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

OCTOBER 30, 2009

INTRODUCTION

This Management's Discussion and Analysis (MD&A) reflects events known to us as of October 30, 2009. This MD&A is intended to provide you with an understanding of our business, our strategy, our performance, our expectations for the future, and how we manage risk and financial resources. Our Board of Directors approved this MD&A on October 30, 2009, based on the recommendation of our Audit Committee, which reviewed this MD&A in accordance with its terms of reference.

You should read this MD&A in conjunction with our legal advisory on Forward Looking Information, which we have included at the end of this MD&A, as well as our financial statements and the notes thereto. In particular, you should refer to our unaudited interim financial statements for the three and nine months ended September 30, 2009 and the audited annual financial statements for the years ended December 31, 2008 and 2007 (the Financial Statements).

We have prepared our unaudited interim financial statements in accordance with Canadian generally accepted accounting principles (GAAP), using the same accounting policies and procedures that we used to prepare our audited annual financial statements for the year ended December 31, 2008. We have disclosed any changes in our accounting policies in note 3 to our unaudited interim financial statements, including any changes that result from our initial adoption of new accounting standards. Unless otherwise noted, references in this MD&A to a "quarter" and "year-to-date" refer to the three month and nine month periods ended September 30, 2009.

OUR BUSINESS

We are Alberta's largest electricity transmission business, providing transmission services to most of the province's major urban centres and serving more than 85% of Albertans safely, reliably and cost effectively. We own and operate approximately 11,800 kilometres of transmission lines and 270 substations that form the backbone of Alberta's high-voltage electricity transmission system. We also own and operate the facilities that interconnect Alberta's network with the transmission system in British Columbia, allowing electricity to flow into and out of Alberta.

We deliver both transmission services and customer value, while managing our environmental footprint, building relationships in Alberta communities and upholding the highest standards of safety and reliability.

We are a regulated electric utility under the jurisdiction of the Alberta Utilities Commission (AUC). Effective January 1, 2008, the AUC assumed responsibility from the EUB for regulating all investor-owned natural gas, electric and water utilities, certain gas pipelines and certain municipally-owned electric utilities. The AUC approves the charges (i.e. tariffs) to be paid to us by the Alberta Electric System Operator (AESO). The tariffs we charge are made up of two components, the revenues required to cover the forecasted costs of our transmission business plus an approved return on investment.

OUR OWNERSHIP

Here is a brief description of our management and ownership structure:

- Our operations are managed by our general partner, AltaLink Management Ltd. (AML);
- We have one limited partner, AltaLink Investments, L.P. (AILP);
- AILP has one limited partner, AltaLink Holdings, L.P. (AHLP);
- Both AILP and AHLP are managed by its general partner, AltaLink Investments Management Ltd. (AIML);
- SNC-Lavalin Inc. indirectly owns a 76.92% limited partnership interest in AHLP through subsidiaries; and
- Macquarie Transmission Alberta Ltd. owns a 23.08% limited partnership interest in AHLP.

OUR VISION

We are committed to meeting the needs of our customers by providing a reliable, safe and cost-effective transmission grid. Our objective is to be the leading owner and operator of regulated electricity transmission in Alberta. We believe in preparing for tomorrow while we power the lives of Albertans today. We focus on quality and continuous improvement. We believe in bringing forward the best and most innovative transmission practices, designs and solutions.

One of our core goals is creating customer value. We do that by listening, communicating and working with both customers and stakeholders who rely on us or are affected by our business.

Our employees are the reason for our success and the key to our future. We encourage employee wellness and proactively provide opportunities for employee engagement, growth and development.

In addition, we believe it is important to give back to the communities in which we live and operate through financial support and employee participation.

OUR STRATEGY

We are constantly looking for new ways to meet the electricity needs of Albertans while reducing the impact of our operations on the land and on customers affected by our facilities. Over the past few years, electricity consumption in this province has increased by the equivalent of adding two cities the size of Red Deer every year and there is now a significant backlog of critical electricity transmission infrastructure. We are focused on keeping the lights on for Albertans and are committed to reinforcing Alberta's transmission infrastructure to ensure that the province's electricity grid can enable future prosperity.

Our growth strategy is broader than simply building new lines, substations and towers. We are always looking for new ways to get more out of the existing grid, such as re-using existing lines and implementing new technologies to minimize land use impacts. We also partner with our stakeholders by improving our landowner consultation and reaching innovative agreements such as two new partnerships with First Nations.

We operate in an environment where there is strong competition for talented people. We are focused on attracting and retaining a high quality workforce to enable us to not only sustain our business, but to remain at the forefront of innovation and continuous improvement.

We align our financing strategy with the regulated capital structure approved by the AUC and targets for our key financial metrics. We finance our operations and maintenance capital expenditures from operating cash flows. Our growth capital expenditures are funded from the balance of our operating cash flows, proceeds from long-term debt issues, and equity contributions from our limited partner, AILP. We must apply to the AUC for regulatory approval prior to issuing long-term debt.

OUR ENVIRONMENTAL STEWARDSHIP

We are proud of our role in delivering clean energy to Albertans. We are committed to meeting and wherever possible, exceeding all legislative requirements relating to the environment. Please refer to our first quarter MD&A dated May 1, 2009 for a detailed list of things we are doing to achieve our environmental goals.

HOW WE MEASURE OUR PERFORMANCE

We use certain key measures to determine whether we are meeting our goals and the needs of our customers. These key measures include a mix of operational, risk management and financial metrics. The Canadian Electricity Association (CEA) provides benchmarking data for several of our key measures, allowing us to compare our performance against other transmission facility owners in Canada. As shown in the MD&A for the year ended December 31, 2008, our performance has compared favourably with the CEA benchmarks for reliability, safety and cost effectiveness since we acquired the transmission assets in 2002.

