Condensed Consolidated Interim Financial Statements of

EPCOR UTILITIES INC.

Nine months ended September 30, 2011 and 2010

EPCOR UTILITIES INC.

Condensed Consolidated Interim Income Statements
(Unaudited, in millions of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues (note 6)	$ 480	$ 377	$ 1,282	$ 1,056
Other income	10	10	31	40
Electricity purchases and system access fees	(305)	(199)	(765)	(548)
Other raw materials and operating charges	(31)	(32)	(80)	(88)
Staff costs and employee benefits expenses	(61)	(54)	(178)	(162)
Depreciation and amortization	(25)	(25)	(76)	(74)
Franchise fees and property taxes	(20)	(17)	(57)	(50)
Other administrative expenses	(11)	(7)	(28)	(23)
Foreign exchange gains (note 15)	17	-	16	-
Operating income	54	53	145	151
Finance expense (note 8)	(29)	(28)	(80)	(94)
Equity share of income of Capital Power (note 9)	23	-	28	45
Income before income taxes	48	25	93	102
Income tax expense (recovery)	(11)	(1)	2	3
Net income for the period – all attributable to the Owner of the Company	$ 59	$ 26	$ 91	$ 99

The accompanying notes are an integral part of these condensed consolidated interim financial statements

EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Comprehensive Income
(Unaudited, in millions of Canadian dollars)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Net income for the period	$ 59	$ 26	$ 91	$ 99
Other comprehensive income (loss):				
Equity share of other comprehensive income (loss) of Capital Power (note 9)[1]	23	9	(4)	4
Unrealized income on available-for-sale financial assets[2]	2	-	1	1
Unrealized gain on foreign currency Translation[3]	2	-	2	-
Other comprehensive income (loss)	27	9	(1)	5
Total comprehensive income for the period - all attributable to the Owner of the Company	$ 86	$ 35	$ 90	$ 104

[1] For the three and nine months ended September 30, 2011, net of income tax expense of $7 million and a recovery of $1 million respectively. For the three and nine months ended September 30, 2010, net of income tax expense of $3 million and $1 million, respectively.

[2] For the three and nine months ended September 30, 2011, net of income tax expense of $1 million. For the three and nine months ended September 30, 2010, net of income tax expense of nil, respectively.

[3] For the three and nine months ended September 30, 2011 and 2010, net of income tax expense of nil.

The accompanying notes are an integral part of these condensed consolidated interim financial statements

EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited, in millions of Canadian dollars)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21	$ 104
Trade and other receivables	545	506
Inventories	13	10
Derivative financial instruments assets (note 15)	18	-
	597	620
Non-current assets:		
Finance lease receivables (note 7)	128	130
Other financial assets (note 8)	400	463
Deferred tax assets	44	42
Investment in Capital Power (note 9)	1,170	1,192
Intangible assets (note 10)	105	100
Property, plant and equipment (note 11)	2,540	2,385
	4,387	4,312
TOTAL ASSETS	$ 4,984	$ 4,932
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 252	$ 259
Loans and borrowings	296	219
Provisions	18	24
Other liabilities	38	36
	604	538
Non-current liabilities:		
Loans and borrowings	1,435	1,453
Deferred revenue (note 12)	566	541
Deferred tax liabilities	2	1
Provisions	27	27
Other liabilities	22	30
	2,052	2,052
Total liabilities	2,656	2,590
Equity attributable to the Owner of the Company:		
Share capital	24	24
Accumulated other comprehensive income (note 13)	4	5
Retained earnings	2,300	2,313
Total equity	2,328	2,342
TOTAL LIABILITIES AND EQUITY	$ 4,984	$ 4,932

Commitments (note 18)

EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited, in millions of Canadian dollars)

	Share capital	Cash flow hedges (note 13)	Available-for-sale financial assets (note 13)	Cumulative translation account	Investment in Capital Power (note 9)	Retained earnings	Equity attributable to the Owner of the Company
Balance at January 1, 2011	$ 24	$ (11)	$ 3	$ -	$ 13	$ 2,313	$ 2,342
Net income for the period	-	-	-	-	-	91	91
Other comprehensive loss:							
Equity share of other comprehensive loss of Capital Power	-	-	-	-	(4)	-	(4)
Unrealized loss on available-for-sale financial assets	-	-	1	-	-	-	1
Unrealized gain on foreign subsidiary	-	-	-	2	-	-	2
Total comprehensive income (loss)	-	-	1	2	(4)	91	90
Dividends	-	-	-	-	-	(104)	(104)
Balance at September 30, 2011	$ 24	$ (11)	$ 4	$ 2	$ 9	$2,300	$ 2,328

	Share capital	Cash flow hedges (note 13)	Available-for-sale financial assets (note 13)	Cumulative translation account	Investment in Capital Power (note 9)	Retained earnings	Equity attributable to the Owner of the Company
Balance at January 1, 2010	$ 24	$ (13)	$ 4	$ -	$ 21	$ 2,344	$ 2,380
Net income for the period	-	-	-	-	-	99	99
Other comprehensive income:							
Equity share of other comprehensive loss of Capital Power	-	-	-	-	4	-	4
Unrealized income on available-for-sale financial assets	-	-	1	-	-	-	1
Total comprehensive income	-	-	1	-	4	99	104
Dividends	-	-	-	-	-	(102)	(102)
Balance at September 30, 2010	$ 24	$ (13)	$ 5	$ -	$ 25	$ 2,341	$ 2,382

The accompanying notes are an integral part of these condensed consolidated interim financial statements

EPCOR UTILITIES INC.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited, in millions of Canadian dollars)

	Nine months ended September 30, 2011	2010
Cash flows from (used in) operating activities:		
Net income for the period	$ 91	$ 99
Reconciliation of net income for the period to cash from operating activities:		
Interest paid	(87)	(96)
Finance expense	80	100
Income taxes paid	(11)	-
Income tax expense	2	3
Depreciation and amortization	76	74
Contributions received (note 12)	20	5
Deferred revenue recognized (note 12)	(8)	(9)
Gain on disposal of floating-rate notes (note 8)	(7)	-
Gain on disposal of property plant and equipment	(1)	-
Fair value change on derivative instruments	(18)	-
Fair value income (loss) on floating-rate notes	1	(6)
Equity share of income from Capital Power (note 9)	(28)	(45)
Other	(22)	(18)
	88	107
Change in non-cash operating working capital	(13)	(8)
Net cash flows from operating activities	75	99
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets	(175)	(118)
Business acquisition, net of acquired cash (note 5)	(29)	(1)
Change in non-cash investing working capital	(17)	(3)
Proceeds on sale of floating-rate notes (note 8)	48	-
Proceeds on disposal of property plant and equipment	2	-
Payment of Gold Bar transfer fees	(15)	(15)
Payments received on long-term receivables	33	244
Distributions from Capital Power (note 9)	45	53
Net cash flows from (used in) investing activities	(108)	160
Cash flows from (used in) financing activities:		
Net issuance of short-term loans and borrowings	79	83
Repayment of long-term loans and borrowings	(25)	(228)
Common share dividends paid	(104)	(102)
Net cash flows used in financing activities	(50)	(247)
Increase (decrease) in cash and cash equivalents	(83)	12
Cash and cash equivalents, at January 1	104	11
Cash and cash equivalents, at September 30	$ 21	$ 23

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure, and provides electricity and water services and products to residential and commercial customers.

The Company operates in Canada and the United States (U.S.) with its registered and head office located at 10065 Jasper Avenue, Edmonton, Alberta, Canada, T5J 3B1.

The common shares of EPCOR are owned by The City of Edmonton (the City). The Company was established by City Council under City Bylaw 11071.

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

2. Basis of presentation and conversion to International Financial Reporting Standards

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared by management in accordance with International Accounting Standard (IAS) 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB) and adopted by the Canadian Institute of Chartered Accountants (CICA) applicable to companies for years beginning on or after January 1, 2011. These condensed consolidated interim financial statements reflect part of the period covered by the first International Financial Reporting Standards (IFRS) annual financial statements and IFRS 1 - First-time Adoption of International Financial Reporting Standards (IFRS 1) has been applied. The condensed consolidated interim financial statements do not include all of the information required for consolidated annual financial statements.

For prior reporting periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) in effect for those periods. These condensed consolidated interim financial statements should be read in conjunction with the Company's condensed consolidated interim financial statements for the three months ended March 31, 2011. The Company's March 31, 2011 condensed consolidated interim financial statements include certain disclosures not repeated in the September 30, 2011 condensed consolidated interim financial statements, including IFRS 1 elections made by the Company and reconciliations of equity and total comprehensive income reported under previous Canadian GAAP to those reported under IFRS as at January 1, 2010, as at and for the three months ended March 31, 2010 and as at and for the year ended December 31, 2010.

An explanation of the impact of the transition to IFRS on the financial position, financial performance and cash flows of the Company as at and for the three and nine months ended September 30, 2010 is provided in note 20.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on November 4, 2011.

(b) Basis of measurement

The Company's condensed consolidated interim financial statements are prepared on the historical cost basis, except for valuation of the Company's investment in its floating-rate notes, its beneficial interest in the sinking fund held with the City, and its derivative financial instruments which are measured at fair value. In addition, the Company's defined benefit pension assets are recognized as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of transition to IFRS, unless otherwise indicated.

(a) Basis of consolidation

These condensed consolidated interim financial statements include the accounts of EPCOR and its subsidiaries as at September 30, 2011. Subsidiaries are fully consolidated from the date on which EPCOR obtains control, and continue to be consolidated until the date that such control ceases to exist. All intercompany balances and transactions have been eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as EPCOR, using consistent accounting policies.

(b) Investment in Capital Power

In these condensed consolidated interim financial statements, Capital Power refers to Capital Power Corporation and its subsidiaries, including Capital Power L.P., except where otherwise noted or the context indicates otherwise.

