ALTALINK, L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

SEPTEMBER 13, 2004

The following discussion and analysis of financial conditions and results of operations of AltaLink, L.P. (the "Partnership") should be read in conjunction with the Partnership's audited financial statements for the year ended April 30, 2004, and unaudited interim financial statements for the quarter ended July 31, 2004. The financial statements for the Partnership have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Forward-Looking Statements

The following discussion includes forward-looking statements, including statements regarding the business and anticipated financial performance or conditions of the Partnership. These statements involve known and unknown risks and relate to future events, future financial performance, business strategy, plans and objectives of management for future operations and projected business results. In some cases, forward-looking statements can be identified by terms such as "may", "will", "expect", "potential", "enable", "anticipate", "plan", "believe", "continue", "contemplate", "anticipate" or other comparable terminology. These forward-looking statements are subject to a number of uncertainties that may cause actual results to differ materially from those contemplated in the forward-looking statements. Some of the factors that could cause such differences include legislative and regulatory developments that could affect costs, revenues, the speed and degree of competition entering the market, global capital markets activity, timing and extent of changes in prevailing interest rates, currency exchange rates, inflation levels and general economic conditions in geographic areas where the Partnership operates, results of financing efforts, changes in counterparty risk and the impact of accounting policies issued by Canadian standard setters.

The Partnership is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties and assumptions, users should not place undue reliance on these forward-looking statements.

Overview

The Partnership is an electricity transmission facility owner formed on July 3, 2001, to acquire TransAlta Energy Corporation's transmission business, and whose business is the ownership and operation of regulated electricity transmission facilities solely in the province of Alberta. The Partnership is managed by the General Partner, AltaLink Management Ltd. (the "General Partner") and has one Limited Partner, AltaLink Investments, L.P. ("AILP"). As a result of the acquisition of the transmission business in April 2002 for $829.1 million, the Partnership became the first independent transmission service provider in Canada, with more than 11,600 kilometres of transmission lines and approximately 260 substations that supply 85% of the Alberta population. The Partnership also owns and operates the interconnection facilities which connect its network with the transmission system in British Columbia and allows electricity to flow into and out of Alberta. The Partnership is regulated by the Alberta Energy and Utilities Board ("EUB"), and as such its tariff revenue, depreciation rates and other matters affecting the financial statements are determined by the EUB.

Quarterly Results of Operations

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	Jul. 31 2004	Apr. 30 2004	Jan. 31 2004	Oct. 31 2003	Jul. 31 2003	Apr. 30 2003	Jan. 31 2003	Oct. 31 2002
Total revenues ($ millions) [1]	41.7	40.5	40.4	40.0	34.2	41.3	36.3	38.1
Net income ($ millions)[1]	8.9	7.5	7.4	6.9	4.7	8.4	5.4	8.3
Net income per unit ($)	0.026	0.022	0.022	0.020	0.014	0.024	0.016	0.024
Number of units (thousands)	342,905	342,905	342,905	342,905	342,905	342,905	342,905	342,905

Under regulation the Partnership applies for rates on a forward test year basis. As such, generally the Partnership would know in advance what its tariff revenue, depreciations rates and other cost elements would be during a fiscal year. However, when the Partnership acquired the transmission business it did not have an approved final tariff in place and was receiving revenue under an interim tariff. The Partnership filed an application with the EUB in September 2002 to have tariff revenues set for the fiscal years ending April 30, 2003, and April 30, 2004. The EUB rendered a preliminary decision on August 3, 2003, and the final decision was issued on March 23, 2004. As such, for the fiscal year ended April 30, 2003, management made estimates regarding what the approved tariff would be. Once a preliminary decision was received the estimates were then adjusted and the cumulative affect of the changes were reflected in the period in which the decision was received. Once the final decision was received any other required adjustments were made at that time.

Since April 30, 2004 the Partnership has been receiving tariff revenue based upon an interim tariff. In order to have final rate decisions in advance of a fiscal year the Partnership has put forth a General Tariff Application to the EUB for approval of rates to the end of 2007.