Financial and Operational Highlights

Here are some of our financial and operational highlights for the third quarter of 2009:

- We achieved before tax net income of $9.8 million for the quarter and $34.9 million for the year-to-date;
- We safely and efficiently carried out our capital construction program for our customers, investing $82.0 million in new facilities and maintenance of our existing transmission network ($193.9 million for the year-to-date);
- Construction began on our Southwest project, a 90 kilometer 240 kV line between Pincher Creek and Lethbridge, critical to enabling more wind power onto the Alberta grid;
- We have also been directed by the AESO to prepare a permit and licence for the Southern Alberta Transmission Reinforcement project, for which the AUC approved the AESO’s need application on September 8, 2009; and
- On September 28, 2009, the AESO issued direction letters to AltaLink for the work necessary to file a facility application for a high capacity transmission line to connect power generation near Lake Wabamun to the Calgary region.

Reliability

We operate our transmission system so as to minimize disruption of service to our customers. Nevertheless, severe weather and other unplanned events cause service disruptions to which we respond as quickly as possible. Despite our strong track record, we continually strive to further reduce the duration of system outages for the benefit of our customers. For the nine months ended September 30, 2009, our reliability performance measured as duration and frequency of our outages, using the system availability interruption duration index (SAIDI) and system availability interruption frequency index (SAIFI), have performed better than the previous years’ averages. However, our three year average has trended lower due to a number of unexpected equipment failures and outage events.

Safety

Our highest priority is the safety of our employees, contractors and the public. Even though our safety statistics compare favourably with industry benchmarks, we strive for continuous improvement with our ultimate goal being an accident-free workplace. For the nine months ended September 30, 2009, our average injury frequency rate was slightly over our internally set targets. Please refer to our first quarter MD&A dated May 1, 2009 for further information on our safety programs.

Cost Effectiveness

Our goal is to provide Albertans with the most cost-effective transmission system, without sacrificing either reliability or safety. We have a solid track record in keeping costs well below industry averages. Between 2002 and 2006, the cost to operate our transmission system was about 30% less than that of the average Canadian utility. Transmission owner costs account for approximately 6% of the average electricity bill in Alberta.

Our People

We employ more than 500 skilled and dedicated people, who work diligently to keep the lights on in Alberta. We expect competition for our specialized work force to remain strong, given the plans for significant transmission expansion in Canada and the United States. As a result, we strive continuously to enhance programs to attract, retain and develop qualified people.

To ensure that our people are engaged and aligned with our corporate strategies and business plans, we recently conducted an employee engagement survey. The survey confirmed that our employees continue to be proud to work at AltaLink and value our focus on quality and customers, workplace safety, and job flexibility.

Growth in Regulated Capital Assets

We measure growth in our regulated capital assets (both rate base and assets under construction) as a key indicator of future revenue streams. As a regulated utility, we earn most of our net income from allowed returns on equity invested in our regulated capital assets, which are the foundation for providing fair returns to our equity investors. We calculate our allowed returns on equity by multiplying our mid-year investments in rate base and assets under construction by the equity ratio and rate of return approved by the AUC in its generic cost of capital decisions. Our operating cash flow relates primarily to the return on equity and recovery of income taxes and depreciation related to our rate base. We capitalize interest costs and return on equity attributed to our assets under construction. We do not receive cash flow related to our assets under construction until the projects are completed and added to our rate base. For more information regarding the calculation of regulated transmission tariffs, please refer to our MD&A for the year ended December 31, 2008.

In our 2009-10 General Tariff Application (GTA) filed in September 2008 and updated in April 2009, we provided the AUC with a forecast of capital expenditures for the two year test period. In this forecast, we projected that our rate base and assets under construction would increase significantly during 2009 and 2010 as a direct result of the unprecedented levels of capital expenditures for the development of transmission infrastructure in Alberta. The table below summarizes the 2009 capital forecasts included in our 2009-10 GTA:

Mid-Year Rate Base and Assets under Construction

	GTA Forecast 2009	Actual 2008
($ millions)		
Mid-Year Rate Base	$ 1,083.1	$ 1,011.8
Mid-Year Assets under Construction	$ 208.8	$ 107.72

We are on track to achieve our 2009 growth targets. Our capital program may vary materially from our GTA forecasts, depending on the timing of regulatory approvals, directions from the AESO, and other factors beyond our control. Through its direct assigned capital deferral account process, the AUC will adjust our regulatory tariffs (consisting primarily of return on equity, income taxes, depreciation, and interest) to reflect our actual capital expenditures on direct assigned capital projects.

Change in Property, Plant and Equipment

($ millions)	Year-to-date 2009
Opening balance, January 1, 2009	$ 1,223.6
Change in accounting policy – site restoration costs	145.4
Change in estimate – asset retirement obligations	86.6
Net additions	231.4
Depreciation and other	(63.4)
Closing balance, September 30, 2009	**$ 1,623.6**

MAJOR CAPITAL PROJECTS

Urgent Need for Transmission Infrastructure

The declining trend in the reliability of Alberta's aging transmission system, combined with limited capacity within the system to support the province's economic growth, requires the development of much needed transmission infrastructure. As part of its commitment to move forward with its long-range provincial energy strategy, the Alberta Government introduced Bill 50 – the *Electric Statutes Amendment Act* into the Legislature on June 1, 2009. Bill 50 received second reading during the spring session of the Alberta legislature and we expect that the legislature will further debate Bill 50 during the fall 2009 session, which began on October 26, 2009.

Among other things, Bill 50 proposes to designate critical transmission infrastructure projects and that the need for such projects will not require approval from the AUC. Two of our projects (the proposed Edmonton to Calgary Transmission Development and Heartland projects) are designated as critical infrastructure under Bill 50. We expect that all of our other proposed capital projects will continue to require need approval from the AUC. Bill 50 does not propose to change any existing processes related to the siting of transmission lines, including regulatory hearings and consultation with landowners.

We continue to focus on preparing applications for permits to construct and licences to operate new transmission lines and substations in a timely fashion, as directed by the AESO. On June 2, 2009, the AESO published the 2009 Ten Year Transmission System Plan in which the AESO identified the need for up to $14.0 billion of transmission development in Alberta.

