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## **EPCOR Announces Quarterly Results**

**Edmonton** - EPCOR Utilities Inc. (EPCOR) today filed its quarterly results for the period ended March 31, 2010.

"EPCOR's first quarter results show that we are tracking to plan with a good start to the year from our core water, wastewater, and electricity operations," said EPCOR President and CEO Don Lowry.

"Our water business benefited from the addition of the Gold Bar wastewater and Suncor water / wastewater operations in 2009. Overall, we believe EPCOR is well positioned for further growth along our two lines of business -- water and wires."

Highlights of EPCOR's financial performance are as follows and readers should note, as more fully described in management's discussion and analysis (MD&A) shown below, that the prior year comparative numbers include the results of the power generation business that was sold in July 2009:

- Net income was \$87 million on revenues of \$338 million for the three months ended March 31, 2010 compared with net income of \$104 million on revenues of \$896 million for the same period in the previous year.
- Cash flow from operating activities for the three months ended March 31, 2010 was \$54 million compared with \$147 million for the corresponding period in the previous year.
- Other comprehensive income was \$3 million for the three months ended March 31, 2010 compared with \$22 million for the corresponding period in the previous year.
- Investment in capital projects and business acquisitions for the three months ended March 31, 2010 was \$44 million compared with \$136 million for the same period in the previous year.

The MD&A and the unaudited interim consolidated financial statements are available on EPCOR's website ([www.epcor.ca](http://www.epcor.ca)), and will be available on SEDAR ([www.sedar.com](http://www.sedar.com)).

EPCOR's wholly-owned subsidiaries build, own and operate electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure in Canada. EPCOR, headquartered in Edmonton, is an Alberta top 50 employer. EPCOR's website is [www.epcor.ca](http://www.epcor.ca).

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# **EPCOR Utilities Inc.**

## **Interim Management's Discussion and Analysis**

### **March 31, 2010**

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This management's discussion and analysis (MD&A), dated May 6, 2010, should be read in conjunction with the unaudited interim consolidated financial statements of EPCOR Utilities Inc. and its subsidiaries for the three months ended March 31, 2010 and 2009, the audited consolidated financial statements and MD&A for the year ended December 31, 2009 and the cautionary statement regarding forward-looking information on page 15. In this MD&A, any reference to "the Company", "EPCOR", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. In this MD&A, Capital Power refers to Capital Power Corporation and its directly and indirectly owned subsidiaries including Capital Power LP, except where otherwise noted or the context otherwise requires. Financial information in this MD&A is based on the unaudited interim consolidated financial statements, which were prepared in accordance with Canadian generally accepted accounting principles (GAAP), and is presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors has approved this MD&A.

#### **OVERVIEW**

EPCOR is wholly owned by the City of Edmonton (the City). We build, own and operate electrical transmission and distribution networks and water and wastewater treatment facilities and infrastructure in Canada. We also provide energy and water services to residential and commercial customers. Our electricity, water and energy services businesses consist primarily of regulated and long-term commercial operations. Our continuous improvement objective is to continue to seek out ways of maximizing the efficiency of our electricity and water operations and to execute accordingly. The long-term outlook for the North American electricity, water and wastewater treatment businesses remain relatively strong.

EPCOR's operations performed well in the first quarter without any significant issues or disruptions to customers. Results for the quarter were slightly better than planned.

While overall net income for the quarter was lower than the comparative period in 2009 due to the sale of the power generation business in July 2009, net income from EPCOR's core operations was \$7 million higher this quarter than the first quarter of 2009, as explained in more detail below.

Progress related to our 2010 capital expenditure plan commenced in the first quarter. This plan is aimed towards better water management practices and improvement of existing electricity distribution and transmission infrastructure to meet the growing demand for electricity. Work on two significant projects for 2010, the construction of two additional digesters at the Gold Bar wastewater treatment plant and construction of the Summerside substation in southeast Edmonton, progressed as planned. Work on a number of other significant capital projects for 2010 will commence in the second quarter.

#### **CONSOLIDATED RESULTS OF OPERATIONS**

##### **Note on Comparisons**

For the first half of 2009, EPCOR owned or controlled all of the power generation assets and related operations, including Capital Power Income LP (formerly EPCOR Power LP) (CPILP), that were sold to

Capital Power in early July 2009. Accordingly, net income, results of operations and variances for the first half of 2009 include all the power generation assets, results of operations and variances presented on a consolidated basis. After the sale of the power generation business and related operations in early July 2009, we no longer controlled those operations. Consequently, the first quarter results of 2010 and results going forward no longer present the power generation business and related operations on a consolidated basis. Those financial statement line items and variances are, in effect, replaced by EPCOR's interest in Capital Power reported on the equity basis. When making period-over-period comparisons, the results for the first quarter of 2010 reflect the retained interest in the power generation business in the form of an equity investment in Capital Power while the first quarter in 2009 reflects the power generation business on a consolidated basis. In this context, the results of operations are discussed below.

## Net Income

(Unaudited, \$ millions)	
<b>Net income for the quarter ended March 31, 2009</b>	<b>\$ 104</b>
Net income related to the power generation business that was sold effective early July 2009	(100)
Equity income from Capital Power in 2010	76
	80
Gold Bar operating income in 2010, excluding administration and depreciation expenses	6
Higher changes in the fair value of floating rate notes	4
Higher Water and Commercial Services margin	4
Higher Distribution and Transmission energy margin	2
Higher financing expenses	(1)
Higher depreciation expenses, excluding amounts related to the power generation business	(2)
Increase in administration expenses	(4)
Other	(2)
Increase in net income from core operations	7
<b>Net income for the quarter ended March 31, 2010</b>	<b>\$ 87</b>

Net income was \$87 million for the three months ended March 31, 2010, compared with \$104 million for the corresponding period in 2009. Explanations of the primary period-over-period variances are as follows and should be read in conjunction with the Note on comparisons above:

- Net income related to the power generation business reflects the net results of this business in the first quarter of 2009. See Segment Results – Energy Services and Segment Results – Generation.
- The Gold Bar operation was transferred to EPCOR from the City on March 31, 2009 and contributed \$6 million of operating income before administration and depreciation expenses in the first quarter of 2010.
- In the first quarter of 2010, the fair value of the term floating-rate notes (notes) exchanged for asset-backed commercial paper (ABCP) increased \$1 million due to narrower indicative corporate credit spreads, relative to the Government of Canada yield curve, which are reflected in the updated fair value calculation of the notes. In the first quarter of 2009, the fair value decreased \$3 million.
- Higher Water and Commercial Services margin in the three months ended March 31, 2010 was primarily due to increased rates under the performance-based rate tariff as approved by the City, lower water services maintenance costs due to fewer water main breaks in 2010 compared with the corresponding period in 2009, and commercial services margins from the Suncor All Sites agreement.

- Higher Distribution and Transmission margin was primarily due to an increase in property taxes approved to be billed to customers in 2010, net of 2009 property taxes required to be refunded to customers.
- Financing expenses, net of interest revenue on long-term loans receivable from Capital Power, were higher in 2010 compared to 2009, primarily due to the \$200 million medium-term notes issued in November 2009 and lower sinking fund earnings.
- Depreciation expense, excluding amounts related to power generation business, was higher for the three months ended March 31, 2010 compared with the corresponding period in 2009 primarily due to Gold Bar and regulated Water and Distribution and Transmission asset additions.
- Administration expenses in the first quarter of 2010 increased primarily due to remaining corporate shared services costs that were previously allocated to the power generation business in 2009.

