to Segmented Information – Utilities section).

Interest and other income for the nine months ended September 30, 2010, **increased** by \$0.1 million (0%) to \$28.2 million over 2009 mainly due to interest income on ATCO Gas' Carbon Decisions, increased gains on disposal of property, plant and equipment and increased interest received on regulatory decisions in the Utilities Segment. These increases were partially offset by interest income recognized in 2009 on the H.R. Milner Income Tax Reassessment in Alberta Power (2000).

CONSOLIDATED EXPENSES

(\$ millions)	For the Three Months Ended September 30			For the Nine months Ended September 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
Operating expenses:						
Natural gas supply	0.3	0.1	200%	1.1	0.7	57%
Purchased power	12.1	11.8	3%	39.5	39.8	(1%)
Operation and maintenance	115.7	102.8	13%	348.2	324.5	7%
Selling and administrative	65.8	65.9	0%	196.6	193.5	2%
Franchise fees	28.8	24.2	19%	125.9	119.6	5%
	222.7	204.8	9%	711.3	678.1	5%
Depreciation and amortization	66.8	61.6	8%	198.1	183.3	8%
Interest	48.3	52.0	(7%)	147.2	149.4	(1%)
Income taxes	6.8	5.8	17%	39.3	39.8	(1%)
Dividends on equity preferred shares	5.5	5.5	0%	16.5	14.0	18%

Operating expenses for the three and nine months ended September 30, 2010, **increased** by \$17.9 million (9%) and by \$33.2 million (5%), respectively, over the same periods in 2009. Operation and maintenance expenses were higher due to pension contributions which commenced in 2010 in the Utilities Segment, and higher line maintenance costs in ATCO Electric.

For the three and nine months ended September 30, 2010, **depreciation and amortization expenses increased** by \$5.2 million (8%) and by \$14.8 million (8%), respectively, over the same periods in 2009, primarily due to capital additions in 2009 and 2010 in the Utilities Segment.

Interest expense for the three months ended September 30, 2010, **decreased** by \$3.7 million (7%) compared to the same period in 2009. This decrease was primarily attributable to the redemption of \$125.0 million of 10.20% Debentures which matured on November 30, 2009 and the redemption of \$125.0 million of 11.40% Debentures which matured on August 15, 2010.

Interest expense for the nine months ended September 30, 2010, **decreased** by \$2.2 million (1%) compared to the same period in 2009. This decrease was primarily attributable to the redemption of \$125.0 million of 10.20% Debentures which matured on November 30, 2009 and the redemption of \$125.0 million of 11.40% Debentures which matured on August 15, 2010. The decrease was partially offset by the impact of the Deferred Gas Account Decision in ATCO Gas.

For the three months ended September 30, 2010, **income taxes increased** by \$1.0 million (17%) compared to the same period in 2009, primarily due to a \$7.8 million income tax benefit recognized in 2009 that resulted from the H.R. Milner Income Tax Reassessment in Alberta Power (2000), partially offset by the \$6.1 million income tax expense that resulted from the removal of the Carbon Natural Gas Storage Facility (Carbon Facility) from regulation in ATCO Gas (refer to Segmented Information – Utilities section).

For the nine months ended September 30, 2010, **income taxes decreased** by \$0.5 million (1%) compared to the same period in 2009, primarily due to a \$4.4 million income tax adjustment due to a reclassification of certain assets for the years 2000 to 2004 in ATCO Pipelines. The decrease was partially offset by increase taxes on higher earnings before income taxes. In addition, income tax expense in 2009 had been reduced by \$1.7 million, which is the net of the \$7.8 million income tax benefit that resulted from the H.R. Milner Income Tax Reassessment in Alberta Power (2000), partially offset by the \$6.1 million income tax expense that resulted from the removal of the Carbon Facility from regulation in ATCO Gas.