Southwest Project

On March 10, 2009, the AUC approved our permit and licence (P & L) application for the Southwest project that includes a double circuit 240 kV transmission line between Pincher Creek and Lethbridge. This project is the first major step to support the growing need to interconnect the significant wind generation potential in the region. The preferred route approved by the AUC required transmission permits to cross First Nations lands, which we enabled through innovative arrangements with the Blood First Nation and the Piikani First Nation. We have started construction and expect to energize the project during the second quarter of 2010.

Southern Alberta Transmission Reinforcement (SATR) Project

On September 8, 2009, the AUC approved the AESO's need application for SATR, a multi-staged project designed to interconnect up to 2,700 MW of wind power into the Alberta transmission system. Currently, the AESO proposes to develop SATR in several phases. Approval of each phase is contingent on measurable triggers intended to coordinate construction of transmission facilities with development of wind generation in the region.

The AESO has issued direction letters to AltaLink to prepare and file P & L applications for facilities with an estimated cost of $900.0 million, including a double circuit 240kV line connecting the West Brooks, Medicine Hat and Whitla areas. We have initiated landowner consultation and open houses regarding preliminary routes for this portion of the development. We will continue with land consultation and route refinement for this project with the intention of filing P & L applications in 2010. The direction letters also included a double circuit line connecting the south Calgary and Pincher Creek areas. We plan to initiate landowner consultation and open houses regarding preliminary routes for this portion of the development in late 2009 or early 2010.

Edmonton to Calgary Transmission Development

AltaLink is preparing to work on a major transmission line between the Edmonton and Calgary areas after the Government of Alberta recently announced the transmission system in the area needs to be reinforced. In consultation with Alberta's independent, non-profit electricity planning agency, the Alberta Electric System Operator (AESO), the Government of Alberta has concluded that two new transmission lines are required between the Edmonton and Calgary areas – a west and an east route. On September 28, 2009, the AESO issued direction letters to AltaLink to begin the work required to file a facility application for a high capacity transmission line along the west route.

We anticipate that the proposed transmission lines will use 500kV high voltage direct current (HVDC) technology that can transmit large volumes of electricity with significant improvements in energy efficiency and future land use impacts than traditional alternating current lines. One 500kV HVDC circuit can transmit the same amount of electricity as seven circuits similar to the 240kV circuits currently providing the transmission capacity between Edmonton and Calgary.

Heartland Project

The Heartland Project contemplates construction of a double circuit 500 kV transmission line connecting the power generating stations near Lake Wabamun to a proposed new substation in the Heartland region northeast of Edmonton. In addition to providing much needed transmission capacity for anticipated industrial development in the Heartland region, the Heartland Project is needed to enable the future development of transmission lines to the Fort McMurray region.

The AESO has directed both EPCOR and AltaLink to proceed with the necessary work required to file a P & L application for the Heartland Project. Together with EPCOR, we are continuing with extensive landowner consultation on preliminary route options in anticipation of filing a permit and licence application in 2010.

Keephills 3 Projects

We are working on several transmission projects to interconnect the expansion of TransAlta/EPCOR 450 MW power generation facilities at Keephills, west of Edmonton, and upgrade the existing 240 kV transmission system in the region.

We plan to complete these projects in stages between 2009 and 2011 at an estimated cost of $220.0 million. We have received approval to upgrade the Keephills substation and have filed facility applications with the AUC for the Keephills section of the project. The AUC has completed hearings regarding the Ellerslie substation and the transmission line between the Keephills and Ellerslie substations. We expect to file facility applications for the Edmonton section of the project during the fourth quarter of 2009.

Foothills Area Transmission Project

We are currently working with the AESO and ENMAX on conceptual plans to integrate future wind generation, enabled by the SATR project, into the Calgary region. The proposed project will expand and upgrade several substations and transmission lines in southwest Alberta and the south Calgary region.

REGULATORY TARIFFS

The AUC regulates our business using a cost-of-service methodology. Please refer to our first quarter MD&A dated May 1, 2009 for a description of the principal components of our approved transmission tariff and a summary of Decision 2007-050 regarding our GTA for 2007-08.

We are currently awaiting the AUC's decision regarding the following application and proceeding:

- Generic Cost of Capital (GCOC) proceeding to review the allowed return on equity and capital structure of regulated gas and electric utilities in Alberta.

General Tariff Application Decisions

On December 9, 2008, the AUC approved an interim increase of 3% in our tariff effective January 1, 2009, subject to the same terms and conditions as Decision 2007-050, pending the AUC's decision regarding our 2009-10 GTA. Our interim financial statements for the nine months ended September 30, 2009 reflect the interim tariff.

On October 2, 2009, the AUC issued decision 2009-151 regarding our 2009-10 GTA. We have not reflected the impact of this decision in our financial statements for the nine months ended September 30, 2009 (see note 14 in our financial statements).

This decision contains various directives, including approval of:

- Increases in operating expenses, including manpower costs;
- Property taxes;
- Depreciation rates;
- Capital expenditures for capital replacement and upgrade programs;
- Costs relating to Increasing our bank credit facilities from $285M up to $600M; and
- Continuation of deferral accounts on long-term debt interest costs, property taxes, annual structure payments, and direct assigned capital expenditures.

Although the AUC denied our application for a management fee on customer contributed projects, they indicated that this issue will be addressed in a future process to be initiated by the AUC. The AUC also ruled that our request to increase our regulated equity ratio and regulated rate of return on equity would be addressed in its upcoming GCOC decision.

The AUC accepted AltaLink's capital build forecast and agreed that it was in the interests of ratepayers for AltaLink to maintain its credit rating. The AUC approved several measures to demonstrate its support including: directing the continued use of the future income tax method and providing AltaLink with the opportunity to apply for additional relief, if necessary, following the release of the AUC's decision in the GCOC proceeding.

In its decision, the AUC directed AltaLink to recover $35.0 million from the AESO in respect of the Genesee-Langdon 500kV project as a cash item rather than including the amount in rate base, and to recover the remainder of these costs through our tariff revenue for 2009 and 2010. We have not reflected this directive in our financial statements for the nine months ended September 30, 2009, in which we have accounted for these costs as capital assets. Since the decision stipulated that AltaLink would not be adversely impacted as a result of implementing this directive, we expect that this directive will have no material impact on our net income. To implement this directive, we expect to increase our revenues for the fourth quarter of 2009 to reflect the recovery of these costs and to adjust our operating and depreciation expenses to write off the net book value of the related capital assets.

