EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
March 31, 2012

This management's discussion and analysis (MD&A), dated May 3, 2012, should be read in conjunction with the unaudited condensed consolidated interim financial statements of EPCOR Utilities Inc. and its subsidiaries for the three months ended March 31, 2012 and 2011, the audited consolidated financial statements and MD&A for the year ended December 31, 2011 and the cautionary statement regarding forward-looking information on pages 11 and 12. In this MD&A, any reference to "the Company", "EPCOR", "it", "its", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. In this MD&A, Capital Power refers to Capital Power Corporation and its directly and indirectly owned subsidiaries including Capital Power L.P., except where otherwise noted or the context otherwise requires. Financial information in this MD&A is based on the unaudited condensed consolidated interim financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS), and is presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors has approved this MD&A.

OVERVIEW

EPCOR is wholly-owned by The City of Edmonton (the City). EPCOR builds, owns and operates electrical transmission and distribution networks in Canada as well as water and wastewater treatment facilities and infrastructure in Canada and the United States (U.S.). EPCOR also provides electricity and water services and products to residential and commercial customers. EPCOR's electricity (collectively the Distribution and Transmission and Energy Services segments) and water (including wastewater treatment) businesses consist primarily of rate-regulated and long-term commercial contracted operations. EPCOR's continuous improvement objective is to seek out ways of maximizing the efficiency of its electricity and water operations.

EPCOR's net income was $44 million for the three months ended March 31, 2012 compared to $9 million for the comparative period in 2011. Net income from our core operations was $1 million higher for the three months ended March 31, 2012 than the corresponding period in 2011. EPCOR's core operations performed well in the first quarter without any significant issues or disruptions to customers. EPCOR's equity share of income of Capital Power was higher for the three months ended March 31, 2012 than the corresponding period in 2011. The equity share of income reflects Capital Power's increased income from the corresponding period, partially offset by the impact of the Company's reduced economic interest in Capital Power to 39% (2011 – 54%) as a result of the sale of a portion of, and dilutions of, our interest in 2011. Our 2012 capital expenditure plan includes work on a number of significant projects such as water distribution system renewal projects within the city of Edmonton, replacement and extension of underground electricity distribution cable program, and, in partnership with Altalink, L.P., construction of the Heartland electricity transmission line. Work on these projects and others will continue through 2012. This plan is aimed towards better water management practices and improvement of electricity distribution and transmission infrastructure to meet the growing demand for electricity.

On January 31, 2012, the Company completed the acquisition of 100% of the stock of Arizona-American Water Company and New Mexico-American Water Company, Inc. from American Water Works Company, Inc. for total consideration of $460 million (US$458 million) and the assumption of $9 million

(US$9 million) in long-term debt, subject to certain adjustments. Subsequent to the close of the acquisition, the acquired companies were renamed EPCOR Water Arizona Inc. (Arizona Water) and EPCOR Water New Mexico Inc. (New Mexico Water), respectively. Arizona Water and New Mexico Water are public utility companies engaged principally in the purchase, production, distribution and sale of water to approximately 123,000 customers and wastewater treatment and related services to approximately 51,000 customers. These customers live in 13 municipalities in the states of Arizona and New Mexico. This investment provides the Company with a strong hub in the U.S. Southwest, consistent with the Company's strategic plan for expansion.

As the result of a review that determined efficiencies could be gained by consolidating the Company's customer contact centres, in January 2012, the Company decided to consolidate customer contact centre operations in Edmonton and close its Calgary contact centre. The Calgary contact centre employs 90 people and is anticipated to remain open until at least May 2012. Employees in Calgary are being encouraged to relocate to Edmonton to continue their careers with EPCOR and their relocation costs will be paid by the Company. Those employees not remaining with EPCOR will receive severance and outplacement services.

CONSOLIDATED RESULTS OF OPERATIONS

Net Income

(Unaudited, $ millions)

Net income for the period ended March 31, 2011	**$**	**9**
Higher equity share income from Capital Power (net of income tax expense)		34
		43
Higher Distribution and Transmission operating income		8
Fair value adjustments on financial electricity purchase contracts		8
Lower Energy Services operating income excluding fair value adjustments		(6)
Higher Canadian water operating income		1
Higher U.S. water operating income		1
Higher foreign exchange expense		(3)
Higher net financing expenses		(4)
Other		(4)
Increase in earnings from core operations		1
Net income for the period ended March 31, 2012	**$**	**44**

Net income was $44 million for the three months ended March 31, 2012, compared with $9 million for the corresponding period in 2011. Explanations of the primary period-over-period changes in net income are as follows.