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

First Quarter Results

($ millions)	July 31, 2004 (Unaudited)	July 31, 2003 (Unaudited)
Revenue	**41.7**	**34.2**
Operating expenses	**13.0**	**15.6**
Depreciation expenses	**12.5**	**6.3**
Interest and amortization of finance fees	**8.0**	**7.5**
Allowance for debt funds used during construction	**0.4**	**(0.1)**
Gain on the sale of assets	**0.3**	**0.1**
Net income	**8.9**	**4.8**

Net income for the quarter ended July 31, 2004, was $4.1 million higher than that for the quarter ended July 31, 2003.

Revenue for the quarter ended July 31, 2004, was $7.5 million higher than that for the quarter ended July 31, 2003, primarily due to an increase in the tariff revenue and in allowance for equity funds used during construction ("AEDC"). The tariff revenue was higher in the quarter ended July 31, 2004, due to a higher rate of return of 9.6% compared to 9.4%, and the entire amount of the 2003 General Tariff Application adjustment as a result of the August 3, 2003 EUB decision was booked in the quarter ended July 31, 2003. AEDC was lower for quarter ended July 31, 2003 due to the August 3, 2003 EUB decision whereby the Partnership will only earn AEDC on construction projects that are under construction at the end of each year. These increases were partially offset by a decrease in miscellaneous revenue due to a decrease in consulting and contract work performed.

Operating expenses for the quarter ended July 31, 2004 were $2.6 million lower than the quarter ended July 31, 2003, which was primarily due to a decrease in salaries and benefits as a result of a decrease in pension costs. The August 3, 2003 EUB decision, which was reflected within operating expenses for the quarter ended July 31, 2003, ordered that the defined contributions for the pension be cash contributed, recognized as an expense, and collected in tariffs. The effects of the increase in expense for both years being reflected in the quarter ended July 31, 2003. In addition, the EUB disallowed the recognition of defined benefit income. The result of this was to increase the pension expense recognized for regulatory and financial statement purposes. This decrease in pension costs for the quarter ended July 31, 2004, was partially offset by an increase in salaries and benefits due to an increase in staff levels, an increase in linear and property taxes due to more assets and forecasted higher mill rates, and an increase in contractor costs.

Depreciation expense for the quarter ended July 31, 2004 were $6.2 million higher than those for the quarter ended July 31, 2003. The increase is primarily a result of the effects of lower depreciation rates ordered in the August 3, 2003 EUB decision, the effects of the reduction of both years being reflected in the July 31, 2003 quarter end. In addition, depreciation for quarter ended July 31, 2004 was higher due to an increase in capital assets as at July 31, 2004 compared to July 31, 2003.

Interest and amortization of finance fees was $0.5 million higher for the quarter ended July 31, 2004, than that for the quarter ended ending July 31, 2003. This is primarily based on the August 3, 2003 EUB decision, which lengthened the amortization period for the finance fees relating to the bridge financing facilities, which is reflected within adjustments to the interest and amortization of finance fees within the quarter ended July 31, 2003. This variance was partially offset by a reduction in interest expense relating to the $125.0 million Series 03-2 Senior Bond as its interest rate is lower than the re-financed rate on the $125.0 million Series 2 Senior Bridge Bond.

First Quarter Balance Sheet

The following table outlines the significant changes in the balance sheets between July 31, 2004 and April 30, 2004:

($ millions)	Increase (Decrease)	Explanation
Cash and cash equivalents	**(1.5)**	The decrease was primarily related to payment for capital assets additions in the quarter, partially offset by cash generated from operations and financing activities.
Accounts receivable	**4.8**	The increase was primarily related to an increase in receivable from the Alberta Electric System Operator (AESO) for a customer contribution and higher tariff revenue.
Prepaid expenses and deposits	**1.0**	The increase primarily related to an increase in prepaid property taxes, as the majority of the property tax invoices for quarter ended July 31, 2004 were received in June and July.
Materials and supplies	**(1.0)**	In May 1, 2004, there was a change in the treatment of emergency towers and conductors, now considered capital assets. This change resulted in a reclassification of $1.0 million from materials and supplies to capital assets.
Accounts payable and accrued liabilities	**(15.8)**	The decrease was primarily related to the payment of accrued interest, the payment of linear, property and business taxes which is currently in a prepaid balance, and a decrease in capital accruals. The decrease in capital accruals was a result of a decreased level of activity compared to year end. There was an increased level of activity at year end, to meet planned in-service dates.
Long term debt	**13.9**	The increase in long term debt was related to an increase of approximately $14.0 million in Banker's Acceptances, primarily associated with the funding of capital projects.