The Company holds 47.4 million exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on an one-for-one basis) which represents approximately 49% of Capital Power L.P. Each exchangeable limited partnership unit is accompanied by a special voting share in Capital Power Corporation which entitles the holder to a vote at Capital Power Corporation shareholder meetings, subject to the restriction that such special voting shares must at all times represent not more than 49% of the votes attached to all Capital Power Corporation common shares and special voting shares, taken together. The special voting shares also entitle EPCOR, voting separately as a class, to nominate and elect a maximum of four out of the twelve directors of Capital Power Corporation. The number of Capital Power directors which EPCOR is entitled to nominate reduces, in stages, as EPCOR's percentage interest in Capital Power declines.

As a result, the Company does not control Capital Power's operations as it does not have the power to direct the activities of Capital Power. Accordingly, EPCOR has significant influence in Capital Power and therefore uses the equity method to account for its investment in Capital Power.

The investment in Capital Power was recognized initially at cost. The condensed consolidated interim financial statements include the Company's equity share of the income and expenses and equity movements of Capital Power, after adjustments to align its accounting policies with those of the Company, from the date that significant influence exists until the date that significant influence ceases.

The Company determines at each reporting date, whether there is objective evidence that the equity investment in Capital Power is impaired. An impairment will be recorded when the carrying amount of its investment in Capital Power exceeds its estimated recoverable amount. The investment's recoverable amount is the higher of its fair value less costs to sell and its value in use. The value in use of an asset is the present value of estimated future cash flows, applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less costs to sell is based on estimated market values based on actual market transactions, if available, or a fair value estimation model. An impairment loss will be recorded as the excess of the carrying amount of the investment in Capital Power over the estimated recoverable amount. If, in a subsequent period, the recoverable amount increases, the impairment loss is reversed to the extent that the carrying amount does not exceed the carrying amount that would have been recorded had no impairment loss been recognized.

(c) Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Where an acquisition involves consideration contingent on future events, any changes in the amount of consideration paid will be recognized in the income statement.

Goodwill is initially recorded as the cost of an acquisition less the fair value of the net assets of the consolidated business acquired. If the cost of an acquisition is less than the fair value of the Company's share of the net assets acquired, the difference is recognized directly in net income.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually at the cash generating unit level. For the purpose of impairment testing, goodwill acquired in an acquisition is, from the date of acquisition, allocated to each of the Company's cash generating units that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquired business are assigned to those units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

(d) Foreign currency

Transactions denominated in currencies other than the Canadian dollar are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect on the balance sheet date. Other non-monetary assets are not re-translated unless they are carried at fair value. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting foreign exchange gains and losses are included in net income.

On consolidation, the assets and liabilities of foreign operations that have a different functional currency than Canadian dollars are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation gains and losses are deferred and included in other comprehensive income in the translation account.

(e) Intangible assets

Intangible assets are stated at cost, net of accumulated amortization and any impairment losses.

Customer rights represent the costs to acquire the rights to provide electricity services to particular customer groups. Rights are recorded at the cost of acquisition. A subsequent expenditure is capitalized only when it increases the future economic benefit in the specific asset to which it relates.

Other rights include geographic rights to serve within a defined geographic area and long-term rights to the supply of water.

The cost of intangible software includes the cost of license acquisitions, contracted services, materials, direct labor, along with directly attributable overhead costs and borrowing costs on qualifying assets.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are included within depreciation.

Amortization of the cost less estimated residual value of fixed life intangible assets is recognized on a straight-line basis over the estimated economic useful lives of the assets, from the date they are available for use, as this most closely reflects the expected usage of the asset. Work in progress is not amortized. The useful economic lives, methods of amortization and residual values are reviewed annually, with any changes adopted on a prospective basis.

The estimated useful lives for intangible assets with definite lives are as follows:

Customer rights	20 years
Software assets	2 – 20 years
Water rights	100 years

(f) Property, plant and equipment

Property, plant and equipment (PP&E) are recorded at cost, net of accumulated depreciation, and accumulated impairment losses, if any.

Cost includes contracted services, materials, direct labor, directly attributable overhead costs, borrowing costs on qualifying assets and asset retirement costs. Where parts of an item of PP&E have different useful lives, they are

accounted for as separate items (major components) of PP&E.

The cost of major inspections and maintenance is recognized in the carrying amount of the item if the asset recognition criteria are satisfied. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing are expensed as incurred.

Gains and losses on the disposal of PP&E are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation.

Depreciation of cost less residual value is charged on a straight-line basis over the estimated economic useful lives of items of each depreciable component of PP&E, from the date they are available for use, as this most closely reflects the expected usage of the assets. Land and construction work in progress are not depreciated. Estimating the appropriate useful lives of assets requires significant judgment and is generally based on estimates of life characteristics of similar assets. The useful economic lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

The range of estimated useful lives used is as follows:

Water treatment and distribution	4 – 90 years
Electricity transmission and distribution	5 – 65 years
Retail systems and equipment	4 – 65 years
Corporate information systems and equipment	2 – 20 years

(g) Capitalized borrowing costs

The Company capitalizes interest during construction of an asset using the weighted average cost of debt incurred on the Company's external borrowings or specific borrowings used to finance qualifying assets. Qualifying assets are considered to be those that take a substantial period of time to construct.

(h) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. The asset's recoverable amount is estimated if any indication of impairment exists. The asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of estimated future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less costs to sell is based on estimated market values based on actual market transactions, if available, or a fair value estimation model.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount, and is recorded in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss will be recorded in net income for the period as the excess of the carrying amount of the asset over its recoverable amount.

At each reporting date, the Company makes an assessment as to whether there is any indication that previously incurred impairment losses have reversed. If such an indication exists, the Company estimates the asset's recoverable amount and compares it to the carrying amount, including accumulated depreciation, that would have been determined had no impairment loss been recognized. Any reversal is limited to this latter amount.

(i) Inventories

Small parts and other consumables, the majority of which are consumed by the Company in the provision of its goods and services, are valued at the lower of cost and net realizable value. Cost includes the purchase price, transportation costs and other costs to bring the inventories to their present location and condition. The costs of inventory items that are interchangeable are determined on an average cost basis. For inventory items that are not interchangeable, cost is assigned using specific identification of their individual costs. Previous write downs of inventories from cost to net realizable value can be fully or partially reversed if supported by economic circumstances.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Each such obligation is discounted using a rate determined by reference to market interest rates at the date of the statement of financial position on high-quality debt instruments with cash flows that match the timing of the payments. The increase in the provision due to the passage of time is recognized as a financing expense over the estimated time period until settlement of the obligation.

The Company recognizes a decommissioning provision in the period in which a legal or constructive obligation is incurred. A corresponding asset decommissioning cost is added to the carrying amount of the associated PP&E, and is depreciated over the estimated useful life of the asset.

(k) Employee future benefits

The employees of the Company are either members of the Local Authorities Pension Plan (LAPP) or other defined contribution plan.

The LAPP is a multiemployer defined benefit pension plan. The Trustee of the plan is the Treasurer of Alberta and the plan is administered by a Board of Trustees. The Company and its employees make contributions to the plan at rates prescribed by the Board of Trustees to cover costs under the plan. It is accounted for as a defined contribution plan as the LAPP is not able to provide information which reflects EPCOR's specific share of the defined benefit obligation or plan assets that would enable the Company to account for the plan as a defined benefit plan. Accordingly, the Company does not recognize its share of any plan surplus or deficit.

The Company maintains additional defined contribution and defined benefit pension plans to provide pension benefits to those employees (comprising less than 1% (December 31, 2010 - 1%) of total employees) who are not otherwise served by LAPP, including employees of new or acquired operations.

The Company accrues its obligations for its defined benefit pension plans net of plan assets. The cost of pension benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management’s best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at quoted market value. The discount rate used to calculate the interest cost on the accrued benefit obligation is determined by reference to market interest rates at the date of the statement of financial position on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Past service costs from plan amendments are amortized on a straight-line basis over the estimated average remaining service of employees active at the date of amendment. The excess of the net cumulative unamortized actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the market value of plan assets is amortized over the estimated average remaining service period of the active employees.

The Company's obligation in respect of long-term employee benefits other than pension plans, is the amount of future benefits that employees have earned for their service in the current and past periods, and is actuarially determined using management's best estimate of salary escalation and employee retention. The benefit is discounted using a rate determined by reference to market interest rates at the date of the statement of financial position on high-quality debt instruments with cash flows that match the timing of the expected benefit payments. Any actuarial gains or losses are recognized immediately.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(l) Deferred revenue

Certain assets may be acquired or constructed using non repayable government grants, contributions from developers or customers. Contributions received towards construction or acquisition of an item of PP&E which are used to provide ongoing service to a customer are recorded as deferred revenue and are amortized on a straight line basis over the estimated economic useful lives of the assets to which they relate.

(m) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and where it can be reliably measured. Revenues are measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duty.

Certain Water Services contracts contain multiple-deliverables arrangements. Each deliverable that is considered to be a separate unit of account is accounted for separately. The total contract value is allocated to each unit of account based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered units of account. The primary identifiable deliverables under such contracts are plant construction and project upgrades and expansions, financing or leasing of upgrades, facilities operations and facilities maintenance.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenues from sales of electricity, water and wastewater are recognized upon delivery. These revenues include an estimate of the value of electricity and water consumed by customers, but billed subsequent to the reporting period.

Revenues from the sale of other goods are recognized when the products have been delivered.

Provision of services

Revenues from the provision of distribution and transmission services are recognized over the period in which the service is performed.

Construction contracts

Revenue from the construction of water and wastewater plants and other project upgrades and expansions provided to customers is recognized on the percentage of completion basis. Percentage of completion is estimated based on an assessment of progress towards the completion of contract tasks. These estimates result in the recognition of unbilled receivables when the revenues are earned prior to billing customers. Provisions for estimated losses on uncompleted contracts are made for the full amount of the projected loss in the period in which the losses are identified. Revenues and costs related to change orders are included in the total estimated contract revenue and expenses when approval is reasonably assured.

