ALTALINK, L.P.

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

APRIL 8, 2005

The following discussion and analysis of financial condition and results of operations of AltaLink, L.P. (the "Partnership") should be read in conjunction with the Partnership's audited financial statements for the eight-month stub year ended December 31, 2004. Certain amounts in prior years have been reclassified to enable comparison with the current year's presentation.

Additional information relating to the Partnership, including the Partnership's Annual Information Form, is available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

The following discussion includes forward-looking 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 and 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", or other similar terminology. 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 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

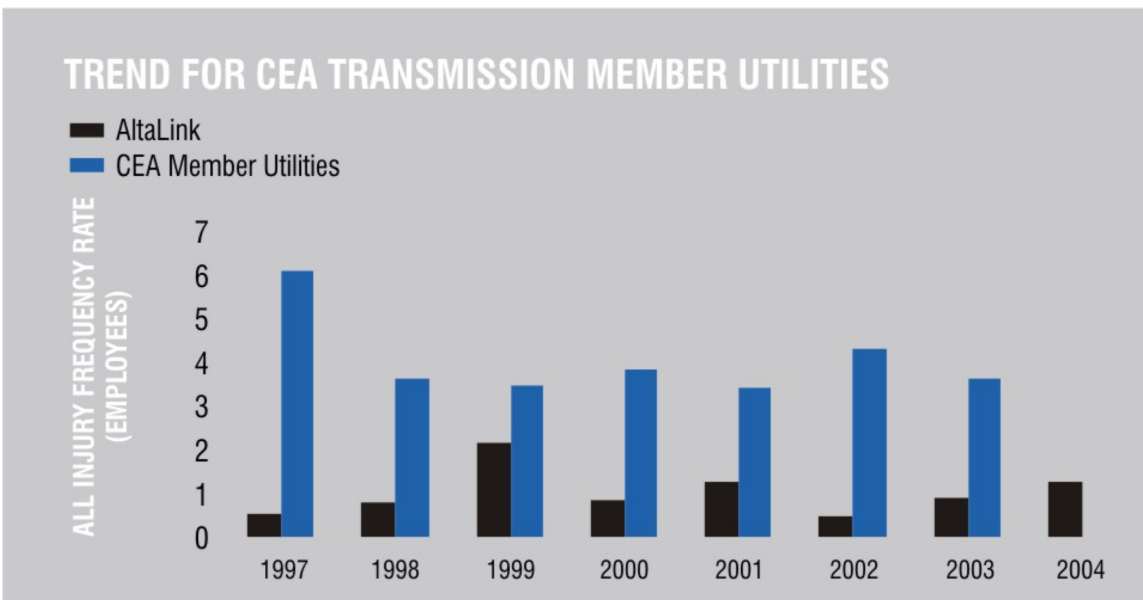
The Partnership is an electricity transmission facility owner formed July 3, 2001, to acquire TransAlta Energy Corporation's transmission business, and whose business is owning and operating regulated electricity transmission facilities in the province of Alberta. The Partnership is managed by its General 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 per cent of the Alberta population. The Partnership also owns and operates the interconnection facilities which connect its network with the transmission system in British Columbia, allowing 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.

In the stub year ended December 31, 2004, the Partnership continued to focus on effectively operating and maintaining its existing transmission facilities, the core of its business. The Partnership invested approximately $30 million in the existing transmission system, directing attention to replacing assets at their end of life. The digital upgrade to the province-wide microwave communication network continued with completion scheduled for 2005. In addition in 2004, the company successfully implemented an upgrade to SAP, its core enterprise-wide software system, establishing a foundation on which to manage the Partnership's growing business.

The 2004 stub year was a strong growth period for the Partnership. Approximately $35 million was invested in new facilities required to meet the growing needs of Alberta customers. More than 15 new projects were completed during this period with another 10 projects initiated and planned for completion in 2005. The Partnership completed, on schedule and on budget, the complex interconnection of Alberta's largest new coal-fired generation addition in approximately 10 years, the 450 MW Genesee 3 addition near Edmonton.