Dividends on equity preferred shares for the nine months ended September 30, 2010, **increased** by \$2.5 million (18%) 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

For the Three Months Ended September 30

(\$ millions)	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Total
2010					
Revenues	319.5	74.7	-	(0.1)	394.1
Earnings attributable to Class A and Class B Shares and Adjusted Earnings	43.4	12.5	-	-	55.9
2009					
Revenues	290.5	78.5	-	(0.1)	368.9
Earnings attributable to Class A and Class B Shares	23.3	33.2	-	-	56.5
H.R. Milner Income Tax Reassessment ⁽¹⁾	-	(16.8)	-	-	(16.8)
Adjusted Earnings	23.3	16.4	-	-	39.7

For the Nine months Ended September 30

(\$ millions)	Utilities	Energy	Corporate & Other	Intersegment Eliminations	Total
2010					
Revenues	1,064.8	224.1	-	(0.1)	1,288.8
Earnings attributable to Class A and Class B Shares and Adjusted Earnings	173.1	31.5	-	-	204.6
2009					
Revenues	999.6	233.5	-	(0.1)	1,233.0
Earnings attributable to Class A and Class B Shares	142.6	53.9	-	-	196.5
H.R. Milner Income Tax Reassessment ⁽¹⁾	-	(16.8)	-	-	(16.8)
Adjusted Earnings	142.6	37.1	-	-	179.7

Note:

⁽¹⁾ Refer to Significant Non-Operating Financial Items section for a description of the adjustment.

Utilities

Utilities **revenues** for the three months ended September 30, 2010, **increased** by \$29.0 million (10%) over 2009. This increase in revenues was primarily attributable to increased rate base in ATCO Electric and the Carbon Decisions in ATCO Gas.

Utilities **revenues** for the nine months ended September 30, 2010, **increased** by \$65.2 million (7%) over 2009. This increase in revenues was primarily attributable to increased rate base in ATCO Electric and the Carbon Decisions in ATCO Gas, partially offset by the Deferred Gas Account Decision in ATCO Gas.

For the three months ended September 30, 2010, **Adjusted Earnings** were \$43.4 million, an **increase** of \$20.1 million (86%) over 2009. The primary reasons for higher Adjusted Earnings were the impact of the Carbon Decisions in ATCO Gas and increased rate base in ATCO Electric.

For the nine months ended September 30, 2010, **Adjusted Earnings** were \$173.1 million, an **increase** of \$30.5 million (21%) over 2009. The primary reasons for higher Adjusted Earnings were the impact of the Carbon Decisions in ATCO Gas and increased rate base in ATCO, partially offset by the Deferred Gas Account Decision in ATCO Gas.

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.

Pension Hearing

In July 2009, ATCO Electric, ATCO Gas and ATCO Pipelines (ATCO Utilities) submitted an application to the AUC requesting recovery of the expected 2010 contributions to the Canadian Utilities pension plan. Prior to 2010, there had been no required contributions since 1996. The ATCO Utilities also requested the establishment of deferral accounts due to projected funding requirements and the potential for fluctuations in pension asset values and resulting funding requirements. A hearing was held in January 2010 and an AUC decision was issued on April 30, 2010, approving the requested funding and establishing deferral accounts for funding fluctuations beyond the control of the ATCO Utilities. This decision did not result in a significant change in earnings of the ATCO Utilities.

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 were 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, which 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 and, in May 2010, the City of Calgary also filed a Review and Variance application of the AUC’s March 8, 2010, decision. On July 29, 2010, the AUC issued a decision

dismissing the City of Calgary's review and variance application and, on August 23, 2010, the City of Calgary withdrew its leave to appeal with the Alberta Court of Appeal.

For the 2008 and 2009 period, a separate regulatory process has been established to approve rates for information technology and customer care and billing services provided by ATCO I-Tek that can be included in customer rates. On October 12, 2010 the City of Calgary requested that the AUC revise the existing process and schedule to hold an oral proceeding to complete discovery of the evidence provided by ATCO Utilities. On October 14, 2010 the AUC suspended the 2008-2009 proceeding while it reviews the City of Calgary's request.