## Revenues

(Unaudited, \$ millions)	
<b>Revenues for the quarter ended March 31, 2009</b>	<b>\$ 896</b>
Decreases related to the power generation business that was sold July 2009	(537)
	359
Interest revenue in 2010 on long-term loans receivable from Capital Power	15
Gold Bar revenue in 2010	13
Regulated rate tariff electricity revenues	(50)
Other	1
Decrease in revenues	(21)
<b>Revenues for the quarter ended March 31, 2010</b>	<b>\$ 338</b>

Consolidated revenues were lower for the three months ended March 31, 2010 compared with the corresponding period in 2009 primarily due to the net impact of the following and should be read in conjunction with the Note on comparisons above:

- The most significant factor contributing to the decrease in revenues relates to revenues reflected in the first quarter of 2009 of the power generation business that was sold in July 2009.
- Interest revenue is received in relation to the long-term loans receivable from Capital Power in connection with the sale of the power generation business in July 2009.
- Revenue was contributed from the Gold Bar operation transferred to EPCOR from the City on March 31, 2009.
- The decrease in regulated electricity revenues in the three months ended March 31, 2010 compared with the corresponding period in 2009 was primarily due to lower electricity prices in 2010 compared with 2009.

## Capital Spending and Investment

(Unaudited, \$ millions)		
Three months ended March 31	2010	2009
Distribution and Transmission	\$ 30	\$ 17
Water Services	12	9
Energy Services	-	4
Corporate	2	2
	44	32
Generation	-	104
	<b>\$ 44</b>	<b>\$ 136</b>

Capital expenditures for property, plant and equipment were lower for the three months ended March 31, 2010 compared with the corresponding period in 2009 primarily due to the sale of the power generation business in early July 2009. Capital spending in Distribution and Transmission was higher primarily due to the Summerside substation project and higher power pole and line upgrade capital expenditures. Higher spending in the Water Services segment was primarily due to the addition of Gold Bar.

## Segment results

### Distribution and Transmission

Three months ended March 31	2010	2009
<b>Distribution and Transmission results</b> (including intersegment transactions)		
(Unaudited, \$ millions)		
Revenues	\$ 69	\$ 66
Expenses	57	54
<b>Operating income</b>	<b>\$ 12</b>	<b>\$ 12</b>

There were no material changes in Distribution and Transmission revenues, expenses and operating income for the current quarter compared with the corresponding period in the prior year.

### Energy Services

Three months ended March 31	2010	2009
<b>Energy Services results</b> (including intersegment transactions)		
(Unaudited, \$ millions)		
Revenues	\$ 207	\$ 589
Expenses	202	518
Operating income before sale of energy trading operations	5	71
Operating income in the first quarter of 2009		
Related to energy trading operations sold in July 2009	-	(65)
<b>Operating income</b>	<b>\$ 5</b>	<b>\$ 6</b>

Energy Services' operating income decreased \$66 million for the quarter ended March 31, 2010 compared with the corresponding period in 2009. Of the total decrease, \$65 million was due to the sale of the energy trading operations sold with the power generation business in July 2009. The remaining \$1 million decrease in operating income from the same period in the prior year was primarily due to higher corporate administrative costs allocated to the Energy Services segment in the first quarter of 2010 compared with the same period in 2009.

## Water Services

Three months ended March 31	2010	2009
<b>Water Services results</b> (including intersegment transactions)		
(Unaudited, \$ millions)		
Revenues	\$ 79	\$ 67
Expenses	64	57
<b>Operating income</b>	<b>\$ 15</b>	<b>\$ 10</b>

Water Services' operating income increased \$5 million in the first quarter of 2010 compared with the corresponding period of the prior year due to the net impact of the following:

- The Gold Bar operation, which was transferred from the City on March 31, 2009, contributed \$13 million in revenues and \$7 million in expenses excluding administration and depreciation, in the first quarter of 2010.
- Expenses in the first three months of 2010 were higher primarily due to costs related to the Gold Bar and Suncor operations and annual wage increases, partly offset by lower expenses due mainly to the completion of the Suncor Voyageur project to a stage agreed upon with Suncor and lower maintenance expenses due to fewer water main breaks in 2010 compared with the corresponding period in 2009.

## Generation

Three months ended March 31	2010	2009
<b>Generation results</b> (including intersegment transactions)		
(Unaudited, \$ millions)		
Revenues	\$ -	\$ 240
Expenses	-	233
<b>Operating income</b>	<b>\$ -</b>	<b>\$ 7</b>

The generation business and related operations were sold in early July 2009. As a result, there are no comparative values to last year's first quarter results. The discussion regarding this segment should be read in conjunction with the Note on comparisons above.

## CONSOLIDATED BALANCE SHEETS

(\$ millions)	March 31, 2010	December 31, 2009	Increase (decrease)	Explanation
Cash and cash equivalents	\$ 17	\$ 11	\$ 6	Refer to liquidity and capital resources section
Accounts receivable (including income taxes recoverable)	211	247	(36)	Decrease primarily due to seasonal decrease in electricity consumption and lower electricity prices
Other current assets	13	13	-	
Current portion of long-term receivables	254	254	-	
Property, plant and equipment	1,794	1,778	16	Capital expenditures partly offset by depreciation
Contract and customer rights and other intangible assets	107	110	(3)	
Future income tax assets (current and non-current)	40	41	(1)	
Long-term receivables	643	643	-	
Investment in Capital Power	1,542	1,481	61	Reflects equity income partly offset by the limited partnership distributions
Other assets	164	163	1	
Short-term debt	43	-	43	Reflects increase in short-term debt primarily to fund working capital requirements
Accounts payable and accrued liabilities	211	241	(30)	Decrease primarily due to seasonal decrease in electricity volume and lower prices for electricity purchases
Other current liabilities	32	32	-	
Long-term debt (including current portion)	1,906	1,917	(11)	Scheduled repayment of debt in the current quarter
Other non-current liabilities	67	81	(14)	Reflects 2010 payment of fee owing to the City for Gold Bar asset transfer
Shareholder's equity	2,526	2,470	56	Reflects net income and other comprehensive income, partly offset by common share dividends

## LIQUIDITY AND CAPITAL RESOURCES

Cash inflows (outflows)				
(\$ millions)	Three months ended March 31		Increase (decrease)	Explanation
	2010	2009		
Operating	\$ 54	\$ 147	\$ (93)	Reflects changes in non-cash working capital due to the timing of receipts and payments, receipt of Genesee PPA availability incentive income in 2009.
Investing	(46)	(128)	82	Reflects lower capital spending, including non-cash change in working capital, due to the sale of power generation business, partly offset by limited partnership distributions from Capital Power in the first quarter of 2010 and proceeds from sale of power syndicate agreement in 2009.
Financing	(2)	(11)	9	Net proceeds from short and long term debt were lower in 2010 and there were no distributions to non-controlling interests in 2010 (as those interests were transferred with the sale of the power generation business in 2009).

The Company's cash flow from operating activities decreased \$93 million in the three months ended March 31, 2010 compared with the corresponding period in 2009 due to the sale of the power generation business in July 2009. We expect cash flow from operating activities to be lower throughout 2010 than 2009 for the same reason.

At March 31, 2010, the Company had undrawn amounts available of \$424 million under three credit facilities including a \$500 million syndicated bank credit facility. The syndicated bank credit facility has two tranches of \$250 million each committed until 2013.

Committed and demand bank lines of credit facilities are also used to provide letters of credit. At March 31, 2010, the Company had letters of credit outstanding of \$80 million (December 31, 2009 - \$99 million) to meet the credit requirements of energy market participants and conditions of certain service agreements. The committed bank lines also indirectly back the Company's commercial paper program which has an authorized capacity of \$225 million, of which \$43 million was outstanding at March 31, 2010 (December 31, 2009 - nil).

The Company's working capital requirements and contractual obligations in 2010 will be funded from operating cash flows, limited partnership distributions from Capital Power, interest received in relation to the long-term receivable from Capital Power, and the Company's credit facilities. In addition, the Company may issue medium-term notes to fund its long-term obligations. The payments expected to be received from Capital Power comprise a significant amount of the cash required to fund the Company's 2010 contractual obligations. Should Capital Power be unable to fulfill its obligations to EPCOR or have to reduce its distributions in 2010, the Company will rely more heavily on its credit facilities to fund its obligations.

