



EPCOR  
Power L.P.

FOR RELEASE AT 6:00 A.M. MDT, May 1, 2007

## EPCOR Power L.P. reports first quarter results

**Edmonton, Alberta** – May 1, 2007 (TSX: EP.UN) - EPCOR Power Services Ltd., the general partner of EPCOR Power L.P. (“the Partnership”), today released the Partnership’s quarterly results for the period ended March 31, 2007.

“In the first quarter, the Partnership’s cash provided by operating activities of \$59.4 million was in line with our expectations and modestly ahead of the \$54.3 million for the same period last year,” said Brian Vaasjo, President, EPCOR Power Services Ltd. “The implementation of new accounting standards in 2007 required the recording of natural gas supply contracts for the Ontario plants at their fair value. Net income of \$69.4 million in the first quarter benefited from a \$44.3 million unrealized fair value change on these natural gas supply contracts. The adoption of the new accounting standards will result in increased variability in the Partnership’s net income but will not impact its cash flows.”

“Due to recent retirements, I am pleased to announce two new appointments”, continued Vaasjo. “First, I would like to welcome Mr. Francois Poirier as an independent Director effective April 2, 2007. Francois replaces retiring independent Director, Eric Hobson and brings extensive experience in financial markets to the Partnership’s Board. He will make a significant contribution to the Board’s continuing focus on delivering shareholder value and ensuring the Partnership’s growth. In addition, the Partnership is pleased to announce the appointment of Mr. John Patterson as the general partner’s Vice President and Treasurer effective May 1, 2007. John replaces Stephen Muir who retired at the end of April. John is currently Vice President and Treasurer of EPCOR Utilities Inc. and brings a wealth of finance and treasury experience in his new role.”

Highlights of EPCOR Power L.P.’s operational and financial performance included:

<b>Operational and Financial Highlights</b> <i>(unaudited)</i>	<b>Three months ended March 31</b>	
<i>(millions of dollars except per unit and operational amounts)</i>	<b>2007</b>	2006
Power generated (GWh)	<b>1,228</b>	693
Weighted average plant availability	<b>90%</b>	97%
Revenue	<b>142.9</b>	91.3
Net income	<b>69.4</b>	33.9
Per unit	<b>\$1.39</b>	\$0.72
Comprehensive income	<b>68.5</b>	-
Cash provided by operating activities	<b>59.4</b>	54.3
Per unit <sup>(1)</sup>	<b>\$1.19</b>	\$1.15
Cash distributions	<b>31.4</b>	29.9
Per unit	<b>\$0.63</b>	\$0.63
Capital expenditures	<b>1.1</b>	0.8
Weighted average units outstanding (millions)	<b>49.9</b>	47.4

<sup>(1)</sup> Cash provided by operating activities per unit is a non-GAAP financial measure that is defined in the interim MD&A.

The March 31, 2007 interim report is shown below. The interim management discussion and analysis and interim consolidated financial statements are available on the EPCOR Power L.P. website ([www.epcorpowlp.ca](http://www.epcorpowlp.ca)) and will be available on SEDAR ([www.sedar.com](http://www.sedar.com)).

# **EPCOR Power L.P.**

## **Management's Discussion and Analysis**

### **For the Three Months Ended March 31, 2007**

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This management's discussion and analysis ("MD&A"), dated April 30, 2007 should be read in conjunction with the unaudited interim consolidated financial statements of EPCOR Power L.P. ("the Partnership") for the three months ended March 31, 2007 and the audited consolidated financial statements and MD&A of EPCOR Power L.P. for the year ended December 31, 2006. Additional information, relating to EPCOR Power L.P., including the Partnership's 2006 Annual Information Form ("AIF") and continuous disclosure documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).