Following the AUC's upcoming GCOC decision, we will prepare and submit a compliance filing application that will include recalculating our 2009-10 tariff in accordance with the directives contained in the GCOC and GTA decisions. We plan to use the compliance filing application as the basis for calculating our tariff revenues in our financial statements for the year ended December 31, 2009.

Long-Term Debt Application

On October 15, 2009, the AUC issued Decision 2009-165 approving our application to issue up to $300.0 million of long-term debt. We plan to use the proceeds of long-term debt issues to fund our capital investment program.

Generic Cost of Capital Proceeding

On July 2, 2004, the AUC issued Decision 2004-052 regarding the AUC's generic cost of capital proceeding. The decision established a generic approach to determining the rate of return on common equity (ROE) and capital structure for all gas and electric utilities under the AUC's jurisdiction. In its decision, the AUC initially set the ROE at 9.60% and implemented a generic formula under which the ROE would be adjusted by an amount equal to 75% of the change in the yield for long-term Government of Canada bonds.

By way of amended orders, the AUC set the ROE in accordance with the formula at 8.51% for 2007 and 8.75% for 2008. For 2009, the AUC has ordered that an interim ROE of 8.75% will remain in effect pending its decision regarding a new GCOC proceeding, for which hearings were held in May 2009. During the course of the GCOC proceeding, we presented written and oral evidence to support our request for a generic ROE of 11% and an increase in our equity ratio to 38%. We expect that the AUC will issue its decision regarding the 2009 GCOC proceeding in the fourth quarter of 2009.

2007 and 2008 Direct Assign Capital Deferral Account Applications

Our application requesting the disposition of the balances in the Direct Assign Capital Deferral and other deferral accounts for 2007 and 2008 will be filed in the fourth quarter of 2009.

LIQUIDITY AND CAPITAL RESOURCES

	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
($ Millions)		
Cash and cash equivalents, beginning of period	**$ —**	$ —
Cash flow from (used in)		
Operating activities	**84.8**	109.4
Investing activities	**(176.3)**	(95.5)
Financing activities	**91.5**	(13.9)
Cash and cash equivalents, end of period	**$ —**	$ —
Ratios [1]		
Interest coverage:		
EBIT coverage [2, 5]	**2.11X**	2.01X
EBITDA coverage [3, 5]	**3.98X**	3.71X
Cash flow coverage [4, 5]	**2.52X**	2.45X
Annualized cash flow/total debt [4, 6]	**12.81%**	12.99%
Debt/total capitalization [6, 7]	**60.85%**	61.43%

1. Non-GAAP measures - We use certain financial metrics that are not defined under Canadian generally accepted accounting principles. Such "non-GAAP financial measures" provide our management and our investors with additional insight into our financial performance and financial condition,

expanding on the information that we provide in our financial statements. In particular, our investors, lenders and credit rating agencies use certain non-GAAP financial measures to calculate debt covenants and financial ratios.

2. EBIT coverage - Is equal to net income before interest expense and income taxes (EBIT) divided by interest.
3. EBITDA coverage - We use earnings before income taxes, depreciation and amortization (EBITDA) to measure our operating performance, before considering our financing strategy or recognizing costs for the consumption and replacement of our capital assets. We also use EBITDA as a proxy for cash flows from operations, before considering the effects of non-cash working capital. EBIT and EBITDA are non-GAAP measures. We believe that EBIT and EBITDA are useful supplemental measures to analyze our operating performance and to provide an indication of the results generated by our principal business activities prior to the consideration of other income and expenses. EBIT and EBITDA may not be comparable to similar measures used by other entities.
4. Cash flow – Consists of funds generated from operations. Funds generated from operations (FFO) is a non-GAAP measure that represents funds generated from operating activities before changes in non-cash working capital. The annualized cash flow represents FFO for the last twelve months. FFO should not be considered an alternative to, or more meaningful than, "cash provided by operating activities". We believe that FFO is a useful supplemental measure to analyze our ability to generate cash flow to fund capital investment and working capital requirements. FFO may not be comparable to similar measures used by other entities.
5. Interest expense – Interest expense excluding amortization of deferred financing fees on debt.
6. Debt – Consists of short-term and long-term debt, adjusted to remove deferred financing fees.
7. Total capitalization - Consists of debt and partners' equity.

Earnings Coverage

	For the twelve months ended September 30, 2009	For the twelve months ended September 30, 2008
Earnings-to-interest coverage on total debt [1]	**2.00X**[2]	1.93X[3]

1. Earnings-to-interest coverage on total debt is equal to net income before interest expense (excluding amortization of deferred financing fees) on all indebtedness and income taxes divided by annual interest requirements on long-term debt (including capitalized interest). We calculate the foregoing ratios after giving pro-forma effect to any long-term debt issues in the period and the use of the proceeds from the long-term debt issues.
2. Our required interest payments on all of our debt amounted to approximately $43.5 million for the 12 months ended September 30, 2009. That includes the additional interest payable on our $100.0 million debt issue (2008-1) which was refinanced at 5.243%. Our earnings before interest and income tax for the 12 months ended September 30, 2009 were approximately $86.9 million, which is 2.00 times our interest requirements on all of our debt for this period.
3. Our required interest payments on all of our debt amounted to approximately $43.2 million for the 12 months ended September 30, 2008. That includes the additional interest payable on our $100.0 million debt issue (2008-1 additional issue) which was refinanced at 5.243%. Our earnings before interest and income tax for the 12 months ended September 30, 2008 were approximately $83.5 million, which is 1.93 times our interest requirements on all our debt for this period.

Credit Ratings

	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
Credit Ratings		
DBRS – Commercial Paper	**R-1 (low)**	**R-1 (low)**
DBRS – Senior Secured Bonds	**A**	**A**
S&P – Senior Secured Bonds	**A-**	**A-**

On April 21, 2009 S&P confirmed the above rating with a stable trend. On October 7, 2009, DBRS issued a comment letter confirming the above rating with a negative trend, pending the AUC's decision regarding its GCOC proceeding.