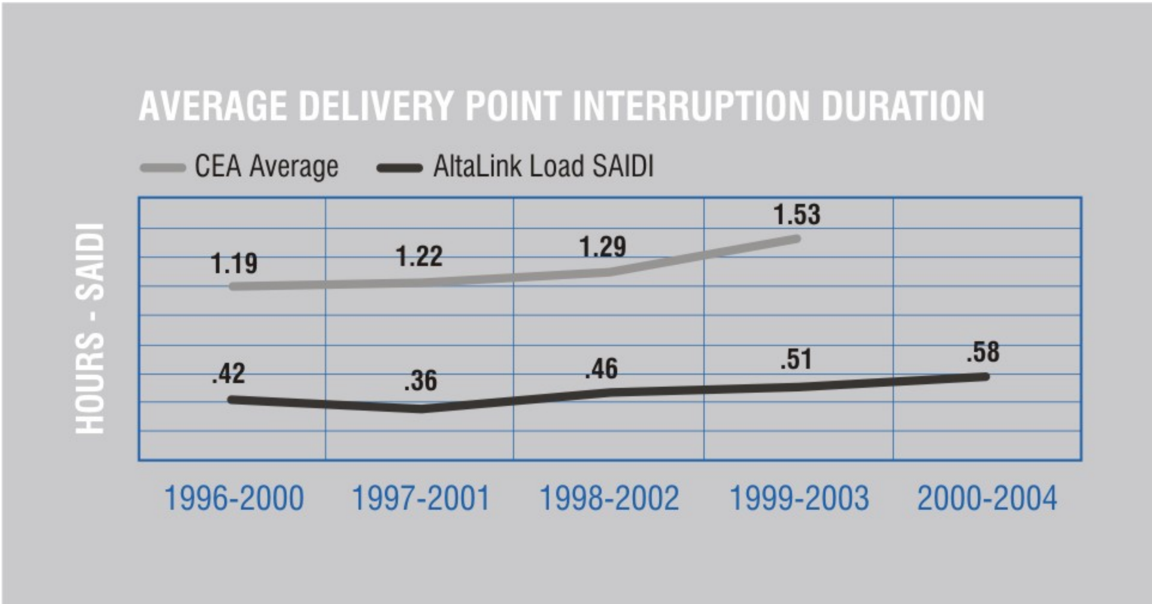
The Alberta Electric System Operator (AESO) moved forward with its need applications to the EUB for two major transmission developments located in the Partnership's operating region - the southwest 240 kV expansion and the north-south corridor 500 kV expansion. The EUB is expected to issue decisions on these applications in 2005. If the applications are approved, the Partnership, working closely with the AESO, will begin the permit and license process to construct these facilities.

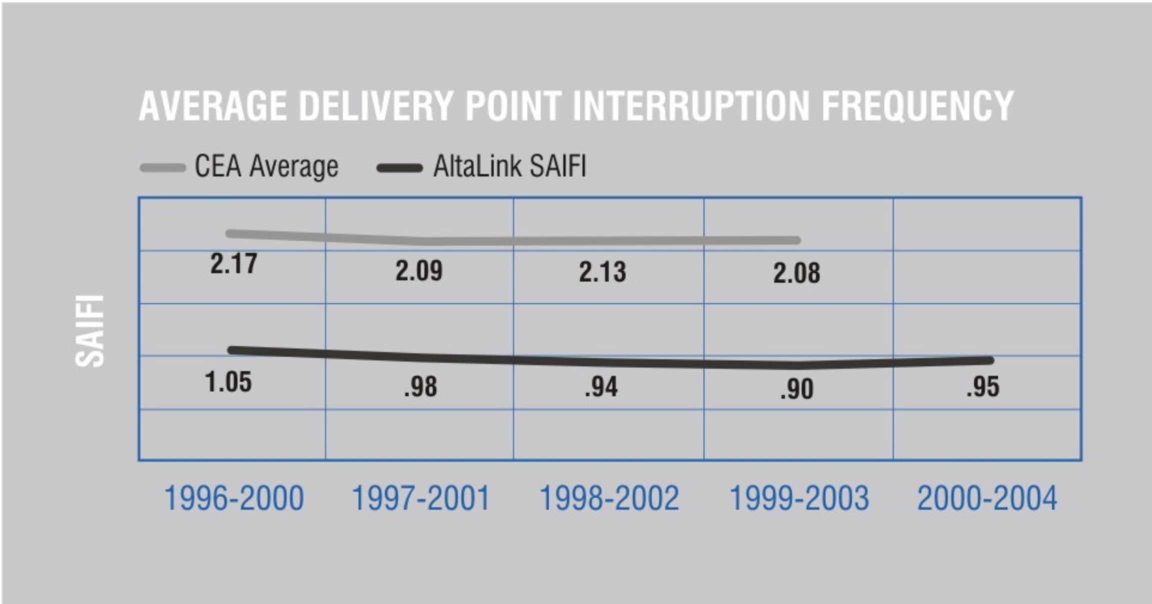
The Partnership remains committed to the safety of its employees, contractors and the public. The 2004 calendar year resulted in an exceptional safety performance with an all employee frequency rate (AIFR) of only 1.28 for AltaLink employees and 0.99 including AltaLink contractors, top-quartile results in comparison to other CEA Transmission Member Utilities [see chart]. With increased construction activity drawing new players into the electricity industry, the Partnership will continue its focus on improving contractor safety management in 2005.