EPCOR Power Services Ltd., the General Partner of the Partnership, is an indirect wholly-owned subsidiary of EPCOR Utilities Inc. (collectively with its wholly-owned subsidiaries "EPCOR") and has responsibility for management of the Partnership. The General Partner has engaged certain other EPCOR subsidiaries (collectively, the "Manager") to perform management and administrative services on behalf of the Partnership and to operate and maintain the power plants pursuant to management and operations agreements. The Audit Committee of the Board of Directors of the General Partner is to review and approve the interim MD&A of the Partnership in accordance with the Audit Committee's terms of reference. The Audit Committee has reviewed and approved the contents of this interim MD&A.

#### **Forward-looking statements**

Certain information in this MD&A is forward-looking and related to anticipated financial performance, events and strategies. When used in this context, words such as "will", "anticipate", "believe", "plan", "intend", "target" and "expect" or similar words suggest future outcomes. By their nature, such statements are subject to significant risks and uncertainties, which could cause the Partnership's actual results and experience to be materially different than the anticipated results. Such risks, assumptions and uncertainties include, but are not limited to, the ability of the Partnership to successfully integrate and realize the financial benefits of its acquisitions, the ability of the Partnership to implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the availability and price of energy commodities, plant availability, waste heat availability and water flows, regulatory and government decisions including the final form of the proposed tax measures related to specified investment flow-through entities, the renewal and terms of power purchase contracts, competitive factors in the power industry, the current and future economic conditions in North America and the performance of contractors and suppliers.

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

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

### CONSOLIDATED RESULTS OF OPERATIONS

<i>(millions of dollars)(unaudited)</i>	
<b>Cash provided by operating activities for the quarter ended March 31, 2006</b>	<b>54.3</b>
Decrease in operating working capital compared to 2006	9.8
Realized gains upon the settlement of foreign exchange contracts	5.6
Contribution of Fredrickson excluding interest paid	4.0
Contribution of PEV excluding interest paid and foreign exchange contract gain	2.3
Increase in interest expense due to acquisitions in 2006	(7.8)
One-time OEFC settlement received in the first quarter of 2006	(9.8)
Other	1.0
<b>Cash provided by operating activities for the quarter ended March 31, 2007</b>	<b>59.4</b>

The Partnership reported cash provided by operating activities of \$59.4 million or \$1.19 per unit for the three months ended March 31, 2007 compared with \$54.3 million or \$1.15 per unit for the same period in 2006. Cash provided by operating activities per unit is defined below under non-GAAP measures. The \$5.1 million increase in cash flow from operating activities compared to the first quarter of 2006 is primarily due to the following:

- A \$9.8 million reduction in working capital in the first quarter of 2007 compared to 2006 mainly due to timing of the payments and receipts;
- Realized gains of \$5.6 million on foreign exchange contracts that were entered in anticipation of the issuance of Canadian equity to replace a portion of the US dollar Primary Energy Ventures LLC (“PEV”) bridge acquisition facility;
- The contribution of Frederickson Power L.P. (“Frederickson”) acquired on August 1, 2006 of approximately \$4.0 million excluding financing; and
- The contribution resulting from the PEV acquisition on November 1, 2006 of approximately \$2.3 million for the quarter, excluding financing and realized gains on foreign exchange contracts.

The increases were partially offset by:

- Higher interest expense of \$7.8 million compared to the prior year’s quarter due to increased debt incurred primarily to finance the purchase of PEV. In addition, the assumption of capital leases for three PEV plants and the remaining debt financing incurred on the purchase of Frederickson contributed to the increase; and
- A \$9.8 million one-time Ontario Electricity Financial Corporation (“OEFC”) settlement received in the first quarter of 2006.

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

<i>(millions of dollars)(unaudited)</i>	
<b>Net income for the quarter ended March 31, 2006</b>	<b>\$ 33.9</b>
Fair value change on natural gas supply contracts	44.3
Future income tax recoveries	6.7
Foreign exchange gain in the quarter versus foreign exchange loss in 2006	6.2
Contribution from Fredrickson acquired August 1, 2007	4.0
Contribution from PEV acquired November 1, 2007	0.8
Recognition of deferred revenue in 2006 and lower pricing at Curtis Palmer	(4.7)
Higher depreciation and amortization mainly due to the PEV and Frederickson acquisitions in 2006	(6.2)
One-time OEFC settlement in 2006, net of natural gas contract accrual	(8.5)
Higher financial charges	(8.8)
Other	1.7
<b>Net income for the quarter ended March 31, 2007</b>	<b>\$ 69.4</b>

