

EPCOR Utilities Inc.
Interim Report
September 30, 2009

Management's Discussion and Analysis

This management's discussion and analysis (MD&A), dated November 6, 2009, should be read in conjunction with the unaudited interim consolidated financial statements of EPCOR Utilities Inc. and its subsidiaries for the three and nine months ended September 30, 2009 and 2008, the audited consolidated financial statements and MD&A for the year ended December 31, 2008 and the cautionary statement regarding forward-looking information on page 25. In this MD&A, any reference to "the Company", "EPCOR", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. Financial information in this MD&A is based on the unaudited interim consolidated financial statements, which were prepared in accordance with Canadian generally accepted accounting principles (GAAP), and is presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors has approved this MD&A.

OVERVIEW

EPCOR is wholly-owned by The City of Edmonton. EPCOR's distribution and transmission and water operations continued to deliver good results, and earnings from operating activities met our expectations for the third quarter. Water revenues from the City of Edmonton customer base benefited from rate increases on April 1, 2009 and higher sales volumes due to drier and warmer than normal weather conditions in the third quarter. Earnings from our water operations also benefitted from contributions from the Gold Bar Wastewater Treatment Plant (Gold Bar) operation which was transferred to EPCOR on March 31, 2009. Gold Bar systems and personnel are now substantially integrated with EPCOR operations.

On May 8, 2009, EPCOR announced its plans to create Capital Power Corporation and sell substantially all of its power generation assets and related operations to Capital Power Corporation and its subsidiaries (Capital Power), as described under Significant Events. The sale was effective early July 2009 and EPCOR's results for the third quarter were impacted by a loss on the sale of the power generation business and the changes in operations resulting from that sale.

Canadian and U.S. financial markets continued to stabilize in the third quarter of 2009. Narrower credit spreads on the notes which EPCOR received in exchange for its Canadian non-bank sponsored asset-backed commercial paper (ABCP) resulted in a \$1 million increase in the fair value of the notes in the quarter. As described under Liquidity and Capital Resources, we applied the cash received from the sale of the power generation business in the quarter against our short-term borrowings.

SIGNIFICANT EVENTS

Sale of the power generation business

On May 8, 2009, EPCOR announced its plans to create Capital Power, a power generation company that is headquartered in Edmonton. The final prospectus for the initial public offering of 21,750,000 common shares of Capital Power, at \$23.00 per common share, was filed with securities regulators in Canada on June 25, 2009. The initial public offering closed on July 9, 2009.

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

The total consideration for the sale consisted of \$468 million of cash, 56.6 million exchangeable limited partnership (LP) units of Capital Power LP (CPLP) and \$896 million in long-term loans receivable from CPLP. In addition, EPCOR holds one special limited voting share in Capital Power providing the right to vote separately as a class in connection with certain amendments to the articles of Capital Power, including an amendment to change or permit the change of the location of the head office of Capital Power from the city of Edmonton.

Effectively, EPCOR sold 27.8% of its interest in the power generation business and through its equity investment in Capital Power, retains a 72.2% interest in that business. The difference between EPCOR's net carrying amount of its investment in the power generation business (\$2,855 million) and the consideration received resulted in a loss on sale of \$80 million including \$37 million in direct expenses incurred in connection with the sale plus a \$35 million income tax charge related to net future income tax assets that are not realizable by the Company as a result of the sale. Certain aspects of the sale related to the determination of minor assets and liabilities transferred to Capital Power have yet to be finalized. When these are finalized in the fourth quarter a change in the amount of the recognized loss on sale could result. However, the final amount of the loss is not expected to differ materially from the amount reported in the third quarter.

Immediately following completion of the Reorganization, EPCOR held 56.6 million exchangeable LP units of CPLP (exchangeable for common shares of Capital Power on a one-for-one basis) representing approximately 72.2% of CPLP, while Capital Power held the remaining 27.8%. Each exchangeable LP unit is accompanied by a special voting share of Capital Power which entitles the holder to a vote at Capital Power shareholder meetings, subject to the restriction that such voting shares must at all times represent not more than 49% of the votes attached to all Capital Power common shares and special voting shares together. The special shares also entitle EPCOR to elect a maximum of four out of twelve directors of Capital Power. As a result of these restrictive rights, EPCOR has significant influence, but not control, of Capital Power and therefore has used the equity method to account for its investment in CPLP.

Effective July 2009, income from Power LP has been included in the income from EPCOR's equity investment in CPLP as EPCOR no longer consolidates Power LP in its consolidated financial statements. Power LP is a subsidiary of CPLP.

EPCOR plans to eventually sell all or a substantial portion of its ownership interest in Capital Power subject to market conditions, requirements for capital and other circumstances that may arise in the future, and reinvest the proceeds from the share sales in EPCOR's utility infrastructure businesses, including water and wastewater treatment, and power transmission and distribution.

Asset-backed commercial paper exchanged for notes

On January 21, 2009, the restructuring of ABCP was implemented. Under the restructuring, the affected ABCP was exchanged for term floating-rate notes (notes), maturing no earlier than the scheduled termination dates of the underlying assets. The exchange was recorded at the estimated fair value of the ABCP on January 21, 2009. The key information on EPCOR's notes is as follows:

(i) EPCOR's allocation of notes under the restructuring was as follows:

Pool	Series	Credit Rating	Face amount	
			(\$ millions)	
MAV2	Class A-1	A	\$ 47	67%
	Class A-2	BBB	9	13%
	Class B	Unrated	2	2%
	Class C	Unrated	2	2%
MAV3	IA Tracking	Unrated	11	16%
			\$ 71	100%

(ii) For the Master Asset Vehicle 2 (MAV2) pool notes, the underlying asset lives are anticipated to average nine years. The remaining notes come from Master Asset Vehicle 3 (MAV3) in the form of Ineligible Asset Tracking (IA Tracking) notes. These notes are expected to amortize over the lives of the underlying assets which have a weighted average life of approximately 18 years. In certain limited circumstances, the expected repayment dates could be longer than the expected asset lives.

(iii) ABCP investors, including EPCOR, were paid the accumulated accrued interest, net of ABCP restructuring costs, collateral requirements and other costs, on their existing ABCP from the date of the standstill in August 2007 to the date of the restructuring. For the three and nine months ended September 30, 2009, EPCOR received \$nil and \$4 million respectively, of accrued interest on ABCP and interest on the new notes.

At September 30, 2009, the Company held \$41 million in notes, all of which were received in exchange for ABCP which was purchased during the third quarter of 2007 at an original cost of \$71 million. As the notes are classified as held-for-trading financial assets, they are subject to ongoing fair value adjustments at each reporting date. At September 30, 2009, the fair value of the notes was estimated at \$41 million compared with a fair value of \$40 million and \$42 million for the notes at June 30, 2009 and ABCP at December 31, 2008, respectively. The \$1 million increase for the third quarter was primarily due to narrower indicative corporate credit spreads versus the Government of Canada yield curve. The \$2 million decrease in the first half of the year was primarily due to lower short-term and higher long-term market interest rates which were taken into account in calculating the fair value of the notes, partly offset by narrower credit spreads. In 2008, \$2 million and \$11 million reductions in the fair value of the ABCP were recognized in the third quarter and first nine months, respectively.

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

CONSOLIDATED RESULTS OF OPERATIONS

Note on comparisons

For the first half of the year, EPCOR owned or controlled all of the power generation assets and related operations, including Power LP, that were sold to Capital Power in early July. Accordingly, net income, results of operations and variances for the first half of the year include all the power generation assets, results of operations and variances presented on a consolidated basis. After the sale of the power generation business and related operations in early July, we no longer controlled those operations. Consequently, the third quarter results, and results going forward, no longer present the power generation business and related operations on a consolidated basis. Those line items and variances are, in effect, replaced by the interest in Capital Power reported on the equity basis. In making year over year comparisons, variances include comparisons of power generation and related operations for the first half of 2009 to the first half of 2008, on an “apples to apples” basis. On the other hand, the third quarter of 2009 only reflects the equity interest in Capital Power while the third quarter in 2008 reflects the power generation business while it was still consolidated. In this context, the results of operations are discussed below.

Net income

(Unaudited, \$ millions)	Three months	Nine months
Net income for the periods ended September 30, 2008	\$ 76	\$ 160
Loss on sale of power generation business	(115)	(115)
Equity income from Capital Power in 2009	31	31
Interest revenue in 2009 on long-term receivable from CPLP	14	14
Lower (higher) administration expenses, excluding administration expenses related to the power generation business	8	(11)
Gold Bar operating income in 2009 excluding administration expenses	7	12
Higher water rates and sales volumes, net of franchise fees	3	11
Fair value changes on notes exchanged for ABCP	3	10
Higher depreciation expenses, excluding depreciation expenses related to the power generation business	(1)	(5)
Higher financing expenses	(22)	(11)
Increases (decreases) related to the power generation business that was sold effective early July 2009	(56)	2
Other	(4)	-
Decrease in net income	(132)	(62)
Net (loss) income for the periods ended September 30, 2009	\$ (56)	\$ 98

Results for the three and nine months ended September 30, 2009 were a net loss of \$56 million and net income of \$98 million respectively, compared with net income of \$76 million and \$160 million for the corresponding periods in 2008.

Further explanations of the primary year over year variances are as follows:

- Loss on sale of the power generation business reflects the difference between EPCOR's carrying amount of its investment in the power generation business sold and the consideration received for the business. This loss includes income tax related charges to recognize unrealizable future income tax assets and direct expenses incurred in connection with the sale.
- Administration expenses were lower in the third quarter of 2009 compared with the corresponding period in 2008 due to lower staffing levels in corporate services due to the sale of the power generation business. Administration expenses across all business segments excluding Power LP, were higher in the first half of 2009 compared with the first half of 2008 due to increased costs related to the Reorganization.
- The Gold Bar operation was transferred to EPCOR from the City of Edmonton on March 31, 2009 and contributed \$7 million and \$12 million of operating income before administration expenses in the third quarter and year-to-date, respectively.
- Water rates were higher in the three and nine months ended September 30, 2009 compared with the corresponding periods in 2008 primarily due to increased rates under the performance-based rate tariff (PBR) as approved by The City of Edmonton. Water sales volumes were also higher due to drier weather conditions in the second and third quarters of 2009 compared with the corresponding periods in 2008.
- In the first nine months of 2009, the fair value of the notes exchanged for ABCP decreased \$1 million due to lower short-term and higher long-term market interest rates in the first quarter, mostly offset in the second and third quarters by the effect of narrower credit spreads, which are taken into account in calculating the fair value of the notes. In the third quarter of 2009, the fair value increased \$1 million. In the three and nine months ended September 30, 2008, the fair value of EPCOR's ABCP decreased \$2 million and \$11 million, respectively.
- Depreciation expense was higher in the three and nine months ended September 30, 2009 compared with the corresponding periods in 2008 due to regulated water and distribution and transmission asset additions.
- Financing expenses were higher in the three months ended September 30, 2009 compared with the corresponding period primarily due to the write-off of issue costs for the syndicated and bilateral credit facilities that were cancelled in July as a result of the Reorganization, minimal capitalized interest recognized in the third quarter of 2009 compared with the corresponding period in 2008, higher interest expenses due to the addition of the Gold Bar facility in 2009 and lower sinking fund earnings in 2009 compared with 2008.

The higher financing expenses in the nine months ended September 30, 2009 compared with the corresponding period in 2008 primarily were due to the same factors that affected the quarters ended September 30, 2008 and 2009 except that capitalized interest was higher for the nine months ended September 30, 2009 compared with the same period in 2008. The Company capitalized borrowing costs as part of its capital construction projects and in the first half of 2009, construction work-in-progress for Keephills 3 and the Clover Bar Energy Centre was higher compared with the corresponding periods in 2008. No activity on these projects occurred in the third quarter of 2009 as these projects were sold to Capital Power as a result of the Reorganization.