As the Partnership's transmission assets gradually age, maintaining reliability can be increasingly challenging. AltaLink continues to invest in its facilities to maintain reliability performance levels. In the 2004 calendar year and during the past two years, degrading outage duration trends were stabilized [see chart]. The Partnership will continue to focus on investing prudently to maintain or improve current reliability performance levels.

SAIDI and SAIFI are performance indicators that represent the reliability of the utility's overall system over a period of time. SAIDI (System Average Interruption Duration Index) is the indicator of the length of time that the power is out, whereas SAIFI (System Average Interruption Frequency Index) measures the number of times the power went out in a given year.

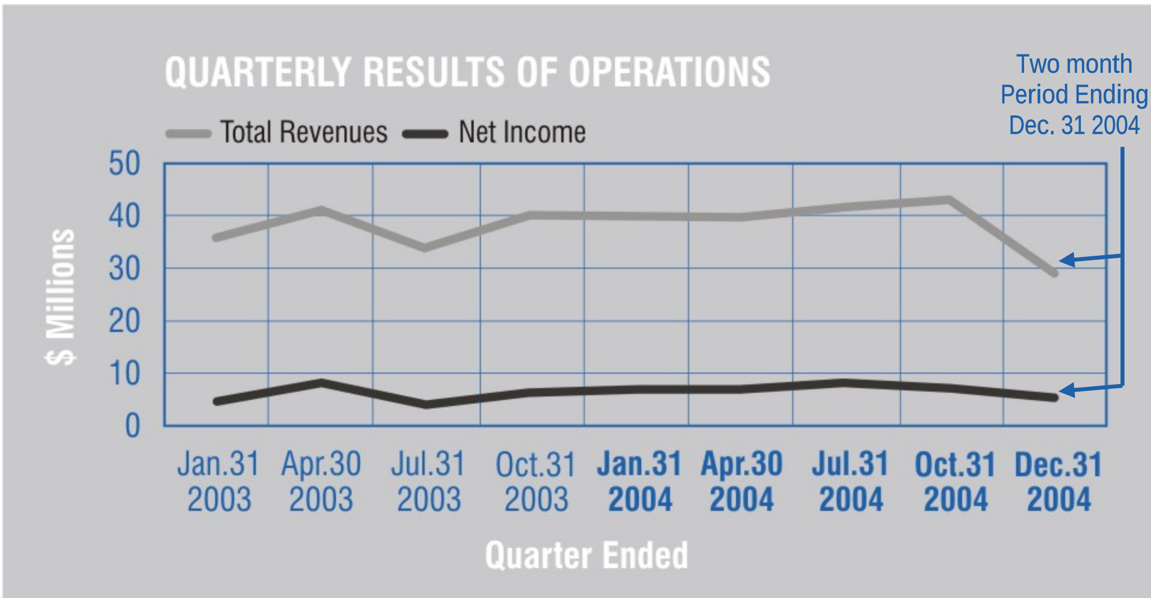




OVERALL PERFORMANCE

The Partnership continued to deliver safe, reliable and cost-effective transmission service to the province while providing a stable investment for our shareholders during the eight-month stub year ended December 31, 2004.