Net income was \$69.4 million or \$1.39 per unit for the three months ended March 31, 2007 compared to \$33.9 million or \$0.72 per unit for the same period in 2006. The increase in net income of \$35.5 million was mainly due to:

- In the first quarter of 2007, the Partnership adopted new accounting standards requiring the recording of the natural gas supply contracts at their fair value (see “Changes in Accounting Policies”). The Partnership recorded a gain of \$44.3 million on the change in the fair value of the natural gas supply contracts for the Ontario plants;
- Income tax recoveries of \$2.8 million in the first quarter of 2007 compared to income tax expense of \$3.9 million for the comparable period in 2006, mainly relating to losses in the US operations in the first quarter of 2007;
- \$6.2 million due to the recording of a foreign exchange gain in the quarter versus a foreign exchange loss in 2006 (see “Foreign exchange (gains) losses”);
- Increases in rates and volumes at various plants;
- \$4.0 million in positive contribution from Frederickson, which was acquired on August 1, 2006 excluding depreciation and financial charges; and
- \$0.8 million in positive contribution from PEV, which was acquired on November 1, 2006 excluding depreciation and financial charges.

These increases were partially offset by:

- Lower pricing at the Curtis Palmer plant resulting in a \$4.7 million reduction in revenue;
- Increased depreciation of \$6.2 million mainly due to the PEV and Frederickson acquisitions in 2006;
- Higher financial charges of \$8.8 million primarily due to increased debt financing used to acquire PEV. In addition, the capital leases assumed as part of the PEV acquisition and the debt financing of Frederickson contributed to the increase; and
- The one-time OEFC settlement of \$9.8 million in the first quarter of 2006 partially offset by a \$1.3 million provision for increased fuel expense.

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

### Operating Margin<sup>(1)</sup>

<i>(millions of dollars)(unaudited)</i>	Three months ended March 31	
	2007	2006
Ontario	24.7	32.2
Williams Lake	7.2	7.2
Mamquam and Queen Charlotte	1.5	2.3
Northwest US Plants <sup>(2)</sup>	8.8	4.8
California Plants <sup>(2)</sup>	2.5	-
Curtis Palmer	10.3	15.0
Northeast US Gas Plants <sup>(2)</sup>	3.3	1.9
North Carolina Plants <sup>(2)</sup>	(0.7)	-
PERC management fee <sup>(2)</sup>	0.7	-
	<b>58.3</b>	63.4
Fair value changes in natural gas supply contracts	44.3	-
Fair value changes in foreign exchange contracts	1.3	-
	<b>103.9</b>	63.4

<sup>(1)</sup> Operating margin is not a defined financial measure according to Canadian GAAP, and does not have a standardized meaning prescribed by GAAP. See Non-GAAP Measures.

<sup>(2)</sup> From the dates of acquisition: PEV - November 1, 2006; Frederickson - August 1, 2006.

Operating margin excluding fair value changes in foreign exchange and natural gas supply contracts for the three months ended March 31, 2007 decreased by \$5.1 million. The decrease is primarily due to the \$8.5 million impact of the one-time OEFC retroactive settlement in the first quarter of 2006 and the \$4.7 million in lower revenues at Curtis Palmer due to lower pricing. Offsetting these decreases are \$7.5 million in additional operating margins from Frederickson and PEV operations acquired in the third and fourth quarter of 2006 respectively.

Fair value changes in foreign exchange contracts were not recorded in first quarter of 2006 as such contracts were designated as accounting hedges until the second quarter of 2006.

During the current period the Partnership implemented new accounting standards which resulted in the Partnership’s long-term natural gas supply contracts being recorded at fair value (see “Changes in Accounting Policies”).