The Company has a Canadian shelf prospectus under which it may raise up to \$1 billion of debt with maturities of not less than one year. At March 31, 2010, the available amount remaining under this shelf

prospectus was \$1 billion. The shelf prospectus expires in January 2012.

### **Floating Rate Notes**

On January 21, 2009, the restructuring of non-bank ABCP was implemented. Under the restructuring, the affected ABCP was exchanged for floating rate notes, maturing no earlier than the scheduled termination dates of the underlying assets. The exchange was recorded at the estimated fair value of the ABCP on January 21, 2009. Since the original purchase of ABCP in 2007 for \$71 million, \$2 million in principal repayments have been received. The face value of the notes received in exchange for ABCP was \$69 million at March 31, 2010.

As the notes are classified as held-for-trading financial assets, they are subject to ongoing fair value adjustments at each reporting date. At March 31, 2010, the fair value of the notes was estimated at \$38 million compared with a fair value of \$37 million at December 31, 2009. The \$1 million increase for the first quarter was primarily due to narrower indicative corporate credit spreads relative to the Government of Canada yield curve. In the first quarter of 2009, \$3 million in reductions in the fair value of the notes were recognized.

The estimate of fair value is subject to significant risks and uncertainties including the timing and amount of future cash payments, market liquidity, the quality and tenor of the assets and instruments underlying the notes, including the possibility of margin calls, and the future market for the notes. Accordingly, the fair value estimate of the notes may change materially.

For the three months ended March 31, 2010, EPCOR received nil interest on the notes (2009 - \$2 million of accrued interest on ABCP) due to the interest earned for the period being lower than the administration costs permitted to offset interest earned under the terms of the notes.

### **Effects of Economic and Market Uncertainty**

Canadian and U.S. financial markets continued to stabilize in the first quarter of 2010. The Company secured financing to fund its capital expenditures and working capital requirements at a weighted average interest rate of 0.32% per annum through the issue of commercial paper and bankers' acceptances in the quarter. The Company plans to continue using commercial paper, existing credit facilities or medium-term notes for its financing requirements for the balance of the year. Should instability in the credit and economic environments worsen, it may adversely affect the interest rates at which we are able to borrow.

Notwithstanding the continuing signs of improvement in the global economy, if the economy were to deteriorate in the longer term, particularly Canada and the U.S., the Company's ability to renew credit facilities, arrange long-term financing for its capital expenditure programs and acquisitions, or refinance outstanding indebtedness when it matures could be adversely impacted. If market conditions worsen, the Company may suffer a credit rating downgrade and be unable to renew its credit facilities or access the public debt markets. We continue to believe that these circumstances have a low and diminishing probability of occurring. However, we continue to monitor EPCOR's capital programs and operating costs to minimize the risk that the Company becomes short of cash or unable to honour its obligations. If required, we would look to reduce capital expenditures and operating costs and / or sell our exchangeable limited partnership units of Capital Power where permitted by our agreements with Capital Power and market conditions.

## **CONTRACTUAL OBLIGATIONS**

Prior to the sale of the power generation business to Capital Power, the Company had issued parental guarantees on behalf of former subsidiaries to meet the credit requirements of energy market participants and to meet conditions of certain service agreements. At March 31, 2010, the Company continues to have outstanding parental guarantees on behalf of Capital Power totaling \$1,169 million (December 31, 2009 - \$1,295 million). The Company also has an outstanding parental guarantee which provides for the obligations of Capital Power under a power purchase arrangement (PPA). This guarantee does not have a defined limit; however, it is practically limited by the contractual obligations under the PPA. The Company and Capital Power expect to finalize transfer of these parental guarantees to Capital Power by the end of 2010. Capital Power has indemnified EPCOR for any demand for payments under these guarantees. The expected liability associated with these guarantees is not material and has not been recorded in the March 31, 2010 financial statements.

During the first quarter of 2010, there have been no material changes to the Company's purchase obligations, including payments for the next five years and thereafter. For further information on the Company's contractual obligations, refer to the 2009 annual MD&A.

## **CHANGES IN ACCOUNTING STANDARDS**

### **Future Accounting Changes**

#### ***Consolidated Financial Statements and Non-controlling Interests***

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1601 – Consolidated Financial Statements and Section 1602 – Non-controlling Interests, which replace Section 1600 – Consolidated Financial Statements. Section 1601 establishes the standards for the preparation of consolidated financial statements while Section 1602 establishes the standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Accounting Standard 27 – Consolidated and Separate Financial Statements.

Sections 1601 and 1602 will apply to EPCOR's interim and annual consolidated financial statements relating to periods commencing on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year provided Section 1582 – Business Combinations is also adopted at the same time. The impact of the new standards and the option to adopt them early will be assessed as part of our International Financial Reporting Standards (IFRS) conversion project.

#### ***Business Combinations***

In January 2009, the CICA issued Handbook Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations and provides the Canadian equivalent to IFRS 3 – Business Combinations. The section will apply on a prospective basis to EPCOR's business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year provided Sections 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests are also adopted at the same time. The impact of the new standard and the option to adopt it early will be assessed as part of our IFRS project.

### **IFRS**

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under IFRS effective January 1, 2011, including comparative figures for the prior year.

In January 2008, we established a core team to develop a plan which will result in the Company's first interim report for 2011 being in compliance with IFRS.

The diagnostic phase of the project was completed in April 2008. For each international standard, we identified the primary differences from Canadian GAAP and made an initial assessment of the impact of the required changes for the purpose of prioritizing and assigning resources. In making the assessment, the number of businesses impacted, the potential magnitude of the financial statement adjustment, the availability of policy choices, the impacts on systems and the impacts on internal controls were all considered.

The information obtained from the diagnostic phase was used to develop a detailed plan for convergence and implementation. The convergence and implementation work has five key sections: Financial Statement Adjustments, Financial Statements, Systems Updates, Policies and Internal Controls, and Training.

### **Financial Statement Adjustments**

For each international standard, we will determine the quantitative impacts to the financial statements, system requirements, accounting policy decisions, and changes to internal controls and business policies. The initial accounting policy decisions will be brought forward to the Audit Committee for their information as each standard is addressed. However, final accounting policy decisions for all standards in effect at the end of 2009 will be made in the fourth quarter of 2010, as they should not be determined in isolation of other policy decisions. Policy decisions for any new standards or standards that are amended in 2010 will be made in conjunction with our analysis of those standards in 2010.

We have identified the following areas as having the most impact:

#### Property, Plant and Equipment (PP&E)

PP&E is primarily impacted by International Accounting Standard (IAS) 16 – Property, Plant and Equipment and IAS 23 – Borrowing Costs.

IFRS are different from Canadian GAAP in that certain costs such as overheads and borrowing costs in excess of the actual entity's cost of debt may not be capitalized, and IFRS do not have a provision for rate-regulated accounting that allows certain costs approved by the regulator, like training costs, to be capitalized.

IFRS are also more specific with respect to the level at which component accounting is required, requiring each component of an asset for which different depreciation methods or rates are appropriate to be accounted for separately.

Under current accounting for rate-regulated operations, the method used to retire assets results in a deferral of any losses. IFRS do not allow this treatment.

The Company has substantially completed its assessment of the cumulative impact of the above changes and estimates that our current carrying amounts of PP&E include approximately \$50 million to \$60 million of costs which would not qualify for capital treatment under IFRS. The impact on annual depreciation would be a decrease of \$3 million to \$5 million.

#### Asset Retirement Obligations

The Company does not currently record asset retirement obligations as we do not believe they can be reasonably estimated for electricity distribution and transmission and water and wastewater

infrastructure since such assets have long lives and are maintained continuously. IFRS suggest that it is only in extremely rare cases that an estimate of the obligation cannot be made.

IFRS require provisions for constructive as well as legal obligations. We have concluded our review of our obligations and will assess the requirement to record any obligation in the second quarter.