Revenues earned under finance leases

Finance income earned from arrangements where the Company leases water and wastewater assets to customers, are accounted for as finance leases, as described in note 3(s).

Interest income

Revenue from the financing of project upgrades and expansions is recognized over the term of each contract using the effective interest method based on the fair value of the loan calculated at inception for each contract.

Interest income related to the loans receivable from Capital Power are recognized over the terms of the loans based on the interest rate applicable to each loan.

(n) Income taxes

Under the Income Tax Act (Canada) (ITA), a municipally owned corporation is subject to income tax on its taxable income if the income from activities for any relevant period that was earned outside the geographical boundaries of the municipality exceeds 10% of the corporation's total income for that period. As a result of these and other provisions, certain Canadian subsidiaries of the Company are taxable under the ITA and provincial income tax acts. The U.S. subsidiaries are subject to income taxes pursuant to U.S. federal and state income tax laws.

Current income taxes for the current or prior periods are measured at the amount expected to be recovered from or payable to the taxation authorities based on the tax rates that are enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted rates of tax expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future tax assets and liabilities is recognized in income in the period that includes the date of enactment or substantive enactment.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred income tax assets are assessed at each reporting date to determine the likelihood that they will be realized from future taxable income and are reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that neither affects taxable income or accounting income.

Current and deferred tax relating to items recognized directly in equity is recognized in equity and not in net income.

(o) Cash and cash equivalents

Cash and cash equivalents include cash or highly liquid, investment-grade, short-term investments and are recorded at fair market value.

(p) Non-derivative financial instruments

Financial assets are identified and classified as either available-for-sale, held at fair value through profit or loss, or loans and receivables. Financial liabilities are classified as either held at fair value through profit or loss or other liabilities.

Financial instruments at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. The Company may designate financial instruments as held at fair value through profit or loss when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on them on a different basis. The Company classified its investment in floating-rate notes as held at fair value through profit or loss. The floating-rate notes were classified as a non-current asset due to the expected maturity dates of the notes.

Upon initial recognition, transaction costs are recognized in the consolidated income statement as incurred.

Financial assets held at fair value through profit or loss are measured at fair value with the changes in fair value recognized in net income.

Loans and receivables

Loans and receivables are comprised of cash and cash equivalents, promissory notes receivable and amounts due from customers more than one year from the balance sheet date.

The Company's loans and receivables are recognized initially at fair value plus any directly attributable transaction costs. After initial recognition, they are measured at amortized cost using the effective interest method less any

impairment as described in note 3(r). The effective interest method calculates the amortized cost of a financial asset or liability and allocates the finance income or expense over the term of the financial asset or liability using an effective interest rate.

Available-for-sale financial assets

The Company's beneficial interest in the sinking fund with the City does not meet the criteria for classification in any of the previous categories and is classified as an available-for-sale financial asset and measured at fair value with changes in fair value reported in other comprehensive income until it is disposed of or becomes impaired, as described in note 3(r).

On derecognition of an available-for-sale financial asset, the cumulative gain or loss that was previously held in equity is transferred to net income.

Other liabilities

The Company's loans and borrowings and trade and other payables are recognized on the date at which the Company becomes a party to the contractual arrangement. Other liabilities are derecognized when the contractual obligations are discharged or cancelled or expire.

Other liabilities are recognized initially at fair value, plus any directly attributable transaction costs, such as debenture discounts, premiums and issue expenses. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

Financial assets and financial liabilities are presented on a net basis when the Company has a legally enforceable right to set-off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

(q) Derivative financial instruments

The Company uses various risk management techniques to reduce its exposure to movements in electricity prices and foreign currency exchange rates. These include the use of derivative instruments such as forward contracts or contracts-for-differences. Such instruments may be used to establish a fixed price for electricity or anticipated transactions denominated in a foreign currency.

The Company sells electricity to customers under a Regulated Rate Tariff (RRT). As part of the RRT, the amount of electricity to be procured, the procurement method and electricity selling prices to be charged to these customers is determined by an Energy Price Setting Plan (EPSP). Under the EPSP commencing July 1, 2011, and unlike the previous EPSP under which the Company's electricity procurement requirements were managed by a third party, the Company manages the procurement of electricity directly. As part of the EPSP, the Company uses financial contracts-for-differences, a type of derivative financial instrument, to economically hedge the Company's exposure to fluctuations in electricity prices. Under these instruments, the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the Alberta Electric System Operator (AESO) market price and the fixed contract price for a specified volume of electricity for the forward month, all in accordance with the EPSP.

Foreign exchange forward contracts are used by the Company to manage foreign exchange exposures, consisting mainly of U.S dollar exposures, resulting from anticipated transactions denominated in foreign currencies. All derivative instruments are recorded at fair value on the balance sheet as derivative financial instrument assets or derivative financial instrument liabilities, to the extent they have not been settled, with all changes in the fair value of derivatives recorded in net income.

The fair value of derivative financial instruments reflects changes in the electricity prices and foreign exchange rates. Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as future prices, foreign exchange rates and discount rates for time value. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

(r) Impairment of financial assets

The Company's financial assets held as loans and receivables or available-for-sale assets are assessed for indicators of impairment at each reporting date. An impairment loss for financial assets is recorded when it is identified that there is objective evidence that one or more events has occurred, after the initial recognition of the asset, that has had an impact on the estimated future cash flows of the asset and that can be reliably estimated. The objective evidence for these types of assets is as follows:

- For listed and unlisted investments in equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.
- For all other financial assets, including finance lease receivables, objective evidence of impairment includes significant financial difficulty of the counterparty or default or delinquency in interest or principal payments.
- Trade receivables and other assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the Company's past experience of collecting payments as well as observable changes in national or local economic conditions.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted.

When an available-for-sale financial asset is considered to be impaired, any cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income. Impairment losses previously recognized in net income are not reversed. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

(s) Lease arrangements

At the inception of an arrangement entered into for the use of PP&E, the Company determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of the specific asset. An arrangement conveys the right to use the asset if the right to control the use of the underlying asset is conveyed. Where it is determined that the arrangement contains a lease, the Company classifies the lease as either a finance or operating lease dependent on whether substantially all the risks or rewards of the asset have been transferred.

Where the Company is the lessor, finance income related to leases or arrangements accounted for as finance leases is recognized in a manner that produces a constant rate of return on the net investment in the lease. The net investment in the lease is composed of net minimum lease payments and unearned finance income. Unearned finance income is deferred and recognized in net income over the lease term.

Where the Company is the lessee, leases or other arrangements that transfer substantially all of the benefits and risks of ownership of property to the Company are classified as finance leases. Other arrangements that are determined to contain a lease are classified as operating leases. The Company currently has not entered into any arrangements as a lessee which would be classified as finance leases. Rental payments under arrangements classified as operating leases are expensed on a straight-line basis over the term of the lease.

(t) Standards and interpretations not yet applied

The following accounting standards and interpretations, which have potential significance to the Company, were issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) for application in future periods:

International Accounting Standards (IAS / IFRS)	*Effective for annual periods beginning on or after:*
IFRS 7 (Amendment) – Financial Instruments: Disclosures	July 1, 2011
IAS 1 (Amendment) – Presentation of Financial Statements	July 1, 2012
IFRS 9 – Financial Instruments	January 1, 2013
IFRS 10 – Consolidated Financial Statements	January 1, 2013
IFRS 11 – Joint Arrangements	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13 – Fair Value Measurement	January 1, 2013
IAS 28 (Amendment) – Investments in Associates and Joint Ventures	January 1, 2013

IFRS 7 (Amendment) – Financial Instruments, requires additional disclosure with respect to transferred assets that are not derecognized and financial assets which have been derecognized but for which the entity is still involved. The Company does not expect the amendments to have a material impact on the financial statements, because the nature of the Company's operations and the types of financial assets that it holds.

IAS 1 (Amendment) – Presentation of Financial Statements (IAS 1), requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they might at some point be reclassified from OCI to profit or loss at a later date when specified conditions are met. By requiring items of OCI to be grouped on this basis, their potential effect on profit or loss in future periods will be clearer. The Company does not expect IAS 1 to have a material impact on the financial statements.

IFRS 9 – Financial Instruments (IFRS 9), replaces IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39) eliminates the existing categories of financial assets and requires financial assets to be classified as either amortized cost or fair value. Gains and losses on re-measurement of financial assets at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. Changes in fair value attributable to changes in credit risk of financial liabilities measured under the fair value option will be recognized in OCI with the remainder of the change recognized in profit or loss unless an accounting mismatch in profit or loss occurs at which time the entire change in fair value would be recognized in profit or loss. Derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument must be measured at fair value. The impact on the Company of adoption of IFRS 9 has not yet been determined.

IFRS 10 - Consolidated Financial Statements (IFRS 10), replaces IAS 27 – Consolidated and Separate Financial Statements and Standing Interpretations Committee (SIC) - 12 – Consolidation – Special Purpose Entities (SIC 12) and provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. The Company does not expect this standard to have a material impact on its financial statements as it does not change the control analysis for any of its associates or subsidiaries.

IFRS 11 – Joint Arrangements (IFRS 11), replaces IAS 31 - Interests in Joint Ventures and SIC-13 - Jointly Controlled Entities - Non-Monetary Contributions by Vendors. IFRS 11 draws a distinction between joint operations and joint ventures. Entities which previously accounted for joint ventures using proportionate consolidation will generally be required to account for such ventures using the equity method. The Company does not expect the amendment to have any impact as the Company does not have any joint arrangements at the reporting date.

IFRS 12 – Disclosure of Interest in Other Entities (IFRS 12) contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and / or unconsolidated structured entities. When applied, it is

expected that the amendments to IFRS 12 will increase the current level of disclosure of the Company's interest in other entities.