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

On July 2, 2009, the AUC issued a decision on ATCO Electric's 2009 and 2010 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 impact of increased rate base for the three and nine months ended September 30, 2010, resulted in additional revenues of approximately \$19 million and \$56 million, respectively, and increased earnings of approximately \$3 million and \$10 million, respectively, compared to the corresponding periods in 2009.

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.

Through its Carbon Compliance application, ATCO Gas sought to recover total revenues from customers of \$45.5 million, excluding interest, which would increase ATCO Gas' earnings by a total of \$32.7 million. On October 19, 2010 the AUC released the Carbon Compliance Decision, approving a recovery from customers of \$43.7 million plus interest in the amount of \$5.9 million to September 30, 2010. Through numerous regulatory processes, ATCO Gas has previously recorded revenues and earnings of \$13.8 million and \$9.9 million, respectively, in 2009. Additionally, on April 20, 2010, ATCO Gas

received a decision from the AUC approving, on an interim adjustable 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. As such, in the third quarter of 2010, ATCO Gas is recognizing the remaining amounts pertaining to the Carbon Compliance application and related decision issued by the AUC resulting in an increase in ATCO Gas' revenues, interest income and earnings of \$14.2 million, \$5.9 million, and \$14.5 million, respectively.

The City of Calgary and the Utilities Consumer Advocate filed a joint Leave to Appeal application with the Alberta Court of Appeal regarding the December 16, 2009 decision which confirmed the effective date of removal of the Carbon Facility from regulation to be April 1, 2005. This Leave to Appeal was heard on April 28, 2010, and on May 12, 2010, the Alberta Court of Appeal issued its decision denying the Leave to Appeal.

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. In the first quarter of 2010, ATCO Gas recorded a contingent liability of \$11.6 million, including interest, resulting in a decrease to ATCO Gas' earnings of \$8.4 million. The AUC completed a process to address the Alberta Court of Appeal decision and on October 15, 2010 issued a decision requiring ATCO Gas to refund to customers approximately 85% of the transportation imbalance adjustment amounts in question resulting in a refund of approximately \$9.7 million, including interest. ATCO Gas reversed the remaining contingent liability of \$1.9 million, resulting in earnings of \$1.3 million in the third quarter of 2010.

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 the Carbon 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

Alberta System Integration

On September 8, 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 is expected to end duplicate tolling and operational activities and result in more efficient regulatory processes.

On June 26, 2009, ATCO Pipelines filed an application with the AUC for the integration of ATCO Pipelines' and NOVA's gas transmission systems in Alberta (Integration Application). The Integration Application requested the AUC to approve that (i) integration is in the public interest, (ii) ATCO Pipelines approved revenue requirements be charged to NOVA, (iii) ATCO Pipelines customers be transitioned to NOVA, with NOVA as the customer commercial point of contact, and (iv) ATCO Pipelines and NOVA swap assets in order to establish operating areas. A negotiated settlement on ATCO Pipelines' 2010, 2011 and 2012 revenue requirements was a condition precedent of the Integration Application. A settlement on ATCO Pipelines' 2010, 2011 and 2012 revenue requirements was successfully negotiated with interested parties on October 28, 2009. On November 12, 2009, ATCO Pipelines filed a request with the AUC to approve its 2010, 2011 and 2012 Revenue Requirement Settlement Application as part of its Integration Application.

On May 27, 2010, the AUC issued a decision approving the first and second elements of the Integration Application in full and the third and fourth elements in principle, as well as approving the 2010, 2011 and 2012 Revenue Requirement Settlement Application. The AUC requested ATCO Pipelines to submit subsequent applications to address specifics of the transition of ATCO Pipelines' customers to NOVA and the asset swap between ATCO Pipelines and NOVA. On July 16, 2010, an application addressing customer contract transitioning was submitted to the AUC. An application to address the asset swap will be submitted to the AUC in the fourth quarter of 2010.

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 September 30, 2010, **decreased** by \$3.8 million (5%) compared to the same period in 2009. This decrease 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.