- Net income increases (decreases) related to the power generation business reflect numerous differences in the first half of 2009 and three months ended September 30, 2009 compared with the corresponding periods in 2008 associated with the power generation business that was sold at the beginning of the third quarter. The most significant net income differences relate to unrealized fair value changes, availability incentive income, maintenance expenses for Genesee scheduled turnarounds in 2008, income from Power LP and administration expenses. See Segment Results – Generation.

Revenues

(Unaudited, \$ millions)	Three months	Nine months
Revenues for the periods ended September 30, 2008	\$ 954	\$ 2,618
Gold Bar revenue in 2009	15	28
Interest revenue in 2009 on long-term receivable from CPLP	14	14
Higher water rates and sales volumes	3	11
Lower Water Services' commercial and transportation services activity	(22)	(10)
Lower regulated rate tariff (RRT) electricity revenues	(35)	(76)
Revenue decreases prior to the sale of the power generation business	-	(22)
Sale of power generation business in early July 2009	(581)	(581)
Other	2	(2)
Decrease in revenues	(604)	(638)
Revenues for the periods ended September 30, 2009	\$ 350	\$ 1,980

Consolidated revenues were lower for the three and nine months ended September 30, 2009 compared with the corresponding periods in 2008 due to the net impact of the following and should be read in conjunction with the Note on comparisons:

- Water Services' commercial and transportation services revenues were lower in the three and nine months ended September 30, 2009 compared with the corresponding periods in 2008 primarily due to reduced commercial water plant and distribution system construction activity in 2009, partly offset by increased construction activity for street lighting, signals and light rail transit overhead wires for the City of Edmonton in 2009.
- Regulated electricity revenues were lower in the three and nine months ended September 30, 2009 compared with the corresponding periods in 2008 primarily due to lower electricity prices in 2009 compared with 2008.
- Revenue decreases related to the power generation business reflect numerous differences in the first half of 2009 compared with the corresponding period in 2008 associated with the power generation business that was sold effective July 1, 2009. The most significant revenue differences relate to trading activities in the Western U.S., natural gas sales, unrealized fair value changes and availability incentive revenue.
- Sale of the power generation business reflects the revenues of this business in the third quarter of 2008. The largest revenue items related to that quarter were for Power LP, unrealized fair value changes, natural gas sales and Alberta electricity sales.

Capital spending and investment

(Unaudited, \$ millions)		
Nine months ended September 30	2009	2008
Generation	\$ 228	\$ 306
Distribution and Transmission	56	94
Energy Services	7	5
Water Services	64	50
Corporate – other	14	10
	\$ 369	\$ 465

Capital expenditures for property, plant and equipment were lower for the nine months ended September 30, 2009 compared with the corresponding period in 2008 primarily due to capital spending on Keephills 3 and Clover Bar Energy Centre in the third quarter of 2008, capital expenditures in 2008 for the Downtown Edmonton Supply and Substation project in Distribution and Transmission which was completed in the third quarter of 2008 and for the E.L. Smith water treatment plant upgrade in Water Services which was completed in the second quarter of 2008.

These decreases in spending were partly offset by capital expenditures on the Gold Bar plant in 2009.

There was no capital spending for the Generation segment and lower capital spending in the Energy Services segment in the third quarter of 2009 compared with the corresponding period in 2008 due to the sale of the power generation business.

SEGMENT RESULTS

Generation

Generation results (including intersegment transactions) (Unaudited, \$ millions)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenues	\$ -	\$ 257	\$ 515	\$ 712
Expenses	-	367	428	617
Operating income (loss)	\$ -	\$ (110)	\$ 87	\$ 95

(Unaudited, \$ millions)	Three months	Nine months
Operating income (loss) for the periods ended September 30, 2008	\$ (110)	\$ 95
Sale of power generation business in early July 2009	110	110
<i>Increases/(decreases) prior to the sale of the power generation business in early July 2009:</i>		
Higher Genesee Power Purchase Arrangement (PPA) availability incentive income	-	42
Maintenance expenses for Genesee scheduled turnarounds in 2008	-	26
Lower realized foreign exchange expense	-	8
Gain on sale of portfolio investments in 2008	-	(4)
Unrealized fair value changes on derivative instruments	-	(5)
Higher administration expenses	-	(18)
Lower Power LP operating income	-	(160)
Other	-	(7)
Increase (decrease) in operating income	110	(8)
Operating income for the periods ended September 30, 2009	\$ -	\$ 87

Generation's operating income for the three and nine months ended September 30, 2009 increased \$110 million and decreased \$8 million, respectively, compared with the corresponding periods in 2008. Further information on the year-over-year changes is as follows and should be read in conjunction with the Note on comparisons:

- Sale of the power generation business variance reflects the sale of substantially all of the generation segment as part of the Reorganization. The operating income for this segment for the three months ended September 30, 2008 reflected that EPCOR still controlled the generation operations, including Power LP, and reflected unrealized losses on the change in fair value of natural gas contracts and unrealized losses on the translation of Power LP's U.S. dollar debt due to a strengthening U.S. dollar in the third quarter of 2008.
- Generation's revenues and operating income increased \$42 million in the first half of 2009 due to availability incentive income earned under the terms of the Genesee 1 and 2 PPA compared with a net availability penalty in the corresponding period in 2008. There were scheduled turnarounds for required maintenance at Genesee 1 in the first quarter of 2008 and at all three Genesee units in the second quarter of 2008 whereas plant availability at Genesee 1 and 2 was above plan in the first two quarters of 2009. The back-to-back timing of the maintenance turnarounds in 2008 was required to accommodate the Alberta Electric System Operator's upgrade of the new high-voltage transmission lines in the Genesee and Keephills area.

- Foreign exchange gains were realized in the first half of 2009 on the settlement of forward foreign exchange contracts used to economically hedge the foreign exchange risk associated with anticipated purchases of equipment for Clover Bar Energy Centre and Keephills 3 whereas losses were realized on these contracts in the corresponding period in 2008.
- The unrealized changes in the fair value of the forward foreign exchange contracts for equipment purchases for Clover Bar Energy Centre and Keephills 3 were losses in the first half of 2009 due to a weakening U.S. dollar compared with gains in the corresponding period in 2008 due to a strengthening U.S. dollar. This unfavourable variance was partly offset by a smaller decrease in the fair value of the Joffre contract-for-differences due to a smaller decrease in the forward spark spread in the first half of 2009 compared with the first half of 2008. Spark spread is the theoretical difference between the price of electricity as the output and its energy cost of production.
- Administration expenses increased in the six months ended June 30, 2009 compared with the corresponding period in 2008 due to costs for the Reorganization and increased spending on business development activities and on the Genesee Integrated Gasification Combined Cycle and Carbon Capture Sequestration technology project.
- Power LP contributed \$22 million in the first six months of 2009 compared with \$182 million in the corresponding period in 2008. The year-over-year decreases include unrealized changes of \$175 million in the fair value of natural gas supply and foreign exchange contracts for the six month period.

The decreases in operating income were partly offset by foreign exchange losses recognized in 2008. In the fourth quarter of 2008, Power LP re-evaluated the functional currency of its U.S. subsidiaries and determined it to be U.S. dollars rather than Canadian dollars. Accordingly, gains and losses on foreign currency translation are recorded in other comprehensive income commencing in the fourth quarter of 2008. Power LP reported net foreign exchange losses of \$11 million in the first half of 2008.

Power LP's revenues increased \$29 million for the first half of 2009 compared with the corresponding periods in the prior year, primarily due to unrealized changes in the fair value of forward foreign exchange contracts for U.S. dollars used to economically hedge operating cash flows. Year-over-year changes in plant revenues were insignificant as the revenue from the Morris operation in 2009 was offset by lower revenue from the California plants due to lower electricity prices which, under the terms of the PPA, were driven by lower natural gas prices.

Power LP's expenses increased \$189 million in the first half of 2009 compared with the corresponding period in the prior year. The year-over-year increase included unrealized changes in the fair value of natural gas supply contracts of \$202 million for the six month period. These unrealized fair value changes were included in fuel expense and were due to decreases in the forward market prices for natural gas in the first half of 2009 compared with increases in the first half of 2008. Operating expenses for the Morris facility also contributed to the increase in Power LP's expenses. These increases were partly offset by the foreign exchange losses in the first half of 2008 with no corresponding amounts included in net income in 2009, and decreased fuel costs at the California plants due to lower natural gas prices in the first half of 2009 compared with the first half of 2008.

Distribution and Transmission

Distribution and Transmission results (including intersegment transactions) (Unaudited, \$ millions)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenues	\$ 60	\$ 59	\$ 179	\$ 177
Expenses	46	45	147	145
Operating income	\$ 14	\$ 14	\$ 32	\$ 32

There were no material changes in Distribution and Transmission revenues, expenses and operating income, for the three and nine months ended September 30, 2009 compared with the corresponding periods in 2008.

Energy Services

Energy Services results (including intersegment transactions) (Unaudited, \$ millions)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenues	\$ 213	\$ 608	\$ 1,183	\$ 1,703
Expenses	204	532	1,082	1,621
Operating income (loss)	\$ 9	\$ 76	\$ 101	\$ 82

(Unaudited, \$ millions)	Three months	Nine months
Operating income for the periods ended September 30, 2008	\$ 76	\$ 82
Higher billing charge revenues in 2009	-	2
Administration related to ongoing EPCOR operations	-	(5)
Sale of power generation business in early July 2009	(71)	(71)
<i>Increases/(decreases) prior to the sale of the power generation business in early July 2009:</i>		
Unrealized fair value changes in derivative instruments and natural gas inventory	-	106
Higher natural gas margins	-	6
Higher administration expenses	-	(7)
Lower Alberta electricity margins	-	(19)
Other	4	7
(Decrease) increase in operating income	(67)	19
Operating income for the periods ended September 30, 2009	\$ 9	\$ 101

Energy Services' operating income decreased \$67 million for the quarter and increased \$19 million for the nine months ended September 30, 2009 compared with the corresponding periods in 2008 due to the net impact of the following and should be read in conjunction with the Note on comparisons:

- Billing charge revenues were higher in 2009 compared with 2008 primarily due to higher rates as approved by the Alberta Utilities Commission. These revenues reflect the recovery of administrative costs from RRT customers for the provision of customer billing services.
- The decreases due to the sale of the power generation business reflect the sale of a significant portion of the Energy Services segment as part of the Reorganization. The operating income for this portion of the segment for the three months ended September 30, 2008 reflected EPCOR in control of the generation operations, including Power LP, and reflected positive margins for

Alberta electricity, natural gas, trading activities in Ontario and the north eastern U.S. and unrealized fair value gains due to a net short position combined with decreasing forward electricity prices. These favourable results were partly offset by an unrealized fair value loss on natural gas inventory due to decreasing forward natural gas prices.

- The unrealized fair value changes for the first half of 2009 compared with the first half of 2008 relate primarily to a net short position in both years for derivative electricity contracts that were not designated as hedges for accounting purposes. In the first half of 2009, forward Alberta power prices decreased which increased the fair value of these contracts whereas in the corresponding period of 2008, forward Alberta power prices increased which reduced the fair value of these contracts. These unrealized fair value changes increased energy revenues and energy purchases by \$137 million and \$31 million respectively, in the first half of 2009 compared with the first half of 2008. As a result of the sale of the power generation business the Company is no longer exposed to fair value adjustments related to energy contracts or natural gas inventory.
- Natural gas margins in the first half of 2009 compared with the first half of 2008 were higher primarily due to gains realized on sales of storage gas in the first half of 2009 compared with losses in the first half of 2008 and increased margins from our speculative natural gas portfolio. Natural gas revenues and purchases decreased \$165 million and \$171 million respectively, in the first half of 2009 compared with the corresponding period in 2008 primarily due to lower physical natural gas trading activities, lower natural gas consumption due to fewer wholesale and merchant customers and lower natural gas prices.
- Administration expenses increased in the six months ended June 30, 2009 compared with the corresponding period in 2008 primarily due to costs incurred for the Reorganization.
- In the first half of 2009, energy revenues and expenses from our Alberta electricity portfolio decreased \$53 million and \$34 million respectively, compared with the first half of 2008 due to the impact of reduced Alberta power prices on the portfolio, our reduced interest in the Battle River Power Syndicate Agreement (PSA), and lower pricing and volumes for our RRT business. The portfolio was in a net long position as we had more physical supply from our generating stations and interests in the Battle River and Sundance PPAs (acquired PPAs) than we had contracted to sell. The decrease in power generation resulting from our reduced interest in the Battle River PSA was partly offset by increased generation from Genesee 3. The impact of lower revenues on the energy margins for our RRT business was minimal.
- Decreased trading activities in the western U.S., north eastern U.S. and Ontario in the first half of 2009 compared with the corresponding period in 2008 reduced revenues by \$47 million, but had minimal impact on energy margins.