#### Transfers of Assets from Customers

IFRS requires that assets received from customers that are used to connect a customer to the network or to provide ongoing access to a supply of goods or services should be treated as a revenue generating transaction, with the timing of revenue recognition dependent on the service or services provided. Under Canadian GAAP, contributions from customers are recorded as an offset against the cost of the associated asset, and amortized over the life of the asset.

The Company is currently reviewing its contribution arrangements and the timing of the adoption of the requirements. Upon adoption, contributions related to those arrangements which fall under the scope of IFRS will be reclassified to deferred revenue. There will be no impact on net assets. These contributions will be reflected in income through revenue rather than through decreased depreciation. There will be no net income impact.

IFRS 1, discussed below, provides transitional relief on implementation of these requirements.

#### Rate-regulated Accounting

Under IFRS, there are currently no provisions for rate-regulated accounting. In addition to the changes noted above under PP&E, the lack of any provisions for rate-regulated accounting under IFRS would prohibit the recognition of certain regulatory assets and liabilities. Not recognizing these assets and liabilities would likely result in greater volatility in the reported amounts for net income and related financial statement items. Regulatory assets include accounts such as a transmission charge deferral account; regulatory liabilities include accounts such as a property tax deferral account. At December 31, 2009, we recognized \$28 million in regulatory assets, currently reported as accounts receivable, and \$10 million in regulatory liabilities, currently reported as accounts payable. On adoption of IFRS, we would not recognize these amounts. This change, holding all other factors constant, would result in a \$28 million decrease to accounts receivable, a \$10 million decrease in accounts payable and an \$18 million decrease to the January 1, 2010 opening retained earnings. See Rate-Regulated Activities.

#### IFRS 1 – First Time Adoption of IFRS

IFRS 1 provides first time adopters with a number of elections, exempting them from retrospectively adopting certain IFRS. The following elections are relevant to EPCOR.

- Fair value or revaluation as deemed cost - An entity may choose to use fair value at the date of transition as deemed cost. This election is available on an asset by asset basis. We have initially concluded that we will not employ fair values on conversion and our estimate of the impact of IFRS on PP&E is based on management's current intent to not utilize this exemption.
- Employee benefits - An entity may elect to recognize all cumulative actuarial gains and losses associated with employee benefit plans at the date of transition to IFRS. A decision on whether to utilize this exemption will be made in the second quarter of 2010.
- Decommissioning liabilities – An entity may use a simplified calculation to calculate and restate the decommissioning liability and related property, plant and equipment and depreciation

expense. A decision on whether to utilize this election will be made in the second quarter of 2010.

- Transfer of assets from customers - An entity does not have to reclassify customer contributions received prior to the transition date. A decision on whether to utilize this exemption will be made in the third quarter of 2010.

#### Rate-Regulated Activities

In February 2010, the staff of the IASB recommended to the IASB that the project on rate-regulated activities be revisited and, as a result, a standard is not expected until the third or fourth quarter of 2011. The IASB however will provide transitional relief to first time adopters.

On April 8, 2010, the IASB approved an exemption which would allow rate-regulated entities to use the current GAAP carrying amount on transition date to be the deemed cost for IFRS. The standard is expected to be issued shortly. The Company is currently assessing whether it will take this election. If the Company chooses to take this election, carrying values of PP&E will not be reduced by the \$50 million to \$60 million of costs noted earlier, and the ongoing impact of IFRS on depreciation will not be significant.

EPCOR anticipates completion of the quantification of the opening adjustments for all standards currently in effect by the end of the second quarter of 2010.

As the project progresses, the timing of completion of certain items may change as changes to standards and other external factors such as discussions with certain stakeholders may result in a change in priorities. However, we believe the project has sufficient resources to meet the overall project timeline.

#### **Financial Statements**

There are also a number of international standards which relate to financial statement presentation. Draft financial statements highlighting the disclosure and presentation requirements were reviewed by and discussed with the EPCOR Audit Committee in the first quarter of 2009. The development of the financial statement presentation will evolve throughout the project as the impacts of implementing the various standards are quantified.

#### **Systems Updates**

Systems must be able to capture 2010 financial information under both the prevailing Canadian GAAP and IFRS to allow comparative reporting in 2011, the first year of reporting under IFRS. We completed our system updates in the third quarter of 2009 to capture both and have implemented operational procedures to capture the applicable accounting data through 2010. In effect, we have created a dual general ledger that captures the Canadian GAAP balances and a second ledger that captures the required financial adjustments to convert the Canadian GAAP balances to IFRS. As part of the final conversion to IFRS, we plan to adjust the general ledger primary accounts with the IFRS adjustment balances at the conversion date.

#### **Policies and Internal Controls**

In the determination of the financial statement adjustments, requirements for changes to Company policies and internal controls, including internal controls over financial reporting and disclosure controls and procedures, will be identified and documented. As there may be factors other than IFRS impacting

policies and internal controls, the formal documentation and approval of revised policies and internal controls will not occur until the third quarter of 2010.

The impact of IFRS on certain agreements, such as debt, shareholder and compensation agreements, has also been included in the plan. Assessments of most agreements have been completed and will continue to be monitored as IFRS differences are quantified. We have not identified nor do we expect there to be any material issues with respect to these agreements arising from the conversion to IFRS.

### **Training**

The Company recognizes that training at all levels is essential to a successful IFRS conversion and integration. Accounting staff have attended three training sessions with more planned to occur throughout the conversion process. The Board of Directors and Audit Committee have attended a training session and the Audit Committee receives regular updates on the conversion project including accounting policy determination. Further training for the Board of Directors and Audit Committee will occur throughout the project.

### **CRITICAL ACCOUNTING ESTIMATES**

In preparing the consolidated financial statements, management necessarily made estimates in determining transaction amounts and financial statement balances. The following are the items for which significant estimates were made in the interim consolidated financial statements: electricity revenues, costs and unbilled consumption, fair values, allowance for doubtful accounts, useful lives of assets and income taxes. Interim results will fluctuate due to the seasonal demands for electricity and water, changes in energy prices, and the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

For further information on the Company's critical accounting estimates, refer to the 2009 annual MD&A.

### **RISK MANAGEMENT**

This section should be read in conjunction with the Risk Management section of the most recent annual MD&A. EPCOR faces a number of risks including risks related to its investment in Capital Power, operational risks, political, legislative and regulatory risk, financial liquidity risk, weather risk, project risk, availability of people risk, credit risk, health and safety risk, environment risk, conflicts of interest risk, and general economic conditions and business environment risks. The Company employs active programs to manage these risks.

As part of ongoing risk management practices, the Company reviews current and proposed transactions to consider their impact on the risk profile of the Company. There have been no material changes to the risk profile or risk management strategies of EPCOR as described in the annual MD&A for 2009 that have affected the financial statements for the first quarter.

### **OUTLOOK**

On February 8th, 2010, the Alberta Utilities Commission (AUC) issued a decision in which it awarded Energy Services an additional \$2.6 million in after-tax return margin relating to the 2007 through 2009 period. On April 22nd, 2010, the AUC issued a decision approving the collection of this amount and an applicable tax recovery from Energy Services customers over the period May 1 to December 31, 2010.

In December 2009, Energy Services and Distribution and Transmission filed their 2010-2011 General Tariff Applications with the AUC. Decisions are expected from the AUC by the end of 2010.

On February 26th, 2010, the AUC announced a rate regulation initiative proposing a Performance Based Rates (PBR) type framework under which rates would be adjusted annually by a formula recognizing expected inflation and achievable productivity improvements. A roundtable discussion was held on March 26, 2010 with all the interested or affected parties including EPCOR. The first PBR application is scheduled to be submitted in 2011, effective for 2012. As this application is at the early stages, it is not possible to estimate the impact that this regulatory change might have on EPCOR.

## **FORWARD-LOOKING INFORMATION**

Certain information in this MD&A is forward-looking within the meaning of Canadian securities laws as it relates to anticipated financial performance, events or strategies. When used in this context, words such as “will”, “anticipate”, “believe”, “plan”, “intend”, “target”, and “expect” or similar words suggest future outcomes.