Energy **revenues** for the nine months ended September 30, 2010, **decreased** by \$9.4 million (4%) compared to the same period in 2009. This decrease was primarily attributable to lower generation at the Rainbow Lake, Battle River and Sheerness generating plants and lower amortization of deferred availability incentives at the Battle River and Sheerness generating plants due to planned outages.

For the three and nine months ended September 30, 2010, **Adjusted Earnings decreased** by \$3.9 million (24%) and \$5.6 million (15%), respectively, compared to the same periods of 2009. These decreases

were primarily attributable to higher maintenance expenses and lower amortization of deferred availability incentives at the Battle River and Sheerness generating plants.

Availability of the generating plants is set forth below:

	For the Three Months Ended September 30			For the Nine months Ended September 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
Alberta Power (2000) ⁽¹⁾	92.8%	92.7%	0.1%	87.2%	91.3%	(4.1%)

Note:

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

Recent Developments

On January 30, 2008, the 150 MW Unit 4 at Alberta Power (2000)'s Battle River generating plant experienced an unplanned outage due to a failure in the unit's generator. The unit returned to service on March 27, 2008. The cash impact in 2008 resulting from this outage was approximately \$11.8 million; however, due to Alberta Power (2000)'s availability incentive pool deferral account, there was no material earnings impact in 2008. Alberta Power (2000) claimed relief under the force majeure provisions of its PPA. On July 11, 2008, the Balancing Pool notified Alberta Power (2000) that it disagreed with the claim. As settlement on the claim could not be reached with the PPA counterparty, the claim proceeded to arbitration. On October 25, 2010, the arbitrator issued a decision which denied Alberta Power (2000)'s force majeure claim. The arbitrator's decision had no effect on the financial results for the three and nine months ended September 30, 2010. Alberta Power (2000) is reviewing its options with respect to the decision.

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 and nine months ended September 30, 2010, the **deferred availability incentive** account **decreased** by \$0.1 million and \$22.1 million, respectively, to \$45.0 million. The nine month decrease was mainly due to availability penalties paid associated with the planned outage in the second quarter of 2010 for the Battle River generating plant, which occurred during a period of high Alberta Power Pool electricity prices, as well as normal amortization. During the three and nine months ended September 30, 2010, the amortization of deferred availability incentives, recorded in revenues, decreased by \$0.7 million to \$3.2 million, and by \$1.8 million to \$10.8 million, respectively, primarily as a result of the impact of 2010 planned outages and 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 September 30			For the Nine Months Ended September 30		
	2010	2009	Change to 2010 (2010-2009)	2010	2009	Change to 2010 (2010-2009)
Cash position, beginning of period	57.0	271.9	(79%)	64.1	(9.0)	812%
Cash provided by (used in)						
Operating activities:						
Funds generated by operations	141.7	129.9	9%	415.3	386.1	8%
Changes in non-cash working capital	(56.5)	6.4	(983%)	(19.0)	(1.0)	(1800%)
Cash flow from operations	85.2	136.3	(37%)	396.3	385.1	3%
Investing activities	(180.1)	(141.1)	(28%)	(498.3)	(533.4)	7%
Financing activities	(125.2)	-	(100%)	(125.2)	424.4	(130%)
Cash position, end of period	(163.1)	267.1	(161%)	(163.1)	267.1	(161%)

OPERATING ACTIVITIES

For the three months ended September 30, 2010, **funds generated by operations** were \$141.7 million, an **increase** of \$11.8 million (9%) over the corresponding period of 2009. This increase was primarily due to higher earnings, partially offset by changes in non-current regulatory deferral amounts in the ATCO Utilities which vary from quarter to quarter and are, therefore, not comparable or indicative of funds generated by operations on an annual basis. For the three months ended September 30, 2010, **changes in non-cash working capital** were (\$56.5) million, a **decrease** of \$62.9 million (983%) compared to the corresponding period of 2009. This decrease was primarily due to a higher reduction in accounts payable in ATCO Electric due to increased payments to customers for the settlement of deferral accounts and increased accounts receivable in ATCO Gas due to the Carbon Compliance Decision. These decreases were partially offset by an increase in Alberta Power (2000) as the prior year had higher accounts receivable and lower income taxes payable due to the H.R. Milner Income Tax Reassessment.