The fair value change represents the change in the estimated fair value of the natural gas supply contracts for the period January 1, 2007 to March 31, 2007. The \$44.3 million change in the fair value is primarily due to a \$0.73 per gigajoule increase in forward natural gas prices for the contract periods which expire between 2010 and 2016. Unrealized fair value changes in derivative instruments recorded for accounting purposes are not necessarily representative of their economic value when considering them in conjunction with the economically hedged item such as future natural gas purchases or future power sales.

### CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007 the Partnership adopted new CICA accounting standards: Financial Instruments - Recognition and Measurement, Financial Instruments – Disclosure and Presentation, Hedges, Comprehensive Income and changes to the Equity standard (collectively “the new accounting standards”). The changes and the impact of these changes on the

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

Partnership’s consolidated financial statements are described in Note 2 to the interim consolidated financial statements. In accordance with the requirements of the new accounting standards, the Partnership has not restated any prior period as a result of adopting the accounting changes but has recorded certain transitional amounts that represent the cumulative effect of adjustments relating to prior periods in opening accumulated deficit and in opening accumulated other comprehensive income.

On January 1, 2007, the Partnership made the following adjustments to its balance sheet to adopt the new standards:

<b>Balance Sheet Category</b>	<b>As at</b>	<b>Explanation</b>
<b>Increase (Decrease)</b>	<b>January 1, 2007</b>	
<i>(millions of dollars)(unaudited)</i>		
Other Assets	\$ (4.5)	To no longer record deferred financing costs as other assets using straight-line amortization
Derivative instruments - asset	96.0	To record natural gas supply contracts at fair value
Derivative instruments - net liability	(8.6)	To no longer record deferred unrealized gains as derivative instruments
Long-term debt	(4.8)	To record deferred financing costs as debenture discounts using effective interest method
Opening accumulated deficit	(96.3)	After tax impact to opening retained earnings resulting from adoption of new standards
Opening accumulated other comprehensive income	8.6	To record deferred unrealized gains as accumulated other comprehensive income

The financial instrument standard requires that interest income and expense be allocated over the relevant period using the effective interest method (“EIM”). Under the EIM, interest income and expense is calculated and recorded using an effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the initial net carrying amount of the financial asset or liability. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as other than “held for trading” are either included in the initial carrying value of such instruments and amortized using the EIM or expensed.

The Partnership has chosen as its accounting policy to include transactions costs as part of the initial carrying amount of the debt and as a result of this, deferred financing costs have been reclassified against long-term debt and the method of amortization of deferred financing costs has been changed to the EIM from the straight-line method. Transaction costs on financial instruments classified as “held for trading” are expensed. The Partnership has no transaction costs relating to financial instruments that are classified as held for trading. Upon implementation, the Partnership’s opening accumulated deficit was reduced by \$0.3 million.

A new statement entitled “Consolidated Statement of Comprehensive Income” has been added to the set of consolidated financial statements. Each component of the Consolidated Statement of Comprehensive Income has been recorded net of income taxes. The balance of deferred gains on derivatives (cash-flow hedges) that were previously de-designated will be reclassified to the income statement in the period that the corresponding unrealized foreign exchange gain or loss is realized or the corresponding hedged item of the de-designated cash flow hedge affects net income. The cumulative amount of these other comprehensive income components is called “accumulated other comprehensive income” and is included as a new category in

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

partners’ equity. Opening accumulated other comprehensive income was \$8.6 million upon implementation of the new accounting standards.

Non-financial derivatives that are designated as contracts for the purpose of receipt of or delivery of a non-financial item in accordance with expected purchase, sale or usage requirements are excluded from the requirements of the new standards. Accordingly, revenues and expenses incurred on these contracts will be recorded in the income statement at the contract settlement date as they have in the past. Non-financial derivatives that are not designated as contracts for the purpose of receipt of or delivery of a non-financial item will be recorded at fair value at each balance sheet date, with any corresponding changes in fair value recognized in net income in the period.