Forward-looking information in this MD&A includes: (i) work on a number of significant capital projects for 2010 will commence in the second quarter; (ii) 2010 cash flow from operating activities will be lower than in 2009 due to the sale of the power generation business; (iii) the Company will fund its 2010 working capital requirements and contractual obligations from operating cash flows, limited partnership distributions from Capital Power, interest and principal payments received in relation to the long-term receivable from Capital Power, and the Company's credit facilities; (iv) expectations regarding the impact on the Company of the capital and credit market instability and expected risk mitigation plans; (v) the Company and Capital Power expect to finalize transfer of parental guarantees to Capital Power by the end of 2010; (vi) the timing of decisions related to and expected impacts of the transition to IFRS; (vii) decisions from the AUC on Energy Services' and Distribution and Transmission's General Tariff Applications are expected by the end of 2010; and (viii) the Company expects to file its first PBR applications with the AUC in 2011.

These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate. The key material factors and assumptions underlying this forward-looking information are: (i) the operation of the Company's facilities; (ii) the Company's assessment of the markets and regulatory environments in which it operates; (iii) weather; (iv) availability and cost of labour and management resources; (v) performance of contractors and suppliers; (vi) availability and cost of financing; (vii) foreign exchange rates; (viii) management's analysis of applicable tax legislation; (ix) the currently applicable and proposed tax laws will not change and will be implemented; (x) counterparties will perform their obligations; (xi) expected interest rates, related credit spreads and mortality rates for floating-rate notes; (xii) ability to implement strategic initiatives which will yield the expected benefits; (xiii) the Company's assessment of capital markets; and (xiv) factors and assumptions in addition to the above related to the Company's 72.2% equity interest in Capital Power.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results and experience to differ materially from EPCOR's expectations. The primary risks and uncertainties relate to: (i) operation of the Company's facilities; (ii) unanticipated maintenance and other expenditures; (iii) electricity load settlement; (iv) regulatory and government decisions including changes to environmental, financial reporting and tax legislation; (v) weather and economic conditions; (vi) competitive pressures; (vii) construction; (viii) availability and cost of financing; (ix) foreign exchange; (x) availability of labour and management resources; (xi) performance of counterparties, partners, contractors and suppliers in fulfilling their obligations to the Company; and (xii) risks in addition to the

above related to the Company's 72.2% equity interest in Capital Power, including power plant availability and performance.

This MD&A includes one update to a previously issued forward-looking statement, indicating that we expect cash flow from operating activities to be lower in 2010 than 2009.

Readers are cautioned not to place undue reliance on forward-looking statements as actual results could differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements. Except as required by law, EPCOR disclaims any intention and assumes no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

## QUARTERLY RESULTS

Quarter ended	Revenues	Net income (loss)
	(Unaudited, \$ millions)	
March 31, 2010	\$ 338	\$ 87
December 31, 2009	374	27
September 30, 2009	350	(56)
June 30, 2009	740	50
March 31, 2009	896	104
December 31, 2008	820	15
September 30, 2008	954	76
June 30, 2008	865	16

Events for 2010, 2009 and 2008 quarters that have significantly impacted net income and the comparability between quarters are:

- March 31, 2010 first quarter results included equity income from Capital Power, lower revenues due to the sale of the power generation business in 2009, interest revenue on the long-term loans receivable from Capital Power and positive operating income as a result of the transfer of Gold Bar on March 31, 2009.
- December 31, 2009 fourth quarter results included adjustments to the loss on sale of the power generation business, interest revenue on the long-term loans receivable from Capital Power and positive operating income as a result of the transfer of Gold Bar on March 31, 2009.
- September 30, 2009 third quarter results included a loss on the sale of the power generation business and the write-off of syndicated credit facility issue costs related to the sale of the power generation business partly offset by equity income from Capital Power, interest revenue on the long-term loans receivable from Capital Power and positive operating income as a result of the transfer of Gold Bar on March 31, 2009.
- June 30, 2009 second quarter results included unrealized fair value gains resulting from the impact of low Alberta power prices on derivative electricity contracts that were not designated as hedges for accounting purposes, unrealized fair value gains on CPILP's forward foreign exchange contracts used to economically hedge U.S. cash flows and positive operating income as a result of the transfer of Gold Bar on March 31, 2009.
- March 31, 2009 first quarter results included a \$26 million gain on the sale of a 10% interest in the Battle River Power Syndicate Agreement, and unrealized fair value gains resulting from the impact of low Alberta power prices on derivative electricity contracts that were not designated as hedges for

accounting purposes. These gains were partly offset by unrealized fair value losses on CPILP's natural gas supply contracts, and forward foreign exchange contracts used to economically hedge U.S. cash flows.

- December 31, 2008 fourth quarter results reflected impairment charges on the goodwill associated with the investment in CPILP and on CPILP's investment in Primary Energy Recycling Holdings. CPILP also recognized unrealized fair value losses on its forward foreign exchange contracts used to economically hedge U.S. cash flows and on its natural gas supply contracts.
- September 30, 2008 third quarter results reflected gains on the sale of portfolio investments and unrealized fair value gains on derivative electricity contracts, Joffre contract-for-differences and forward foreign exchange contracts. These gains were partly offset by administration costs resulting from long-term incentive plan adjustments, and lower income from CPILP.
- June 30, 2008 second quarter results reflected maintenance costs and Genesee PPA availability penalties resulting from scheduled turnarounds on all three Genesee plants partly offset by the favorable impact of high Alberta power prices on our derivative electricity contract portfolio, and unrealized fair value gains on CPILP's natural gas supply contracts.

#### **ADDITIONAL INFORMATION**

Additional information relating to EPCOR, including EPCOR's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**EPCOR UTILITIES INC.**  
**Consolidated Statements of Income**  
**(Unaudited, in millions of dollars)**

	Three months ended March 31,	
	2010	2009
Revenues	\$ 338	\$ 896
Expenses (income):		
Energy purchases and fuel	172	560
Operations, maintenance and administration	81	154
Franchise fees, property taxes and other taxes	15	19
Depreciation, amortization, and asset retirement accretion	23	66
Foreign exchange gains	-	(3)
Equity share of income of Capital Power	(76)	-
Gain on sale of power syndicate agreement (note 6b)	-	(30)
Net financing expenses	34	42
	249	808
Income before income taxes and non-controlling interests	89	88
Income taxes	2	6
Income before non-controlling interests	87	82
Non-controlling interests (note 9)	-	(22)
Net income	\$ 87	\$ 104

See accompanying notes to consolidated financial statements.

**EPCOR UTILITIES INC.**  
**Consolidated Balance Sheets**  
**(Unaudited, in millions of dollars)**

	March 31, 2010	December 31, 2009
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 17	\$ 11
Accounts receivable	211	245
Income taxes recoverable	-	2
Inventories	11	11
Prepaid expenses	2	2
Future income tax assets	1	1
Current portion of long-term receivables	254	254
	496	526
Property, plant and equipment	1,794	1,778
Contract and customer rights and other intangible assets	107	110
Future income tax assets	39	40
Long-term receivables	643	643
Investment in Capital Power (note 5)	1,542	1,481
Other assets (note 7)	164	163
	\$ 4,785	\$ 4,741
<b>Liabilities and Shareholder's Equity</b>		
<b>Current liabilities:</b>		
Short-term debt (note 8)	\$ 43	\$ -
Accounts payable and accrued liabilities	211	241
Other current liabilities	32	32
Current portion of long-term debt	225	225
	511	498
Long-term debt	1,681	1,692
Other non-current liabilities	67	81
	2,259	2,271
Shareholder's equity	2,526	2,470
	\$ 4,785	\$ 4,741

See accompanying notes to consolidated financial statements.