- Higher equity share income from Capital Power reflects EPCOR's equity share of Capital Power's increased income from the corresponding period, partially offset by the impact of EPCOR's reduced economic interest in Capital Power, as a result of the Company selling a portion of its investment in the fourth quarter of 2011, and also by virtue of dilutions resulting from Capital Power's issuances of common shares in 2011.
- Distribution and Transmission's operating income was higher primarily due to increased distribution and transmission tariff rates and volumes, partially offset by increased costs charged by the Alberta Electric System Operator (AESO).
- We recorded positive fair value adjustments on financial electricity purchase contracts associated with our Energy Price Setting Plan (EPSP). Under the EPSP, we enter into short-term financial electricity purchase contracts up to 45 days in advance of customers' consumption of the electricity

in order to fix the price of electricity for that month. These contracts are recorded at fair value and if the market price of electricity (as measured by the forward index price) is higher than the embedded price in the financial contract at the reporting date, there will be a gain on the adjustment to fair value. Conversely, there will be a loss if the market price is lower than the embedded financial contract price. The fair value adjustments do not impact the fundamental economics of the EPSP.

- Energy Services operating income, excluding fair value adjustments on financial electricity purchase contracts, was lower primarily due to lower electricity consumed by customers, losses resulting from selling excess contracted power below cost, costs related to the contact centre consolidation and the expiry of the contract in November 2011 to provide billing, collection and contact centre services to Alberta Energy Savings L.P. (AES).
- Canadian water operating income was higher primarily due to a lower provision recorded in the first quarter of 2012 related to a regulatory decision with respect to a Regional Water Customer Group rate complaint hearing compared with the first quarter of 2011.
- U.S. water operating income represents the results from Chaparral City Water Company (Chaparral) operations acquired in May 2011 and Arizona Water and New Mexico Water operations acquired in January 2012, with no corresponding income in the first quarter of 2011.
- Foreign exchange expense was higher primarily due to a loss realized on the settlement of foreign exchange forward contracts at less than their fair value at December 31, 2011, partially offset by gains recognized on the translation of U.S. dollar denominated net assets to Canadian dollars. The foreign exchange forward contracts were entered into in April 2011 as cash flow hedges to manage the foreign exchange risk related to the January 2012 acquisition of Arizona Water and New Mexico Water. The forward contracts were effective in removing the foreign exchange risk associated with the acquisition.
- Net financing expenses were higher primarily due to higher debt levels and lower earnings of the sinking fund associated with certain long-term debt.

Revenues

(Unaudited, $ millions)

Revenues for the period ended March 31, 2011	**$**	**411**
Higher retail regulated rate tariff electricity revenues		55
U.S. water operations revenues		19
Higher electricity distribution and transmission tariff revenues		8
Higher transportation services revenues		4
Higher Canadian water operating revenues		3
Increase in revenues from core operations		89
Revenues for the period ended March 31, 2012	**$**	**500**

Consolidated revenues were higher for the three months ended March 31, 2012 compared with the corresponding period in 2011 primarily due to the net impact of the following:

- Retail Regulated Rate Tariff (RRT) electricity revenues were higher primarily due to higher customer RRT rates, as set by the EPSP and reflective of market rates, partially offset by lower electricity volumes in 2012.
- U.S. water operations revenues represent water treatment and distribution sales from Chaparral, Arizona Water and New Mexico Water operations, with no corresponding revenue in 2011.

- Electricity distribution and transmission tariff revenues were higher primarily due to higher approved customer rates and higher approved system access revenue. The higher system access revenues were due to higher approved rates, partially offset by increased costs charged by the AESO.
- Transportation services activity, which is performed by the Technologies unit of the Distribution and Transmission segment, was higher primarily due to increased activity in 2012 compared with 2011 under an agreement with the City.
- Canadian water operating revenues were higher primarily due to a lower provision recorded in 2012 related to a regulatory decision with respect to a Regional Water Customer Group rate complaint hearing compared with 2011, an increase in customer rates and a new commercial water contract in 2012, partially offset by lower commercial water construction activity in 2012 compared with 2011.