Operating Activities

For the nine months ended September 30, 2009, our cash provided by operating activities was $24.6 million lower than the same period in 2008, primarily due to changes in our non-cash working capital. Monthly payments from the AESO are always received when due, twenty working days following the end of the previous month. Because two payments were outstanding on December 31, 2007, we received ten monthly payments from the AESO during the nine months ended September 30, 2008, compared with nine payments during the same period this year. At

September 30, 2009, our accounts receivable also included a one-time invoice for $4.0 million (including GST) from ATCO Electric.

For the third quarter of 2009, our cash provided by operating activities was $4.5 million higher mainly due to higher payables.

Investing Activities

Our investing activities included capital expenditures of $193.9 million for the nine months ended September 30, 2009, compared to $108.2 million during the same period in 2008. These figures were $82.0 million and $30.7 million respectively for the third quarter of 2009 and 2008. During 2009, we increased construction activity following regulatory approvals for Southwest and other projects and also increased permitting and licensing activities in accordance with directions received from the AESO.

The following table summarizes our capital expenditures and capital additions for the year to date:

($ Millions)	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
Capital additions		
Direct assigned	**$ 21,760**	$ 28,017
Capital upgrades & replacement	**27,037**	25,248
Corporate services, IT & other	**18,203**	2,084
Total capital additions	**67,000**	55,349
Change in assets under construction	**176,528**	57,047
Less: Allowance for funds used during construction (AFUDC)	**(10,263)**	(8,267)
Non-cash working capital items	**(44,206)**	3,165
Salvage & other	**4,793**	912
Capital expenditures	**$ 193,852**	$ 108,206

During the nine months ended September 30, 2009, we increased our regulatory rate base by completing and energizing capital projects with a total value of $67.0 million ($26.9 million during the third quarter), compared to $55.3 million ($17.0 million in the third quarter) in 2008. We will include our investment in assets under construction in our regulatory rate base when these projects are energized in the future. At September 30, 2009, assets under construction included costs related to our Southwest project, the Statoil Leismer facility, Southeast Empress transmission area development and Hardisty area system upgrade.

Financing Activities

During the nine months ended September 30, 2009, our financing activities provided net cash of $91.6 million ($40.2 million during the third quarter), an increase of $105.5 million ($42.9 million for the third quarter) compared with the same period last year. Last year, we distributed $16.4 million to AILP and funded substantially all of our capital projects from operating cash flow. This year, we received equity investments totalling $46.5 million from AILP and proceeds of $102.6 million from issuing medium term notes. After reducing our bank credit facilities by $39.7 million and paying distributions of $17.1 million to AILP, we applied the balance of these proceeds to finance our larger capital expenditure program.

Liquidity

We generally issue commercial paper to finance our day-to-day cash requirements. Between our $200.0 million commercial paper backstop facility and our $85.0 million operating line of credit, our liquidity was sufficient to finance our operations and capital projects. As at September 30, 2009, our commercial paper totalled $124.5 million, leaving us with $160.5 million of available liquidity under our bank credit facilities.

In late 2008 and early 2009, commercial paper markets were significantly less active due to the global credit crisis. At that time, we occasionally relied on our commercial paper backstop facility for brief periods of time when commercial paper markets were effectively closed.

We expect that our capital expenditure program will increase significantly in 2009 and in future years, as evidenced in the third quarter results. We plan to finance the projected capital investments, working capital requirements and any maturities of long-term debt through a prudent combination of cash flow from operating activities, new long-term debt and equity contributions from AILP. None of our medium term notes are scheduled to mature until 2012.

In its recent decision regarding our 2009-2010 GTA, the AUC has approved our request to increase our bank credit facilities from $285.0 million up to $600.0 million. This approval will permit us to significantly increase our liquidity in anticipation of increased construction activity and our expectation that the AESO will direct us to proceed with P & L applications for larger projects. We intend to increase our bank credit facilities to an amount appropriate for our planned 2010 capital expenditure program and have received indications of interest from major banks to provide those additional bank credit facilities.

During 2008 and 2009, temporary excess cash balances and cash received in advance of construction and operating and maintenance (O & M) charges were invested in short-term interest-bearing instruments with major Canadian banks. We remit to the AESO all of the interest earned on investments related to construction projects and retain interest earned on investments related to O & M charges to fund a portion of future O & M costs. We have strict policies in place with regard to short-term investments and we have never invested any funds in asset-backed commercial paper.

RESULTS OF OPERATIONS

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from our financial statements for the most recent period is detailed below:

	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008	**For the three months ended September 30, 2009**	For the three months ended September 30, 2008
Total revenue ($ millions)	**$ 181.3**	$ 173.8	**$ 60.6**	$ 57.6
Net income ($ millions)	**34.9**	32.2	**9.8**	11.0
Net income per unit ($ per unit)	**0.105**	0.097	**0.030**	0.033
Funds generated from operations ($ millions) [1]	**78.7**	78.3	**25.9**	27.5
Distributions per unit ($ per unit)	**0.052**	0.049	**0.017**	0.017
Total assets ($ millions)	**1,938.0**	1,489.6	**1,938.0**	1,489.6
Long-term debt, excluding current portion ($ millions) [2]	**887.9**	803.4	**887.9**	803.4

[1] See notes 1 and 4 under Liquidity and Capital Resources

[2] The long-term debt balance is shown before deducting the deferred financing fees, which have been offset against this amount in the Financial Statements, in accordance with the requirements of the financial instruments accounting standards.