QUARTERLY RESULTS OF OPERATIONS



Quarterly Results of Operations

	Two-month Stub Period Dec. 31 2004	Oct. 31 2004	Jul. 31 2004	Apr. 30 2004	Jan. 31 2004	Oct. 31 2003	Jul .31 2003	Apr. 30 2003
Total revenues ($ millions)[1]	29.2	43.6	41.7	40.5	40.4	40.0	34.2	41.3
Net income ($ millions)[1]	5.0	7.2	8.8	7.5	7.4	6.9	4.7	8.4
Net income per unit ($)	0.015	0.022	0.027	0.022	0.022	0.021	0.014	0.025
Number of units (thousands)	331,904	331,904	331,904	331,904	331,904	331,904	331,904	331,904

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

As a regulated entity, the Partnership applies to the EUB for rates on a forward test year basis. As such, the Partnership generally knows in advance what its tariff revenue, depreciation rates and other cost elements will be during a fiscal year. However, when the Partnership acquired the transmission business in May 2002, it did not have an approved final tariff in place and was receiving revenue under an interim tariff. In September 2002, the Partnership filed a General Tariff Application (GTA) with the EUB 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 March 23, 2004. For the fiscal year ended April 30, 2003 management estimated what the approved tariff might be. Once a preliminary decision was received, the estimates were adjusted and the cumulative effect of the changes from April 30, 2003 were reflected in the period the decision was received. When the final decision was received, other adjustments were made as required.

Since April 30, 2004 the Partnership has received tariff revenue based upon an interim tariff. With the goal of receiving final rate decisions in advance of test periods, the Partnership filed a GTA to the EUB for approval of rates to the end of 2007.

SELECTED ANNUAL INFORMATION

Stub Year ended December 31, 2004 and Year ended April 30, 2004 and April 30, 2003

($ millions)	December 31, 2004	April 30, 2004	April 30, 2003
Total Revenue	114.5	155.1	154.1
Net Income	21.0	26.5	30.4
Net Income per Unit	0.063	0.080	0.092
Total Assets	1,144.8	1,118.5	1,083.7
Total Long-term Financial Liabilities	750.4	728.6	281.9
Distributions per Unit	0.028	0.039	0.088

The stub year ended December 31, 2004 reflected eight months of operations for the Partnership. The increase in total assets reflects the Partnership's commitment to investing in infrastructure across Alberta. Our investments during the past three years connected new generators to the grid. The Partnership also connected new end-users to the grid, thereby supporting the continuing growth of Alberta's economy through the addition of new industry. Part of this investment also targeted maintaining and improving the reliability of Alberta's transmission system.

RESULTS OF OPERATIONS

Financial Highlights

Stub Year ended December 31, 2004 and Year ended April 30, 2004

($ millions)	December 31, 2004	April 30, 2004
Revenue	114.5	155.1
Operating expenses	39.2	54.6
Depreciation and accretion expenses	33.8	42.1
Interest and amortization of financing fees	21.5	32.3
Allowance for debt funds used during construction	0.7	0.2
Gain on the sale of assets	0.3	0.2
Net income	21.0	26.5

During the eight-month stub year, the Partnership operated on an interim tariff supplied by the EUB.

Higher tariff revenue of $6.0 million and the 2003 GTA adjustment in its entirety of $5.0 million resulting from the August 3, 2003 EUB decision contributed to higher revenue. This increase was offset by the eight-month stub year effect of $50 million and reduction in miscellaneous revenue of $3.6 million resulting in a decrease of $40.6 million compared to the year ended April 30, 2004.

An increase in salaries and benefits from higher staff levels of $1.1 million, expenses for the GTA hearings in October prorated for a full year increase of $2.1 million and increased insurance costs prorated for a full year of $1.3 million increased operating expense in the period. However, these increases were more than offset by the effect of the eight-month stub year effect of $14.1 million and the $4.4 million prorated reduction in defined contribution pension expense due to the effects of the GTA decision adjustment being reflected in the year ended April 30, 2004.