Upon the implementation of the new accounting standards, the Partnership was required to treat its long-term forward Ontario natural gas supply contracts as non-financial derivatives as they did not meet the criteria for the normal usage exception for executory contracts. The natural gas supplied under contract to its Ontario facilities is at times re-sold in the market and not entirely used to produce electricity. As a result, these contracts did not meet the requirements for the normal usage exception. Previously the contracts were accounted for by the accrual method and were not recorded at fair value. The fair value of the contracts at January 1, 2007 was \$96.0 million and has been recorded as an adjustment to the opening accumulated deficit. Subsequent changes in the fair value of these contracts are reported in the Partnership’s income statement.

The adoption of the new accounting standards will result in increased variability in net income although they have no impact on cash flows.

In addition, during the first quarter the new accounting standards impacted the financial statements in the following manner:

<b>Financial Statement Category</b>	<b>For the period ending or as at March 31 2007</b>	<b>Explanation</b>
<b>Increase (Decrease)</b> (millions of dollars) (unaudited)		
Accumulated other comprehensive income	<b>(0.9)</b>	To reclassify accumulated other comprehensive income related to de-designated cash flow hedges to income.
Cost of fuel	<b>(44.3)</b>	To record change in the fair value of natural gas contracts from January 1, 2007 to March 31, 2007
Derivative instruments - asset	<b>44.3</b>	

A \$44.3 million gain has been recorded to reflect the change in fair value of natural gas supply contracts for the period January 1, 2007 to March 31, 2007 and was credited to cost of fuel. Accumulated other comprehensive income was decreased by \$0.9 million due to the reclassification of gains on de-designated hedges to revenue. Under the Partnership’s previous accounting policy the reclassification to revenue would have been from derivative financial instruments- net liability. The impact of the EIM was insignificant in the first quarter.

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

### Non-GAAP Measures

The Partnership uses operating margin as a performance measure and cash provided by operating activities per unit as a cash flow measure. These terms are not defined financial measures according to Canadian generally accepted accounting principles ("GAAP") and do not have standardized meanings prescribed by GAAP. Therefore, these measures may not be comparable to similar measures presented by other enterprises.

The Partnership uses operating margin to measure the financial performance of plants or groups of plants. A reconciliation from operating margin to net income before tax is as follows:

<i>(millions of dollars)(unaudited)</i>	<b>2007</b>	2006
Operating Margin	<b>103.9</b>	63.4
Deduct:		
Depreciation and amortization	<b>23.2</b>	17.0
Management and administration	<b>3.8</b>	2.0
Foreign exchange (gain) loss	<b>(5.5)</b>	0.7
Equity in loss of investment	<b>1.1</b>	-
Financial charges and other	<b>14.7</b>	5.9
Net Income before tax	<b>66.6</b>	37.8

Cash provided by operating activities per unit is cash provided by operating activities (a GAAP defined measure) divided by the weighted average number of units outstanding in the year. The composition of these measures is consistent with December 31, 2006 reporting.

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

### Revenues and Plant Output Three months ended March 31

(unaudited)

	2007		2006	
	<i>GWh</i>	<i>(millions of dollars)</i>	<i>GWh</i>	<i>(millions of dollars)</i>
<b>Ontario <sup>(1)</sup></b>				
Power	381	39.3	353	46.1
Enhancements		2.6		3.7
Gas Diversions		0.8		1.3
		<u>42.7</u>		<u>51.1</u>
<b>Williams Lake</b>				
Firm energy	126	9.5	129	9.4
Excess energy/other	13	0.6	16	0.9
	<u>139</u>	<u>10.1</u>	<u>145</u>	<u>10.3</u>
<b>Mamquam and Queen Charlotte</b>	31	2.8	48	3.5
<b>Northwest US Plants <sup>(2)</sup></b>	75	14.5	23	6.4
<b>California Plants <sup>(2)</sup></b>	246	30.7	-	-
<b>Curtis Palmer</b>	111	11.7	114	16.4
<b>Northeast US Gas Plants <sup>(2)</sup></b>	113	15.2	10	3.6
<b>North Carolina Plants <sup>(2)</sup></b>	132	13.0	-	-
<b>Primary Energy Recycling Corporation</b>	-	0.9	-	-
<b>(“PERC”) management and incentive fees <sup>(2)</sup></b>				
<b>Fair value changes on foreign exchange contracts</b>	-	1.3	-	-
	<u>1,228</u>	<u>142.9</u>	<u>693</u>	<u>91.3</u>
<b>Weighted Average Plant Availability <sup>(3)</sup></b>				
Ontario		100%		99%
Williams Lake		98%		100%
Mamquam and Queen Charlotte <sup>(4)</sup>		53%		71%
Northwest US Plants <sup>(2) (5)</sup>		87%		100%
California Plants <sup>(2) (6)</sup>		91%		-
Curtis Palmer		100%		98%
Northeast US Gas Plants <sup>(2)</sup>		100%		100%
North Carolina Plants <sup>(2)</sup>		98%		-
<b>Total weighted average availability</b>		<u>90%</u>		<u>97%</u>