For the nine months ended September 30, 2010, **funds generated by operations** were \$415.3 million, an **increase** of \$29.2 million (8%) over 2009. This increase was primarily due to changes in regulatory deferral amounts in the ATCO Utilities which vary from quarter to quarter and are, therefore, not comparable or indicative of funds generated by operations on an annual basis, partially offset by availability penalties paid by Alberta Power (2000) due to a planned outage in the Battle River generating plant. For the nine months ended September 30, 2010, **changes in non-cash working capital** were (\$19.0) million, a **decrease** of \$18.0 million (1800%) compared to the corresponding period of 2009. This decrease was primarily due to lower accounts payable in ATCO Electric due to the timing of payments to customers for the settlement of deferral accounts and increased accounts receivable in ATCO Gas due to the Carbon Compliance Decision. These decreases were partially offset by an increase in Alberta Power (2000) as the prior year had higher accounts receivable and lower income taxes payable due to the H.R. Milner Income Tax Reassessment.

INVESTING ACTIVITIES

For the three months ended September 30, 2010, **cash used in investing activities increased** by 28% over the corresponding period of 2009, primarily due to higher capital expenditures and lower contributions by utility customers for extensions to plant.

Capital expenditures for the three months ended September 30, 2010, **increased** by \$15.2 million over the corresponding period of 2009. This increase was primarily due to increased investment in natural gas transmission projects in ATCO Pipelines and regulated transmission and distribution projects in ATCO Electric.

For the nine months ended September 30, 2010, **cash used in investing activities decreased** by 7% compared to the corresponding period of 2009, primarily due to changes in non-cash working capital, partially offset by lower contributions by utility customers for extensions to plant.

Capital expenditures for the nine months ended September 30, 2010, **decreased** by \$4.3 million compared to the corresponding period of 2009. This decrease was primarily due to decreased investment in regulated transmission and distribution projects in ATCO Electric, partially offset by increased investment in natural gas distribution projects in ATCO Gas.

FINANCING ACTIVITIES

In the three months ended September 30, 2010, the Corporation had **net debt repayments** of \$125 million, compared to nil in the same period of 2009. Repayments of debt were comprised of \$125 million of 11.40% Debentures due August 15, 2010.

In the nine months ended September 30, 2010, the Corporation had **net debt repayments** of \$125.0 million, compared to net debt increases of \$270.0 million in the same period of 2009. Repayments of debt in 2010 were comprised of \$125 million of 11.40% Debentures due August 15, 2010. Issuances of debt in 2009 were comprised of \$150.0 million of 6.50% Debentures due March 7, 2039 and \$120.0 million of 6.125% Debentures due March 6, 2024.

For the three and nine months ended September 30, 2010, the Corporation had no **issuance** of equity preferred shares. In 2009, \$160.0 million of 6.70% Cumulative Redeemable Preferred Shares Series 2 were issued on March 27, 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 September 30, 2010.

LINES OF CREDIT

At September 30, 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	12.8	287.2
Uncommitted	28.2	2.1	26.1
Total	328.2	14.9	313.3

The short term committed credit facility of \$300.0 million was renewed in July 2010 by the Corporation. Unless extended at the option of the lender, this credit facility will expire in July 2011.

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 September 30, 2010.

BASE SHELF PROSPECTUS

On May 28, 2010, CU Inc. filed a base shelf prospectus that permits CU Inc. to issue up to an aggregate of \$1,700.0 million of debentures over the twenty-five month life of the prospectus. As of October 27, 2010, no debentures have been issued.

Share Capital

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

At October 27, 2010, the Corporation had outstanding 3,286,124 Class A Shares and 2,014,076 Class B Shares, all of which were 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.

PENSION PLANS

Employees are required to contribute a percentage of their salary to registered pension plans. The Corporation is required to contribute its share of contributions on behalf of the members of the defined contribution pension plans and to provide the balance of the funding necessary to ensure that benefits will be fully provided for at retirement for the members of the defined benefit pension plans.