Water Services

Water Services results (including intersegment transactions) (Unaudited, \$ millions)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenues	\$ 94	\$ 98	\$ 253	\$ 226
Expenses	67	76	200	178
Operating income	\$ 27	\$ 22	\$ 53	\$ 48

(Unaudited, \$ millions)	Three months	Nine months
Operating income for the periods ended September 30, 2008	\$ 22	\$ 48
Increased water rates and sales volumes, net of franchise fees	3	11
Gold Bar operating income excluding administration expenses in 2009	7	12
Higher administration expenses	(8)	(17)
Other	3	(1)
Increase in operating income	5	5
Operating income for the periods ended September 30, 2009	\$ 27	\$ 53

Water Services' operating income increased \$5 million in the third quarter and first nine months of 2009 compared with the corresponding periods of the prior year due to the net impact of the following:

- Revenues from water sales, net of franchise fees, were higher in the three and nine months ended September 30, 2009 compared with the corresponding periods in 2008, primarily due to increased rates effective April 1, 2008 and April 1, 2009 under Water Services' Performance Based Rate structure as approved by its regulator, The City of Edmonton, and increased sales volumes due to drier weather conditions in the second and third quarters of 2009.
- The Gold Bar operation, which was transferred from the City of Edmonton on March 31, 2009, contributed \$15 million in revenues and \$8 million in expenses in the third quarter.
- Administration expenses increased in the first nine months of 2009 due to costs related to the Reorganization and the Gold Bar operation.

Transportation and other commercial services revenues were \$22 million and \$10 million lower in the third quarter and nine months ended September 30, 2009 compared with the corresponding periods in 2008 primarily due to reduced construction activity as a result of completion of projects for the towns of Chestermere, Wetaskiwin, Taber and Canmore as well as Suncor Voyageur. The decrease in revenues, offset by equivalent decreases in construction expenses, had minimal impact on operating income. Revenues related to the construction and maintenance of street lighting, signals and light rail transit overhead wires for the City of Edmonton were higher in the third quarter and nine months ended September 30, 2009 compared with the corresponding periods in 2008 due to increased activity. This revenue increase was offset by increased labour and business development expenses.

A higher incidence and cost of water distribution main breaks in the nine months ended September 30, 2009 compared with the corresponding period in 2008 also contributed to higher expenses in Water Services.

CONSOLIDATED BALANCE SHEETS

(\$ millions)	September 30, 2009	December 31, 2008	Increase (decrease)	Explanation
Cash and cash equivalents	\$ 22	\$ 111	\$ (89)	Refer to liquidity and capital resources section.
Accounts receivable (including income taxes recoverable)	243	503	(260)	Sale of the power generation business partly offset by receivables related to Gold Bar sales.
Current portion of long-term receivables	254	6	248	Reflects current portion of the long-term receivable from CPLP and the reclassification of a commercial water loan receivable from long-term.
Derivative instruments assets (current)	-	130	(130)	Sale of the power generation business.
Other current assets	28	96	(68)	Sale of the power generation business, 2008 balance primarily reflects generation plant inventories.
Property, plant and equipment	1,725	4,639	(2,914)	Sale of the power generation business and depreciation and amortization expenses in the current year, offset by 2009 capital additions and Gold Bar assets.
Power purchase arrangements (PPAs)	-	550	(550)	Sale of the power generation business.
Contract and customer rights and other intangible assets	110	296	(186)	Sale of the power generation business and amortization of RRT customer rights.
Long-term investment	1,472	-	1,472	Reflects the Company's 72.2% equity interest in CPLP received on sale of power generation business.
Derivative instruments assets (non-current)	-	75	(75)	Sale of the power generation business.
Future income tax assets (non-current)	30	103	(73)	Sale of the power generation business.
Goodwill	2	161	(159)	Sale of the power generation business.
Long-term receivables	643	102	541	Reflects long-term portion of the long-term receivable from CPLP established on the sale of the power generation business.
Other assets	75	133	(58)	Sale of the power generation business.
Assets held for sale	-	43	(43)	Decrease due to the sale of the power generation business. 2008 balance reflects the portion of the Battle River PSA held for sale.

(\$ millions)	September 30, 2009	December 31, 2008	Increase (decrease)	Explanation
Short-term debt	\$ 19	\$ 140	\$ (121)	Repayment of bankers' acceptances and commercial paper
Accounts payable and accrued liabilities	289	587	(298)	Sale of the power generation business partly offset by the current portion of the transfer fee payable to the City of Edmonton for the Gold Bar transfer.
Derivative instruments liabilities (current)	-	131	(131)	Sale of the power generation business.
Other current liabilities	17	58	(41)	Sale of the power generation business.
Long-term debt (including current portion)	1,734	2,728	(994)	Sale of power generation business including the long-term debt outstanding of EPCOR Power LP.
Derivative instruments liabilities (non-current)	-	110	(110)	Sale of the power generation business.
Other non-current liabilities	85	125	(40)	Sale of the power generation business partly offset by the non-current portion of the transfer fee owing to the City of Edmonton for the Gold Bar asset transfer.
Future income tax liabilities (non-current)	-	100	(100)	Sale of the power generation business.
Non-controlling interests	-	540	(540)	Balance decreased due to the sale of the power generation business and recognition of interest in Power LP on an equity basis included in equity interest of CPLP.
Shareholder's equity	2,460	2,429	31	Reflects net income, other comprehensive income and the Gold Bar asset capital contribution partly offset by common share dividends.

LIQUIDITY AND CAPITAL RESOURCES

Cash inflows (outflows)				
(\$ millions)	Three months ended		Increase (decrease)	Explanation
	2009	2008		
Operating	\$ 65	\$ 139	\$ (74)	Lower cash receipts in 2009 due to the sale of the power generation business, partly offset by the receipt of interest revenue on the long-term receivable from CPLP.
Investing	439	(165)	604	Proceeds on the disposal of the power generation business in 2009 and lower payments for capital expenditures in 2009.
Financing	(563)	45	(608)	Net financing outlays in 2009 included the repayment of \$468 million in commercial paper and banker's acceptances as well as ongoing debt repayments. Net financing receipts in 2008 included the issuance of \$113 million of commercial paper and bankers' acceptances partly offset by ongoing long-term debt repayments.

Cash inflows (outflows)				
(\$ millions)	Nine months ended September 30		Increase (decrease)	Explanation
	2009	2008		
Operating	\$ 316	\$ 278	\$ 38	Receipt of interest revenue on the long-term receivable from CPLP in 2009 and payment in 2008 of income taxes related to the 2006 gain on sale of the Battle River PSA. These cash increases are partly offset by reduced cash receipts as a result of the sale of the power generation business.
Investing	153	(386)	539	Proceeds on the disposal of the power generation business in 2009 and lower payments for capital expenditures in 2009, partly offset by the payment of a Gold Bar transfer fee installment in 2009.
Financing	(561)	176	(737)	Net financing outlays in 2009 included \$120 million in net repayments of bankers' acceptances, commercial paper and U.S. dollar bank loans and repayment of \$224 million of long-term debt that was outstanding under the syndicated bank credit facility, and other ongoing debt repayments. Net financing receipts in 2008 included the issuance of \$600 million of medium-term note debentures and net proceeds from the issuance of commercial paper, partly offset by repayment of \$200 million of medium-term note debentures and \$155 million of long-term debt that was outstanding under the syndicated bank credit facility, and ongoing long-term debt repayments.

The Company's cash from operating activities decreased \$74 million and increased \$38 million in the three and nine months ended September 30, 2009 respectively, compared with the corresponding periods in 2008. Over the next few quarters, we anticipate funds from operations to decrease from 2008 due to the absence of the power generation business which was sold to Capital Power in early July 2009. The Company plans to finance its working capital requirements with existing credit facilities and the issuance of commercial paper.

On July 9, 2009, cash proceeds of approximately \$468 million received on the sale of the power generation business to Capital Power increased cash flow from investing activities. Of the proceeds received, approximately \$424 million was used to repay bankers' acceptances and \$44 million was used to repay commercial paper indebtedness. In addition, EPCOR received approximately \$18 million in partnership distributions in October 2009 on its 56.6 million exchangeable LP units of CPLP. EPCOR expects to receive a similar amount in future quarters.

On July 9, 2009, EPCOR received \$896 million in long-term loans receivable from CPLP as part of the consideration on the sale of the power generation business. These long-term loans receivable provide for principal with interest payments that will be sufficient to meet certain debt obligations to the City of Edmonton. The loans will be repaid at various dates extending out to June 30, 2018. On

September 30, 2009, the Company received approximately \$39 million from CPLP in respect of the first scheduled loan repayment.

At September 30, 2009, the Company had undrawn amounts available of \$446 million under three credit facilities including a \$500 million syndicated bank credit facility. This facility has two tranches of \$250 million each. One \$250 million tranche is available and committed for approximately 1.5 years and a second \$250 million tranche with \$158 million available is committed for approximately 3.5 years. These amounts exclude Power LP's credit facilities as it was sold with the power generation business and is no longer consolidated in EPCOR's financial statements. In conjunction with the Reorganization, on July 9, 2009 the Company terminated its \$600 million syndicated bank credit facility and renegotiated its \$800 million syndicated bank credit facility to \$500 million. The changes to the syndicated bank credit facility required increases to borrowing costs to reflect current market conditions. In addition, the Company's five bilateral bank credit facilities totalling \$490 million were cancelled as they were no longer required with the reduced scope of operations following the sale of the power generation business.

Committed bank lines of credit are also used to provide letters of credit. At September 30, 2009, the Company had letters of credit of \$95 million (December 31, 2008 - \$253 million) outstanding to meet the credit requirements of energy market participants and conditions of certain service agreements. The committed bank lines also indirectly back the Company's commercial paper program which has an authorized capacity of \$225 million, of which \$19 million was outstanding at September 30, 2009 (December 31, 2008 - \$113 million).

The Company's financing requirements for capital projects have decreased as a result of the sale of the power generation business to Capital Power in early July 2009. Capital expenditures are expected to be approximately \$183 million over the last quarter of the year which will be financed with existing credit facilities or the issuance of medium-term notes. Included in this estimate, is the acquisition, under a sale leaseback arrangement, of potable water and wastewater treatment plant assets from Suncor Energy for approximately \$100 million. See Subsequent Event.

The Company's contractual obligations in 2010 of \$487 million, as noted in Contractual Obligations, will be funded from operating cash flows, partnership distributions from CPLP, interest and principal payments related to the long-term receivable from CPLP, and the Company's credit facilities or medium term notes. The payments from CPLP comprise a significant amount of the cash required to fund the Company's 2010 contractual obligations. Should CPLP be unable to fulfill its obligations to EPCOR in 2010, the Company will rely more heavily on its credit facilities to fund its obligations in 2010.