<sup>(1)</sup> Ontario power revenue includes the retroactive portion of the settlement with the OEFC of \$9.8 million in 2006.

<sup>(2)</sup> From the dates of acquisition: PEV - November 1, 2006; Frederickson - August 1, 2006.

<sup>(3)</sup> Plant availability represents the percentage of time in the year that the plant is available to generate power, whether actually running or not, and is reduced by planned and unplanned outages.

<sup>(4)</sup> The 50MW Mamquam facility was unavailable for part of the first quarter of 2007 for planned and unplanned maintenance.

<sup>(5)</sup>

The planned spring outage at the Manchief facility occurred in the first quarter in 2007 compared to the second quarter in 2006.

<sup>(6)</sup> Two of the four facilities in California experienced planned and unplanned outages in the quarter.

## **EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1**

Revenues of \$142.9 million for the three months ended March 31, 2007 were \$51.6 million higher than the same period in 2006. The increase was primarily due to the acquisition of PEV and Frederickson on November 1, 2006 and August 1, 2006 respectively, which contributed \$61.6 million to revenues in the first quarter. Offsetting the increase was the non-recurrence of the \$9.8 million settlement received from the OEFC in the first quarter of 2006.

### *Ontario Plants*

Revenues at the Ontario plants of \$42.7 million for the three months ended March 31, 2007 were \$8.4 million lower than the same period in 2006. The decrease in power revenues for the quarter mainly reflects the OEFC settlement recognized in the first quarter of 2006 of \$9.8 million. Enhancement and diversion revenues are lower in the current quarter due to lower market prices for natural gas in 2007. Additional power sales of 28 gigawatt hours (“GWh”) in the current quarter partially offset the decreases.

### *Williams Lake*

Revenues were consistent with the prior year.

### *Mamquam and Queen Charlotte*

The Mamquam and Queen Charlotte plants reported revenues of \$2.8 million for the quarter compared \$3.5 million for the same period in the prior year. The decrease in revenue for the quarter was mainly due to tunnel repair work in the first quarter of 2007 at the Mamquam plant, resulting in lower generation and plant availability. The tunnel repair work began in early-March and was completed in early-April. The planned portion of this work was originally scheduled to occur in 2008.

### *Curtis Palmer*

Revenue at the Curtis Palmer plant was \$11.7 million for the quarter, compared with \$16.4 million for the same period in 2006. The decrease in revenues was due to the recognition of previously deferred revenue of \$3.8 million in the first quarter of 2006 and the reduction in the power purchase arrangements (“PPA”) pricing that occurred in January 2006. The higher than average water flows on the Hudson River experienced in the first quarter are expected to continue in the second quarter of 2007.

### *Northwest US Plants*

Revenues were \$14.5 million for the quarter compared to \$6.4 million for 2006. The acquisition of the Frederickson and the Greeley facilities in August 2006 and November 2006 respectively, added \$6.0 million and \$2.4 million respectively to revenue in the first quarter. The Greeley plant operated above expected capacity for the first quarter and Frederickson revenues were in line with expectations, even though the plant experienced a two week outage due to a failure of transmission cable.