Declines in stock and bond markets, changes in actuarial assumptions and additional employee service have created funding deficits in the Corporation's defined benefit pension plans. Prior to 2010, the Corporation had not made material contributions since April 1, 1996, as a result of the defined benefit plans' surplus position. In addition the Corporation had obtained regulatory approval to fund the employer's contributions to the defined contribution component of the pension plan from the defined benefit plan surplus.

Based on these changes, material current service and deficit funding contributions have resumed in 2010. The actual funding contributions for 2010 have now been established based on actuarial valuations for funding purposes that were completed in May 2010. Based on these final actuarial valuations, the employer contributions relating to both the defined contribution and the defined benefit components of the plan for 2010 will be approximately \$54 million. Contributions commenced during the first quarter of 2010.

For purposes of any pension funding requirements pertaining to utility operations, the AUC has directed that the cash basis of accounting be used in customer rate applications. Accordingly, the Corporation includes the cost of funding its utility operations (excluding Alberta Power (2000)) in its rate applications to the AUC, thereby, with the consent of the AUC, recovering approximately 100% of the costs of funding its pension plans from utility customers (refer to Segmented Information – Utilities section).

Alberta Power (2000) contracts the operations of its power generating plants to ATCO Power, a wholly-owned subsidiary of CU Inc.'s parent company, Canadian Utilities. As a result, ATCO Power is responsible for funding the appropriate pension contributions for these employees. Costs relating to pensions are recovered by Alberta Power (2000) under the terms of the PPAs.

Due to pension accounting rules, funding contributions are not the same as pension expense amounts. For more information refer to Note 19 of the Corporation's audited financial statements for the year ended December 31, 2009, which are filed on SEDAR at www.sedar.com.

ENVIRONMENTAL MATTERS

Battle River Water Levels

In the first quarter of 2010 the water level in the cooling reservoir used by the Battle River generating plant in its production of electricity had fallen below normal. This condition did not result in significant curtailments of production of electricity. Significant precipitation in the second quarter of 2010 has resulted in water levels in the reservoir returning to normal.

Greenhouse Gas Emissions

In June 2010, the Federal Government announced plans to propose regulations to impose stringent GHG performance standards on new coal-fired electricity generation units and those coal-fired units that have reached the end of their economic life, suggested as 45 years. Additional detail is expected in the coming months. Alberta Power (2000) will continue to monitor and actively engage the Federal Government in this area to manage the associated risks and potential impacts of these plans.

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 were 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, which 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 and, in May 2010, the City of Calgary also filed a Review and Variance application of the AUC's March 8, 2010, decision. On July 29, 2010, the AUC issued a decision dismissing the City of Calgary's review and variance application and, on August 23, 2010, the City of Calgary withdrew its leave to appeal with the Alberta Court of Appeal.

For the 2008 and 2009 period, a separate regulatory process has been established to approve rates for information technology and customer care and billing services provided by ATCO I-Tek that can be included in customer rates. On October 12, 2010 the City of Calgary requested that the AUC revise the existing process and schedule to hold an oral proceeding to complete discovery of the evidence provided by ATCO Utilities. On October 14, 2010 the AUC suspended the 2008-2009 proceeding while it reviews the City of Calgary's request.

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.

On October 1, 2010, the Canadian Accounting Standards Board issued guidance to permit, but not require, entities with rate regulated activities to defer the transition to IFRS for one year, to 2012. The Corporation has decided to adopt IFRS effective January 1, 2011 and not to take the one year deferral for the following reasons:

- Adopting IFRS allows comparability to other non-regulated entities that will be adopting IFRS in 2011.
- Comparability to other regulated entities, whether or not they choose to take the one year deferral, may be accomplished by showing the impacts of rate regulated accounting as previously permitted by Canadian GAAP as an Adjusted Earnings item in the MD&A.
- There is no certainty that the International Accounting Standards Board (IASB) will issue specific guidance in regards to rate regulated accounting before the end of 2011. Therefore, waiting an additional year to adopt IFRS may not result in any greater clarity with respect to rate regulated accounting.