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

The Partnership's primary sources of liquidity and capital resources are the following:

- funds generated from operations;
- the issuance and sale of bonds;
- bank financing; and
- capital contributions from the Limited Partner.

The following table outlines the summary of cash flow:

($ millions)	July 31, 2004 (Unaudited)	July 31, 2003 (Unaudited)
Cash, beginning of period	**2.3**	**-**
Cash provided by (used in):		
Operating activities	**8.6**	**12.8**
Investing activities	**(21.4)**	**(28.5)**
Financing activities	**11.3**	**15.7**
Cash, end of period	**0.8**	**-**

Operating Activities

Cash from operating activities for the quarter ended July 31, 2004, was $8.6 million and $12.8 million for July 31, 2003, which was a decrease of $4.2 million. The decrease in operating cash was primarily related to increases in interest expense paid, offset partially by increases in revenue primarily due to an increase in the tariff being received. Funds from operations will not be sufficient for the Partnership to fund repayment of existing indebtedness when due and to meet anticipated liquidity, maintenance and other capital expenditure requirements and as such, the Partnership expects to incur new indebtedness or equity injections to meet these requirements in the foreseeable future.

Financing Activities

Net cash from financing activities for the quarter ended July 31, 2004, was $11.3 million and was $15.7 million for the quarter ended July 31, 2003, a decrease of $4.4 million. Less financing was required as a result of a reduction in capital expenditure in the quarter ended July 31, 2004, compared to the quarter ended July 31, 2003.

For the quarter ended July 31, 2004, the net cash from financing activities is related to an increase in debt of $14.0 million due to an increase in the banker's acceptance, partially offset by distributions paid of $2.5 million.

In May 2004, the maturity date of the credit facility agreement was extended to May 6, 2007. The maturity date extends as the revolving period of the bank facility is renewed each year, subject to

the consent of the facility provider. If no further extensions are granted by the facility provider then no additional borrowings may be made under the credit agreement after May 7, 2005, and all amounts owing there under must be repaid by May 7, 2007. The bank facility may only be used for capital expenditures and general corporate purposes. The bank facility provides funding by way of prime rate loans, U.S. base rate loans, bankers' acceptances, LIBOR loans and letters of credit.

Upon the signing of the amended and restated master trust indenture on June 5, 2003, between the Partnership, the General Partner and The Trust Company of Bank of Montreal, as trustee, the Partnership secured the obligations of the Series 2 Senior Bridge Bond, the Series 03-1 and Series 03-2 Senior Bonds, and the credit facility with a first floating charge security interest on its current and future assets. As at July 31, 2004, there was $46.9 million (April 30, 2004 - $32.9 million) outstanding on the credit facility.

None of AILP, the General Partner or any owners of AILP or the General Partner are under any obligation to provide additional debt or equity financing.

Liquidity and Capital Resource Requirements

The Partnership's principal liquidity and capital resource requirements consist of the following:

- payment of operating costs;
- capital expenditures to maintain, improve and expand transmission assets;
- acquisitions and other investing activities;
- servicing and repayment of debt; and
- distributions to partners.

Operating Costs

Operating expenses of approximately $13.0 million were incurred for the quarter ended July 31, 2004 (July 31, 2003 - $15.6 million).

It is expected that operating costs will generally be financed from funds generated by operating activities, however the bank facility may be drawn for this purpose as liquidity requirements demand.

Investing Activities

Net cash used in investing activities for the quarter ended July 31, 2004, was $21.4 million and $28.5 million for July 31, 2003, a decrease of $7.1 million. The decrease is a result of lower capital expenditures in the quarter ended July 31, 2004, compared to the same period last year. The expenditures were related mainly to new transmission facilities, capital upgrades and replacements on existing transmission facilities, and expenditures on information technology.

The Partnership has put forth in its last General Tariff Application $57.9 million and $31.0 million of capital expenditures for direct assigned projects and capital replacement and upgrades projects respectively for the eight month period ending December 31, 2004. Direct assigned projects are those projects assigned to the Partnership by the AESO. These projects are primarily related to new growth on the Alberta transmission grid. Capital replacements and upgrade programs are capital projects and programs undertaken by the Partnership to sustain and ensure that the transmission assets continue to function and operate in an efficient and reliable manner.