**EPCOR UTILITIES INC.**  
**Consolidated Statements of Changes in Shareholder's Equity**  
**(Unaudited, in millions of dollars)**

	Three months ended March 31,	
	2010	2009
Share capital and contributed surplus		
Balance, beginning of period	\$ 24	\$ -
Capital contribution (note 6a)	-	36
Balance, end of period	24	36
Retained earnings		
Balance, beginning of period	2,462	2,476
Adjustment for changes in accounting policies	-	1
Net income	87	104
Common share dividends paid	(34)	(33)
Refundable taxes (note 6b)	-	(5)
Balance, end of period	2,515	2,543
Accumulated other comprehensive loss		
Balance, beginning of period	(16)	(47)
Other comprehensive income	3	22
Balance, end of period	(13)	(25)
Total shareholder's equity, end of period	\$ 2,526	\$ 2,554

See accompanying notes to consolidated financial statements.

**EPCOR UTILITIES INC.**  
**Consolidated Statements of Comprehensive Income**  
**(Unaudited, in millions of dollars)**

	Three months ended March 31,	
	2010	2009
Net income	\$ 87	\$ 104
Other comprehensive income, net of income taxes:		
Equity in other comprehensive income from Capital Power <sup>(1)</sup>	3	-
Unrealized gains on derivative instruments designated as cash flow hedges <sup>(2)</sup>	-	9
Reclassification of losses on derivative instruments designated as cash flow hedges to net income <sup>(3)</sup>	-	8
Unrealized gain in self-sustaining foreign operations <sup>(4)</sup>	-	17
Non-controlling interests <sup>(4)</sup>	-	(12)
	3	22
Comprehensive income	\$ 90	\$ 126

<sup>(1)</sup> For the three months ended March 31, 2010, net of income tax expense of nil.

<sup>(2)</sup> For the three months ended March 31, 2009, net of income tax expense of \$4 million.

<sup>(3)</sup> For the three months ended March 31, 2009, net of income tax expense of \$3 million.

<sup>(4)</sup> For the three months ended March 31, 2009, net of income tax expense of nil.

See accompanying notes to consolidated financial statements.

**EPCOR UTILITIES INC.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited, in millions of dollars)**

	Three months ended March 31,	
	2010	2009
Operating activities:		
Net income	\$ 87	\$ 104
Adjustments to reconcile net income to funds from operating activities:		
Depreciation, amortization, and asset retirement accretion	23	66
Equity share of income of Capital Power	(76)	-
Gain on sale of power syndicate agreement (note 6b)	-	(30)
Non-controlling interests in		
Capital Power Income LP (note 9)	-	(24)
Fair value changes on derivative instruments	-	19
Unrealized foreign exchange gains	-	(5)
Future income taxes	-	17
Other	(1)	10
	33	157
Change in non-cash operating working capital	21	(10)
	54	147
Investing activities:		
Property, plant and equipment and other assets	(44)	(136)
Change in non-cash investing working capital	(5)	(24)
Distributions from Capital Power	18	-
Proceeds on sale of power syndicate agreement (note 6b)	-	47
Payment of Gold Bar transfer fee (note 6a)	(15)	(17)
Other	-	2
	(46)	(128)
Financing activities:		
Net issuance of short-term debt	43	244
Proceeds from issue of long-term debt	-	29
Repayment of long-term debt	(11)	(227)
Distributions to non-controlling interests	-	(24)
Common share dividends paid	(34)	(33)
	(2)	(11)
Foreign exchange gain on cash held in a foreign currency	-	5
Increase in cash and cash equivalents	6	13
Cash and cash equivalents, beginning of period	11	111
Cash and cash equivalents, end of period	\$ 17	\$ 124
Supplemental cash flow information:		
Interest paid net of interest received	\$ 31	\$ 34
Income taxes paid net of income taxes recovered	-	6

See accompanying notes to consolidated financial statements.

**EPCOR UTILITIES INC.**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2010**  
**(Unaudited, in millions of dollars)**

**1. Basis of presentation:**

These unaudited interim consolidated financial statements of EPCOR Utilities Inc. (the Company or EPCOR) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements and do not include all of the disclosures normally found in the Company's annual consolidated financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009.

These financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual consolidated financial statements.

**2. Nature of operations:**

Interim results will fluctuate due to the seasonal demands for electricity and water, changes in energy prices, and the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

**3. Measurement uncertainty:**

In accordance with Canadian GAAP, the Company uses estimates in preparing its consolidated financial statements. Interim consolidated financial statements necessarily apply a greater use of estimates than the annual consolidated financial statements.

**4. Future accounting changes**

In January 2009, the CICA issued Handbook Section 1601 – Consolidated Financial Statements and Section 1602 - Non-controlling Interests, which replace Section 1600 – Consolidated Financial Statements. Section 1601 establishes the standards for the preparation of consolidated financial statements while Section 1602 establishes the standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IFRS IAS 27 – Consolidated and Separate Financial Statements.

Sections 1601 and 1602 will apply to interim and annual consolidated financial statements relating to periods commencing on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, provided Section 1582 – Business Combinations is also adopted at the same time. The impact of the new standards and the option to adopt them early will be assessed as part of the Company's IFRS conversion project.

In January 2009, the CICA issued Handbook Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations and provides the Canadian equivalent to IFRS 3 – Business Combinations. The section will apply, on a prospective basis, to future business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year provided Sections 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests are also adopted at the same time. The impact of the new standard and the option to adopt it early will be assessed as part of the Company's IFRS conversion project.

**5. Investment in Capital Power:**

On May 8, 2009, EPCOR announced its plans to create Capital Power (consisting of Capital Power Corporation and its subsidiaries, including Capital Power LP), a power generation company that is headquartered in Edmonton. The final prospectus for the initial public offering of 21,750,000 common shares of Capital Power, at \$23.00 per common share, was filed with securities regulators in Canada on June 25, 2009. The initial public offering closed in early July 2009.

**EPCOR UTILITIES INC.**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2010**  
**(Unaudited, in millions of dollars)**

Through a series of transactions, EPCOR sold substantially all of its power generation assets, net of certain liabilities, and related operations including its 30.6% interest in Capital Power Income LP (formerly EPCOR Power LP) (CPILP), to Capital Power, effective early July 2009. The assets and related operations were previously included in EPCOR's Generation and Energy Services segments. EPCOR also entered into various agreements with Capital Power to provide for certain aspects of the separation of the power generation business from EPCOR, to provide for the continuity of operations and services and to govern the ongoing relationships between the two groups of entities.

The equity interest in Capital Power LP represents an investment subject to significant influence and is accounted for using the equity method from the effective date of the sale of the power generation business in early July 2009. The investment was initially recorded at the initial cost of the net assets of the power generation business retained by EPCOR in the form of its 72.2% interest in Capital Power, and subsequently increased to recognize the Company's share of earnings of Capital Power and reduced by the distributions paid by Capital Power.

The investment in Capital Power LP is detailed as follows:

	March 31, 2010	December 31, 2009
Opening balance	\$ 1,481	\$ -
Initial investment	-	1,415
Equity share of net income	76	68
Equity share of other comprehensive income	3	16
Distributions paid by Capital Power	(18)	(18)
	<b>\$ 1,542</b>	<b>\$ 1,481</b>

Summarized financial information of Capital Power LP:

	2010	2009
Revenues	\$ 497	\$ -
Net income	96	-

	March 31, 2010	December 31, 2009
Total assets	\$ 4,972	\$ 5,031
Total debt	1,685	1,771
Total other liabilities	678	693
Total liabilities	2,363	2,464
Non-controlling interests	538	571
Total equity	2,071	1,996
Total liabilities and equity <sup>(1)</sup>	<b>\$ 4,972</b>	<b>\$ 5,031</b>

<sup>(1)</sup> Includes the Company's investment in the debt and equity of Capital Power LP.

**EPCOR UTILITIES INC.**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2010**  
**(Unaudited, in millions of dollars)**

**6. Other acquisitions and disposals:**

**(a) Transfer of Gold Bar Wastewater Treatment Plant:**

On March 31, 2009, the City of Edmonton (the City) transferred Gold Bar Wastewater Treatment Plant (Gold Bar) to EPCOR. Gold Bar primarily handles wastewater treatment requirements for residents of Edmonton.