Lower depreciation rates ordered in the August 3, 2003 EUB decision were reflected in the April 30, 2004 year end resulting in a reduction in depreciation expense for that period. An increase in depreciable asset base from additions in the current period were more than offset by the effect of the shortened stub year resulting in deprecation expense being $8.3 million lower than the year ended April 30, 2004

Interest and amortization of financing fees for the stub year ended December 31, 2004, was $10.8 million lower than the year ended April 30, 2004, due the eight-month stub year.

BALANCE SHEET

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

($ millions)	Increase (Decrease)	Explanation
Cash and cash equivalents	(2.3)	The decrease was primarily related to payment for capital assets additions, partially offset by cash generated from operations and financing activities.
Capital assets	31.8	The increase in capital assets year-over-year reflects the Partnership's investment in its infrastructure across Alberta after depreciation.
Accounts payable and accrued liabilities	(9.9)	The decrease was primarily related to the payment of linear, property and business taxes, and a reduction in accrued interest.
Long term debt	20.6	The rise in long term debt related to an increase in Banker's Acceptances, primarily associated with the funding of capital projects.

LIQUIDITY AND CAPITAL RESOURCES

The following table outlines the summary of cash flows:

Statements of Cash Flows

Stub Year ended December 31, 2004 and Year ended April 30, 2004

($ millions)	December 31, 2004	April 30, 2004
Cash, beginning of period	2.3	-
Cash provided by (used in):		
Operating activities	45.4	84.1
Investing activities	(58.9)	(84.3)
Financing activities	11.2	2.5
Cash, end of period	-	2.3

Sources of Liquidity and Capital Resources

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

- Funds generated from operations;
- The issuance and sale of bonds;
- Bank financing; and
- Capital contributions from the Limited Partner.

Operating Activities

Cash from operating activities for the stub year ended December 31, 2004 was $45.4 million, a decrease of $38.7 million from $84.1 million for year ended April 30, 2004. The decrease in operating cash is primarily due to eight months in the stub year compared to 12 months in the year ended April 30, 2004. Cash from operations will not be sufficient for the Partnership to fund repayment of existing indebtedness when due or to meet anticipated liquidity, maintenance and other capital expenditure requirements. Therefore, 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 stub year ended December 31, 2004 was an inflow of $11.2 million compared to $2.5 million for the year ended April 30, 2004, an increase of $8.7 million. Increased financing was required as a result of cash from operating activities being less than capital additions during the stub year.

Liquidity and Capital Resource Requirements

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

- Payment of operating costs;
- Capital expenditures to maintain, improve and expand transmission assets;
- Servicing and repayment of debt;
- Distributions to partners; and
- Acquisitions and other investing activities.

Investing Activities

Net cash used in investing activities for the stub year ended December 31, 2004 was $58.9 million, compared to $84.3 million for the year ended April 30, 2004, a decrease of $25.4 million. The decreased capital expenditure was primarily due to an eight-month stub year end compared to 12 months in the year ended April 30, 2004. Capital expenditures were mainly associated with new transmission facilities, capital upgrades and replacements on existing transmission facilities, and expenditures on information technology.

Direct-assigned projects are transmission construction projects assigned to the Partnership by the Alberta Electric System Operator (AESO) dealing mainly with new growth on the Alberta transmission grid. Capital replacements and upgrade programs are projects and programs initiated 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, using 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 the Partnership will have access to sufficient sources of liquidity and capital resources, including debt financing or the issuance of additional equity, to carry out its plans.

Servicing and Repayment of Debt

As of December 31, 2004, the Partnership had outstanding debt (including capital lease obligations) of approximately $565 million. The Partnership expects to meet interest payments on outstanding indebtedness from internally generated funds, but relies on 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 90 per cent of the Partnership's long-term debt facilities have maturities of 2008 and beyond.