The Company has a Canadian shelf prospectus under which it may raise up to \$1 billion of debt with maturities of not less than one year. At September 30, 2009, the available amount remaining under this shelf prospectus was \$400 million. The shelf prospectus expires in November 2009, but is expected to be renewed in the fourth quarter of 2009.

Effects of economic downturn and market uncertainty

Canadian and U.S. financial markets continued to stabilize in the third quarter of 2009. The Company secured financing to fund its capital expenditures and working capital requirements at a weighted average interest rate of 0.35% through the issue of commercial paper and bankers'

acceptances in the quarter. The Company plans to continue using commercial paper, existing credit facilities or medium-term notes for its financing requirements for the balance of the year. Should instability in the credit and economic environments worsen, it may adversely affect the interest rates at which we are able to borrow.

Notwithstanding the limited signs of improvement in the global economy, if the economy were to deteriorate in the longer term, particularly as they relate to Canada and the U.S., this may adversely affect the Company's ability to renew credit facilities, arrange long-term financing for its capital expenditure programs and acquisitions, or refinance outstanding indebtedness when it matures. If market conditions worsen, the Company may suffer a credit rating downgrade and be unable to renew its credit facilities or access the public debt markets. Although we continue to believe that these circumstances have a low probability of occurring, we are monitoring EPCOR's capital programs and operating costs to minimize the risk that the Company becomes short of cash or unable to honour its obligations. Some of these considerations include the preservation of capital through capital expenditure reduction or deferral, operating cost reductions and sale of exchangeable LP units of CPLP where permitted by market conditions and the terms and conditions of the Reorganization.

CONTRACTUAL OBLIGATIONS

During the third quarter, the Company financed its capital expenditures and working capital requirements through its credit facilities and commercial paper program. The Company's outstanding short-term debt decreased \$449 million in the third quarter and \$121 million in the first nine months of 2009.

Prior to the sale of the power generation business to Capital Power the Company had issued parental guarantees on behalf of former subsidiaries to meet the credit requirements of energy market participants, to meet conditions of certain service agreements, and to satisfy legislated reclamation requirements. At September 30, 2009, the Company continues to have outstanding parental guarantees on behalf of Capital Power totaling \$1,315 million. The Company also has outstanding parental guarantees which do not have a defined limit, but which provide full support for any positions related to power purchase arrangements of Capital Power. The Company and Capital Power are working to expeditiously transfer the guarantees to Capital Power and Capital Power has indemnified EPCOR for any draws on such guarantees.

On March 31, 2009, EPCOR issued \$112 million of long-term debt to the City of Edmonton and incurred a \$75 million transfer fee payable to the City of Edmonton for the Gold Bar asset transfer. The long-term debt bears interest at a weighted average interest rate of approximately 5.22% and matures over the period from 2010 to 2033 as follows:

(Unaudited, \$ millions)	
2009	\$ 6
2010	6
2011	6
2012	5
2013 to 2033	89
Total	\$ 112

The transfer fee is payable in annual instalments over the period from 2009 to 2015 and is included in the table of contractual obligations in EPCOR's 2008 annual MD&A. The first instalment of \$17 million was paid on March 31, 2009.

There have been no other material changes to the Company's purchase obligations, including payments for the next five years and thereafter, during the third quarter. However, a significant portion of EPCOR's contractual obligations were transferred to Capital Power or extinguished in conjunction with the sale of the power generation business and Reorganization effective early July 2009. Accordingly, EPCOR's contractual obligations at September 30, 2009 adjusted for the transactions relating to the Reorganization were as follows:

\$ millions	Due within 1 year	Due between				Due after more than five years	Total
		1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years		
Capital projects ⁽¹⁾	\$ 51	\$ 17	\$ -	\$ -	\$ -	\$ -	\$ 68
Water and wastewater infrastructure projects ⁽²⁾	25	16	12	10	6	1	70
Long-term debt ⁽³⁾	230	24	216	14	11	1,252	1,747
Interest on long-term debt	155	127	102	86	81	881	1,432
Short-term debt	19	-	-	-	-	-	19
Asset retirement obligations ⁽⁴⁾	5	14	-	-	-	-	19
Operating leases	2	2	9	11	11	186	221
Total	\$ 487	\$ 200	\$ 339	\$ 121	\$ 109	\$ 2,320	\$ 3,576

⁽¹⁾ EPCOR's obligations for capital projects include obligations for various Distribution and Transmission and Water Services' projects.

⁽²⁾ EPCOR's obligations for water and wastewater infrastructure projects include obligations for the town of Chestermere project and the transfer fee related to the purchase of Gold Bar from the City of Edmonton.

⁽³⁾ Obligations assumed by EPCOR upon transfer of Gold Bar from the City of Edmonton are included. The transfer fee obligation is included in water and wastewater infrastructure projects above. Long-term receivable obligations due from CPLP, which serve to offset the stated amount of long-term debt owing to The City, are not reflected in the above table.

⁽⁴⁾ EPCOR's asset retirement obligations reflect the undiscounted cash flow required to settle obligations for the retirement of the Rosssdale generating plant.

The long-term debt and interest on long-term debt in the above table include amounts for EPCOR's public debentures and obligations to the City of Edmonton.

For further information on the Company's contractual obligations, refer to the 2008 annual MD&A.

CHANGES IN ACCOUNTING STANDARDS

Accounting changes for 2009

Rate-regulated operations

In December 2007, the Canadian Institute of Chartered Accountants (CICA) amended Handbook Section 1100 - Generally Accepted Accounting Principles, and made consequential amendments to Accounting Guideline 19 - Disclosures by Entities Subject to Rate Regulation. The amendments removed the temporary exemption from the requirement to apply Section 1100 to the recognition and measurement of assets and liabilities arising from rate regulation. These amendments have been adopted by the Company commencing January 1, 2009. The Company's adoption of the amendment did not have a material impact in the interim consolidated financial statements.

As permitted by Canadian GAAP, the Company is applying standards issued by the Financial Accounting Standards Board in the U.S. as another source of Canadian GAAP. The U.S. Statement of Financial Accounting Standards No. 71 – Accounting for the Effects of Certain Types of Regulation (FAS 71) allows for the recognition and measurement of rate regulated assets and liabilities.

Intangible assets

In February 2008, the CICA issued Handbook Section 3064 – Goodwill and Intangible Assets and consequential amendments to Section 1000 – Financial Statement Concepts. The new section establishes standards effective January 1, 2009 for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions in International Financial Reporting Standards. EPCOR has adopted these amendments commencing January 1, 2009 and applied them on a retrospective basis, resulting in the reclassification of \$89 million of net assets from property, plant and equipment to contract and customer rights and other intangible assets in the comparative December 31, 2008 balance sheet. The adoption of these amendments had no other material impact on our interim consolidated financial statements.

Credit risk and fair value of financial assets and liabilities

On January 20, 2009, the Emerging Issues Committee of the CICA issued EIC-173 Credit Risk and the Fair Value of Financial Assets and Liabilities, which clarifies that an entity’s own credit risk and the credit risk of its counterparties should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. Effective January 1, 2009, the Company adopted the recommendations of EIC-173 and applied them retrospectively without restatement of prior periods. Including counterparty credit risk in the estimate of the fair value of Power LP’s natural gas and foreign exchange contracts on January 1, 2009 had the following impact on EPCOR’s balance sheet on that date:

(Unaudited, \$ millions)	Increase (decrease)
Derivative instruments assets – non-current	\$ (1)
Derivative instruments liabilities – non-current	(6)
Future income tax liabilities – non-current	1
Non-controlling interests	3
Opening retained earnings	1

Future accounting changes

International financial reporting standards

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

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

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

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

Financial Statement Adjustments

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

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

Financial Statements

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

Systems Updates

Systems must be able to capture 2010 financial information under both the prevailing Canadian GAAP and International Financial Reporting Standards to allow comparative reporting in 2011, the first year of reporting under International Financial Reporting Standards. We completed our system updates in the third quarter of 2009 to capture both and are implementing the operational procedures to capture the applicable accounting data through 2010.

Policies and Internal Controls

In the determination of the financial statement adjustments, requirements for changes to Company policies and internal controls will be identified and documented. As there may be factors other than International Financial Reporting Standards impacting policies and internal controls, the formal

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

The impact of International Financial Reporting Standards on certain agreements, such as debt, shareholder and compensation agreements, has also been included in the plan. Assessments of most agreements have been completed and will continue to be monitored as IFRS differences are quantified.

Training

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

Disclosures about financial instruments

In June 2009, the CICA amended Handbook Section 3862 Financial Instruments – Disclosures, to adopt the amendments recently made by the International Accounting Standards Board to IFRS 7 Financial Instruments: Disclosures. The amendments require enhanced disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments. Although the amendments apply to financial statements relating to fiscal years ending after September 30, 2009, comparative information is not required in the first year of application. We will assess the impacts of these amendments on our financial statements and implement the necessary additional disclosures commencing with the annual financial statements for 2009.

Consolidated financial statements and non-controlling interests

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

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

Business combinations

In January 2009, the CICA issued Handbook Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations and provides the Canadian equivalent to International Financial Reporting Standard 3 – Business Combinations. The section will apply on a prospective basis to EPCOR's business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year provided Sections 1601 –

Consolidated Financial Statements and 1602 – Non-controlling Interests are also adopted at the same time. The impact of the new standard and the option to adopt it early will be assessed as part of our International Financial Reporting Standards project.

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements, management necessarily made estimates in determining transaction amounts and financial statement balances. The following are the items for which significant estimates were made in the consolidated financial statements: electricity revenues, costs and unbilled consumption, fair values, allowance for doubtful accounts, useful lives of assets, income taxes and PPA availability incentives. For further information on the Company's accounting estimates, refer to the 2008 annual MD&A.

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the most recent annual MD&A. EPCOR faces a number of risks including electricity price and volume risk, natural gas price and volume risk, operational risk, environment, health and safety risk, political, legislative and regulatory risk, project risk, credit risk, financial liquidity risk, supply risk of acquired PPAs, availability of people risk, weather risk, foreign exchange risk, conflicts of interest risk, and general economic conditions and business environment risks. The Company employs active programs to manage these risks.

On June 11, 2009, William Pidruchney filed a Statement of Claim against The City of Edmonton, EPCOR, Power LP General Partner, Power LP and Capital Power. Mr. Pidruchney alleged, among other things, that The City of Edmonton acted beyond its power and contrary to the Municipal Government Act (Alberta) and did not observe an appropriate public process in connection with the sale of the power generation business to Capital Power. Based on its review of the available information, EPCOR believes that the claim is without merit and intends to vigorously defend itself. On June 26, 2009, EPCOR filed a Statement of Defence denying all of the allegations contained in the Statement of Claim. On July 3, 2009, Mr. Justice Hawco of the Alberta Court of Queen's Bench denied an application by William Pidruchney for an interim injunction to delay the closing of the Capital Power initial public offering and its acquisition of EPCOR's power generation business. The court was not satisfied that there was any real merit to Mr. Pidruchney's application. The period of appeal from that decision has expired without an appeal being filed, however, the Statement of Claim continues to be before the courts. The first case management meeting took place on September 15, 2009. An application for Summary Dismissal and Security for Costs is set for November 27, 2009.

On June 30, 2009, an Originating Notice was filed in the Court of the Queen's Bench of Alberta, Judicial District of Edmonton, by the Alberta Federation of Labour, the Canadian Union of Public Employees, Local 30, and the Civic Service Union 52. The Notice names The City of Edmonton, EPCOR Utilities Inc. and Capital Power as Respondents and alleges, among other things, that certain purported actions taken by The City of Edmonton in connection with the sale of the power generation business to Capital Power were outside the jurisdiction of the municipality under the Municipal Government Act. The application was heard on September 11, 2009 and has been dismissed with costs.