The Gold Bar property, plant and equipment assets were transferred on March 31, 2009 at their carrying amounts totaling \$258 million including \$48 million of contributed assets on which EPCOR cannot earn a return. EPCOR also assumed the offsetting capital contributions associated with the \$48 million of contributed assets. Pursuant to the Gold Bar asset transfer agreement, EPCOR issued \$112 million of long-term debt to the City being EPCOR's share of the City's debt obligations in respect of the Gold Bar assets. The long-term debt bears interest at a weighted average rate of approximately 5.21%. The \$24 million difference between the amount paid and the City's carrying amount of Gold Bar is reflected as an equity contribution from the City. At the time the transaction was first recorded in March 2009, the estimated contributed surplus arising from the transaction was \$36 million. As the transfer was finalized in 2009, subsequent revisions to the carrying amount of the assets transferred resulted in adjustments to the contributed surplus decreasing the amount to \$24 million.

In exchange for the net assets transferred, EPCOR will pay a total transfer fee of \$75 million. The estimated annual instalments remaining to be paid on the outstanding balance are as follows:

2011	\$	14
2012		12
2013		10
2014		6
2015		1
<b>Total</b>	<b>\$</b>	<b>43</b>

The Gold Bar assets, liabilities, revenues and expenses are reflected in the Water Services segment.

The Gold Bar Master Agreement identified that certain transfers of lands related to the Gold Bar plant would not occur until after the transfer date of March 31, 2009, pending the identification, subdivision and rezoning of Gold Bar site lands and adjacent lands owned by the City to be exchanged to meet future land requirements of both parties. The subdivision, rezoning and the subsequent transfer of title by the City to EPCOR is anticipated to occur during 2010, but not later than January 1, 2011. While the carrying amounts of the existing Gold Bar lands on City records is not material, the identification of lands to be exchanged may result in future payments being made by EPCOR to the City based on differentials in land values of the exchanged lands. Any difference between amounts paid and the carrying amount of the land, which is not expected to be material, will be recorded as an adjustment to contributed surplus.

**(b) Sale of power syndicate agreement:**

In June 2006, the Company finalized an agreement to sell its Battle River Power Purchase Arrangement and its related interest in the Battle River Power Syndicate Agreement (Battle River PSA). The agreement resulted in the sale of 75% of the Battle River PSA through to the year ended December 31, 2008.

**EPCOR UTILITIES INC.**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2010**  
**(Unaudited, in millions of dollars)**

During the first quarter of 2009, 10% of the Battle River PSA was sold. The transaction is summarized as follows:

	Three months ended March 31,	
	2009	
Cash proceeds from sale	\$	47
Less net book value and costs of disposal		17
Gain on sale before income taxes		30
Less future income taxes		4
Gain on sale after income taxes	\$	26

Refundable taxes of \$5 million, which arose from the taxable capital gains on the sale of the Battle River PSA, have been charged to retained earnings as at March 31, 2009.

The Company's remaining interest in the Battle River PSA was sold to Capital Power as part of the sale of the generation business in July 2009.

**7. Other assets:**

	March 31,	December 31,
	2010	2009
Net investments in leases	\$ 124	\$ 124
Floating-rate notes	38	37
Goodwill	2	2
	\$ 164	\$ 163

At March 31, 2010, the Company held \$38 million (2009 - \$37 million) in floating rate notes. The floating rate notes arose from the January 2009 restructuring of the Canadian non-bank asset backed commercial paper (ABCP) market including the Company's holdings in affected ABCP.

**8. Short-term and long-term debt:**

Bank lines of credit are unsecured and are available to the Company up to an amount of \$540 million, comprised of committed amounts of \$500 million and uncommitted amounts of \$40 million. Letters of credit totalling \$80 million have been issued under these facilities as described in note 13. Amounts borrowed, and letters of credit issued, if any, under these facilities which are not payable within one year, are classified as long-term debt.

The Company's commercial paper program has an authorized capacity of \$500 million and an issuance limit of \$225 million under the committed credit facilities.

**9. Non-controlling interests:**

Results of operations which relate to non-controlling interests are as follows:

	Three months ended March 31,	
	2010	2009
Non-controlling interests in CPILP	\$ -	\$ (24)
Preferred share dividends		
paid by subsidiary companies	-	2
	\$ -	\$ (22)

Prior to the sale of power generation business in July 2009, the Company held a controlling interest in CPILP.

**EPCOR UTILITIES INC.**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2010**  
**(Unaudited, in millions of dollars)**

**10. Fair value and classification of non-derivative financial assets and liabilities:**

The Company classifies its current and non-current derivative instruments assets and liabilities as held for trading and measures them at fair value. Accounts receivable are classified as loans and receivables; short-term debt, accounts payable and accrued liabilities, and other current liabilities are classified as other financial liabilities all of which are measured at amortized cost and their fair values are not materially different from their carrying amounts due to their short-term nature. The Company's beneficial interest in the sinking fund related to the City debentures is classified as available for sale.

The classification, carrying amounts and fair values of the Company's other financial instruments at March 31, 2010 and December 31, 2009 respectively are summarized as follows:

Financial asset or liability	Classification	March 31, 2010		December 31, 2009	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Other assets</b>					
Cash and cash equivalents	Held for trading	\$ 17	\$ 17	\$ 11	\$ 11
Floating-rate notes (prior to January 21, 2009 – ABCP)	Held for trading	38	38	37	37
Net investments in leases	Loans and receivables	127	136	127	143
<b>Long-term receivables</b>					
(including current portion)	Loans and receivables	897	967	897	955
<b>Long-term debt</b>					
(including current portion)	Other financial liabilities	1,906	2,106	1,917	2,058

**11. Derivative instruments and hedge accounting:**

Prior to the sale of the power generation business in July 2009, derivative financial and non-financial instruments were held for the purpose of energy purchases, merchant trading or financial risk management. Subsequent to the sale of the power generation business, derivative financial instruments may be held for the purpose of energy purchase or financial risk management. At March 31, 2010 the Company held no derivative financial instruments.

Unrealized and realized pre-tax gains and losses on derivative instruments recognized in other comprehensive income and net income were as follows:

	Three months ended March 31,			
	2010		2009	
	Unrealized gains (losses)	Realized gains (losses)	Unrealized gains (losses)	Realized gains (losses)
Energy cash flow hedges	\$ -	\$ -	\$ 23	\$ (11)
Energy non-hedges	-	-	(1)	(20)
Foreign exchange non-hedges	-	-	(17)	(1)

Realized gains and losses disclosed above relate only to financial derivative instruments. Realized gains and losses on non-financial derivative instruments are recorded in energy revenues or energy purchases and fuel, as appropriate.

**EPCOR UTILITIES INC.**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2010**  
**(Unaudited, in millions of dollars)**

**12. Risk management:**

**Liquidity risk**

As at March 31, 2010, the Company had undrawn and committed bank credit facilities of \$424 million (December 31, 2009 - \$405 million) which is committed for at least 2 years.

In addition, the Company has in place a Canadian shelf prospectus, which expires January 2, 2012, under which it may raise up to \$1 billion of debt, with maturities of not less than one year. As at March 31, 2010, the available amount remaining under the Canadian shelf prospectus was \$1 billion (December 31, 2009 - \$1 billion).

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, as at March 31, 2010:

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due between 3 and 4 years	Due between 4 and 5 years	Due after more than 5 years	Total contractual cash flows
<b>Non-derivative financial liabilities:</b>							
Short-term debt	\$ 43	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43
Long-term debt	240	231	20	15	14	1,399	1,919
Interest payments on long-term debt	150	130	102	93	92	1,130	1,697
Accounts payable and accrued liabilities <sup>1</sup>	172	-	-	-	-	-	172
Other current liabilities	32	-	-	-	-	-	32
<b>Total</b>	<b>\$ 637</b>	<b>\$ 361</b>	<b>\$ 122</b>	<b>\$ 108</b>	<b>\$ 106</b>	<b>\$ 2,529</b>	<b>\$ 3,863</b>

<sup>1</sup> Excluding accrued interest payable of \$40 million on long-term debt.