It is expected that capital expenditures will be financed by drawing on the bank facility, utilizing some of the proceeds from potential future bond issues and from funds generated from operations.

Acquisitions and Other Investing Activities

The Partnership may pursue other acquisitions of electricity transmission assets in Alberta, although no specific material transactions are currently pending. In addition to potential acquisitions, the Partnership also has continuing capital expenditure programs that are part of its day-to-day operations. Management believes that the Partnership will have access to sufficient sources of liquidity and capital resources, including debt financing or the issuance of additional equity in order to carry out its plans.

Servicing and Repayment of Debt

As at July 31, 2004, the Partnership had outstanding debt (including capital lease obligations) of approximately $558.3 million. The Partnership expects to be able to meet interest payments on outstanding indebtedness from internally generated funds but relies upon the proceeds from new indebtedness to be able to meet the principal obligations when due.

The Partnership manages interest rate risk by locking in interest rates for long periods through fixed rate debt. Approximately 91 % of the Partnership's long-term debt facilities have maturities of 2008 and beyond.

Distributions to Limited Partners

The Partnership declared distributions totalling $2.5 million to its Limited Partner and General Partner during the quarter ended July 31, 2004 (July 31, 2003 - $3.1 million).

Summary of Contractual Obligations and Other Commercial Commitments

Payments due for contractual obligations in each of the next five years and thereafter are as follows:

Payments due by period					
Contractual obligations ($ millions)	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Operating leases ($ millions)	7.2	1.0	2.1	1.9	2.2
Debt ($ millions)	558.3	0.2	0.3	147.2	410.6
Other ($ millions)	8.2	1.0	2.9	2.9	1.4[2]
Total ($ millions)	573.7	2.2	5.3	152.0	414.2

The Partnership had letters of credit outstanding (under its bank facility) totalling $0.1 million as at July 31, 2004 (April 30, 2004 - $0.1 million). These letters of credit have not been drawn upon.

Off-Balance Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the

[2] This is the expected yearly payment.

availability of, or requirements for, capital resources. The Partnership has no such off-balance sheet arrangements.

Critical Accounting Estimates

The preparation of the Partnership's financial statements requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of contingencies because the determination of many of these amounts is dependent on future events. The Partnership bases its estimates and judgements on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgements.

Asset Retirement Obligations

A provision for estimated Asset Retirement Obligations which includes costs of future removal, dismantlement, site restoration and abandonment is made for certain assets. This provision is based on engineering estimates of costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, industry practices, current technology and the possible use of the site, and includes an estimate regarding the assets' service lives based on depreciation rates.

Change in Accounting Policy

Regulation

The Partnership is not a taxable entity for income tax purposes; however it applies the liability method to account for federal income taxes for regulatory rate setting purposes. Prior to October 1, 2003 the Partnership recognized the amount of future income taxes, which was allowed by the regulator to be collected in rates, and recognized the resulting future tax liability as a regulatory liability. In October 2003 the Partnership early adopted the new accounting standard "Generally Accepted Accounting Principles" issued by the Accounting Standards Board. The standard defines the sources of Canadian generally accepted accounting principles and the priority of each source. The Partnership chose to apply this standard to the recognition of regulatory assets and liabilities and in doing so is now following the pronouncement issued by the Financial Accounting Standards Board in the United States, FAS 71 "Accounting for the Effects of Certain Types of Regulation" as there is no overall Canadian primary source of generally accepted accounting principles dealing with the recognition and measurement of the Partnership's assets and liabilities arising from rate regulation. In applying this standard the Partnership no longer recognizes future income taxes collected in rates as a regulatory liability within its financial statements. In accordance with the new standard this change in accounting policy was applied prospectively in October 2003 to transactions and to outstanding balances, effective from the beginning of its April 30, 2004 fiscal year.

The adjustment to the interim income statement for the three months ended July 31, 2003 to implement this change was as follows:

	As previously reported	Adjustments	As restated
Operating and miscellaneous revenue	31,750	1,849	33,599
Net Income	2,906	1,849	4,755
Retained earnings	(1,260)	1,849	589

Asset retirement obligations

Prior to April 30, 2004, a provision for estimated costs of future removal, dismantlement, site restoration and abandonment (net of expected recoveries) was made for certain assets. The depreciation expense for these assets included a provision for estimated site restoration costs, which was included in the liability for future removal and site restoration on the balance sheet.