On March 20, 2009, EPCOR was charged under Alberta's Occupational Health and Safety Act (the Act) and Occupational Safety Code (the Code) in relation to the 2007 fatality of a power lineman employee who came in contact with energized equipment at a job site in south Edmonton. The charge under the Act relates to failure to ensure, as far as it was reasonably practicable to do so, the health and safety of the employee. The three charges under the Code relate to safe work plan provisions, Alberta Electric Utility Code rules and work process safeguards with respect to energized electrical cables. We have received disclosure from the Solicitor General's office regarding the specifics of the allegations, which we are currently reviewing. The next court date is set for December 14, 2009 for the purpose of entering a plea to the charges. Each charge could attract a fine of up to \$500,000 upon conviction.

As part of ongoing risk management practices, the Company reviews current and proposed transactions to consider their impact on the risk profile of the Company. There have been no material changes to the risk profile or risk management strategies of EPCOR as described in the annual MD&A for 2008 that have affected the financial statements for the third quarter. As a result of the sale of the power generation business and the Reorganization, the risks associated with that business have transferred to Capital Power effective early July 2009. EPCOR no longer controls the power generation business but it has significant economic exposure to Capital Power and therefore the business risks as described in the annual MD&A for 2008 still apply.

SUBSEQUENT EVENT

On October 7, 2009 the Company acquired potable water and wastewater treatment plant assets from Suncor Energy, under a sale leaseback arrangement for approximately \$100 million. The Company will subsequently own and operate these assets for Suncor Energy over a 20 year term. This sale and leaseback arrangement is expected to be a direct financing lease for accounting purposes. Over the 20 year term, the Company has agreed to design, build and finance upgrades to, as well as operate, related assets that will remain under the ownership of Suncor Energy. The Company will be compensated for all services in this agreement through payments over the 20 year term.

OUTLOOK

Earnings in future quarters will continue to benefit from the March 31, 2009 addition of the Gold Bar operation and from the acquisition of potable water and wastewater treatment plant assets from a third party. Due to the onset of cooler weather in Edmonton and the surrounding area, water consumption and revenues will decrease as expected in the fourth quarter of 2009. We will continue to pursue expanding our portfolio of commercial water projects.

Earnings volatility could occur in future quarters as the equity earnings from Capital Power reflect fair value changes in certain power and natural gas derivative contracts that have historically not been hedged for accounting purposes.

We will continue to strongly support government and public approval for the construction of additional transmission capacity in the province and will work closely with our partners and the stakeholders of the Heartland Transmission Project.

We expect EPCOR's financing expenses to settle at current levels as we used the \$468 million of cash proceeds from the sale of the generation business to repay bankers' acceptances and commercial

paper debt on July 9, 2009. We also received an \$896 million interest-bearing long-term receivable from CPLP as part of the consideration for the sale, which effectively has the same terms as a corresponding amount of EPCOR's long-term debt.

FORWARD-LOOKING INFORMATION

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

Forward-looking information in this MD&A includes: (i) the final amount of the loss on sale of the power generation business is not expected to differ materially from the amount reported in the third quarter; (ii) the Company plans to eventually sell all or a substantial portion of its ownership interest in Capital Power, subject to market conditions, its requirements for capital and other circumstances that may arise in the future, and reinvest the proceeds from the share sales in the Company's growing utility infrastructure businesses, including water and wastewater treatment, and power transmission and distribution; (iii) funds from operations will decrease from 2008 due to the absence of the power generation business; (iv) the Company plans to continue using commercial paper and existing credit facilities for its working capital requirements; (v) the principal and interest payments from the Company's long-term loans receivable from CPLP will be sufficient to offset the payment of certain debt obligations of the Company to the City of Edmonton; (vi) capital expenditures are expected to be approximately \$183 million over the last quarter of the year which will be financed with existing credit facilities or the issuance of medium-term notes; (vii) the Company's contractual obligations in 2010 will be funded from operating cash flows, partnership distributions from CPLP, interest and principal payments related to the long-term receivable from CPLP, and the Company's credit facilities or medium term notes; (viii) should CPLP be unable to fulfill its obligations to EPCOR in 2010, the Company will rely more heavily on its credit facilities to fund its own obligations in 2010; (ix) the Company's shelf prospectus is expected to be renewed in the fourth quarter of 2009; (x) expectations regarding the impact on the Company of the capital and credit market instability and expected risk mitigation plans; (xi) the Company will adopt amendments to accounting standards on financial statement disclosure for financial instruments in the fourth quarter of 2009; (xii) earnings for the remainder of 2009 will benefit from the addition of the Gold Bar operation and the acquisition of potable water and wastewater treatment plant assets subsequent to September 30, 2009; and (xiii) water consumption and revenues will decrease in the fourth quarter of 2009.

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

strategic initiatives which will yield the expected benefits; (xiv) the Company's assessment of capital markets and ability to complete future share offerings; and (xv) factors and assumptions in addition to the above related to the Company's 72.2% equity interest in CPLP including, but not limited to: power plant availability, including those subject to acquired PPAs, the assessment of commodity and power markets, and proposed environmental regulations will be implemented.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results and experience to differ materially from EPCOR's expectations. Such risks and uncertainties include, but are not limited to risks relating to: (i) operation of the Company's facilities (ii) unanticipated maintenance and other expenditures; (iii) availability and price of energy commodities; (iv) electricity load settlement; (v) regulatory and government decisions including changes to environmental, financial reporting and tax legislation; (vi) weather and economic conditions; (vii) competitive pressures; (viii) construction; (ix) availability and cost of financing; (x) foreign exchange; (xi) availability of labour and management resources; (xii) performance of counterparties, partners, contractors and suppliers in fulfilling their obligations to the Company; and (xiii) risks in addition to the above related to the Company's 72.2% equity interest in CPLP including, but not limited to; power plant availability and performance.

This MD&A includes the following updates to previously issued forward-looking statements: (i) net income will likely not increase from 2008 as was disclosed in the 2008 annual MD&A, primarily due to the Reorganization; (ii) expected capital spending will decrease from the previously disclosed \$591 million to approximately \$556 million due to project delays on various Distribution and Transmission and Water Services projects; (iii) earnings in the third quarter of 2009, before fair value changes were not consistent with earnings in the first quarter primarily due to the loss on sale of the power generation business; (iv) capital spending for the last half of 2009 will decrease to approximately \$245 million from the \$280 million previously disclosed due to project delays on various Distribution and Transmission and Water Services projects; (v) the Company has cancelled its \$200 million bilateral credit facility after the facility was extended into July 2009 and not renewed the facility as disclosed in the interim MD&A for the first quarter of 2009; and (vi) the Company expects that financing requirements for capital projects will decrease as a result of the Reorganization and not be consistent with prior periods as disclosed in prior period annual and interim MD&A.

As a result of the Reorganization, EPCOR no longer controls the power generation business that was sold to Capital Power. Accordingly, readers should refer to the public disclosures of Capital Power for any revisions to prior forward looking statements relating to EPCOR's former power generation business.

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

QUARTERLY RESULTS

Quarter ended	Revenues	Net income (loss)
	(Unaudited, \$ millions)	
September 30, 2009	\$ 350	\$ (56)
June 30, 2009	740	50
March 31, 2009	890	104
December 31, 2008	800	15
September 30, 2008	954	76
June 30, 2008	865	16
March 31, 2008	799	68
December 31, 2007	962	59

Events for 2009, 2008 and 2007 quarters that have significantly impacted net income and the comparability between quarters are:

- June 30, 2009 second quarter results included unrealized fair value gains resulting from the impact of low Alberta power prices on our derivative electricity contracts that were not designated as hedges for accounting purposes, unrealized fair value gains on Power LP's forward foreign exchange contracts used to economically hedge U.S. cash flows and positive operating income as a result of the transfer of Gold Bar on March 31, 2009.
- March 31, 2009 first quarter results included a \$26 million gain on the sale of a 10% interest in the Battle River PSA, and unrealized fair value gains resulting from the impact of low Alberta power prices on our derivative electricity contracts that were not designated as hedges for accounting purposes. These gains were partly offset by unrealized fair value losses on Power LP's natural gas supply contracts, and forward foreign exchange contracts used to economically hedge U.S. cash flows.
- December 31, 2008 fourth quarter results reflected impairment charges on the goodwill associated with the investment in Power LP and on Power LP's investment in PERH. Power LP also recognized unrealized fair value losses on its forward foreign exchange contracts used to economically hedge U.S. cash flows and on its natural gas supply contracts.
- September 30, 2008 third quarter results reflected gains on the sale of portfolio investments and unrealized fair value gains on derivative electricity contracts, Joffre contract for differences and forward foreign exchange contracts. These gains were partly offset by administration costs resulting from Long-Term Incentive Plan (LTIP) adjustments, and lower income from Power LP.
- June 30, 2008 second quarter results reflected maintenance costs and Genesee PPA availability penalties resulting from scheduled turnarounds on all three Genesee plants partly offset by the favourable impact of high Alberta power prices on our derivative electricity contract portfolio, and unrealized fair value gains on Power LP's natural gas supply contracts.
- March 31, 2008 first quarter results included a \$30 million gain on the sale of a 10% interest in the Battle River PSA, the favourable impact of high Alberta power prices on our derivative contract portfolio which was in a net long position and unrealized fair value gains on Power LP's natural gas supply contracts. These gains were partly offset by maintenance costs and Genesee

PPA availability penalties resulting from a scheduled turnaround at Genesee 1, and a fair value reduction of ABCP.

- December 31, 2007 fourth quarter results included unrealized fair value gains on derivative financial instruments in our Alberta merchant and wholesale portfolio which were not designated as hedges for accounting purposes, and unrealized fair value gains on Power LP's natural gas supply contracts. These gains were partly offset by a reduction in the fair value of ABCP and a future income tax charge for the impact of future tax rate reductions which were substantively enacted in December 2007.

Additional information

Additional information relating to EPCOR, including EPCOR's annual information form, is available on SEDAR at www.sedar.com.

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenues	\$ 350	\$ 954	\$ 1,980	\$ 2,618
Expenses (income):				
Energy purchases and fuel	172	676	1,066	1,609
Operations, maintenance and administration	77	184	418	488
Franchise fee, property taxes and other taxes	16	16	56	51
Depreciation, amortization, and asset retirement accretion	23	63	153	192
Foreign exchange losses	-	12	2	20
Equity income from Capital Power and other	(42)	-	(42)	-
Gain on sale of power syndicate agreement (note 13)	-	-	(30)	(34)
Loss on sale of power generation business (note 5)	80	-	80	-
Net financing expenses	38	41	116	129
	<u>364</u>	<u>992</u>	<u>1,819</u>	<u>2,455</u>
Net income (loss) before income taxes and non-controlling interests	(14)	(38)	161	163
Income taxes	42	(9)	54	2
Net income (loss) before non-controlling interests	(56)	(29)	107	161
Non-controlling interests (note 8)	-	(105)	9	1
Net income (loss)	<u>\$ (56)</u>	<u>\$ 76</u>	<u>\$ 98</u>	<u>\$ 160</u>

See accompanying notes to consolidated financial statements.