Capital Spending and Investment

(Unaudited, $ millions)

Three months ended March 31	**2012**	**2011**
Water Services	$ 10	$ 10
Distribution and Transmission	42	29
Corporate	2	1
	54	40
Business acquisition	460	-
Capital Spending and Investment	**$ 514**	**$ 40**

Capital expenditures for plant, property and equipment (PP&E) and investments were higher for the three months ended March 31, 2012 compared with the corresponding period in 2011 primarily due to the acquisition of Arizona Water and New Mexico Water on January 31, 2012 and construction activity on the Heartland Transmission project. Capital spending includes EPCOR's 50% joint venture share of the Heartland Transmission project's capital expenditures.

SEGMENT RESULTS

In the third quarter of 2011, management of the Company's Technologies business was transferred from Water Services to Distribution and Transmission. As a result, Water Services' and Distribution and Transmission's 2011 comparative operating income numbers in the tables below were restated to reflect the transfer.

Water Services

Three months ended March 31 (Unaudited, $ millions)		2012		2011
(Including intersegment transactions)				
Revenues	$	90	$	68
Expenses		80		58
Operating income	**$**	**10**	**$**	**10**

Water Services' operating income for the three months ended March 31, 2012 was comparable with the corresponding period in 2011. The addition of operating income in 2012 from recently acquired U.S. operations and the lower provision recorded related to a regulatory decision with respect to a Regional Water Customer Group rate complaint hearing were offset by higher corporate administrative costs allocated to the Water Services segment in the first quarter of 2012.

Distribution and Transmission

Three months ended March 31 (Unaudited, $ millions)	2012	2011
(Including intersegment transactions)		
Revenues	$ 119	$ 102
Expenses	98	87
Operating income	**$ 21**	**$ 15**

Distribution and Transmission's operating income increased $6 million for the three months ended March 31, 2012 compared with the corresponding period primarily due to increased revenues from higher approved customer rates and improved timing of approvals to bill and collect electricity transmission flow-through costs from customers than was experienced in the corresponding period in 2011, partially offset by increased costs charged by the AESO in 2012.

Energy Services

Three months ended March 31 (Unaudited, $ millions)	2012	2011
(Including intersegment transactions)		
Revenues	$ 335	$ 280
Expenses	326	273
Operating income	**$ 9**	**$ 7**

Energy Services' operating income increased $2 million for the three months ended March 31, 2012 compared with the corresponding period in 2011 primarily due to positive fair value adjustments on financial electricity purchase contracts associated with the EPSP, partially offset by fees no longer earned as a result of the expiration of the AES contract in November 2011, costs related to the contact centre consolidation and losses on the sale of electricity purchased, under contract in accordance with the EPSP, in excess of customer consumption. As required by the EPSP, electricity is purchased up to 45 days in advance of the consumption month, based on forecast consumption. Actual consumption can vary materially, due to weather and customer attrition. The excess electricity was sold at prevailing market rates that were lower than the contract rates in which the electricity was purchased. There were no corresponding fair value adjustments in 2011.

CONSOLIDATED BALANCE SHEETS

($ millions)	March 31, 2012	December 31, 2011	Increase (decrease)	Explanation
Cash and cash equivalents	$ 89	$ 316	$ (227)	Refer to liquidity and capital resources section.
Trade and other receivables	340	372	(32)	Decrease primarily due to lower electricity volumes and prices, partially offset by assumption of Arizona Water and New Mexico Water accounts receivable.
Inventories	14	12	2	Increase primarily due to purchases made for anticipated needs in the second quarter of 2012.
Net Derivatives assets (liabilities)	(3)	11	(14)	Decrease primarily reflects the settlement of foreign exchange forward contracts.
Finance lease receivables	127	127	-	
Other financial assets	401	402	(1)	
Deferred tax assets	44	43	1	
Investment in Capital Power	1,008	987	21	Reflects equity income, partially offset by limited partnership distributions.
Intangible assets	207	104	103	Reflects the acquisition of Arizona Water and New Mexico Water goodwill and other intangible assets, partially offset by amortization of intangible assets with finite useful lives.
Property, plant and equipment	3,338	2,658	680	Reflects capital expenditures and the acquisition of Arizona Water and New Mexico Water, partially offset by depreciation expense.
Trade and other payables	202	264	(62)	Decrease primarily due to payment of EPCOR's 50% proportionate share of Heartland Transmission project payables and lower electricity purchase price and volumes, partially offset by the assumption of Arizona Water and New Mexico Water trade payables.
Other current liabilities	31	34	(3)	
Loans and borrowings (including current portion)	1,995	1,699	296	Reflects issuance long-term debt, partially offset by scheduled repayment of long-term debt.
Deferred revenues (including current portion)	873	602	271	Primarily reflects the assumption of Arizona Water and New Mexico Water deferred revenues.
Deferred tax liabilities	1	1	-	
Provisions (including current portion)	82	51	31	Primarily reflects the assumption of Arizona Water and New Mexico Water provisions and employee incentive amounts accrued for the first quarter of 2012.
Other non-current liabilities	22	30	(8)	Primarily reflects Gold Bar asset transfer fee payment to the City in the first quarter of 2012, partially offset by the assumption of liabilities from Arizona Water and New Mexico Water.
Equity attributable to the Owner of the Company	2,359	2,351	8	Reflects comprehensive income, partially offset by dividends paid.