On May 1, 2004, the Partnership adopted the recommendations of Section 3110 of the CICA Handbook, entitled "Asset Retirement Obligations." This section establishes standards for the recognition and measurement of the fair value of liabilities associated with the retirement of tangible long lived assets, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to the capitalized costs of the related assets are amortized to earnings in a systematic manner over their useful lives. The Partnership has recognized obligations arising from statutory, contractual or legal obligations. The discounted present value of the liability is accreted over time for changes in the present value, with the accretion expense included in depreciation.

Retirement obligations may apply to both the retirement of an entire facility, or to the component parts of the larger system. Interim retirement obligations are recognized in the latter circumstances when obligations associated with the retirement of the component part occur prior to retirement of the entire system. An asset retirement obligation is recorded as a liability, with a corresponding increase to capital assets.

In determining whether or not there were legal obligations associated with the electrical power transmission system, the Partnership analyzed the component parts of the system. The electrical power transmission system is composed of transmission lines, substations, and telecom equipment.

Interim asset retirement obligations for the component parts of the transmission lines have been recognized, as the Partnership determined that there are legal obligations associated with the interim retirement of these assets. The calculation of costs to dismantle and remove the component parts, including poles and towers, was estimated by using historical information regarding the replacement and retirement of these assets.

No asset retirement obligation has been recognized for costs to be incurred upon the final retirement and removal of the power transmission system as the date of the retirement, and therefore the fair value of the obligation, cannot be determined.

Amounts previously provided for future removal and site restoration costs were determined on the same basis as amounts included for these activities in transmission tariffs. The future removal and restoration costs recovered to date through tariffs compared to the asset retirement obligations recorded under generally accepted accounting principles is accrued as a regulatory liability. As a result, there is no impact to net income or retained earnings from this change in accounting policy.

As at July 31, 2004, the estimated total undiscounted amount of interim asset retirement obligation was approximately $149.7 million. The obligation will be settled over the useful life of the assets, with the majority of the retirements estimated to occur between 2004 and 2040. A discount rate of 5.67% was used to calculate the carrying value of the asset retirement obligations. The effect of this change in accounting policy was recorded retroactively with restatement of prior periods.

The adjustments required to the April 30, 2004 balance sheet to implement this change are as follows:

	As previously reported	Adjustments	As restated
Capital Assets	832,128	39,164	871,292
Regulatory liabilities	20,555	108,967	129,522
Provision for future removal and site restoration	122,619	(122,619)	-
Asset retirement obligation	-	52,816	52,816
Retained earnings	12,593	-	12,593

The adjustments to the income statement for the three months ended July 31, 2003 to implement this change are as follows:

	As previously reported	Adjustments	As restated
Operating and miscellaneous revenue	31,750	230	31,980
Depreciation	6,050	230	6,280
Net income	2,906	-	2,906

A reconciliation between the opening and closing asset retirement obligations balance is provided below:

Balance, April 30, 2004	$ 52,817
Liabilities incurred in period	-
Liabilities settled in period	(30)
Accretion expense	749
Balance, July 31, 2004	**$ 53,536**

Future Accounting Changes

Accounting for Rate Regulated Operations

The Accounting Standards Board (AcSB) of CICA has an active project to review GAAP applicable to enterprises with rate regulated operations. This project is analyzing regulatory accounting and includes the analysis of whether or not regulatory assets and liabilities meet the definition of an asset or liability as defined by the CICA Handbook Section 1000. The Partnership is unable to assess the impact of this review as no standards have yet been issued.

Risks and Uncertainties

The Partnership and the transmission business are subject to a variety of risks and uncertainties that may have material and adverse effects, financial and otherwise, on the results of the Partnership's operations. As well, various risks are identified throughout the foregoing Management's Discussion and Analysis of financial conditions and results of operations of the Partnership.