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

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 22	\$ 111
Current portion of long-term receivables (notes 9 and 15)	254	6
Accounts receivable	240	496
Income taxes recoverable	3	7
Inventories	24	84
Prepaid expenses	3	9
Derivative instruments assets (note 10)	-	130
Future income tax assets	1	3
	547	846
Property, plant and equipment	1,725	4,639
Power purchase arrangements	-	550
Contract and customer rights and other intangible assets	110	296
Derivative instruments assets (note 10)	-	75
Future income tax assets	30	103
Goodwill	2	161
Long-term receivables (notes 9 and 15)	643	102
Long-term investment (note 5)	1,472	-
Other assets	75	133
Assets held for sale (note 13)	-	43
	\$ 4,604	\$ 6,948
Liabilities and Shareholder's Equity		
Current liabilities:		
Short-term debt (note 7)	\$ 19	\$ 140
Accounts payable and accrued liabilities	289	587
Income taxes payable	-	4
Derivative instruments liabilities (note 10)	-	131
Other current liabilities	17	20
Future income tax liabilities	-	34
Current portion of long-term debt	230	26
	555	942
Long-term debt	1,504	2,702
Derivative instruments liabilities (note 10)	-	110
Other non-current liabilities	85	125
Future income tax liabilities	-	100
	2,144	3,979
Non-controlling interests (note 8)	-	540
Shareholder's equity	2,460	2,429
Subsequent event (note 18)		
	\$ 4,604	\$ 6,948

See accompanying notes to consolidated financial statements.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Share capital and contributed surplus				
Balance at beginning of period	\$ 32	\$ -	\$ -	\$ -
Capital contribution (adjustment) (note 12)	(8)	-	24	-
Balance at end of period	24	-	24	-
Retained earnings				
Balance at beginning of period	2,559	2,443	2,476	2,430
Adjustment for changes in accounting policies (note 4)	-	-	1	-
Net income (loss)	(56)	76	98	160
Common share dividends paid	(33)	(33)	(100)	(98)
Refundable taxes (note 13)	-	1	(5)	(5)
Balance at end of period	2,470	2,487	2,470	2,487
Accumulated other comprehensive loss				
Balance at beginning of period	(43)	(39)	(47)	(63)
Other comprehensive income	9	6	13	30
Balance at end of period	(34)	(33)	(34)	(33)
Total shareholder's equity at end of period	\$ 2,460	\$ 2,454	\$ 2,460	\$ 2,454

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net income (loss)	\$ (56)	\$ 76	\$ 98	\$ 160
Other comprehensive income (loss), net of income taxes:				
Equity other comprehensive income from Capital Power ⁽¹⁾	9	-	9	-
Unrealized (losses) gains on derivative instruments designated as cash flow hedges ⁽²⁾	-	1	(1)	30
Reclassification of losses (gains) on derivative instruments designated as cash flow hedges to net income ⁽³⁾	-	12	12	3
Unrealized gains on financial instruments designated as available for sale ⁽⁴⁾	-	1	-	7
Reclassification of gains on financial instruments designated as available for sale to net income ⁽⁵⁾	-	(8)	-	(10)
Unrealized loss in self-sustaining foreign operations ⁽⁶⁾	-	-	(24)	-
Non-controlling interests ⁽⁶⁾	-	-	17	-
	<u>9</u>	<u>6</u>	<u>13</u>	<u>30</u>
Comprehensive income (loss)	<u>\$ (47)</u>	<u>\$ 82</u>	<u>\$ 111</u>	<u>\$ 190</u>

(1) For the three and nine months ended September 30, 2009, net of income tax expense of \$3.

(2) For the three and nine months ended September 30, 2009, net of income tax recoveries of nil. For the three and nine months ended September 30, 2008, net of income tax expense of nil and \$13, respectively.

(3) For the three and nine months ended September 30, 2009, net of reclassification of income tax recoveries of nil and \$5, respectively. For the three and nine months ended September 30, 2008, net of reclassification of income tax expense of \$5 and \$1, respectively.

(4) For the three and nine months ended September 30, 2008, net of income tax expense of nil and \$2, respectively.

(5) For the three and nine months ended September 30, 2008, net of reclassification of income tax expense of \$2 and \$3, respectively.

(6) For the three and nine months ended September 30, 2009 and September 30, 2008, net of income tax expense of nil.

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Operating activities:				
Net income (loss)	\$ (56)	\$ 76	\$ 98	\$ 160
Adjustments to reconcile net income to funds from operating activities:				
Depreciation, amortization, and asset retirement accretion	23	63	153	192
Gain on sale of power syndicate agreement (note 13)	-	-	(30)	(34)
Non-controlling interests in EPCOR Power L.P. (note 8)	-	(107)	6	(4)
Loss on sale of power generation business (note 5)	80	-	80	-
Equity income from Capital Power and other	(42)	-	(42)	-
Fair value changes on derivative instruments	-	107	(23)	16
Unrealized foreign exchange (gains) losses	-	15	(3)	28
Other	-	(7)	9	(21)
Future income taxes	42	(6)	68	11
	47	141	316	348
Change in non-cash operating working capital	18	(2)	-	(70)
	65	139	316	278
Investing activities:				
Property, plant and equipment and other assets	(65)	(171)	(369)	(465)
Change in non-cash working capital	(2)	(8)	(30)	5
Proceeds on sale of power syndicate agreement (note 13)	-	-	47	53
Payment of Gold Bar transfer fee (note 12)	-	-	(17)	-
Proceeds on disposal of Castleton (note 14)	-	-	12	-
Proceeds on sale of power generation business (note 5)	468	-	468	-
Payment received on long-term receivable issued to CPLP	39	-	39	-
Other	(1)	14	3	21
	439	(165)	153	(386)
Financing activities:				
Net (payment) issuance of short-term debt	(519)	66	(191)	98
Proceeds from issue of long-term debt	-	47	38	647
Repayment of long-term debt	(9)	(12)	(258)	(396)
Distributions to non-controlling interests	-	(23)	(47)	(70)
Common share dividends paid	(33)	(33)	(100)	(98)
Other	(2)	-	(3)	(5)
	(563)	45	(561)	176
Foreign exchange gain (loss) on cash held in a foreign currency	-	1	3	(1)
Increase (decrease) in cash and cash equivalents	(59)	20	(89)	67
Cash and cash equivalents, beginning of period	81	126	111	79
Cash and cash equivalents, end of period	\$ 22	\$ 146	\$ 22	\$ 146
Supplemental cash flow information:				
Interest paid net of interest received	\$ 33	\$ 41	\$ 102	\$ 109
Income taxes paid net of income taxes recovered	-	8	18	66

See accompanying notes to consolidated financial statements.

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
September 30, 2009
(Unaudited, in millions of dollars)

1. Basis of presentation:

These unaudited interim consolidated financial statements of EPCOR Utilities Inc. (the Company or EPCOR) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements and do not include all of the disclosures normally found in the Company's annual consolidated financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008.

These financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual consolidated financial statements except for the changes in accounting policies as described in note 4.

2. Nature of operations:

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

3. Measurement uncertainty:

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

4. Changes in significant accounting policies:

Assets and liabilities arising from rate regulation

In December 2007, the Canadian Institute of Chartered Accountants (CICA) amended Handbook Section 1100 - Generally Accepted Accounting Principles, and made consequential amendments to Accounting Guideline 19 - Disclosures by Entities Subject to Rate Regulation. The amendments removed the temporary exemption from the requirement to apply Section 1100 to the recognition and measurement of assets and liabilities arising from rate regulation. These amendments have been adopted by the Company commencing January 1, 2009. The Company's adoption of the amendment did not have a material impact on these interim consolidated financial statements.

As permitted by Canadian GAAP, the Company is applying standards issued by the Financial Accounting Standards Board in the U.S. as another source of Canadian GAAP. The U.S. Statement of Financial Accounting Standards No. 71 – Accounting for the Effects of Certain Types of Regulation (FAS 71) allows for the recognition and measurement of rate regulated assets and liabilities.

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
September 30, 2009
(Unaudited, in millions of dollars)

4. Changes in significant accounting policies, continued:

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064 – Goodwill and Intangible Assets and consequential amendments to Section 1000 – Financial Statement Concepts. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions in International Financial Reporting Standards (IFRS). These amendments have been adopted by the Company commencing January 1, 2009 and have been applied retrospectively resulting in \$89 million of net assets being reclassified from property, plant and equipment to contract and customer rights and other intangible assets in the comparative December 31, 2008 balance sheet. The Company's adoption of these amendments had no other material impacts on these interim consolidated financial statements.

Credit risk in determining fair value of financial assets and liabilities

On January 20, 2009 the Emerging Issues Committee of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that an entity's own credit risk and the credit risks of the counterparties should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. Effective January 1, 2009, the Company adopted the recommendations of EIC-173 and applied the recommendations retrospectively without restatement of prior periods. On January 1, 2009, the Company made the following adjustments to the balance sheet in adopting the recommendations of EIC-173:

Balance sheet item	Increase (decrease)
Derivative instruments assets - non-current	\$ (1)
Derivative instruments liabilities - non-current	(6)
Future income tax liabilities - non-current	1
Non-controlling interests – balance sheet	3
Opening retained earnings	1

Future accounting changes

The CICA has announced that Canadian reporting issuers will need to begin reporting under IFRS, including comparative figures, by the first quarter of 2011. The Company is currently working on its IFRS conversion project which includes assessing the impact of the differences in accounting standards on the Company's future financial reporting requirements.

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
September 30, 2009
(Unaudited, in millions of dollars)

4. Changes in significant accounting policies, continued:

Future accounting changes, continued

In June 2009, the CICA amended Handbook Section 3862 Financial Instruments – Disclosures, to adopt the amendments recently made by the International Accounting Standards Board to IFRS 7 Financial Instruments: Disclosures. The amendments require enhanced disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments. Although the amendments apply to financial statements relating to fiscal years ending after September 30, 2009, comparative information is not required in the first year of application. We will assess the impacts of these amendments on our financial statements and implement the necessary additional disclosures commencing with the annual financial statements for 2009.

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

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

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

5. Sale of power generation business:

On May 8, 2009, EPCOR announced its plans to create Capital Power, a power generation company that is headquartered in Edmonton. The final prospectus for the initial public offering of 21,750,000 common shares of Capital Power, at \$23.00 per common share, was filed with securities regulators in Canada on June 25, 2009. The initial public offering closed on July 9, 2009.

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
September 30, 2009
(Unaudited, in millions of dollars)

5. Sale of power generation business, continued:

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

The total consideration for the sale consisted of \$468 million of cash, 56.6 million exchangeable limited partnership (LP) units of Capital Power LP (CPLP) and \$896 million in long-term loans receivable from CPLP. In addition, EPCOR holds one special limited voting share in Capital Power providing the right to vote separately as a class in connection with certain amendments to the articles of Capital Power, including an amendment to change or permit the change of the location of the head office of Capital Power from the city of Edmonton.

Effectively, EPCOR sold 27.8% of its interest in the power generation business and through its equity investment in Capital Power, retains a 72.2% interest in that business. The difference between EPCOR's net carrying amount of its investment in the power generation business (\$2,855 million) and the consideration received resulted in a loss on sale of \$80 million including \$37 million in direct expenses incurred in connection with the sale plus a \$35 million income tax charge related to net future income tax assets that are not realizable by the Company as a result of the sale. Certain aspects of the sale related to the determination of minor assets and liabilities transferred to Capital Power have yet to be finalized. When these are finalized in the fourth quarter a change in the amount of the recognized loss on sale could result. However, the final amount of the loss is not expected to differ materially from the amount reported in the third quarter.

Immediately following completion of the Reorganization, EPCOR held 56.6 million exchangeable LP units of CPLP (exchangeable for common shares of Capital Power on a one-for-one basis) representing approximately 72.2% of CPLP, while Capital Power held the remaining 27.8%. Each exchangeable LP unit is accompanied by a special voting share of Capital Power which entitles the holder to a vote at Capital Power shareholder meetings, subject to the restriction that such voting shares must at all times represent not more than 49% of the votes attached to all Capital Power common shares and special voting shares together. The special shares also entitle EPCOR to elect a maximum of four out of twelve directors of Capital Power. As a result of these restrictive rights, EPCOR has significant influence, but not control, of Capital Power and therefore has used the equity method to account for its investment in CPLP.

Effective July 2009, income from Power LP has been included in the income from EPCOR's equity investment in CPLP as EPCOR no longer consolidates Power LP in its consolidated financial statements. Power LP is a subsidiary of CPLP.

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
September 30, 2009
(Unaudited, in millions of dollars)

6. Floating-rate notes:

On January 21, 2009, the restructuring of Canadian non-bank sponsored asset backed commercial paper (ABCP) was implemented.