### *California Plants*

The Naval and the Oxnard facilities were acquired by the Partnership on November 1, 2006. Revenues from the Naval and the Oxnard facilities were \$25.7 million and \$5.0 million for the quarter, respectively. Availability for the Naval facilities was lower than plan due to two unplanned outages at the North Island plant due to gear box and turbine failures. The second outage required the engine to be removed from service and replaced temporarily with a lease engine.

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

### *Northeast US Gas Plants*

Revenues of \$6.5 million for Castleton for the quarter were \$2.9 million higher than in the first quarter of 2006 mainly due to \$2.6 million of natural gas sales to utilize excess natural gas transmission capacity. The increase in revenue is partly offset by higher fuel costs generated from these transactions (see “Cost of Fuel”).

The Kenilworth plant was acquired on November 1, 2006. Revenues from the Kenilworth plant were \$8.7 million for the quarter, in line with expectations.

### *North Carolina Plants*

Revenues from the North Carolina plants were \$13.0 million for the quarter which was higher than expected. The increase was due to colder than average temperatures in February and March. This resulted in higher than expected dispatch for both plants.

### *Fair value changes on foreign exchange contracts*

The unrealized gains of \$1.3 million in the first quarter were the result of the change in the fair value of foreign currency contracts resulting from an increase in the Canadian dollar relative to the US dollar during the quarter. In the second quarter of 2006, the Partnership voluntarily de-designated certain hedge relationships for accounting purposes on foreign exchange contracts.

## Cost of fuel

<b>Three months ended March 31, 2007</b>	<b>2007</b>	<b>2006</b>
<i>(millions of dollars)(unaudited)</i>		
<b>Ontario Plants</b>		
Natural gas <sup>(1)</sup>	<b>12.8</b>	14.1
Waste heat	<b>0.9</b>	0.5
Wood waste	<b>0.5</b>	0.5
	<b>14.2</b>	15.1
<b>Williams Lake - wood waste</b>	<b>0.9</b>	1.1
<b>Northwest US Plants - natural gas <sup>(2)</sup></b>	<b>3.2</b>	0.1
<b>California Plants - natural gas <sup>(2)</sup></b>	<b>23.0</b>	-
<b>Northeast US Gas-Fired Plants - natural gas <sup>(2)</sup></b>	<b>9.8</b>	0.6
<b>North Carolina Plants - coal, tire derived fuel &amp; wood waste <sup>(2)</sup></b>	<b>9.1</b>	-
<b>Fair value changes on gas contracts</b>	<b>(44.3)</b>	-
	<b>15.9</b>	16.9

(1) Ontario natural gas costs include the retroactive portion of the estimated settlement of gas escalation dispute with NAL and Devon recorded in 2006. The retroactive portion of the refund of transportation charges is recorded in 2007.

(2) From the dates of acquisition: PEV - November 1, 2006; Fredrickson - August 1, 2006.

Fuel costs include commodity price, transportation costs and fair value changes on natural gas supply contracts. For the three months ended March 31, 2007 fuel costs were \$15.9 million compared with \$16.9 million for the same period in 2006. Fuel cost was lower mainly due to a gain on the change in the fair value of natural gas supply contracts, offset by higher fuel costs

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

due to the acquisition of Frederickson on August 1, 2006 (\$1.1 million) and the acquisition of PEV on November 1, 2006 (\$40.8 million).

Fuel costs at the Ontario plants for the quarter ended March 31, 2007 were \$14.2 million compared to \$15.1 million in 2006. The decrease of \$0.9 million was due to a refund of transportation charges of \$1.2 million related to periods ending before 2007. These increases were offset by annual price increases in the natural gas supply contracts.

Fuel costs at the Northwest US plants increased by \$3.1 million due to the acquisition of Frederickson on August 1, 2006 and Greeley on November 1, 2006. Fuel costs for Frederickson were \$1.1 million for the quarter and \$2.0 million at Greeley, both in line with expectations.