Regulatory Approvals

The Partnership is and will be dependent upon rate orders which approve the revenue requirement for the transmission business. The rate orders or revenue tariffs are designed to permit the regulated transmission business the opportunity to recover allowed costs and earn a specified annual rate of return. If the Partnership's actual costs exceed allowed costs for any reason, the Partnership's financial performance will be adversely affected. Actual costs could exceed allowed costs if, for example, the Partnership incurs operation, maintenance and administration costs above those included in the Partnership's approved revenue requirement, incurs higher expenses due to capital expenditures to upgrade or replace components in the existing system being at levels above those provided for in the rate orders, or incurring additional financing charges because of increased debt balances. To the extent that any costs are disallowed to be recovered through the rates it could have a materially adverse affect on the Partnership's financial performance. In addition, separate rulings on other matters from the EUB could result in costs of the Partnership to be unrecoverable.

Capital Resources

The Partnership's financial position and performance could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and to repay maturing debt. Funds generated from operations after payment of expected expenses (including interest payments on debt) will not be sufficient to fund the repayment of all existing debt when due and anticipated capital expenditures. There are limitations on the levels of equity capital available to the Partnership; the Partnership is substantially wholly owned by AILP and does not presently use its equity securities as a primary source of capital. The ability to arrange sufficient and cost-effective debt financing could be affected by numerous factors, including the regulatory environment in Alberta, the results of operations and financial position, conditions in the capital and bank credit markets, the ratings assigned to the Partnership by debt rating agencies, and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to the Partnership to fund such expenditures and repay existing debt. None of AILP, the General Partner or any owners of AILP or its general partner is obligated to provide further funding to the Partnership.

On August 12, 2004, the Partnership was notified by Standard and Poor's (S&P) that its "A-" credit rating was affirmed but the outlook was changed from stable to negative. The change in the outlook ratings action reflects the uncertainty surrounding the execution and timing of a planned replacement of debt at the Partnership's parent, AILP. S&P has indicated that upon the successful completion of the planned restructuring, the outlook of the Partnership is expected to return to stable, however, there can be no assurances that AILP will complete the required refinancing or obtain the necessary regulatory approvals within the time periods required by S&P. The ability to arrange sufficient and cost effective debt financing could be affected by a downgrade of the Partnership's credit rating.

Labour Relations

The Partnership has been named as a party to an action commenced by the United Utility Workers Association and others, in respect of the use and control of pension funds acquired from TransAlta when the Partnership purchased the transmission business from TransAlta in April, 2002. As the claim relates directly to actions taken by TransAlta prior to the Partnership's acquisition of the transmission business, it is the Partnership's position that the claim constitutes an excluded liability under the purchase agreement and it has provided notice to TransAlta, within the required time periods, of its intention to seek indemnification in respect thereof.

Insurance

There can be no assurance that the Partnership will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available on terms as favourable as the Partnership's existing arrangements. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Partnership's business. The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Partnership or a claim that falls within a significant self-insured retention could have a material adverse affect on the Partnership's business, results of operations, financial position and prospects.

The Partnership's current insurance polices provide coverage for a variety of losses and expenses that might arise from time to time in the conduct of the transmission business, including general liability, property and boiler and machinery covering physical loss or damage on certain physical assets, liabilities of directors and officers, employment practices liability, non-owned aircraft liability and automobile liability. The Partnership believes the extent of its coverage is adequate and prudent in the context of its operations and utility industry practice.

Consistent with prior EUB decisions respecting the transmission business and standard utility industry practice, the Partnership does not carry insurance for loss or damage to certain transmission lines, towers, poles, telecommunication facilities, and physical damage to certain automobiles. In addition, prior to June 1, 2004, the Partnership did not carry insurance for loss or damage to substations. The Partnership has a customer-funded, self-insurance reserve against which it would seek to claim in the event of a loss that was not covered by insurance. In such circumstances, the Partnership would apply to the EUB to recover the loss (or liability) through an increased tariff. However, there can be no assurance that the EUB would approve any such application, in whole or in part, and the EUB decision 2003-061 has restricted the Partnership from claiming against any customer-funded self-insurance reserve in the event of a loss that is less than $100,000. Any major damage to the Partnership's facilities could result in repair costs and customer claims that are substantial in amount, any of which might adversely affect the Partnership's business, results of operations, financial position and prospects.