LIQUIDITY AND CAPITAL RESOURCES

Cash inflows (outflows)

	Three months ended March 31		Increase	
($ millions)	2012	2011	(decrease)	Explanation
Operating	$ 59	$ 6	$ 53	Primarily reflects changes in non-cash operating working capital and higher cash flow from operations as a result of higher net income.
Investing	(543)	(39)	(504)	Primarily reflects Arizona Water and New Mexico Water acquisition.
Financing	257	(43)	300	Primarily reflects higher net issuance of long-term debt.

Cash flow from operating activities, which includes changes in non-cash operating working capital, increased $53 million in the three months ended March 31, 2012 compared with the corresponding period in 2011 primarily due to changes in non-cash operating working capital and higher cash flow from operations as a result of higher net income.

In February 2012, the Company issued $300 million, 4.55% medium-term notes due February 28, 2042 under its base shelf prospectus. The notes were priced to yield 4.565%, pay interest semi-annually and rank equally, except as to sinking fund and statutory preferred exceptions, with all other unsecured and unsubordinated indebtedness of the Company. The notes were used to pay down commercial paper indebtedness and for general corporate purposes. The Company has a Canadian shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At March 31, 2012, the available amount remaining under this shelf prospectus was $700 million. The shelf prospectus expires in January 2014.

The Company has credit facilities, which are used principally for the purpose of backing the Company's commercial paper program and providing letters of credit, totalling $945 million under committed and demand bank lines of credit including a $500 million syndicated bank credit facility and $400 million syndicated bank credit facility. The $500 million syndicated bank credit facility includes committed bank credit lines under two tranches of $250 million each with one committed until 2014 and the other until 2016. The $400 million syndicated bank credit facility is a letter of credit facility which was established in January 2012 and is committed until 2015.

At March 31, 2012, $8 million (December 31, 2011 - nil) was issued and outstanding against the committed bank credit lines under the $500 million syndicated bank credit facility and $139 million (December 31, 2011 - $272 million) in letters of credit, to meet the credit requirements of energy market participants and conditions of certain service agreements, were outstanding under the $400 million syndicated bank credit facility. Undrawn amounts under the Company's credit facilities at March 31, 2012 totalled $798 million (December 31, 2011 - $368 million), of which $491 million (December 31, 2011 - $250 million) is committed for at least two years and $261 million (December 31, 2011 - $48 million) is committed for at least four years.

The Company's working capital and contractual obligations for the remainder of 2012 will be funded from cash on hand, operating cash flows, limited partnership distributions from Capital Power, interest received in relation to the long-term receivable from Capital Power, commercial paper issuance and the Company's credit facilities. In addition, the Company may issue additional private or public medium-term notes or sell a portion of its interest in Capital Power to fund its long-term obligations.

Effects of Economic and Market Uncertainty

During the first quarter of 2012, Canadian and U.S. economies showed mixed signs of recovery and the sovereign debt crisis in Europe remains unresolved. As a result, there is a continuing risk of a stalled economic recovery and another credit crisis. If the economy were to deteriorate in the longer term, particularly in Canada and the U.S., the Company's ability to renew credit facilities, arrange long-term financing for its capital expenditure programs and acquisitions, or refinance outstanding indebtedness when it matures could be adversely impacted. If market conditions worsen, the Company may be unable to renew its credit facilities or access the public debt markets and may suffer a credit rating downgrade. We continue to believe that these circumstances have a low probability of occurring. However, we continue to monitor EPCOR's capital programs and operating costs to minimize the risk that the Company becomes short of cash or unable to honour its obligations.

In the first three months of 2012, the Company secured financing to fund a portion of its capital expenditures and working capital requirements at a weighted average interest rate of 1.069% per annum through the issue of commercial paper in the quarter. The Company also issued $300 million in 30-year medium-term notes. Should the credit and economic environments worsen, they may adversely affect the interest rates at which we are able to borrow.