Summary of Contractual Obligations and Other Commercial Commitments

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

($ millions)		Payments due by period			
Contractual obligations	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Operating leases	6.8	1.1	2.1	1.8	1.8
Debt	565.0	0.1	54.0	100.3	410.6
Other	8.6	1.4	2.9	2.9	1.4
Total	580.4	2.6	59.0	105.0	413.8

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

TRANSACTIONS WITH RELATED PARTIES

AltaLink Investment Management Ltd.

Subsequent to the year ended April 30, 2003, the Partnership amended its service agreement with AltaLink Investments, L.P. Rather than providing services directly to AltaLink Investments, L.P., the Partnership now provides these services through AltaLink Investment Management Ltd. which is AltaLink Investments, L.P.'s General Partner. As such, fees for these services are billed to AltaLink Investment Management Ltd. by the Partnership at exchange amounts, and AltaLink Investment Management Ltd. then recovers these costs from AltaLink Investments, L.P. During the eight months ended December 31, 2004 the Partnership provided consulting services to AltaLink Investment Management Ltd. in the amount of $0.2 million (year ended April 30, 2004 - $0.7 million).

AltaLink Management Ltd.

Pursuant to the terms of the Partnership Agreement, the General Partner provides administrative and operational services to the Partnership on a cost reimbursement basis. The employees that provide the administrative and operational services are employed by the General Partner and the Partnership has indemnified the General Partner for all expenses and liabilities associated therewith. Services are invoiced and settled on a semi-monthly basis. Operating and capital expenses included $17.5 million (year ended April 30, 2004 - $22.8 million) of salaries and benefits that have been invoiced from the General Partner for the eight-months ended December 31, 2004 at exchange amounts. The Partnership agreement granted the General Partner a 0.01 per cent interest in the Partnership in consideration for acting as General Partner. For the eight-months ended December 31, 2004 distributions of $0 million were paid to the General Partner (year ended April 30, 2004 -$0 million).

AltaLink Investments, L.P.

Included in miscellaneous revenue is $nil (April 30, 2004 -$0.1 million) for consulting services provided to AltaLink Investments, L.P. These services are recorded at exchange amounts. Included in interest expense is $3.4 million (April 30, 2004 - $6.8 million), which relates to the Series 3 Subordinated Bridge Bond payable to AltaLink Investments, L.P. For the eight months ended December 31, 2004 distributions of $9.3 million were paid to AltaLink Investments, L.P (April 30, 2004 - $12.8 million).

SNC-Lavalin Inc.

SNC-Lavalin Inc., a subsidiary of SNC-Lavalin Group Inc., provided consulting services in the amount of $0 million during the eight months ended December 31, 2004 and $0.1 million for the year ended April 30, 2004 in relation to the acquisition of the transmission assets and other operating activities. SNC-Lavalin Group Inc. is the parent of SNC-Lavalin Transmission Ltd. which is a 50 per cent owner of AltaLink Investments, L.P. These services were recorded at exchange amounts.

The Partnership and SNC-Lavalin Inc. are parties to an exclusive appointment of EPC/EPCM contractor agreement whereby the Partnership appointed SNC-Lavalin Inc. as the exclusive provider of engineering, procurement and construction services and related management services for capital upgrades to transmission facilities in Alberta. The exclusive appointment agreement is scheduled to terminate on April 30, 2012. During the eight months ended December 31, 2004 SNC-Lavalin ATP Inc., a subsidiary of SNC-Lavalin Inc., provided the above mentioned services for the construction of capital assets totaling $47.6 million (April 30, 2004 - $55.9 million). These amounts have been included in capital assets as at December 31, 2004. The Partnership received $0.1 million (April 30, 2004 - $0.1 million) in miscellaneous revenue from SNC-Lavalin ATP Inc. during the eight months ended December 31, 2004. These services were recorded at exchange amounts.

Macquarie North America Ltd.

Macquarie Essential Assets Partnership (“MEAP”) is the sole shareholder of Macquarie Transmission Alberta Ltd., which owns, beneficially and of record, 15 per cent of AltaLink Investments, L.P. The general partner of MEAP is Macquarie Canadian Infrastructure Management Limited, a direct subsidiary of Macquarie North America Ltd. Macquarie North America Ltd. provided $0 million (April 30, 2004 - $2.2 million) in consulting and financial advisory services and operating expenses during the eight-months ended December 31, 2004 of which $nil (April 30, 2004 - $2.2 million) was recorded as financing fees, and $0 million (April 30, 2003 – $0 million) was recorded as operating expenses. These services were recorded at exchange amounts.