Under the restructuring, the affected ABCP was exchanged for term floating-rate notes (notes), maturing no earlier than the scheduled termination dates of the underlying assets. The key information on EPCOR's notes is as follows:

(i) EPCOR's allocation of notes under the restructuring was as follows:

Pool	Series	Credit Rating	Face amount	
MAV2	Class A-1	A	\$ 47	67%
	Class A-2	BBB	9	13%
	Class B	Unrated	2	2%
	Class C	Unrated	2	2%
MAV3	IA Tracking	Unrated	11	16%
			\$ 71	100%

(ii) For the Master Asset Vehicle 2 (MAV2) pool notes, the underlying asset lives are anticipated to average nine years. The remaining notes come from Master Asset Vehicle 3 (MAV3) in the form of Ineligible Asset Tracking (IA Tracking) notes. These notes are expected to amortize over the lives of the underlying assets which have a weighted average life of approximately 18 years. In certain limited circumstances, the expected repayment dates could be longer than the expected asset lives.

(iii) ABCP investors, including EPCOR, were paid the accumulated accrued interest, net of ABCP restructuring costs, collateral requirements and other costs, on their existing ABCP from the date of the standstill in August 2007 to the date of the restructuring. For the three and nine months ended September 30, 2009, EPCOR received \$nil and \$4 million respectively, of accrued interest on ABCP and interest on the new notes.

At September 30, 2009, the Company held \$41 million in new notes, recorded in other assets. At December 31, 2008, the Company held \$42 million in ABCP all of which was purchased in 2007 at an original cost of \$71 million.

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
September 30, 2009
(Unaudited, in millions of dollars)

7. Short-term and long-term debt:

A \$500 million extendible syndicated bank revolving credit facility, consisting of three-year and five-year tranches of \$250 million each, committed to 2011 and 2013, is available to the Company. At September 30, 2009, the Company had nil outstanding under this facility, which is extendible beyond 2010 (December 31, 2008 – \$224 million at an interest rate of 1.81%).

During the first six months of 2009, the Company issued \$424 million of bankers' acceptances under an unsecured 364-day \$600 million liquidity credit facility at an interest rate of 0.41% (December 31, 2008 – \$27 million issued under two-year credit facilities at an interest rate of 1.96%). The liquidity credit facility was terminated as part of the sale of the power generation business (See note 5). The Company also issued \$19 million of commercial paper, at interest rates of 0.35% (December 31, 2008 - \$113 million at an interest rate of 1.92%). The bankers' acceptances and commercial paper mature within one year of the balance sheet date and are classified as short-term debt.

8. Non-controlling interests:

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Non-controlling interests in Power LP	\$ -	\$ (107)	\$ 6	\$ (4)
Preferred share dividends paid by subsidiary companies	-	2	3	5
	\$ -	\$ (105)	\$ 9	\$ 1

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
September 30, 2009
(Unaudited, in millions of dollars)

8. Non-controlling interests, continued:

Non-controlling interests reflected in the consolidated balance sheets for the nine months ended September 30, 2009 and the year ended December 31, 2008, and that were disposed of in the third quarter of 2009, consisted of:

	September 30, 2009		December 31, 2008	
Non-controlling interests in Power LP, beginning of period	\$	418	\$	618
Net income (loss) attributable to non-controlling interests		6		(58)
Other comprehensive loss attributable to non-controlling interests		(17)		(48)
Opening retained earnings adjustments attributable to non-controlling interests (note 4)		3		-
Distributions to non-controlling interests		(40)		(94)
Sale of power generation business		(370)		-
Non-controlling interests in Power LP, end of period		-		418
Preferred shares issued by subsidiary companies, beginning and end of period		-		122
	\$	-	\$	540

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

Financial asset or liability	Classification	September 30,		December 31, 2008	
		2009			
		Carrying amount	Fair value	Carrying amount	Fair value
Other assets					
Floating-rate notes (prior to January 21, 2009 – ABCP)	Held for trading	\$ 41	\$ 41	\$ 42	\$ 42
Investment in preferred shares of Primary Energy Recycling Holdings LLC (PERH)	Available for sale	-	-	16	16
Net investments in leases	Loans and receivables	31	32	52	50
Portfolio investments	Available for sale	-	-	6	6
Long-term receivables (including current portion)	Loans and receivables	897	978	108	98
Long-term debt (including current portion)	Other financial liabilities	1,734	1,909	2,728	2,471

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
September 30, 2009
(Unaudited, in millions of dollars)

9. Fair value and classification of non-derivative financial assets and liabilities, continued:

Floating-rate notes

There are no observable market prices for the new notes as at the balance sheet date. Accordingly, EPCOR has estimated the fair value using a probability-weighted discounted cash flow approach based on the assumed credit ratings and potential ratings actions on the applicable notes received under the ABCP restructuring, observable interest rates and credit spreads for estimating future interest payments and applicable discount rates, the cost of margin call facilities, estimated recovery periods based on the estimated lives of the underlying assets associated with the notes and ranges of recoverability based on publicly available default statistics for credit-rated entities. In estimating future cash flows from the notes, the Company assumed that it will earn interest at rates ranging from 0.00% to 11.30% (weighted average rate of 1.62%) depending on the note series, taking into account margin funding. The future cash flows were discounted at rates ranging from 5.00% to 44.79% (weighted average rate of 13.80%), depending on the note series, over 7.3 to 25.2 years (weighted average amortization period of 8.5 years), taking into account the assumed credit spreads and mortality rates. In estimating the future cash flows from the notes the Company assumed that cash flows from MAV2 Class B and Class C notes would be nil due to their subordination to the MAV2 Class A notes.

On January 21, 2009, the Company recorded the exchange of ABCP for floating-rate notes at the estimated fair value of the ABCP on that date. A decrease in fair value of the ABCP immediately prior to the exchange of \$2 million was recorded. As held-for-trading financial assets, the notes are subject to ongoing fair value measurement at each reporting date. Subsequent to the exchange, the estimated fair value of the notes increased by \$1 million in the three (2008 – \$ 2 million decrease in fair value) and nine months (2008 – \$11 million decrease in fair value) ended September 30, 2009 respectively, for a total decrease in the fair value of ABCP and notes in the nine months ended September 30, 2009 of \$1 million (2008 - \$11 million).

EPCOR UTILITIES INC.
Notes to the Interim Consolidated Financial Statements
September 30, 2009
(Unaudited, in millions of dollars)

9. Fair value and classification of non-derivative financial assets and liabilities, continued:

Floating-rate notes, continued

The estimate of fair value of the notes (ABCP before January 21, 2009) is subject to significant risks and uncertainties including the timing and amount of future cash payments, market liquidity, the quality and tenor of the underlying assets and instruments underlying the notes including the possibility of margin calls, and the future market for the notes. Accordingly, the fair value estimate of the notes may change materially. As the estimate of fair value of the notes is not solely based on available observable market data, changing one or more of the assumptions to other reasonably possible alternative assumptions could change the fair value and correspondingly, net income. The sensitivity of the estimated fair value to changes in key valuation assumptions, holding all other assumptions constant, is as follows:

Assumption	Change	Impact on estimated fair value and net income
Amortization term	+/- 1 year	-/+ \$1
Interest rate on floating-rate notes or cost of margin call facilities	+/- 1.00%	+/- \$4
Credit ratings downgrade (increase in loss probability and losses realized)	3 notch downgrade	- \$3 to -\$5

Long-term receivables

On July 9, 2009, EPCOR received \$896 million in long-term loans receivable from CPLP as part of the consideration on the sale of the power generation business. On September 30, 2009, the Company received approximately \$39 million from CPLP in respect of the first scheduled loan repayment. The interest rates on the long-term loans receivable range from 5.80% to 9.0% and will be repaid at various dates extending out to June 30, 2018 as follows:

2010	\$	245
2011		33
2012		155
2013		14
2014		8
Thereafter		402
	\$	857

EPCOR UTILITIES INC.
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10. Derivative instruments and hedge accounting:

Derivative financial and non-financial instruments are held for the purpose of energy purchases, merchant trading or financial risk management.

The derivative instruments assets and liabilities used for risk management purposes at September 30, 2009 were nil and at December 31, 2008 were as follows:

	December 31, 2008			
	Energy		Foreign exchange	Total
	Cash flow hedges	Non- hedges	Non- hedges	
Derivative instruments assets:				
Current	\$ 10	\$ 108	\$ 12	\$ 130
Non-current	9	62	4	75
Derivative instruments liabilities:				
Current	(31)	(88)	(12)	(131)
Non-current	(29)	(43)	(38)	(110)
Net fair value	\$ (41)	\$ 39	\$ (34)	\$ (36)
Net notional buys (sells):				
Megawatt hours of electricity (millions)	(2)	(2)		
Gigajoules of natural gas (millions)	-	65		
Foreign currency (U.S. dollars)			\$ (398)	
Range of contract terms in years	0.1 to 8.0	0.1 to 8.0	0.1 to 6.0	

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10. Derivative instruments and hedge accounting, continued:

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

	Three months ended September 30,			
	2009		2008	
	Unrealized gains (losses)	Realized gains (losses)	Unrealized gains (losses)	Realized gains (losses)
Energy cash flow hedges	\$ -	\$ -	\$ 18	\$ (18)
Energy non-hedges	-	-	(96)	(4)
Foreign exchange non-hedges	-	-	(12)	3
	Nine months ended September 30,			
	2009		2008	
	Unrealized gains (losses)	Realized gains (losses)	Unrealized gains (losses)	Realized gains (losses)
Energy cash flow hedges	\$ 16	\$ (17)	\$ 47	\$ (4)
Energy non-hedges	9	(32)	-	3
Foreign exchange non-hedges	13	4	(17)	6

Realized gains and losses disclosed above relate only to financial derivative instruments. Realized gains and losses on non-financial derivative instruments are recorded in energy revenues or energy purchases and fuel, as appropriate. With the sale of the power generation business, the unrealized gains and losses associated with derivative instruments were transferred to Capital Power (see note 5).

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11. Risk management:

Liquidity risk

As at September 30, 2009, the Company had undrawn bank credit facilities, including operating lines of credit, of \$446 million (December 31, 2008 - \$1,668 million), of which \$158 million (December 31, 2008 - \$562 million) is committed for at least 2 years.

In addition, the Company has in place a Canadian shelf prospectus, which expires in November 2009, under which it may raise up to \$1 billion of debt, with maturities of not less than one year. As at September 30, 2009, the available amount remaining under the Canadian shelf prospectus was \$400 million (December 31, 2008 - \$400 million).

On July 9, 2009, EPCOR received \$896 million in long-term loans receivable from CPLP as part of the consideration on the sale of the power generation business. The loans will be repaid at various dates extending out to June 30, 2018. On September 30, 2009, the Company received approximately \$39 million from CPLP in respect of the first scheduled loan repayment.

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, as at September 30, 2009:

	Due within 1 year	Due between				Due after more than 5 years	Total contractual cash flows
		1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years		
Non-derivative financial liabilities:							
Short-term debt	\$ 19	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19
Long-term debt	230	24	216	14	11	1,252	1,747
Interest payments on long-term debt	155	127	102	86	81	881	1,432
Accounts payable and accrued liabilities ¹	245	-	-	-	-	-	245
Other current liabilities	17	-	-	-	-	-	17
Loan commitments	-	-	-	-	-	-	-
Derivative financial liabilities:							
Net forward foreign exchange contracts	-	-	-	-	-	-	-
Net commodity contracts-for-differences	-	-	-	-	-	-	-
Total	\$ 666	\$ 151	\$ 318	\$ 100	\$ 92	\$ 2,133	\$ 3,460

¹ Excluding accrued interest payable on long-term debt of \$44 million.