IFRS 13 – Fair Value Measurement (IFRS 13), replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements. The Company does not expect IFRS 13 to have a material impact on the financial statements.

IAS 28 (Amendment) – Investments in Associates and Joint Ventures (IAS 28), was amended to conform with IFRS 10 and IFRS 11 accounting standards. The amendments apply to the measurement of a retained stake in an investment where significant influence is succeeded by joint control, and to the measurement of a retained stake in an investment, a portion of which has been classified as held for sale. The Company does not expect these amendments to have any impact on the financial statements.

4. Use of estimates and judgements

The preparation of the Company's condensed consolidated interim financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements.

The Company reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions. Adjustments to previous estimates, which may be material, will be recorded in the period they become known. Actual results may differ from these estimates.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements are included in notes:

Note 3(b) – Investment in Capital Power

Note 3(m) – Revenue recognition

Note 3(q) – Derivative financial instruments

Assumptions and uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include:

Financial instruments

The valuation of the Company's beneficial interest in the sinking fund requires estimation of the fair value of each instrument at the reporting date.

Revenues

By regulation, presently, wire service providers in Alberta currently have up to seven months to submit final load settlement data on customer electricity usage after the month in which such electricity was consumed. By regulation, by the end of the year, wire service providers will have four months to submit the final load settlement data after the month in which such electricity was consumed. The data and associated processes and systems used by the Company to estimate electricity revenues and costs, including unbilled consumption, are complex. The Company's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents.

The amount of revenues and related profit recognized under the percentage of completion method for certain plant construction and other project upgrades depends on accuracy of cost, schedule and performance estimates related to the ability to recover additional contract costs through change orders or claims to the customer or contractors.

Fair value measurement

For certain accounting measures such as determining asset impairments, purchase price allocations for business combinations, recording financial assets and liabilities, recording certain non-financial derivatives and for certain

disclosures, the Company is required to estimate the fair value of certain assets or obligations. Estimates of fair value may be based on readily determinable market values or on depreciable replacement cost or discounted cash flow techniques employing estimated future cash flows based on a number of assumptions and using an appropriate discount rate. Financial instruments that do not satisfy the conditions required for hedge accounting are recorded at fair value, which may require the use of estimated future prices.

Pension assets and obligations

Measurement of certain of the Company's pension costs and plan assets and obligations requires the use of estimates with respect to expected plan investment performance, salary escalation, retirement ages of employees, timing of related future cash flows and appropriate discount rates for use in discounted cash flow and actuarial techniques.

Depreciation and amortization

Depreciation and amortization is an estimate to allocate the cost of an asset less its estimated residual value over its estimated useful life on a systematic and rational basis. Estimating the appropriate useful lives of each part of an asset requires significant judgment and is generally based on estimates of common life characteristics of common assets. The estimated useful lives used are provided in notes 3(e) and 3(f). Estimates are reviewed on an annual basis and updated on a prospective basis.

Deferred taxes

Income taxes are determined based on estimates of the Company's current income taxes and estimates of deferred income taxes resulting from temporary tax differences. Deferred income tax assets are assessed to determine the likelihood that they will be realized from future taxable income.

5. Acquisition of Chaparral City Water Company

On May 31, 2011, the Company completed the acquisition of 100% of the common shares of Chaparral City Water Company (Chaparral) from American States Water Company for total consideration of US$30 million and the assumption of US$5 million in long-term debt. Chaparral is a public utility company engaged principally in the purchase, production, distribution and sale of water to approximately 13,000 customers in the Town of Fountain Hills, Arizona and a small area within Scottsdale, Arizona. Chaparral was acquired as the initial step in the Company's strategic plan to expand operations into the U.S.

The purchase price was allocated to the assets acquired and liabilities assumed on a preliminary basis based on their estimated values in Canadian dollars as follows:

Cash and cash equivalents	$	1
Current assets		1
Goodwill		9
Property, plant and equipment		39
Intangible assets (excluding goodwill)		3
Current liabilities		(1)
Loans and borrowings		(5)
Deferred revenue		(12)
Other non-current liabilities		(5)
	$	30

The goodwill of $9 million, included within intangible assets on the statement of financial position, arising from the acquisition consists largely of the benefits to growth strategies and future synergies which may result as the Company's operations in the U.S. expand. In October 2011, a joint election was filed with the U.S. Internal Revenue Service to treat the acquisition as an asset purchase and permit the goodwill to be deductible for income tax purposes.

Revenues of $4 million and profits of $1 million contributed by Chaparral since May 31, 2011 are included in the condensed

consolidated interim statements of comprehensive income. Had Chaparral been consolidated from January 1, 2011, the condensed consolidated interim statements of comprehensive income would have included revenue of $7 million and net income of $1 million to September 30, 2011.

The fair value estimates of certain assets and liabilities is preliminary and expected to be finalized by December 31, 2011 based on completion of review by management. Such review could result in material adjustments to the fair value purchase price allocation.

6. Revenues

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Revenue:				
Electricity and water sales	$ 352	$ 273	$ 961	$ 772
Provision of services	120	95	299	253
Finance lease income	3	3	10	9
Construction revenues	5	6	12	22
	$ 480	$ 377	$ 1,282	$ 1,056

7. Finance lease receivables

On October 7, 2009, the Company acquired potable water and wastewater treatment plant assets for approximately $100 million and agreed to lease the assets back to the vendor for a 20-year term after which the vendor has the option to purchase the assets from the Company for a specified price. As part of the arrangement, the Company also agreed to construct additional water and wastewater treatment plant assets for the vendor and to operate and maintain the original assets acquired and leased back to the vendor and the additional constructed assets over the 20-year lease term.

	Minimum lease receivable September 30, 2011	Minimum lease receivable December 31, 2010	Present value of minimum lease receivable September 30, 2011	Present value of minimum lease receivable December 31, 2010
Less than one year	$ 15	$ 14	$ 3	$ 3
Between one and five years	59	59	16	14
More than five years	190	201	112	116
Less: unearned finance income	(133)	(141)		
	131	133	131	133
Less: current portion [1] (included in trade and other receivables)	3	3	3	3
	$ 128	$ 130	$ 128	$ 130

[1] Net of unearned finance income

8. Floating-rate notes

At December 31, 2010, the Company held $42 million in floating-rate notes. In June 2011, the Company sold its floating-rate notes for $48 million compared to their fair value at March 31, 2011 of $41 million. The gain of $7 million is included in financing expenses on the income statement.

9. Investment in Capital Power

As described in note 3(b), EPCOR does not control Capital Power. The investment in Capital Power 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 by EPCOR 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% interest in Capital Power. The investment subsequently increased to recognize the Company's equity share of earnings of Capital Power and reduced by the distributions payable by Capital Power and any subsequent disposal of any portion of the investment. In addition, there was approximately $1 million of accumulated losses associated with the investment in Capital Power included in accumulated other comprehensive loss at September 30, 2011 (December 31, 2010 - $4 million of accumulated income). On any sale of the investment in Capital Power, the Company will recognize a portion of these losses in net income in proportion to the remaining interest sold.

At December 31, 2010, the Company's 47.4 million exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on an one-for-one basis) represented approximately 61% of Capital Power L.P. In March 2011, Capital Power issued an additional 9.3 million common shares which translated into additional limited partnership units of Capital Power L.P. being issued which reduced EPCOR's economic interest in Capital Power to approximately 54% at June 30, 2011. In July 2011, Capital Power issued 9.2 million common shares, which further reduced EPCOR's economic interest to 49% at September 30, 2011.

Capital Power Corporation is listed on the Toronto Stock Exchange. The quoted market price of the common shares of Capital Power Corporation at September 30, 2011 was $25.45 per common share (December 31, 2010 - $23.65 per common share).

The investment in Capital Power L.P. is detailed as follows:

	September 30, 2011	December 31, 2010
Opening balance	$ 1,192	$ 1,461
Sale of a portion of the investment	-	(234)
Equity share of net income	28	55
Equity share of other comprehensive loss	(5)	(4)
Capital Power distributions	(45)	(86)
Closing balance	$ 1,170	$ 1,192

Summarized financial information of Capital Power L.P.:

Statement of Financial Position:	September 30, 2011	December 31, 2010
Current assets	$ 422	$ 541
Non-current assets	4,322	4,784
Current liabilities	(604)	(703)
Non-current liabilities	(1,758)	(2,083)
Non-controlling interests	(575)	(581)
Net assets classified as held for sale	552	-
Net assets	$ 2,359	$ 1,958

	Three months ended September 30,		Nine months ended September 30,	
Consolidated Income Statement:	2011	2010	2011	2010
Revenue and other income	$ 428	$ 491	$ 1,359	$ 1,294
Net income attributable to partners	47	8	55	62

10. Intangible assets

	Goodwill	Customer Rights	Other Rights	Software	Total
Cost					
Balance at January 1, 2011	$ 2	$ 70	$ 3	$ 167	$ 242
Additions through acquisition	-	-	-	1	1
Additions through business combination	9	-	3	-	12
Internally generated additions	-	1	-	2	3
Disposals and retirements	-	(19)	-	(11)	(30)
Balance at September 30, 2011	11	52	6	159	228
Accumulated amortization					
Balance at January 1, 2011	-	(44)	(1)	(97)	(142)
Disposals and retirements	-	19	-	12	31
Amortization	-	(2)	-	(10)	(12)
Balance at September 30, 2011	-	(27)	(1)	(95)	(123)
Net book value					
Balance at September 30, 2011	$ 11	$ 25	$ 5	$ 64	$ 105

	Goodwill	Customer Rights	Other Rights	Software	Total
Cost					
Balance at January 1, 2010	$ 2	$ 70	$ 3	$ 165	$ 240
Internally generated additions	-	-	-	9	9
Disposals and retirements	-	-	-	(7)	(7)
Balance at December 31, 2010	2	70	3	167	242
Accumulated amortization					
Balance at January 1, 2010	-	(40)	(1)	(89)	(130)
Disposals and retirements	-	-	-	7	7
Amortization	-	(4)	-	(15)	(19)
Balance at December 31, 2010	-	(44)	(1)	(97)	(142)
Net book value					
Balance at January 1, 2010	$ 2	$ 30	$ 2	$ 76	$ 110
Balance at December 31, 2010	$ 2	$ 26	$ 2	$ 70	$ 100

No borrowing costs were capitalized on intangible assets during the nine months ended September 30, 2011 (nine months ended September 30, 2010 - nil). There are no security charges over the Company's intangible assets. Included in customer rights are the Company’s customer rights to operate in the FortisAlberta service territory. The customer rights have a remaining amortization period of 9 years.