CONTRACTUAL OBLIGATIONS

Arizona Water and New Mexico Water maintain agreements with water and transportation purveyors for the purchase or transport of water. The agreements stipulate purchases of minimum quantities of water through 2048. The commitments related to the quantities of water purchased or transported are estimated to be $4 million in 2012, $1 million in total between 2013 and 2016 and $2 million in aggregate thereafter.

The Company has entered into an agreement for billing and customer care services for Arizona Water and New Mexico Water. The contract term is for ten years, expiring on August 31, 2021. The payments are estimated to be $4 million in 2012, $18 million in total between 2013 and 2016 and $15 million in aggregate thereafter.

For further information on the Company's contractual obligations, refer to the 2011 annual MD&A.

CRITICAL ACCOUNTING ESTIMATES

In preparing the condensed consolidated interim 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 condensed consolidated interim financial statements: electricity revenues and costs, unbilled consumption of electricity and water, fair values, allowance for doubtful accounts, useful lives of assets, income taxes and allocation of purchase price. Interim results will fluctuate due to the seasonal demands for electricity and water, changes in electricity prices, and the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

Significant accounting estimates were made in determining the fair value of identifiable assets acquired and liabilities assumed in connection with the Arizona Water and New Mexico Water acquisition including, discount rates, future income, replacement costs, useful lives, residual values and weighted average cost of capital. The fair values were determined using generally accepted methods and the assistance of a third party valuation expert.

For further information on the Company's other critical accounting estimates, refer to the 2011 annual MD&A.

NON-IFRS FINANCIAL MEASURES

We use funds from operations to measure the Company's ability to generate funds from current operations. Funds from operations is a non-IFRS financial measure, does not have any standardized meaning prescribed by IFRS and is unlikely to be comparable to similar measures published by other entities. However, it is presented since it is commonly referred to by debt holders and other interested parties in evaluating the Company's financial position and in assessing its creditworthiness. A reconciliation of funds from operations to cash flows from operating activities is as follows:

Three months ended March 31, (Unaudited, $ millions)		**2012**		**2011**
Funds from operations	**$**	**60**	**$**	**42**
Change in non-cash operating working capital		(1)		(36)
Cash flows from operating activities	**$**	**59**	**$**	**6**

Net income from core operations is used to distinguish operating results from the Company's core water and electricity businesses from results with respect to its investment in Capital Power. It is a non-IFRS financial measure, which does not have any standardized meaning prescribed by IFRS and is unlikely to be comparable to similar measures published by other entities. However, it is presented since it provides a useful measure of the Company's primary operations, it is referred to by debt holders and other interested parties in evaluating the Company's financial position and in assessing its creditworthiness. A reconciliation of net income from core operations to net income is as follows:

Three months ended March 31, (Unaudited, $ millions)		**2012**		**2011**
Net income from core operations	**$**	**14**	**$**	**13**
Equity income from Capital Power		30		4
Income tax expense related to the above item		-		(8)
Net income	**$**	**44**	**$**	**9**

RISK MANAGEMENT

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

Following the Alberta Utilities Commission's (AUC) approval of the Heartland Transmission project facility application on November 1, 2011, appeals were filed with the AUC and the Alberta Court of Appeal. The AUC appeal was filed by the County of Strathcona and the citizens' group "Responsible Electricity Transmission for Albertans". In late December 2011, the AUC rejected Strathcona County's request to suspend the project pending the outcome of the review and variance process for which the parties await the AUC's decision. On March 28, 2012, the Alberta Court of Appeal granted leave to the appellant to appeal the AUC's decision.

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 2011 that have affected the condensed consolidated financial statements for the quarter ended March 31, 2012.

OUTLOOK

In April 2012, EPCOR sold 9,775,000 common shares of Capital Power at an offering price of $23.55 per share for aggregate gross proceeds of $230 million. Following the completion of the offering, EPCOR indirectly owns approximately 29% of the common shares of Capital Power on a fully diluted basis. The proceeds from the current offering will be used by EPCOR to support ongoing capital expenditure programs and for general corporate purposes. In connection with this transaction, the Company will incur a non-cash loss of $36 million which will be recorded in the second quarter of 2012.

As a result of design changes, the Company now expects the Heartland Transmission project joint venture's total cost of the Heartland electricity transmission line to be $430 million compared to the previous estimate of $400 million.