Financial Position

The following table outlines significant changes in our balance sheet from December 31, 2008 to September 30, 2009:

	Increase/(Decrease) ($ Millions)	Explanation
Property, plant and equipment	$ 400.0	Prior to January 1, 2009, we netted our provision for future removal and site restoration against property plant and equipment. On January 1, 2009, we reclassified this provision as a liability on our balance sheet and increased the net book value of our property, plant and equipment by $145.4 million. As at June 30, 2009, we increased our estimate of asset retirement obligations by $86.6 million and increased the net book value of our property plant and equipment by the same amount. During the nine months ended September 30, 2009, we incurred construction costs for directly assigned transmission projects (including the Southwest, the Statoil Leismer project, the Southeast Empress area transmission development and the Hardisty area system upgrade) and capital replacement and upgrade costs on our existing facilities.
Contributions in advance of construction and construction liability	14.0	Our customers provide us with letters of credit and cash contributions before we start construction of customer contributed transmission facilities. We invest these funds in short-term deposits and pay all interest earned on these deposits to the AESO. Upon completion of construction, we refund any remaining balances to our customers. During the period, we received additional cash contributions from customers, withdrew funds required to pay construction costs, and issued refunds to our customers.
Operating and maintenance charges in advance and deferred revenue	6.3	Our customers provide us with letters of credit and cash contributions for future operating and maintenance charges related to customer contributed transmission facilities. We invest these funds in short-term deposits. During the period, we received additional cash contributions from customers and withdrew funds required to pay operating and maintenance costs.
Accounts receivable	5.5	Our accounts receivable increased primarily due to a one-time invoice of $4.0 million (including GST) to ATCO Electric for work on the Statoil Leismer project.
Accounts payable and accrued liabilities	49.0	Our accounts payable and accrued liabilities increased primarily due to higher capital construction activity.
Long-term debt	62.8	Our long-term debt has increased primarily because of costs related to our higher capital expenditure program.
Regulatory liabilities, short-term	6.9	We reclassified, from long-term to short-term, regulatory liabilities related to our Direct Assign Capital Deferral and other deferral accounts for 2007 and 2008.
Regulatory liabilities, long-term	132.7	On January 1, 2009, we reclassified our provision of $145.4

		million for future removal and site restoration from property, plant and equipment[1] as well as items noted above in Regulatory liabilities, short-term.
Asset retirement obligations	90.3	As at June 30, 2009, we increased our estimate of asset retirement obligations by $86.6 million. [2]
Partners' capital	46.5	We received equity investments of $46.5 million from AILP.

[1] Please refer to note 3d of the financial statements for the three and nine months ended September 30, 2009.

[2] Please refer to note 4 of the financial statements for the three and nine months ended September 30, 2009.

OPERATING RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2009

Revenues

For the year to date, our revenue totalled $181.3 million (2008 - $173.8 million). On a quarterly basis, our revenue was $60.6 million compared with $57.6 million last year. We have recognized revenues based on an interim tariff increase of 3% approved by the AUC earlier this year, pending the AUC's decisions on its GCOC proceeding and our 2009-10 GTA. We have adjusted the interim tariff to reflect the expected impact of deferral account adjustments. In our 2009-10 GTA, we requested an increase greater than 3% in our 2009 tariff to reflect the significant growth in our transmission assets. During the GCOC, we submitted evidence to support our request for an increase in our approved common equity ratio (currently 33%) and our return on equity (currently 8.75%). We will adjust our revenues to reflect the AUC's decisions on these two proceedings during the fourth quarter of 2009, when these decisions are expected to be received.

We receive miscellaneous revenues primarily for services that we provide on a cost recovery basis to other utilities. During the quarter and year to date, our miscellaneous revenue and operating expenses included a one-time billing of $3.8 million to ATCO Electric (excluding GST) for its share of the Statoil Leismer facility costs.

We earn revenues by way of an allowance for equity funds used during construction (AFUDC equity) on our assets under construction. Due to the significant increase in our construction activity during 2009, our revenue from AFUDC equity increased by $0.9 million for the year to date and $0.3 million for the quarter, when compared to the same periods in 2008. We capitalize AFUDC equity revenue until the related capital construction projects are energized and added to our regulatory rate base.

Net Income

For the year to date, we earned net income of $34.9 million, an increase of $2.6 million compared to the same period last year, primarily due to $3.8 million of gains on disposals of assets (2008 - $0.2 million). For the quarter, our net income of $9.8 million was $1.2 million lower than last year. The year over year decrease in our net income (excluding the gains on disposals of assets) is primarily because the increase in our revenues (which are based on an interim tariff pending the AUC's decisions on our 2009-10 GTA and its GCOC proceeding) was less than the actual increase in our expenses.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) [1]

For year to date, our EBITDA totalled $124.6 million, an increase of $5.9 million compared with 2008. On a quarterly basis, our EBITDA of $40.5 million was $0.3 million higher than last year.

[1] EBITDA is equal to net income before financing expenses, income taxes, depreciation (including accretion) and amortization.

Operating Expenses
Our operating expenses include salaries and wages, contracted manpower, general and administration costs, and insurance. For the year to date, our operating expenses increased by $6.0 million ($3.0 million for the quarter) compared with the same period last year, of which $3.8 million relates to miscellaneous services provided to ATCO Electric during the quarter. Net of the ATCO Electric costs, the remaining increases are primarily due to additional manpower, wage increases, general inflation and other costs related to our continued growth.

Depreciation and Accretion
We calculate depreciation on a straight-line basis using various rates ranging from 1.99% to 33.33% which are approved by the AUC. Compared with the same periods in 2008, depreciation and accretion for the quarter and year to date have increased due to capital projects that have recently been completed and added to our regulatory rate base.