11. Property, plant and equipment

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance at January 1, 2011	$ 71	$ 30	$ 1,867	$ 1,208	$ 15	$ 80	$ 3,271
Additions	180	-	1	-	-	-	181
Additions through business combinations	1	-	38	-	-	-	39
Disposals and retirements	-	-	-	(3)	(2)	-	(5)
Transfers	(1)	-	-	(1)	-	-	(2)
Foreign currency valuation adjustments	-	-	3	-	-	-	3
Balance at September 30, 2011	251	30	1,909	1,204	13	80	3,487
Accumulated Depreciation							
Balance at January 1, 2011	-	-	(461)	(365)	(7)	(53)	(886)
Depreciation	-	-	(29)	(28)	(1)	(6)	(64)
Other changes and movements	-	-	(1)	2	2	-	3
Balance at September 30, 2011	-	-	(491)	(391)	(6)	(59)	(947)
Net book value							
Balance at September 30, 2011	$ 251	$ 30	$ 1,418	$ 813	$ 7	$ 21	$ 2,540

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance at January 1, 2010	$ 66	$ 29	$ 1,759	$ 1,097	$ 16	$ 79	$ 3,046
Additions	47	1	84	103	-	4	239
Disposals and retirements	-	-	(1)	(9)	(1)	(3)	(14)
Transfers into service	(42)	-	25	17	-	-	-
Balance at December 31, 2010	71	30	1,867	1,208	15	80	3,271
Accumulated Depreciation							
Balance at January 1, 2010	-	-	(426)	(336)	(7)	(48)	(817)
Depreciation	-	-	(36)	(34)	(1)	(8)	(79)
Disposals and retirements	-	-	1	5	1	3	10
Balance at December 31, 2010	-	-	(461)	(365)	(7)	(53)	(886)
Net book value							
Balance at January 1, 2010	$ 66	$ 29	$ 1,333	$ 761	$ 9	$ 31	$ 2,229
Balance at December 31, 2010	$ 71	$ 30	$ 1,406	$ 843	$ 8	$ 27	$ 2,385

Borrowing costs capitalized during the nine months ended September 30, 2011 were $4 million (nine months ended September 30, 2010 - $2 million). The weighted average rate used to determine the borrowing costs eligible for capitalization was 5.94% (nine months ended September 30, 2010 - 6%).

Restrictions on assets

There are no direct charges over PP&E.

12. Deferred revenue

	September 30, 2011	December 31, 2010
Opening balance	$ 541	$ 509
Contributions received	20	42
Assumed on business combination	12	-
Revenue recognized	(8)	(10)
Foreign currency valuation adjustments	1	-
Closing balance	$ 566	$ 541

13. Accumulated other comprehensive income

Investment in Capital Power

The investment in Capital Power comprises the Company's share in the other comprehensive income of its equity investment in Capital Power.

Available-for-sale financial assets

This comprises the cumulative net change in the fair value of the Company's beneficial interest in the sinking fund, until the investment is derecognized or impaired.

Cash flow hedges

This comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred prior to the disposal of the power generation business in 2009. On any disposition of the Company's investment in Capital Power, the Company will recognize a portion of these losses in net income in proportion to the remaining interest in Capital Power sold.

14. Fair value and classification of non-derivative financial liabilities

Loans and borrowings

Short-term debt is measured at amortized cost and its fair value is not materially different from its carrying amount due to its short-term nature.

The fair value of the Company's long-term debt is based on determining a current yield for the Company's debt as at September 30, 2011 and December 31, 2010. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds for Canadian dollar loans and U.S. Treasury bonds for U.S. dollar loans that have similar maturities to the Company's debt. The estimated credit spread is based on the Company's indicative spread as published by independent financial institutions. The Company's long-term loans and borrowings (including the current portion) include City debentures which are offset by payments made by the Company into the sinking fund. The Company's beneficial interest in the sinking fund is a related party balance and has been recorded at fair value as it has been classified as an available-for-sale financial asset. The fair value of the beneficial interest in the sinking fund is based on quoted market values as determined by the City at or near the reporting date.

The classification, carrying amounts and fair values of the Company's loans and borrowings at September 30, 2011 and December 31, 2010 are summarized as follows:

		September 30, 2011		December 31, 2010	
	Classification	Carrying amount	Fair value	Carrying amount	Fair Value
Loans and borrowings					
Debentures and other borrowings	Amortized cost	$ 1,972	$ 2,349	$ 1,966	$ 2,235
Beneficial interest in the sinking fund	Available-for-sale	(241)	(241)	(294)	(294)

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities. A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

The Company's interest in the sinking fund has been categorized as a Level 1 valuation for September 30, 2011 and December 31, 2010.

15. Derivative financial instruments

Derivative financial and non-financial instruments are held for the purpose of electricity price and foreign exchange risk management. At December 31, 2010, the Company held no derivative financial instruments.

The derivative instruments assets and liabilities used for risk management purposes as described in note 16 consist of the following:

	September 30, 2011		
	Electricity	Foreign exchange	Total
Derivative instruments assets:			
Fair value	$ (9)	$ 16	$ 7
Cash paid to counterparty	11	-	11
Net fair value	$ 2	$ 16	$ 18
Net notional buys (sells):			
Megawatt hours of electricity (millions)	0.8	-	
Foreign currency (U.S. dollars)	-	205	
Range of contract terms in years	0.1	0.5	

The fair value of derivative financial instruments reflects changes in the electricity prices and foreign exchange rates. The fair value of electricity derivative financial instruments reflects changes in the electricity prices, net of cash payments to or from the counterparty. During the course of the contract, regular payments are made to / received from the counterparty to settle the fair value of the contracts.

Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as future prices, foreign exchange rates and discount rates for time value. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Changes in fair value on electricity derivative instruments are recorded in electricity purchases. Changes in fair value on financial foreign exchange derivatives are recorded in foreign exchange gains and losses.

16. Risk management

Market risk

Market risk is the risk of loss that results from changes in market factors such as electricity prices, foreign currency exchange rates, interest rates, and equity prices. The level of market risk to which the Company is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Company's financial assets and liabilities held, non-trading physical asset and contract portfolios, and trading portfolios.

To manage the exposure related to changes in market risk, the Company may use various risk management techniques including derivative instruments such as forward contracts or contacts-for-differences. Such instruments may be used to establish a fixed price for an anticipated transactions denominated in a foreign currency or electricity.

The sensitivities provided in each of the following risk discussions disclose the effect of reasonably possible changes in relevant prices and rates on net income at the reporting date. The sensitivities are hypothetical and should not be considered to be predictive of future performance or indicative of earnings on these contracts. The Company's actual exposure to market risks is constantly changing as the Company's portfolio of debt, foreign currency and commodity contracts changes. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

Electricity price risk

The Company is exposed to electricity price risk under its rate regulated EPSP.

The Company sells electricity to customers under a RRT. As part of the RRT, the amount of electricity to be procured, the procurement method and electricity selling prices to be charged to these customers is determined by an EPSP. Under the current EPSP, commencing July 1, 2011 and unlike the previous EPSP under which the Company's electricity requirements were procured by a third party, the Company will procure the electricity directly. In May 2011, the Company started procuring electricity for its July 2011 requirements. As part of the EPSP, the Company uses financial contracts-for-differences, a type of derivative financial instrument to manage the Company's exposure to fluctuations in electricity price. Under these instruments, the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the AESO market price and the fixed contract price for a specified volume of electricity for the forward month, all in accordance with the EPSP for a one month period.

The Company is exposed to the changes in the electricity spot price for electricity purchases. The Company purchases contracts-for-differences in order to fix forecasted electricity purchase costs, which in turn determines the selling price for RRT electricity. The contracts-for-differences are referenced to the AESO electricity spot price and any movement in the AESO price results in changes in the contract settlement amount.

As at September 30, 2011, holding all other variables constant, a $1 increase / decrease in the forward electricity spot price would increase / decrease net income by approximately $1 million. In preparing the sensitivity analysis, the Company compared average AESO electricity spot prices to the forward index price for the past 18 months. Based on historical fluctuations, the Company estimates that the fair value of the contracts could increase or decrease by up to $21 million with a corresponding change to net income.

Electricity volume forecast risk

The Company is exposed to risk from variances between forecast RRT electricity usage and actual RRT electricity usage. The Company enters into contracts-for-differences based on load (usage) forecasts for the consumption month, and the selling price to customers is based on the contracted cost and contracted volume of the contract-for-differences. If actual usage varies from the contracted volume, the Company sells the excess or buys the shortfall at AESO electricity spot prices which may vary from the underlying cost used to establish the RRT selling price.

Foreign exchange risk

The Company is exposed to foreign exchange risk on foreign currency denominated forecasted transactions, and firm commitments, and monetary assets and liabilities denominated in a foreign currency and on its net investments in foreign entities.

The Company's Financial Exposure Management Policy attempts to minimize economic and material transactional exposures arising from movements in the Canadian dollar relative to the U.S. dollar or other foreign currencies. The Company's direct exposure to foreign exchange risk arises on capital expenditure commitments denominated in U.S. dollars. The Company coordinates and manages foreign exchange risk centrally, by identifying opportunities for naturally occurring opposite movements and then dealing with any material residual foreign exchange risks.