QUARTERLY RESULTS

(unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income (loss)**
March 31, 2012	$ 500	$ 44
December 31, 2011	512	53
September 30, 2011	480	59
June 30, 2011	391	23
March 31, 2011	411	9
December 31, 2010	383	6
September 30, 2010	377	26
June 30, 2010	350	(10)

Events for the past eight quarters that have significantly impacted net income and the comparability between quarters were:

- March 31, 2012 first quarter results included higher income from our equity share of Capital Power, increased income in Distribution and Transmission primarily due to increased rates, and increased income in Energy Services primarily due to positive fair value adjustments on financial electricity purchase contracts, partially offset by fees no longer earned as a result of the expiration of the AES contract in November 2011, costs related to the contact centre consolidation and losses on the sale of excess electricity purchased.
- December 31, 2011 fourth quarter results included higher income from our equity share of Capital Power, increased income in Distribution and Transmission primarily due to increased rates and a lower loss on sale of a portion of our interest in Capital Power, partially offset by negative fair value adjustments on foreign exchange forward contracts and integration expenses relating to the Arizona Water and New Mexico Water acquisition.
- September 30, 2011 third quarter results included higher income from our equity share of Capital Power, positive fair value adjustments on foreign exchange forward contracts, lower Energy Services operating income primarily due to negative fair value adjustments on financial electricity purchase contracts, lower Water Services operating income due to higher maintenance and chemical costs and lower commercial services margins, and higher Distribution and Transmission operating income primarily due to increased transmission and distribution tariff rates.
- June 30, 2011 second quarter results included higher income from our equity share in Capital Power, a gain on sale of our floating-rate notes, higher Energy Services operating income primarily due to positive fair value adjustments on financial electricity purchase contracts, lower Water

Services operating income due to higher maintenance and chemical costs and lower commercial services margins and lower Distribution and Transmission operating income primarily due to higher electricity system operator costs.

- March 31, 2011 first quarter results included lower equity in the net income of Capital Power due to our reduced investment and lower Capital Power net income, lower Water Services operating income and higher Distribution and Transmission operating income.
- December 31, 2010 fourth quarter results included the loss on sale of a portion of the investment in Capital Power and lower revenues due to the sale of the power generation business in 2009, partially offset by operating income as a result of increased rates in Distribution and Transmission and Energy Services, transfer of Gold Bar on March 31, 2009, the acquisition of Alberta oil sands related water and wastewater treatment operations in the fourth quarter of 2009 and interest revenue on the long-term loans receivable from Capital Power.
- September 30, 2010 third quarter results included positive operating income as a result of the transfer of Gold Bar on March 31, 2009, the acquisition of Alberta oil sands related water and wastewater treatment operations in the fourth quarter of 2009, our equity share of income of Capital Power, lower revenues due to the sale of the power generation business in 2009, and interest revenue on the long-term loans receivable from Capital Power.
- June 30, 2010 second quarter results included our equity share of loss of Capital Power, lower revenues due to the sale of the power generation business in 2009, interest revenue on the long-term loans receivable from Capital Power, positive operating income as a result of the transfer of Gold Bar on March 31, 2009 and the acquisition of Alberta oil sands related water and wastewater treatment operations in the fourth quarter of 2009.

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.

The purpose of forward-looking information is to provide investors with management’s assessment of future plans and possible outcomes and may not be appropriate for other purposes. Forward-looking information in this MD&A includes: (i) expectations regarding the Company’s 2012 capital expenditure plan; (ii) sources of funding for 2012 working capital and contractual obligations; and (iii) expectations regarding the impact on the Company of the capital and credit market instability and expected risk mitigation plans.

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 Company’s assessment of the markets and regulatory environments in which it operates; (iii) weather; (iv) availability and cost of labour and management resources; (v) performance of contractors and suppliers; (vi) availability and cost of financing; (vii) foreign exchange rates; (viii) management’s analysis of applicable tax legislation; (ix) currently applicable and proposed tax laws will not change and will be implemented; (x) counterparties will perform their obligations; (xi) expected interest rates and related credit spreads; (xii) ability to implement strategic initiatives which will yield the expected benefits; (xiii) the Company's assessment of capital markets; and (xiv) factors and assumptions in addition to the above related to the Company's equity interest in Capital Power.

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

This MD&A includes the following updates to previously issued forward-looking statements: (i) expected quarterly distributions from Capital Power L.P. decreased $12 million from previously disclosed to $9 million due to the sale of a portion of our interest in April 2012; and (ii) the Heartland Transmission project joint venture's expected total cost of the Heartland electricity transmission line is now $430 million compared to the previous estimate of $400 million.

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.

ADDITIONAL INFORMATION

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