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, as at December 31, 2009:

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due between 3 and 4 years	Due between 4 and 5 years	Due after more than 5 years	Total contractual cash flows
<b>Non-derivative financial liabilities:</b>							
Short-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt	242	232	24	18	14	1,400	1,930
Interest payments on long-term debt	150	130	107	97	92	1,152	1,728
Accounts payable and accrued liabilities <sup>1</sup>	209	-	-	-	-	-	209
Other current liabilities	32	-	-	-	-	-	32
<b>Total</b>	<b>\$ 633</b>	<b>\$ 362</b>	<b>\$ 131</b>	<b>\$ 115</b>	<b>\$ 106</b>	<b>\$ 2,552</b>	<b>\$ 3,899</b>

<sup>1</sup> Excluding accrued interest of \$32 million on long-term debt.

The Company has long-term loans receivable from Capital Power which offset certain of the long-term debt liabilities above. The following are the undiscounted maturities of the long-term loans receivable from Capital Power as at March 31, 2010:

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Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due between 3 and 4 years	Due between 4 and 5 years	Due after more than 5 years	Total contractual cash flows
<b>Offsetting long-term loans receivable from Capital Power:</b>						
\$ 245	\$ 233	\$ 25	\$ 14	\$ 8	\$ 332	\$ 857

**13. Guarantees:**

At March 31, 2010, the Company had letters of credit outstanding of \$80 million (December 31, 2009 - \$99 million) to meet the credit requirements of energy market participants and to meet conditions of certain service agreements.

Prior to the sale of its power generation business to Capital Power, the Company issued parental guarantees on behalf of subsidiaries to meet the credit requirements of energy market participants and to meet conditions of certain service agreements. At March 31, 2010, the Company continued to have outstanding parental guarantees on behalf of Capital Power totaling \$1,169 million (December 31, 2009 - \$1,295). The Company also has an outstanding parental guarantee which provides for the obligations of Capital Power under a power purchase arrangement (PPA). This guarantee does not have a defined limit; however, it is practically limited by the contractual obligations under the PPA. The Company and Capital Power expect to finalize transfer of these parental guarantees to Capital Power by the end of 2010. Capital Power has indemnified EPCOR for any demand for payments under these guarantees. The expected liability associated with these guarantees is not material and has not been recorded in these financial statements.

**14. Segment disclosures:**

The Company operates in the following reportable business segments, which follow the organization, management and reporting structure within the Company.

**Distribution and Transmission**

Distribution and Transmission is involved in the rate-regulated transmission and distribution of electricity within Edmonton.

**Energy Services**

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to residential and small commercial customers in Alberta. Prior to the sale of the power generation business in July 2009, Energy Services was involved in the procurement, marketing and sale of electricity and natural gas in retail and wholesale markets in Alberta, Ontario, the North Eastern U.S. and the Pacific North West.

**Water Services**

Water Services is primarily involved in the treatment and distribution of water and the treatment of wastewater within Edmonton and other communities throughout Western Canada. This segment also provides complementary commercial services including the maintenance and repair of the City-owned street lighting and transportation support facilities.

**Corporate**

Corporate reflects the costs of the Company's net unallocated corporate office expenses and net financing revenues on the long-term receivable from Capital Power.

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**Generation**

Prior to the sale of the power generation business in July 2009, Generation was involved in the development and operation of rate-regulated and non-rate-regulated electrical generation plants within Canada and the United States.

<b>Three months ended March 31, 2010</b>								
	Distribution and Transmission	Energy Services	Water Services	Corporate	Generation	Intersegment Eliminations	Consolidated	
Revenues – external	\$ 40	\$ 204	\$ 79	\$ 15	\$ -	\$ -	\$ 338	
Intersegment revenues	29	3	-	-	-	(32)	-	
Total revenues	<u>69</u>	<u>207</u>	<u>79</u>	<u>15</u>	<u>-</u>	<u>(32)</u>	<u>338</u>	
Energy purchases and fuel	15	184	-	-	-	(27)	172	
Operations, maintenance, administration and foreign exchange losses (gains)	15	12	47	13	-	(6)	81	
Franchise fee, property taxes and other taxes	12	-	3	-	-	-	15	
Depreciation, amortization and asset retirement accretion	9	3	8	3	-	-	23	
Operating expenses	<u>51</u>	<u>199</u>	<u>58</u>	<u>16</u>	<u>-</u>	<u>(33)</u>	<u>291</u>	
Operating income (loss) before corporate charges	18	8	21	(1)	-	1	47	
Corporate charges (income)	6	3	6	(15)	-	-	-	
Operating income	<u>\$ 12</u>	<u>\$ 5</u>	<u>\$ 15</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 47</u>	
Equity share of income of Capital Power							76	
Net financing expenses							(34)	
Income before income taxes and non-controlling interests							<u>89</u>	
Capital additions	<u>\$ 30</u>	<u>\$ -</u>	<u>\$ 12</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ -</u>	<u>44</u>	

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<b>Three months ended March 31, 2009</b>							
	Distribution and Transmission	Energy Services <sup>(1)</sup>	Water Services	Corporate	Generation	Intersegment Eliminations	Consolidated
Revenues – external	\$ 35	\$ 584	\$ 67	\$ -	\$ 210	\$ -	\$ 896
Intersegment revenues	31	5	-	-	30	(66)	-
<b>Total revenues</b>	<b>66</b>	<b>589</b>	<b>67</b>	<b>-</b>	<b>240</b>	<b>(66)</b>	<b>896</b>
Energy purchases and fuel	11	488	-	-	120	(59)	560
Operations, maintenance, administration and foreign exchange (gains) losses	18	14	44	23	59	(7)	151
Franchise fee, property taxes and other taxes	12	-	2	-	5	-	19
Depreciation, amortization and asset retirement accretion	8	7	5	4	42	-	66
<b>Operating expenses</b>	<b>49</b>	<b>509</b>	<b>51</b>	<b>27</b>	<b>226</b>	<b>(66)</b>	<b>796</b>
Operating income (loss) before corporate charges	17	80	16	(27)	14	-	100
Corporate charges (income)	5	9	6	(27)	7	-	-
<b>Operating income</b>	<b>\$ 12</b>	<b>\$ 71</b>	<b>\$ 10</b>	<b>\$ -</b>	<b>\$ 7</b>	<b>\$ -</b>	<b>\$ 100</b>
Gain on sale of power syndicate agreement							30
Net financing expenses							(42)
Income before income taxes and non-controlling interests							\$ 88
<b>Capital additions</b>	<b>\$ 17</b>	<b>\$ 4</b>	<b>\$ 9</b>	<b>\$ 2</b>	<b>\$ 104</b>	<b>\$ -</b>	<b>\$ 136</b>

(1) The Energy Services segment operating income includes \$65 million for the three months ended March 31, 2009 related to the wholesale electricity and natural gas business that was sold to Capital Power.

**Geographic information:**

	<b>Three months ended March 31, 2010</b>				<b>Three months ended March 31, 2009</b>			
	Canada	U.S.	Intersegment Eliminations	Total	Canada	U.S.	Intersegment Eliminations	Total
Revenues - external	\$ 338	\$ -	\$ -	\$ 338	\$ 780	\$ 116	\$ -	\$ 896
Intersegment revenues	-	-	-	-	12	2	(14)	-
<b>Total revenues</b>	<b>\$ 338</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 338</b>	<b>\$ 792</b>	<b>\$ 118</b>	<b>\$ (14)</b>	<b>\$ 896</b>

**15. Comparative figures:**

Certain of the comparative figures have been reclassified to conform with the current period's presentation.