Ontario Teachers' Pension Plan Board

Ontario Teachers' Pension Plan Board ("OTPPB") is the parent of OTPPB-TEP Inc., a 25 per cent owner of AltaLink Investments, L.P. Included in interest expense is $nil for the eight-months ended December 31, 2004 and $6.3 million for the year ended April 30, 2004 which relates to Series 1 (redeemed June 5, 2003) and Series 2 (redeemed December 5, 2003) Senior Bridge Bonds payable to OTPPB.

Other

Amounts due from (to) related parties included in accounts receivable and accounts payable are:

($ millions)	December 31, 2004	April 30, 2004
AltaLink Investment Management Ltd.	$ 0.1	$ -
AltaLink Management Ltd.	0.3	0.4
AltaLink Investments, L.P.	(1.1)	(1.7)
SNC-Lavalin ATP Inc.	(13.8)	(7.2)

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 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.

RISK 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 MD&A of Financial Condition and Results of Operations of the Partnership.

Regulatory Approvals

The Partnership is dependent upon decisions made by the EUB which approve the revenue requirement or tariff for the transmission business. The revenue tariffs are designed to permit the regulated transmission business a reasonable opportunity to recover costs incurred by the transmission business including a fair return on the equity of the owners. If the Partnership's actual costs exceed approved costs for any reason, the Partnership's financial performance will be adversely affected. Actual costs could exceed approved costs if, for example, the Partnership incurs operational, maintenance and administration costs above those included in the Partnership's approved revenue requirement, or if it incurs higher costs due to capital expenditures to upgrade or replace components in the existing system being at levels above those provided for in the EUB decisions, or if it incurs additional financing charges because of increased debt balances or changes in interest rates. To the extent that any costs are disallowed through the rates, it could have a material adverse affect on the Partnership's financial performance.

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. 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 11, 2004, the Partnership was notified by Standard and Poor's Ratings Services (S&P) that its "A-" credit rating was affirmed but the outlook was changed from stable to negative. The change in the outlook reflected the uncertainty surrounding the execution and timing of a planned retirement of debt at the Partnership's parent, AILP. On March 3, 2005, S&P notified the Partnership that its outlook was changed from negative to stable, reflecting the successful completion of the planned financial restructuring at the Partnership's parent, AILP.

On November 22, 2004, the Partnership was notified by Dominion Bond Rating Service (DBRS) that its rating on the Partnership's Senior Secured Bonds is downgraded to "A" and the trend is changed from Negative to Stable. In its release, DBRS confirmed that the Partnership's financial results were better than anticipated, however, it noted that the downgrade reflected the ongoing uncertainty and significant regulatory lag associated with the EUB's decisions, which contributed to lengthy time delays in reaching financial decisions by the Partnership's sponsors. DBRS stated that while regulatory risk remains one of the Partnership's key risks, the challenges associated with the timeliness of decisions and the uncertainty with respect to the type of financing that AILP will receive in the future are the key reasons for the downgrade.

RECENT DEVELOPMENTS

EUB Revenue Requirement

On March 23, 2004, the EUB released a decision finalizing the revenue requirement for the years ending April 30, 2003 and April 30, 2004. The EUB decision provided for, among other things, a rate of return of 9.4 per cent on a 34 per cent deemed common equity ratio. This decision approved the collection of only 75 per cent of deemed taxes 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 tax consequences of its operations are borne by its partners on a pro rata basis based on their interest in the Partnership. The EUB disallowed the inclusion of deemed income taxes calculated in respect of the OTPPB affiliate which holds 25 per cent of the limited partnership units in AILP.

Following receipt of the EUB's initial decision disallowing the full collection of deemed income tax, the Partnership applied to the EUB for review and variance of its decision. The Partnership has also filed an application with the Alberta Court of Appeal seeking leave to appeal certain elements of the EUB decision. The Leave to Appeal was stayed pending the outcome of the EUB's review and variance process.