Interest and Amortization of Deferred Financing Fees
Our interest expense for the quarter and year to date was comparable to the same periods last year. Although our total long-term debt has increased from the comparable periods, interest rates on our money market debt decreased significantly from 2008 levels. We issued $100.0 million of medium term notes in May 2009 to reduce our money market debt and restore our liquidity under our bank credit facilities. We have adjusted our revenues to offset the net income impact of the interest costs related to our medium term notes, consistent with previous GTA decisions under which the AUC approved deferral account treatment for interest costs related to our medium term notes.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

QUARTER ENDED	TOTAL REVENUE ($MILLIONS)	NET INCOME ($MILLIONS)	UNITS OUTSTANDING ($MILLIONS)	NET INCOME PER UNIT ($/UNIT)
SEPTEMBER 30, 2009	60.6	9.8	331.9	0.030
JUNE 30, 2009	61.4	13.0	331.9	0.039
MARCH 31, 2009	59.3	12.1	331.9	0.036
DECEMBER 31, 2008	59.6	8.5	331.9	0.026
SEPTEMBER 30, 2008	57.6	11.0	331.9	0.033
JUNE 30, 2008	58.5	9.6	331.9	0.029
MARCH 31, 2008	57.6	11.6	331.9	0.035
DECEMBER 31, 2007	52.0	8.0	331.9	0.024
SEPTEMBER 30, 2007	54.7	10.0	331.9	0.030
JUNE 30, 2007	52.9	8.3	331.9	0.025
MARCH 31, 2007	53.9	11.2	331.9	0.033
DECEMBER 31, 2006	53.7	11.0	331.9	0.033

ACCOUNTING POLICY AND RELATED DISCLOSURES

CHANGES IN ACCOUNTING POLICIES

Changes Impacting the 2009 Financial Statements

As described in note 3 to the unaudited interim financial statements, we adopted the provisions of the following CICA Handbook Sections:

- Section 1535, *Capital Disclosures*;
- Section 3031, *Inventories;*
- Section 3064*, Goodwill and Intangible Assets;* and
- Section 1100, *Accounting for Rate-Regulated Operations.*

Please refer to note 3 for more details of the changes required as a result of the implementation of these standards.

CHANGES IMPACTING FUTURE FINANCIAL STATEMENTS

International Financial Reporting Standards (IFRS)

On February 13, 2008, the CICA Accounting Standards Board confirmed that the conversion to IFRS from Canadian GAAP will be required for publicly accountable profit-oriented enterprises for both interim and annual financial statements beginning on or after January 1, 2011.

In Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies relating to Changeover to IFRS, the Canadian Securities Administrators noted the conversion to IFRS represents a change due to the implementation of new accounting standards. As a result, the transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect our reported financial position and results of operations. The Notice requires us to discuss in our interim and annual MD&A the elements, timing and status of our IFRS conversion plan. We refer you to detailed information in this regard that we have previously provided within our MD&A's since the second quarter of 2008 as well as the following update:

We have established an internal steering committee for our adoption of IFRS, which oversees our project team and working groups in carrying out the detailed tasks involved in the conversion project. The project team and working groups provide position papers and regular updates to our senior management, steering committee, Audit Committee and external auditors. We continue to provide employee education sessions to increase knowledge and awareness of IFRS and its impacts.

We actively participate in various industry peer groups, including the Canadian Electricity Association (CEA). We are also reviewing discussion papers, exposure drafts and standards released by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee. We will continue to assess the impact of the proposed standards on our financial statements and disclosure as additional information becomes available.

Although we cannot reasonably determine the financial impacts at this time, we have completed our detailed assessment of the impact of IFRS on our accounting processes, financial statements, treasury operations, regulatory systems and processes and operating systems and processes. The detailed assessment included analysis of the issues raised in Phase 1 and our proposed recommendations to resolve these issues.

The International Accounting Standards Board (IASB) issued an exposure draft issued on July 23, 2009 regarding the proposed standard for the recognition, measurement, presentation and disclosure of rate-regulated activities under IFRS. The major impacts of the exposure draft were discussed in the second quarter MD&A, issued July 29, 2009.

We plan to finalize our information system strategy in 2010, after the exposure draft is issued as a standard and its implications can be fully analyzed. In the meantime, we will continue with those aspects of the system implementation that are not expected to change and will monitor for potential implications arising from IASB meetings. Comments regarding the exposure draft are due by November 20, 2009 and we are planning to submit a joint response along with the CEA member utilities.

Please refer to our first quarter MD&A dated May 1, 2009 for a more detailed description of our current assessment of the issues that are expected to have the most significant impact on our processes and disclosures.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The following are the more significant estimates that have an impact on our financial condition and the results of our operations:

- Key economic assumptions used to determine the fair value of residual cash flows;
- The allowance for doubtful accounts;
- The estimated useful lives of assets;
- The recoverability of intangible assets including estimates of future costs to retire physical assets, such as our asset retirement obligations and site restoration costs, or the recoverability of costs associated with the direct assigned capital deferral account for projects that have been delayed in the regulatory process;
- The recoverability of intangible assets with indefinite lives, such as goodwill;
- Future income tax liability;
- The accruals for payroll and other employee-related liabilities;
- Certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets; and
- The recovery and settlement of regulated assets and liabilities, including the related transmission tariff revenue impact arising from deferral and reserve accounts, interim tariffs and other matters awaiting regulatory decisions.

These critical accounting estimates are discussed more thoroughly in the annual MD&A.

Subsequent Event (see note 14 to our unaudited interim financial statements)

On October 2, 2009, the AUC issued Decision 2009 – 151 regarding our GTA for 2009 and 2010. In that decision, the AUC directed us to recover $35.0 million of costs related to the Genesee to Langdon 500kV project, from the AESO and to include the balance of the costs in the 2009-2010 revenue requirements. The AUC stated that we should not be harmed financially by the cancellation of the project. Prior to the decision, we had capitalised $38.7 million of costs in property, plant and equipment, effective December 31, 2007, consistent with our regulatory applications and filings.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, we enter into various transactions with AML, AILP, AIML and AHLP. We record these transactions at exchange values based on normal commercial rates. AML employs the people who provide administrative and operational services to our business. We have indemnified AML for all associated expenses and liabilities.

In 2002, we executed a ten-year contract under which SNC-Lavalin Inc. (SNC-Lavalin) provides engineering, procurement and construction management services for our directly assigned capital projects. SNC-Lavalin provides these services to us through its subsidiary, SNC-Lavalin ATP Inc. (SNC-ATP). The AUC has reviewed and approved the terms and conditions of this contract in Decision 2003-061 and subsequent decisions, including Decision 2009-051 issued on October 2, 2009. On a year to date basis, we have paid SNC-ATP $107.9 million for construction related services during 2009 (2008 - $38.5 million). During the third quarter of 2009, we paid SNC-ATP $59.6 million compared to $10.2 million during the third quarter of 2008. On September 30, 2009, our accounts payable and accrued liabilities included $54.5 million owing to SNC-ATP under this agreement, compared to $17.2 million at December 31, 2008.