The Company's undiscounted cash flow requirements and contractual maturities in 2010 of \$666 million will be funded from operating cash flows, partnership distributions from CPLP, interest and principal payments related to the long-term receivable from CPLP, and the Company's credit facilities or medium term notes. The payments from CPLP comprise a significant amount of the

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11. Risk management, continued:

Liquidity risk, continued

cash required to fund the Company's 2010 contractual obligations. Should CPLP be unable to fulfill its obligations to EPCOR in 2010, then the Company will rely more heavily on its credit facilities to fund its obligations in 2010.

12. Transfer of Gold Bar Wastewater Treatment Plant:

On March 31, 2009, the City of Edmonton (The City) transferred the Gold Bar Wastewater Treatment Plant (Gold Bar) to EPCOR. Gold Bar handles wastewater treatment requirements for 700,000 residents of the City of Edmonton and has a current treatment capacity of 310 megalitres per day. The City of Edmonton Council will continue to regulate wastewater treatment services and rates for the combined drainage utility, which includes the wastewater collection and transmission system still owned by The City and the Gold Bar plant owned by EPCOR.

During the third quarter, as EPCOR and The City continued to finalize the transfer of Gold Bar, it was identified that amounts previously provided by The City for capital contributions related to Gold Bar were understated by \$8 million. The company expects the transfer amounts to be finalized in the fourth quarter of 2009. The adjustment was recorded in the third quarter by reducing property, plant and equipment and contributed surplus by \$8 million. The estimated amount for Gold Bar property, plant and equipment transferred as at March 31, 2009 and measured at its estimated carrying amount was \$258 million which included \$48 million of contributed assets on which EPCOR cannot earn a return. EPCOR also assumed the offsetting capital contributions associated with the \$48 million of contributed assets. Pursuant to the Gold Bar asset transfer agreement, EPCOR issued \$112 million of long-term debt (including a \$6 million current portion at the issue date of March 31, 2009) to The City representing EPCOR's proportionate share of The City's debt obligations in respect of the Gold Bar assets. The long-term debt bears interest at a weighted average rate of approximately 5.22%. In exchange for the net assets transferred, EPCOR will pay a total transfer fee of \$75 million in annual installments as follows:

2009	\$	17
2010		15
2011		14
2012		12
2013		10
2014		6
2015		1
Total	\$	75

EPCOR paid the first transfer fee installment of \$17 million on March 31, 2009.

The remainder of the Gold Bar asset transfer is reflected as an equity contribution from The City of \$24 million.

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

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13. Sale of power syndicate agreement:

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

During the first quarter of 2009, 10% of the Battle River PSA was sold. The transactions in the current and comparative periods are summarized as follows:

		Nine months ended September 30,	
		2009	2008
Cash proceeds from sale	\$	47	\$ 53
Less net book value and costs of disposal		17	19
Gain on sale before income taxes		30	34
Less future income taxes		4	4
Gain on sale after income taxes	\$	26	\$ 30

Refundable taxes of \$5 million (2008 - \$5 million), which arose from the taxable capital gains on the sale of the Battle River PSA, have been charged to retained earnings.

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

14. Disposal of assets:

On May 26, 2009, the Power LP completed the sale of its Castleton facility (Castleton). The disposition of Castleton resulted in proceeds of \$12 million (US\$11 million) and an accounting gain of \$2 million recorded in revenues in the previous quarter.

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15. Related party transactions:

The following summarizes the Company's related party transactions and balances with Capital Power. These transactions are in the normal course of business, under normal commercial terms and are recorded at the exchange amount, which is the consideration established and agreed to by the parties.

	Three months ended September 30, 2009	September 30, 2009
Income statement:		
Revenues - energy sales	\$ 6	
Revenues – financing revenues (a)	15	
Energy purchases and fuel	100	
Equity income	44	
Other comprehensive income statement:		
Equity other comprehensive income	13	
Balance sheet:		
Accounts receivable – accrued interest (b)	\$	12
Accounts receivable (c)		2
Long-term receivable (including current portion) (note 9)		857
Property, plant and equipment – contributed capital (d)		(7)
Accounts payable and accrued liabilities (e)		60

- (a) Financing revenue on long-term receivable from CPLP.
- (b) Accrued interest on long-term receivable from CPLP.
- (c) Amounts accrued relating to operational cost recoveries.
- (d) Contributions for the construction of aerial and underground transmission lines.
- (e) Includes \$30 million relating to energy purchases from CPLP and \$30 million relating to operational cash transactions with CPLP during the acquisition changeover period.

16. Guarantees:

At September 30, 2009, the Company had letters of credit outstanding of \$95 million (December 31, 2008 - \$253 million) to meet the credit requirements of energy market participants, to meet conditions of certain service agreements, and to satisfy legislated reclamation requirements.

Prior to the sale of the power generation business to Capital Power, the Company had issued parental guarantees totaling \$1,315 million related to that business which continue under an agreement between Capital Power and EPCOR. Capital Power has indemnified EPCOR for any demand for payments under the guarantees.

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17. Segment disclosures:

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

Generation

Generation is involved in the development and operation of rate-regulated and non-rate-regulated electrical generation plants within Alberta, British Columbia, Ontario, and in the U.S. in California, Colorado, Illinois, Indiana, New Jersey, New York, North Carolina and Washington.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within The City of Edmonton.

Energy Services

Energy Services is involved in the procurement, marketing and sale of electricity and natural gas in retail and wholesale markets in Alberta, Ontario, the North Eastern U.S. and the Pacific North West.

Water Services

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

Corporate

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

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17. Segment disclosures, continued:

Three months ended September 30, 2009

	Generation	Distribution and Transmission	Energy Services	Water Services	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	\$ -	\$ 32	\$ 211	\$ 93	\$ 14	\$ -	\$ 350
Intersegment revenues	-	28	2	1	-	(31)	-
Total revenues	-	60	213	94	14	(31)	350
Energy purchases and fuel Operations, maintenance, administration and foreign exchange losses (gains)	-	9	189	-	-	(25)	173
Franchise fee, property taxes and other taxes	-	15	11	52	4	(6)	76
Depreciation, amortization and asset retirement accretion	-	10	-	4	1	-	15
Operating expenses	-	9	3	8	3	-	23
Operating income (loss) before corporate charges	-	43	203	64	8	(31)	287
Corporate charges	-	17	10	30	6	-	63
Operating income	\$ -	\$ 14	\$ 9	\$ 27	\$ 13	\$ -	\$ 63
Net financing expenses							(38)
Income before income taxes and non-controlling interests							\$ 25
Capital additions	\$ -	\$ 20	\$ -	\$ 38	\$ 7	\$ -	\$ 65

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17. Segment disclosures, continued:

Three months ended September 30, 2008

	Generation	Distribution and Transmission	Energy Services	Water Services	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	\$ 225	\$ 31	\$ 602	\$ 96	\$ -	\$ -	\$ 954
Intersegment revenues	32	28	6	2	-	(68)	-
Total revenues	257	59	608	98	-	(68)	954
Energy purchases and fuel Operations, maintenance, administration and foreign exchange losses (gains)	233	8	494	-	-	(59)	676
Franchise fee, property taxes and other taxes	81	19	22	63	21	(10)	196
Depreciation, amortization and asset retirement accretion	4	9	-	3	-	-	16
Operating expenses	41	7	7	5	3	-	63
Operating income (loss) before corporate charges	359	43	523	71	24	(69)	951
Corporate charges	(102)	16	85	27	(24)	-	3
Operating income (loss)	8	2	9	5	(24)	-	-
Net financing expenses	\$ (110)	\$ 14	\$ 76	\$ 22	\$ -	\$ 1	\$ 3
Income before income taxes and non-controlling interests							(41)
Capital additions							\$ (38)
	\$ 109	\$ 31	\$ 3	\$ 24	\$ 4	\$ -	\$ 171

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17. Segment disclosures, continued:

Nine months ended September 30, 2009

	Generation	Distribution and Transmission	Energy Services	Water Services	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	\$ 454	\$ 92	\$ 1,169	\$ 251	\$ 14	\$ -	\$ 1,980
Intersegment revenues	61	87	14	2	-	(164)	-
Total revenues	515	179	1,183	253	14	(164)	1,980
Energy purchases and fuel Operations, maintenance, administration and foreign exchange losses (gains)	185	25	998	-	-	(141)	1,067
Franchise fee, property taxes and other taxes	127	50	52	155	58	(23)	419
Depreciation, amortization and asset retirement accretion	10	34	-	10	1	-	55
Operating expenses	83	25	15	20	10	-	153
Operating income (loss) before corporate charges	405	134	1,065	185	69	(164)	1,694
Corporate charges	110	45	118	68	(55)	-	286
Operating income	23	13	17	15	(68)	-	-
Gain on sale of power syndicate agreement	\$ 87	\$ 32	\$ 101	\$ 53	\$ 13	\$ -	\$ 286
Net financing expenses							30
Income before income taxes and non-controlling interests							(116)
Capital additions	\$ 228	\$ 56	\$ 7	\$ 64	\$ 14	\$ -	\$ 369

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17. Segment disclosures, continued:

Nine months ended September 30, 2008

	Generation	Distribution and Transmission	Energy Services	Water Services	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	\$ 618	\$ 90	\$ 1,687	\$ 223	\$ -	\$ -	\$ 2,618
Intersegment revenues	94	87	16	3	-	(200)	-
Total revenues	712	177	1,703	226	-	(200)	2,618
Energy purchases and fuel	227	34	1,523	-	-	(175)	1,609
Operations, maintenance, administration and foreign exchange losses (gains)	230	48	56	143	56	(25)	508
Franchise fee, property taxes and other taxes	13	31	-	7	-	-	51
Depreciation, amortization and asset retirement accretion	125	22	21	15	9	-	192
Operating expenses	595	135	1,600	165	65	(200)	2,360
Operating income (loss) before corporate charges	117	42	103	61	(65)	-	258
Corporate charges	22	10	21	13	(66)	-	-
Operating income	\$ 95	\$ 32	\$ 82	\$ 48	\$ 1	\$ -	\$ 258
Gain on sale of power syndicate agreement							34
Net financing expenses							(129)
Income before income taxes and non-controlling interests							\$ 163
Capital additions	\$ 306	\$ 94	\$ 5	\$ 50	\$ 10	\$ -	\$ 465

Geographic information:

	Three months ended September 30, 2009				Three months ended September 30, 2008			
	Canada	U.S.	Intersegment Eliminations	Total	Canada	U.S.	Intersegment Eliminations	Total
Revenues - external	\$ 350	\$ -	\$ -	\$ 350	\$ 779	\$ 175	\$ -	\$ 954
Intersegment revenues	-	-	-	-	21	2	(23)	-
Total revenues	\$ 350	\$ -	\$ -	\$ 350	\$ 800	\$ 177	\$ (23)	\$ 954
	Nine months ended September 30, 2009				Nine months ended September 30, 2008			
	Canada	U.S.	Intersegment Eliminations	Total	Canada	U.S.	Intersegment Eliminations	Total
Revenues - external	\$1,766	\$ 214	\$ -	\$1,980	\$2,233	\$ 385	\$ -	\$ 2,618
Intersegment revenues	18	2	(20)	-	48	7	(55)	-
Total revenues	\$1,784	\$ 216	\$ (20)	\$1,980	\$2,281	\$ 392	\$ (55)	\$ 2,618

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18. Subsequent event:

Capital commitment and leasing arrangement

On October 7, 2009, the Company acquired potable water and wastewater treatment plant assets from Suncor Energy for approximately \$100 million under a sale leaseback arrangement. The Company will subsequently own and operate these assets for Suncor Energy over a 20-year term. This sale and leaseback arrangement is expected to be a direct financing lease for accounting purposes. Over the 20-year term, the Company has agreed to design, build and finance upgrades to, as well as operate, related assets that will remain under the ownership of Suncor Energy. The Company will be compensated for all services in this agreement through payments over the 20-year term.

19. Comparative figures:

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