In March 2004, the EUB advised 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 OTPPB's 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's equity ratio. On July 23, 2004, and again on September 13, 2004, the Partnership responded to requests for information on this matter. The Partnership submitted its final argument on November 26, 2004 to the EUB.

On February 16, 2005, the Partnership was notified that the EUB upheld its earlier decision in response to the Partnership's Review and Variance application, maintaining its denial of the Partnership's full collection of deemed income taxes. In its original decision, the EUB ruled against allowing the Partnership to collect 25 per cent of its deemed income tax in relation to one of its partners, OTPPB.

Change of Year End

The Partnership changed its fiscal year end from April 30 to December 31, effective December 31, 2004. The change of its fiscal year end was in response to a direction provided by the EUB to maintain its regulatory records on a calendar year-end basis. The change allows the Partnership to align its fiscal year with its regulatory year.

General Tariff Application

The Partnership filed a GTA with the EUB on 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. The final argument was filed with the EUB on December 13, 2004, and a decision from the EUB was received on March 12, 2005.

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

On March 12, 2005, the Partnership received the 2004-2007 GTA, Decision 2005-019. This decision approved the Tariff Application for two years and eight months, covering the period of May 1, 2004 through December 31, 2006.

Generic Cost of Capital

The EUB conducted a generic cost of capital hearing for the purpose of considering a standardized approach to determine the rate of return on equity and capital structure for all the gas and electric utilities under its jurisdiction, including the Partnership. The oral hearing and written arguments concluded in April 2004 and the EUB issued a decision on July 2, 2004. Among other things, the EUB approved a 9.6 per cent rate of return on common equity for the Partnership for the period ended December 31, 2004. The decision also approved a 35 per cent deemed common equity ratio for the Partnership on the assumption that the disallowance of 25 per cent of deemed income taxes in an earlier decision of the EUB was continued. If the Partnership were to have a full income tax allowance included in its approved revenue requirement, the deemed common equity ratio for the Partnership would have been 33 per cent. The rate of return on common equity will be adjusted annually for the years 2005 to 2009. The adjustment is calculated as 75 per cent of the change in the yield of long-term Government of Canada bonds. It was further provided that if the adjustment exceeds ±2 per cent the EUB will consider undertaking a review of the formula. On November 30, 2004 the EUB released a decision that approved and set the 2005 return on common equity at 9.5 per cent consistent with the aforementioned adjustment formula.

On September 3, 2004, the Partnership filed a Capital Deferral Account Application with the EUB. The purpose of this application was to adjust for variations in the Partnership's revenue requirement caused by the differences arising from the actual versus forecast capital additions relating to direct assigned capital projects, with respect to the 2002-03 and 2003-04 periods. On January 17, 2005, the EUB set out a process to assess the Partnership's application. It is not possible to precisely determine the final adjustment amount that the Partnership will receive until the EUB renders a decision on this matter.

Edmonton to Calgary 500kV Transmission Project

In May 2004, the Alberta Electric System Operator (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 construction of a new 500 kV transmission line from Genesee, west of Edmonton to Langdon, east of Calgary and the re-energizing of the Keephills, Ellerslie and Genesee (KEG) transmission line to 500 kV. The total estimated cost of the proposed enhancements is $340 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 $325 million, to the Partnership. The Partnership would then proceed to file separate Facility applications to the EUB outlining the technical, routing and cost details for the two projects. The hearing associated with this 500kV transmission project concluded on January 18, 2005, with the presentation of oral arguments made by the stakeholders before the EUB.

Southwest Line Development

In March of 2004, the AESO filed a Need Application with the EUB requesting approval for the enhancement of the Southwest transmission system between Pincher Creek and North Lethbridge. The total project cost was estimated to be $77 million and was expected to be commissioned in April 2006. Subsequent to the hearing that ended July 12, 2004, the EUB requested the AESO to provide additional information regarding this project whereby the AESO complied and filed such information on November 4, 2004. At this point, it cannot be precisely determined when a decision with respect to this project can be expected. If the Need Application is approved as filed, it is expected that the AESO will direct assign the majority of the work to the Partnership.