The Company may use foreign currency forward contracts to fix the functional currency of its non-functional currency cash flows thereby reducing its anticipated U.S. dollar denominated transactional exposure. The Company looks to limit foreign currency exposures as a percentage of estimated future cash flows. The direct foreign currency exposures of the Company at September 30, 2011 are not material. As at September 30, 2011, holding all other variables constant, a $0.05 strengthening or weakening of the Canadian dollar against the U.S. dollar would increase or decrease net income by approximately $10 million.

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents, and floating-rate short-term and long-term loans and obligations. The Company is also exposed to interest rate risk from the possibility that changes in the interest rates will affect future cash flows or the fair values of its financial instruments. At September 30, 2011 and December 31, 2010 all long-term debt was fixed rate. The Company may also use derivative instruments to manage interest rate risk. At September 30, 2011 and December 31, 2010 the Company did not hold any interest rate derivative instruments.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's liquidity is managed centrally by the Company's Treasury function. The Company manages liquidity risk through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and also by matching the maturity profiles of financial assets and liabilities to identify financing requirements. The financing requirements are addressed through a combination of committed and demand revolving credit facilities and financings in public or private debt capital markets.

As at September 30, 2011, the Company had operating lines of credit, and undrawn and committed bank credit facilities (committed until February 2014) of $354 million (December 31, 2010 - $428 million). The Company has credit ratings of BBB+ and A (low), assigned by Standard and Poor's and DBRS Limited, respectively.

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 September 30, 2011, the available amount remaining under the Canadian shelf prospectus was $1 billion (December 31, 2010 - $1 billion).

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, as at September 30, 2011:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after More than 5 years	Total contractual cash flows
Financial liabilities:							
Commercial Paper and Bankers' Acceptances	$ 79	$ -	$ -	$ -	$ -	$ -	$ 79
Other loans and borrowings	226	19	15	15	145	1,244	1,664
Interest payments on loans and borrowings	114	98	93	92	88	998	1,483
Trade and other payables[1]	221	-	-	-	-	-	221
Other liabilities (current)	26	-	-	-	-	-	26
Gold Bar transfer fee liability	12	10	6	1	-	-	29
	$ 678	$ 127	$ 114	$ 108	$ 233	$ 2,242	$ 3,502

[1] Excluding accrued interest on loans and borrowings of $31 million.

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

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after more than 5 years	Total contractual cash flows
Financial liabilities:							
Other loans and borrowings	$ 232	$ 24	$ 18	$ 14	$ 14	$ 1,383	$ 1,685
Interest payments on loans and borrowings	130	107	97	92	92	1,060	1,578
Trade and other payables[1]	228	-	-	-	-	-	228
Other liabilities (current)	22	-	-	-	-	-	22
Gold Bar transfer fee liability	14	12	10	6	1	-	43
	$ 626	$ 143	$ 125	$ 112	$ 107	$ 2,443	$ 3,556

[1] Excluding accrued interest on loans and borrowings of $31 million.

The Company's undiscounted cash flow requirements and contractual maturities in the next twelve months of $678 million will be funded from operating cash flows, partnership distributions from Capital Power L.P., interest and principal payments related to the unsecured long-term receivable from Capital Power, commercial paper issuance and the Company's credit facilities. In addition, the Company may issue medium-term notes or sell a portion of the investment in Capital Power or other assets to fund its obligations or investments.

The Company has long-term loans receivable from Capital Power which match certain of the long-term loans and borrowings above. The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power as at September 30, 2011:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after more than 5 years	Total
Loans and receivables from Capital Power	$ 225	$ 14	$ 8	$ 9	$ 139	$ 184	$ 579
Interest payments on loans receivable from Capital Power	33	24	22	22	16	17	134
	$ 258	$ 38	$ 30	$ 31	$ 155	$ 201	$ 713

The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power as at December 31, 2010:

	Due within one year	Due 1-2 years	Due 2-3 years	Due 3-4 years	Due 4-5 years	Due after more than 5 years	Total
Loans and receivables from Capital Power	$ 233	$ 25	$ 14	$ 8	$ 9	$ 324	$ 613
Interest payments on loans receivable from Capital Power	41	25	23	22	21	32	164
	$ 274	$ 50	$ 37	$ 30	$ 30	$ 356	$ 777

The payments from Capital Power comprise a significant amount of the cash required to fund the Company's 2011 contractual debt obligations. Should Capital Power be unable to make its scheduled payments to EPCOR in 2011 or reduces its distributions, then the Company will rely more heavily on its credit facilities and its ability to issue medium-term notes or potentially sell a portion of its interest in Capital Power to fund its obligations in 2011.

17. Guarantees

At September 30, 2011, the Company had letters of credit outstanding of $215 million (December 31, 2010 - $135 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

18. Commitment

In January 2011, the Company entered into an agreement to acquire 100% of the stock of the Arizona-American Water Company (Arizona Water) and New Mexico-American Water Company, Inc. (New Mexico Water), both wholly-owned subsidiaries of American Water Works Company, Inc. for total consideration of US$470 million, including the assumption of US$10 million in debt, subject to certain adjustments. The transaction is subject to regulatory approvals in both states. Arizona Water is a regulated utility that provides water service to approximately 106,000 customers and wastewater services to approximately 51,000 customers primarily located in the Phoenix area. New Mexico Water provides water and wastewater services to the city of Clovis in eastern New Mexico, and to the greater Edgewood area near Albuquerque, New Mexico, serving more than 17,000 customers.

19. Segment disclosures

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

During the period, the management of certain commercial services (Technologies) including the maintenance and repair of City-owned street lighting and transportation support facilities were transferred from Water Services to Distribution and Transmission. Current year and prior period segment disclosures were restated to reflect this change. The segment reporting for the three months ended September 30, 2011 includes Technologies revenue of $27 million and related

expenses of $24 million. The segment reporting for the nine months ended September 30, 2011 reflects the transfer of Technologies revenue of $60 million and related expenses of $55 million. The segment reporting for three months ended September 30, 2010 reflects the transfer of Technologies revenue $22 million and related expenses of $19 million. The segment reporting for nine months ended September 30, 2010 reflects the transfer of revenue of $50 million and expenses of $45 million.

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 and the Southwestern U.S.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. This segment also provides complementary commercial services including the maintenance and repair of the City-owned street lighting and transportation support facilities.

Energy Services

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to residential, small commercial and agricultural customers in Alberta.

Corporate

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

Business information

Three months ended September 30, 2011	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 85	$ 98	$ 297	$ 10	$ -	$ 490
Inter-segment revenue	-	38	3	-	(41)	-
Total revenue and other income	85	136	300	10	(41)	490
Electricity purchases and system access fees	-	49	292	-	(36)	305
Other raw materials and operating charges	21	11	-	1	(2)	31
Staff costs and employee benefits	22	23	4	12	-	61
Depreciation and amortization	10	10	2	3	-	25
Franchise fees and property taxes	4	16	-	-	-	20
Other administrative expenses	2	5	7	-	(3)	11
Foreign exchange (gain) loss	1	-	-	(18)	-	(17)
Operating expenses	60	114	305	(2)	(41)	436
Operating income (loss) before corporate charges	25	22	(5)	12	-	54
Corporate charges (income)	6	8	3	(17)	-	-
Operating income (loss)	$ 19	$ 14	$ (8)	$ 29	$ -	54
Finance expense						(29)
Equity share of income of Capital Power						23
Income tax recovery						11
Net income						$ 59
Total assets	$ 1,764	$ 1,071	$ 256	$ 1,907	$ (14)	$ 4,984
Investment in Capital Power	$ -	$ -	$ -	$ 1,170	$ -	$ 1,170
Total liabilities	$ 1,409	$ 756	$ 192	$ 313	$ (14)	$ 2,656
Capital additions	$ 24	$ 35	$ -	$ 14	$ -	$ 73

Three months ended September 30, 2010						
	Water Services[1]	Distribution & Transmission[1]	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 80	$ 72	$ 224	$ 11	$ -	$ 387
Inter-segment revenue	-	34	3	-	(37)	-
Total revenue and other income	80	106	227	11	(37)	387
Electricity purchases and system access fees	-	26	203	-	(30)	199
Other raw materials and operating charges	20	15	(1)	1	(3)	32
Staff costs and employee benefits	18	19	5	12	-	54
Depreciation and amortization	9	10	2	4	-	25
Franchise fees and property taxes	4	13	-	-	-	17
Other administrative expenses	4	1	6	-	(4)	7
Operating expenses	55	84	215	17	(37)	334
Operating income (loss) before corporate charges	25	22	12	(6)	-	53
Corporate charges (income)	5	9	2	(16)	-	-
Operating income	$ 20	$ 13	$ 10	$ 10	$ -	53
Finance expense						(28)
Equity share of income of Capital Power						-
Income tax recovery						1
Net income						$ 26
Total assets	$ 1,627	$ 937	$ 183	$ 2,247	$ (11)	$ 4,983
Investment in Capital Power	$ -	$ -	$ -	$ 1,458	$ -	$ 1,458
Total liabilities	$ 1,293	$ 643	$ 128	$ 548	$ (11)	$ 2,601
Capital additions	$ 5	$ 33	$ -	$ 1	$ -	$ 39

[1] During the third quarter of 2011, management of Technologies was transferred from Water Services to Distribution and Transmission and the related 2010 revenues and expenses were reclassified for comparative purposes.