As at September 30, 2009, we were indebted to AILP for $85.0 million in principal and $1.1 million of accrued interest under our Series 3 Subordinated Bridge Bond, which is due on October 1, 2012. We make quarterly interest payments of $1.7 million to AILP at an annual interest rate of 8.5%.

RISKS AND UNCERTAINTIES

Our transmission business is subject to a variety of risks and uncertainties that may have material and adverse effects, financial and otherwise, on the results of our operations. For a more detailed description of the risks we face, please see the section of our Annual Information Form entitled *Risk Factors*.

We have instituted controls and other mitigating measures to manage these risks. Our risk management program includes an annual risk assessment that identifies and provides an overview of the top risks we face and the strategies we use to manage the risks.

The following are the more significant items that have an impact on our financial condition and the results of our operations:

- *Regulatory Approvals and Tariff Decisions*
- *Project Risk*
- *Restructuring of Electricity Industry*
- *Capital Resources*
- *Annual Impairment Tests*
- *Labour Relations*
- *Availability of People*
- *Transmission Development Resources*
- *Insurance*
- *Damage from Weather or Other Disasters*
- *Operating and Maintenance Risks*
- *Environmental, Health and Safety Risks*
- *Permits*
- *Provincial Economy*
- *Interest Rates*
- *Competition*
- *Credit Ratings*
- *Lack of Public Market for Bonds*
- *Effect of Redemption on Investment Return*
- *Market Value of Bonds*

These risks are discussed more thoroughly in the 2008 Annual Information Form.

FORWARD LOOKING INFORMATION

Prospective investors should be aware that this MD&A contains certain statements or disclosures that may constitute forward-looking information under applicable securities laws. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that we anticipate or expect may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as “forecast”, “future”, “may”, “will”, “intend”, “expect”, “anticipate”, “believe”, “potential”, “enable”, “plan”, “continue”, “contemplate” or other comparable terminology. Forward-looking information presented in such statements or disclosures may, without limitation, relate to: applications to the AUC for approval of, among other things, our revenue requirements and deferral and reserve accounts, anticipated income taxes and treatment of costs for applicable test periods, operating expenses, maintenance programs, capital costs and direct assigned projects, capital structure and return on equity, return on rate base, financing plans, interest rates and short-term borrowing rates; projected growth in our rate base, transmission system expansion forecasts and our anticipated direct assignment of transmission development projects from the AESO; the timing and development of transmission projects and the anticipated capital costs of such projects; business strategy, plans and objectives of management for future operations; forecast business results; and our anticipated financial performance or condition.

Various factors or assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. These factors and assumptions include, but are not limited to:

- No changes in the legislative and operating framework for Alberta’s electricity market which are adverse to our business (see “*Alberta’s Electricity Market Structure*” and “*Transmission System Planning and Development – Provincial Energy Strategy*” and “*Transmission System planning and Development – System Expansion Plans”* in our Annual Information Form (AIF), for example);
- Decisions from the AUC concerning outstanding tariff and other applications which are consistent with past regulatory principles and are obtained in a timely manner (see “*The Transmission Business - Revenue Tariffs*” and “*Alberta’s Electricity Market Structure*” in our AIF, for example);
- Approved rate-of-return and deemed capital structures for our transmission business which are sufficient to foster a stable investment climate (see “*The Transmission Business - Revenue Tariffs*” and “*Alberta’s Electricity Market Structure*” in our AIF, for example);
- A stable competitive environment;
- Obtaining sufficient capital on acceptable terms to finance our transmission system expansion; and,
- No significant event occurring outside the ordinary course of business such as a natural disaster or other calamity.

These assumptions and factors are based on information currently available to us including information obtained by our business from third-party industry analysts. In some occurrences, material assumptions and factors are presented or discussed elsewhere in this document in connection with the statements or disclosure containing the forward-looking information. We caution prospective investors that the foregoing list of material factors and assumptions is not exhaustive.

The forward-looking information in statements or disclosures in this MD&A is based (in whole or in part) on factors which may cause our actual results, performance or achievements to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. These factors are based on information currently available to us including information obtained by our business from third-party industry analysts. Actual results may differ materially from those predicted by such forward-looking statements. While we do not know what impact any of these differences may have, our business, results of operations, financial condition and our credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- The risks associated with being subject to extensive regulation including risks associated with AUC action or inaction;
- The risk that transmission projects are not directly assigned to us by the AESO;
- The risk that we are not able to arrange sufficient cost effective financing to repay maturing debt and to fund capital expenditures and other obligations;
- The risk that system expansion plans are delayed;
- The risks that the actual costs of completing a transmission project significantly exceed estimated costs;
- The risks to our facilities posed by severe weather, other natural disasters or catastrophic events and our limited insurance coverage for losses resulting from these events;
- The potential for service disruptions and increased costs if we fail to maintain and improve our aging asset base; and
- The risks associated with forecasting our revenue requirements and the possibility that we could incur operational, maintenance or administrative costs above those included in our approved revenue requirement.

We caution investors that the above list of factors is not exclusive. Other factors which could cause our actual results, performance or achievements to differ materially from those contemplated (whether expressly or by implication) in the forward-looking statements or other forward-looking information are disclosed in our publicly filed disclosure documents, including those found under "*Risk Factors*" in this document and in our Annual Information Form. Risk factors that could lead to such differences include, without limitation:

- Legislative and regulatory developments that could affect costs or 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 we operate;
- Results of financing efforts;
- Changes in counterparty risk; and
- The impact of accounting standards issued by Canadian standard setters.

All forward-looking information is given as of October 30, 2009. We are not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of these risks, uncertainties and assumptions, prospective investors should not place undue reliance on these forward-looking statements. This statement expressly qualifies any forward-looking information contained in this document.

ADDITIONAL INFORMATION

Additional information relating to our business including our Annual Information Form is available on SEDAR at www.sedar.com.