Recent Developments

On March 23, 2004, the EUB released a decision finalizing the revenue requirement for the years ended ending April 30, 2003, and April 30, 2004. The EUB decision provided for, among other things, a rate of return of 9.4% on a 34% deemed common equity ratio. This decision approved the collection of only 75% of deemed taxes[3] in rates.

An important component of the revenue requirement for which the Partnership sought approval in its general rate application was the recovery of income taxes. As a Limited Partnership, the Partnership does not pay income taxes, but instead the consequences of its operations are borne by its partners on a pro rata basis based on their interest in the Partnership. The EUB decision did not approve a revenue requirement that covers deemed taxes for the Partnership in the same manner as for other regulated companies that are direct taxpayers. The decision disallowed 25% of the deemed income taxes and conditionally approved 75% of the deemed income taxes.

The Partnership has filed an application with the Alberta Court of Appeal seeking leave to appeal certain elements of the EUB decision. There is no certainty that such appeal procedures will result in a deemed revenue requirement that provides full recovery for deemed taxes. In addition, the Partnership applied to the EUB for review and variance of the EUB's Decision 2003-061

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[3] Deemed taxes is defined in this document as the tax allowance component of revenue approved by the EUB and is related to tax consequences borne by the Partnership's partners as a result of the Partnership's business operations.

(subsequently finalized in Decision 2004-028). During March 2004, the EUB advised that it would review its decision, with the scope of its consideration in the review being limited to (i) determining the correctness of the EUB's decision to deny an allowance in the Partnership's revenue requirement for income tax and large corporations tax related to Ontario Teachers' Pension Plan Board ("OTPPB") investment in AILP and the Partnership, and (ii) whether the EUB erred in their derivation of the formula for the adjustment to deemed common equity when it determined the impact of the OTPPB income tax disallowance on the Partnership equity ratio. On July 23, 2004, the Partnership responded to the EUB's requests for more information on this matter and the EUB's final decision is pending. It is not possible to precisely determine the final approved tariff until the results of the appeal and the review and variance application are known. Further material adjustments may be required once the outcome of the review and variance and appeal are known.

The Partnership is planning to change its year end to be based on a calendar year end of December 31 to be consistent with regulatory reporting as the EUB directed the Partnership to use a calendar year end for regulatory purposes.

The Partnership filed a General Tariff Application with the EUB as of February 27, 2004, and subsequently amended the application on April 21, 2004, to apply for rates for the eight months ending December 31, 2004, and the years ending December 31, 2005, December 31, 2006, and December 31, 2007. This tariff application is based on traditional cost of service methodology.

On March 11, 2004, the Partnership filed with the EUB for interim rates as the 2002-04 tariff expires at April 30, 2004. The Partnership received a decision from the EUB for interim rates effective May 1, 2004, on June 2, 2004.

The EUB conducted a Generic Cost of Capital hearing for all electric and gas transmission utilities in Alberta. The process determined the Partnership's capital structure and a mechanism to calculate a yearly allowed return on equity for regulatory purposes. The oral hearing and written arguments concluded in April 2004 and the EUB issued a decision on July 2, 2004. In the Generic Cost of Capital decision the EUB set a 9.6% rate of return on common equity for 2004 for all utilities under their jurisdiction. The rate of return on common equity will be set annually from 2005 through 2009, by using a formula that will adjust the prior year return by 75% of the change in the long-Canada bond yield.

In May of 2004 the AESO filed a Need Application with the EUB requesting the approval for the enhancement of the North-South transmission system between Edmonton and Calgary. This work would include the conversion of existing 240 kV facilities in the Edmonton area to 500 kV operation as well as the construction of a new 500 kV transmission line from Genesee, west of Edmonton to Langdon, east of Calgary. The total estimated cost of the proposed enhancements is $340.0 million. If the Need Application, as filed, is approved by the EUB, it is expected that the AESO will direct assign the majority of the work, approximately $300.0 million, to the Partnership. The Partnership would then follow-up with separate Facility applications to the EUB outlining the exact technical, routing and cost details for the two projects. If these Facility applications are approved, construction is forecasted to commence with the 240 kV to 500 kV conversion being completed in late 2006 or early 2007, and the new 500 kV line forecasted to be completed by 2009.

Additional Information

Additional information relating to the Partnership can be found on SEDAR at www.sedar.com.