Nine months ended September 30, 2011	Water Services[1]	Distribution & Transmission[1]	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 232	$ 236	$ 814	$ 31	$ -	$ 1,313
Inter-segment revenue	-	109	8	-	(117)	-
Total revenue and other income	232	345	822	31	(117)	1,313
Electricity purchases and system access fees	-	107	761	-	(103)	765
Other raw materials and operating charges	59	26	-	1	(6)	80
Staff costs and employee benefits	64	64	14	36	-	178
Depreciation and amortization	29	30	7	10	-	76
Franchise fees and property taxes	12	45	-	-	-	57
Other administrative expenses	6	9	19	2	(8)	28
Foreign exchange (gains) losses	1	-	-	(17)	-	(16)
Operating expenses	171	281	801	32	(117)	1,168
Operating income (loss) before corporate charges	61	64	21	(1)	-	145
Corporate charges (income)	17	24	9	(50)	-	-
Operating income	$ 44	$ 40	$ 12	$ 49	$ -	145
Finance expense						(80)
Equity share of income of Capital Power						28
Income tax expense						(2)
Net income						$ 91
Total assets	$ 1,764	$ 1,071	$ 256	$ 1,907	$ (14)	$ 4,984
Investment in Capital Power	$ -	$ -	$ -	$ 1,170	$ -	$ 1,170
Total liabilities	$ 1,409	$ 756	$ 192	$ 313	$ (14)	$ 2,656
Capital additions	$ 52	$ 100	$ -	$ 23	$ -	$ 175

[1] During the third quarter of 2011, management of Technologies was transferred from Water Services to Distribution and Transmission and the related revenues and expenses for the six months period ended June 30, 2011 were reclassified for comparative purposes.

Nine months ended September 30, 2010	Water Services[1]	Distribution & Transmission[1]	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 236	$ 189	$ 630	$ 41	$ -	$ 1,096
Inter-segment revenue	-	89	9	-	(98)	-
Total revenue and other income	236	278	639	41	(98)	1,096
Electricity purchases and system access fees	-	63	567	-	(82)	548
Other raw materials and operating charges	63	31	-	2	(8)	88
Staff costs and employee benefits	55	56	15	36	-	162
Depreciation and amortization	27	28	9	10	-	74
Franchise fees and property taxes	12	38	-	-	-	50
Other administrative expenses	9	4	18	-	(8)	23
Operating expenses	166	220	609	48	(98)	945
Operating income (loss) before corporate charges	70	58	30	(7)	-	151
Corporate charges (income)	15	23	9	(47)	-	-
Operating income	$ 55	$ 35	$ 21	$ 40	$ -	151
Finance expense						(94)
Equity share of income of Capital Power						45
Income tax expense						(3)
Net income						$ 99
Total assets	$ 1,627	$ 937	$ 183	$ 2,247	$ (11)	$ 4,983
Investment in Capital Power	$ -	$ -	$ -	$ 1,458	$ -	$ 1,458
Total liabilities	$ 1,293	$ 643	$ 128	$ 548	$ (11)	$ 2,601
Capital additions	$ 37	$ 78	$ -	$ 3	$ -	$ 118

[1] During the third quarter of 2011, management of Technologies was transferred from Water Services to Distribution and Transmission and the related 2010 revenues and expenses were reclassified for comparative purposes.

Intersegment transactions occur in the normal course of operations and are recorded at exchange values which are generally at normal commercial rates. All other accounting policies of the segments are the same as those disclosed in note 3.

There were no impairments that were recognized directly in equity during the three and nine months ended September 30, 2011 and 2010.

Geographic information:

	Three months ended September 30, 2011				Three months ended September 30, 2010			
	Canada	U.S.	Intersegment eliminations	Total	Canada	U.S.	Intersegment eliminations	Total
Revenues – external	$ 477	$ 3	$ -	$ 480	$ 377	$ -	$ -	$ 377
Intersegment revenues	41	-	(41)	-	37	-	(37)	-
Total revenues	$ 518	$ 3	$ (41)	$ 480	$ 414	$ -	$ (37)	$ 377

	Nine months ended September 30, 2011				Nine months ended September 30, 2010			
	Canada	U.S.	Intersegment eliminations	Total	Canada	U.S.	Intersegment eliminations	Total
Revenues – external	$ 1,278	$ 4	$ -	$ 1,282	$ 1,056	$ -	$ -	$ 1,056
Intersegment revenues	117	-	(117)	-	98	-	(98)	-
Total revenues	$ 1,395	$ 4	$ (117)	$ 1,282	$ 1,154	$ -	$ (98)	$ 1,056

20. Transition to IFRS

As described in note 2, this is the first year in which the Company's consolidated financial statements have been presented in accordance with IFRS. For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with previous Canadian GAAP in effect for those periods.

In accordance with the CICA's adoption of IFRS, the Company has prepared condensed interim consolidated financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2010.

Reconciliation of equity reported under previous Canadian GAAP to equity under IFRS at September 30, 2010, being the end of the comparable period:

	Previous Canadian GAAP	Measurement adjustments	Presentation adjustments	IFRS
Current assets:				
Cash and cash equivalents	$ 23	$ -	$ -	$ 23
Trade and other receivables[1] (a)	284	(20)	-	264
Inventories	12	-	-	12
Deferred tax assets (b)	1	-	(1)	-
	320	(20)	(1)	299
Non-current assets:				
Other assets (a, c, d)	168	(2)	(166)	-
Finance lease receivables (c)	-	-	122	122
Other financial assets (c)	618	-	42	660
Deferred tax assets (b)	41	-	1	42
Investment in Capital Power (e)	1,512	(54)	-	1,458
Intangible assets (d, f)	105	(8)	2	99
Property, plant and equipment (a, f, g, h)	1,851	(69)	521	2,303
	4,295	(133)	522	4,684
Total assets	$ 4,615	$ (153)	$ 521	$ 4,983
Current Liabilities:				
Trade and other payables[2] (a, i)	$ 234	$ (4)	$ (13)	$ 217
Loans and borrowings	105	-	-	105
Provisions (i)	-	-	13	13
Other liabilities	35	-	-	35
	374	(4)	-	370
Non-current liabilities:				
Loans and borrowings (j)	1,667	(6)	-	1,661
Deferred revenues (g, h)	-	(16)	521	505
Provisions (a, i, k)	-	-	34	34
Deferred tax liabilities	1	-	-	1
Other liabilities (i)	64	-	(34)	30
	1,732	(22)	521	2,231
Total liabilities	2,106	(26)	521	2,601
Equity attributable to the Owner of the Company:				
Share capital	24	-	-	24
Accumulated other comprehensive income (loss) (e, j, l, m)	(11)	28	-	17
Retained earnings (a, e, f, h, k, l, m)	2,496	(155)	-	2,341
Total equity	2,509	(127)	-	2,382
Total liabilities and equity	$ 4,615	$ (153)	$ 521	$ 4,983

[1]Trade and other receivables include accounts receivable, income taxes recoverable, prepaid expenses and the current portion of long-term receivables.

[2] Trade and other payables include accounts payable and accrued liabilities and income taxes payable.

Notes to the reconciliation:

(a) IFRS does not currently contain any separate guidance relating to recognition of assets and liabilities that have arisen as a result of rate regulation. Under current IFRS, such items were not recognized on transition. The impact of this was to reduce trade and other receivables by $20 million, other assets by $2 million, PP&E by $1 million, trade and other payables by $4 million and non-current provisions by $2 million with a charge to retained earnings of $17 million.

(b) In accordance with IAS 12 - Income Taxes, all deferred tax balances are classified as non-current, irrespective of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The effect was to reclassify $1 million from current deferred tax assets to non-current deferred tax assets.

(c) In accordance with IAS 1 - Financial Statements (IAS 1), financial assets should be separately presented from other assets. The effect was to reclassify $164 million from other assets of which $122 million is presented as finance lease receivables and $42 million is presented as other financial assets.

(d) In accordance with IAS 1, goodwill should be presented either on the face of the consolidated statement of financial position or as part of intangible assets. Under previous Canadian GAAP, goodwill was previously presented as part of other assets. The effect was to reclassify $2 million from other assets to intangible assets.

(e) The Company has restated its investment in Capital Power to recognize its equity share of Capital Power's IFRS adjustments. The impact was a reduction in the investment of $54 million, an increase in accumulated other comprehensive income by $10 million and a charge to retained earnings of $64 million.

(f) The Company previously accounted for certain transactions in accordance with applicable rate regulation (regulatory accounting). As permitted previously under previous Canadian GAAP, the Company applied Financial Accounting Standards Codification Section 980 – Regulated Operations, as issued by the Financial Accounting Standards Board in the U.S. as another source of GAAP.

Under regulatory accounting, gains and losses on the disposal of the Company's rate-regulated assets were previously deferred within PP&E or intangible assets. The Company also previously capitalized non-directly attributable overhead within PP&E and intangible assets where it was included within the Company's rate-regulated asset base.

Under IAS 16 - Property, Plant and Equipment (IAS 16) and IAS 38 – Intangible Assets (IAS 38), assets are required to be derecognized on disposal and any associated gain or loss should be recognized in net income. Overhead may only be capitalized where it is considered to be directly attributable to the construction of the asset.

The effect of this was to reduce the net book value of PP&E by $53 million and to reduce intangible assets by $8 million with an overall reduction in retained earnings at $61 million.

(g) Although the determination of whether an arrangement contains a lease is broadly similar between previous Canadian GAAP and IFRS, previous Canadian GAAP contained more quantitative criteria in determining whether a lease is treated as capital or operating. As a result, a lease agreement, which was previously set up as a capital asset with a deferred revenue offset under previous Canadian GAAP, was determined to be a finance lease with a net balance of zero under IAS 17 – Leases. The impact was a reduction in PP&E of $16 million which was offset by a reduction in deferred revenue of $16 million.

(h) Under previous Canadian GAAP, contributions that were received from developers and customers and used to construct items of PP&E were offset against the cost of the constructed asset. Under IFRIC 18 - Transfers of Assets from Customers (IFRIC 18), contributions received in order to construct an item of PP&E that is used to provide ongoing access to electricity and water are treated as deferred revenues. The effect of this was to reclassify $521 million from PP&E to deferred revenues.