IFRS Conversion Project Status

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 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.

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 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 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 final standards or directives issued by the IASB.

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 has evaluated the impact of IFRS on internal control over financial reporting (ICFR) and disclosure controls and procedures (DC&P). The Corporation has not identified any changes that would individually or in aggregate materially affect, or are reasonably likely to materially affect, ATCO's ICFR or DC&P.

Rate Regulated Accounting

On July 23, 2009, the 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 discussed various IASB staff papers in July 2010 and again in September 2010, but did not reach a conclusion on the recognition of assets and liabilities subject to rate regulation. The IASB has indicated that it will evaluate future steps for the rate regulated activities project following the public consultation on its future agenda.

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 for these assets and liabilities. The amount to be recorded on transition to IFRS has yet to be finalized, pending further discussions with the Corporation's external auditor.

IFRS 1 Exemptions

IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") requires entities to prepare and present an opening balance sheet at the date of transition to IFRS. The transition date for the Corporation is January 1, 2010. The Corporation is evaluating the optional exemptions available under IFRS 1 but has not made final determinations at this time.

In general, IFRS requires an entity to comply with all of the accounting standards effective at the end of the first reporting period after adopting IFRS. This means restating accounting transactions as if the standards had been in place when the transactions occurred. The IFRS 1 exemptions give limited exemptions from retroactively applying the standards where the cost of complying with this requirement would be likely to exceed the benefits to users of financial statements. Significant exemptions for the Corporation are:

Description of IFRS 1 Exemption	Project Status
<p><i>Rate Regulated Property, Plant and Equipment</i></p> <p>An entity that is subject to rate regulation may elect to use the carrying amount of property, plant and equipment determined under previous GAAP as initial cost on transition to IFRS.</p>	<p>The Corporation intends to adopt this exemption, with the result that, except for the reclassification of customer contributions to other liabilities (see Financial Statement Reclassifications below), there will be no change in the Utilities' transitional balances for property, plant and equipment.</p> <p>The Corporation does not intend to adopt this exemption for Alberta Power (2000) but has not yet finalized the amount to be recorded on transition to IFRS.</p>
<p><i>Decommissioning Liabilities – Asset Retirement Obligations</i></p> <p>An entity may elect to estimate the amount that would have been included in the cost of the related asset when the liability first arose by discounting the liability back to that date and calculating the accumulated depreciation at the transition date using the current estimated useful life.</p>	<p>The Corporation intends to adopt this exemption but has not yet finalized the amount to be recorded on transition to IFRS.</p>

Financial Statement Reclassifications

There are a number of reclassifications that will be required under IFRS. Significant reclassifications for the Corporation are:

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 million as unamortized customer contributions are reclassified from an offset to Property, Plant and Equipment to Other Liabilities on the consolidated balance sheet.

Long Term Debt Due Within One Year:

Under Canadian GAAP, when the Corporation intended to refinance long term debt within one year on a long term basis and there was a written undertaking from an underwriter to act on the Corporation's behalf with respect thereto, or sufficient capacity existed under long term bank loan agreements to issue commercial paper or assume bank loans, then long term debt due within one year was classified as long term. This treatment is not permitted under IFRS. The transition to IFRS will result in the reclassification of approximately \$125 million of long term debt due within one year from long term liabilities to current liabilities.

Provisions:

Under IFRS, provisions must be separately disclosed on the consolidated balance sheet. The transition to IFRS will result in the reclassification of approximately \$47 million from deferred credits to provisions.

Nature vs. Function Presentation of the Statement of Earnings:

IFRS requires expenses on the statement of earnings to be classified either by nature or function, whereas Canadian GAAP allows a combination of the two. The Corporation has chosen to classify expenses on the statement of earnings according to their nature as salaries, wages and benefits, energy transmission and transportation, plant and equipment maintenance, fuel costs, consumables used and other expenses. The classifications operation and maintenance and selling and administration will no longer appear on the statement of earnings.