In addition, $1 million was recorded in net income relating to insurance proceeds that under previous Canadian GAAP were being deferred and amortized over the life of the replacement asset. Under IAS 16 – Plant, Property and

Equipment, such proceeds should be recognized in net income on settlement of the claim.

(i) Under IAS 1 presently, provisions should be separately presented on the face of the consolidated statement of financial position. The effect was to reclassify $13 million from trade and other payables to current provisions and to reclassify $34 million from other non-current liabilities to non-current provisions.

(j) In accordance with IAS 39, any asset that is classified as available-for-sale should be recorded at fair value, with any changes in fair value recognized in other comprehensive income. Under previous Canadian GAAP, the Company's beneficial interest in the sinking fund is not quoted in an active market and was therefore recorded at cost. The impact was a reduction in loans and borrowings of $6 million with a corresponding increase in accumulated other comprehensive income to recognize the difference between fair value and the Canadian GAAP exchange amount.

(k) As permitted by IFRS 1, the Company has elected to recognize all cumulative actuarial gains and losses that existed at its date of transition in opening retained earnings for all of its employee benefit plans. The effect was to increase non-current provisions by $2 million.

(l) As permitted by IFRS 1, the Company has elected to reset its cumulative translation account to nil at the date of transition. The impact of this was a reclassification of $19 million from accumulated other comprehensive income to retained earnings.

(m) The Company recognized an increase in retained earnings of $7 million offset by a decrease in accumulated other comprehensive income of $7 million to reflect the deferred tax impact of the adjustments noted above relating to the Company's entities subject to income tax.

Reconciliation of total comprehensive income reported under previous Canadian GAAP to total comprehensive income reported under IFRS for the three months ended September 30, 2010, being the comparable period:

	Previous Canadian GAAP	Measurement adjustments	Presentation adjustments	IFRS
Continuing operations:				
Revenues and other income (n, o)	$ 379	$ 5	$ 3	$ 387
Electricity purchases and system access fees (n, p)	(192)	(8)	1	(199)
Operations, maintenance and administration (p)	(90)	-	90	-
Other raw materials and operating charges (p)	-	-	(32)	(32)
Staff costs and employee benefits (p)	-	-	(54)	(54)
Depreciation and amortization (o, q)	(24)	2	(3)	(25)
Franchise fees and property taxes	(17)	-	-	(17)
Other administrative expenses (n, p, r)	-	(2)	(5)	(7)
Operating income (loss)	56	(3)	-	53
Finance expense (s)	(28)	-	-	(28)
Equity share of income (loss) of Capital Power (t)	30	(30)	-	-
Net income (loss) before income taxes	58	(33)	-	25
Income tax expense (u)	(1)	2	-	1
Net income (loss) for the period	57	(31)	-	26
Other comprehensive income:				
Unrealized gain on available for sale financial assets (v)	-	-	-	-
Equity share of other comprehensive income (loss) of Capital Power (t)	11	(2)	-	9
Other comprehensive income (loss)	11	(2)	-	9
Total comprehensive income (loss) – all attributable to the Owner of the Company	$ 68	$ (33)	$ -	$ 35

Reconciliation of total comprehensive income reported under previous Canadian GAAP to total comprehensive income reported under IFRS for the nine months ended September 30, 2010, being the comparable period:

	Previous Canadian GAAP	Measurement adjustments	Presentation adjustments	IFRS
Continuing operations:				
Revenues and other income (n, o)	$ 1,080	$ 7	$ 9	$ 1,096
Electricity purchases and system access fees (n, p)	(536)	(13)	1	(548)
Operations, maintenance and administration (p)	(272)	-	272	-
Other raw materials and operating charges (p)	-	-	(88)	(88)
Staff costs and employee benefits (p)	-	-	(162)	(162)
Depreciation and amortization (o, q)	(69)	4	(9)	(74)
Franchise fees and property taxes (n)	(47)	(3)	-	(50)
Other administrative expenses (n, p, r)	-	-	(23)	(23)
Operating income (loss)	156	(5)	-	151
Finance expense (s)	(95)	1	-	(94)
Equity share of income (loss) of Capital Power (t)	79	(34)	-	45
Income (loss) before income taxes	140	(38)	-	102
Income tax expense (u)	(4)	1	-	(3)
Net income (loss) for the period	136	(37)	-	99
Other comprehensive income:				
Unrealized gain on available-for-sale financial assets (v)	-	1	-	1
Equity share of other comprehensive income (loss) of Capital Power (t)	5	(1)	-	4
Other comprehensive income	5	-	-	5
Total comprehensive income (loss) – all attributable to the Owner of the Company	$ 141	$ (37)	$ -	$ 104

Notes to the reconciliations:

(n) As identified in note 20(f), the Company previously used regulatory accounting to recognize certain assets, liabilities, revenues and expenses. As a result, the timing of the Company's recognition of certain revenues and expenses differed from IFRS, which requires that revenues and expenses are recognized as incurred. For the three months ended September 30, 2010, the impact was an increase in revenues of $5 million, an increase in electricity purchases and system access fees of $8 million, and an increase in other administrative expenses of $1 million for an overall decrease in net income of $4 million.

For the nine months ended September 30, 2010, the impact was an increase in revenues of $7 million, an increase in electricity purchases and system access fees of $13 million, an increase in franchise fees and property taxes of $3 million and a reduction in other administrative expenses of $3 million for an overall reduction in net income of $6 million.

(o) Under previous Canadian GAAP, the amortization of contributions received towards the construction of PP&E used to provide ongoing access to electricity and water supply was treated as depreciation. Under IFRIC 18, such amortization

is treated as revenue. The effect was to reclassify $3 million from depreciation to revenues for the three months ended September 30, 2010; and $9 million for the nine months ended September 30, 2010.

(p) Under IAS 1 presently, expenses must be presented using either a functional presentation or according to their nature. The Company has adopted presentation by nature. The effect was to reclassify salary, wages and employee benefit costs of $54 million to staff costs and employee benefits from operations, maintenance and administration for the three months ended September 30, 2010 and $162 million for the nine months ended September 30, 2010. The remaining operations, maintenance and administrative costs were reclassified as other raw material and operating charges, electricity purchases and system access fees and other administrative expenses.

(q) As identified in note 20(f), PP&E and intangible assets have been adjusted for the removal of non-directly attributable overhead and deferred gains and losses on derecognized assets. As a result of this, and as a result of the review of the useful lives of the components of the Company's assets as required by IAS 16, there was a reduction in depreciation and amortization of $2 million for the three months ended September 30, 2010 and $4 million for the nine months ended September 30, 2010.

(r) Under previous Canadian GAAP, overheads are capitalized as part of PP&E or intangible assets if they are permitted or required to be included in the Company's rate-regulated asset base. Under IAS 16 and IAS 38, overheads may only be capitalized if they are directly attributable to the construction of PP&E or intangible assets. The effect of this was an increase to other administrative expenses of $1 million for the three months ended September 30, 2010 and $3 million for the nine months ended September 30, 2010.

(s) Under previous Canadian GAAP, an allowance for funds used during construction was capitalized if it was approved or required by the regulator to be included in the Company's rate-regulated asset base. Under IAS 23 – Borrowing Costs, there are more detailed rules on the methodology for capitalizing borrowing costs. As a result of the change in methodology, the Company recognized an increase in capitalized interest of nil for the three months ended September 30, 2010 and $1 million for the nine months ended September 30, 2010.

(t) The Company's income from its equity investment in Capital Power was decreased by $30 million for the three months to September 30, 2010 and by $34 million for the nine months ended September 30, 2010 which reflected the Company's equity share of the adjustments recognized on transition to IFRS by Capital Power. The Company's other comprehensive income from the investment in Capital Power was decreased by $2 million for the three months ended September 30, 2010 and $1 million for the nine months ended September 30, 2010.

(u) As a result of the adjustments above, the Company recognized a decrease in income tax expense of $2 million for the three months ended September 30, 2010 and a decrease of $1 million for the nine months ended September 30, 2010.

(v) As identified in note 20(j), the Company's beneficial interest in the sinking fund is measured at fair value under IFRS. As a result, the Company recognized an increase in other comprehensive income of nil for the three months ended September 30, 2010 and $1 million for the nine months ended September 30, 2010.

21. Subsequent events

On November 1, 2011, the Alberta Utilities Commission announced its approval of the Heartland Transmission Project, which includes the construction of a 500 kilovolt (kV) double-circuit overhead transmission line to reinforce the existing 500 kV transmission system in the Edmonton area and extend it to the Industrial Heartland area near Fort Saskatchewan, Alberta. The transmission line will be jointly owned by EPCOR and AltaLink L.P.

On November 2, 2011, EPCOR and Capital Power Corporation announced that EPCOR has entered into an agreement with a syndicate of underwriters for a secondary offering by a subsidiary of EPCOR, on a bought deal basis, of 8,200,000 common shares of Capital Power at an offering price of $24.40 per common share. Capital Power will not receive any of the proceeds (approximately $200 million, before giving effect to the over-allotment option) from the sale of common shares by EPCOR's subsidiary. The underwriters have also been granted an option to purchase up to an additional 1,230,000 common shares at the issue price to cover over-allotments, if any, for additional gross proceeds of approximately $30 million. The over-allotment option is exercisable, in whole or in part, by the underwriters at any time up to 30 days after the closing of the offering. Capital Power will not receive any proceeds from the exercise of the over-allotment option.

After giving effect to this offering, but before giving effect to the over-allotment option, EPCOR will indirectly own 40.4% of the common shares of Capital Power on a fully diluted basis. EPCOR intends to sell all or a portion of its remaining interest in Capital Power as its demands for capital require and market conditions permit. The proceeds from the current offering will be used by EPCOR to permanently finance previously announced investments, support ongoing capital expenditure programs, pay down short-term debt and for general corporate purposes. Closing of the Offering is expected to occur on or about November 10, 2011.