The Northeast US gas plants incurred fuel costs of \$9.8 million for the quarter compared to \$0.6 million in the prior year. Fuel supply costs at the Castleton plant increased by \$2.4 million as the result of sale of natural gas in 2007 to utilize excess natural gas transmission capacity. Fuel costs at the Kenilworth plant were \$6.7 million for the quarter, in line with expectations.

Fuel costs at the North Carolina plants were \$9.1 million for the three month period. An unfavourable fuel blend; that is, a larger amount of coal was burned compared to wood waste and tire derived fuel, led to higher than expected fuel costs.

The Curtis Palmer, Mamquam and Queen Charlotte hydroelectric plants do not have fuel costs. The power buyer under the Manchief PPA provides all the fuel requirements for that plant; however, the Partnership is obligated to pay for demand charges associated with the transportation of natural gas to the facility.

### Operating and maintenance expense

<b>Three months ended March 31</b> (millions of dollars)(unaudited)	<b>2007</b>	<b>2006</b>
Ontario	3.4	3.3
Williams Lake	1.5	1.4
Mamquam and Queen Charlotte	0.5	0.3
Northwest US Plants <sup>(1)</sup>	2.2	1.0
California Plants <sup>(1)</sup>	3.6	-
Curtis Palmer	0.3	0.3
Northeast US Gas Plants <sup>(1)</sup>	1.5	0.8
North Carolina Plants <sup>(1)</sup>	3.0	-
PERC management expenses <sup>(1)</sup>	0.2	-
	<b>16.2</b>	<b>7.1</b>

<sup>(1)</sup> From the dates of acquisition: PEV - November 1, 2006; Frederickson - August 1, 2006.

Operating and maintenance expenses are based on fixed fees adjusted annually for inflation as well as flow through of costs for plants acquired in 2006, and are payable to the Manager for the operation and routine maintenance of the plants. The acquisitions of PEV and Frederickson in 2006 were the primary cause of the \$9.1 million year-over-year increase.

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

### Other plant operating expenses

Other plant operating expenses, which include insurance, property taxes and major maintenance expenses, were \$6.9 million for the quarter compared to \$3.9 million in 2006. The quarter over quarter increase is mainly due to the acquisition of PEV and the Frederickson plant. The Mamquam tunnel repair also contributed to the increase.

### Depreciation and amortization

Depreciation and amortization expense for the quarter was \$23.2 million compared to \$17.0 million in 2006. The higher depreciation charges for quarter are mainly due to the acquisition of plants and related contract assets and liabilities in the third and fourth quarters of 2006.

### Management and administration

Management and administration costs, which include fees payable to EPCOR and general and administrative costs, were \$3.8 million compared to \$2.0 million in 2006. The increase in cost reflects the additional plants acquired in 2006.

### Foreign exchange (gains) losses

<b>Years ended December 31</b> <i>(millions of dollars)(unaudited)</i>	<b>2007</b>	<b>2006</b>
Realized foreign exchange gains	<b>(0.7)</b>	-
Unrealized foreign exchange (gains) losses on U.S. dollar-denominated debt	<b>(6.0)</b>	0.7
Realized gains on foreign exchange contracts	<b>(5.6)</b>	-
Fair value changes on foreign exchange contracts	<b>6.8</b>	-
	<b>(5.5)</b>	0.7

The Partnership reported a foreign exchange gain of \$5.5 million for the quarter compared to a \$0.7 million loss for the same period in 2006. A foreign exchange gain was recorded in the first quarter of 2007 due to a strengthening Canadian dollar during the quarter compared to a weakening Canadian dollar in the first quarter of 2006. In addition, the Partnership has increased its US denominated debt as part of the Frederickson and PEV acquisitions. The foreign exchange contracts were entered in anticipation of the issuance of Canadian equity to replace a portion of the US dollar bridge acquisition facility. During the first quarter of 2007, the Partnership realized gains of \$5.6 million on settlement of these contracts offset by a decrease in their fair value.

### Equity in losses in investment

The equity in losses in investment is from the Partnerships 17.0% common ownership interest in Primary Energy Recycling Holdings LLC (“PERH”) acquired on November 1, 2006, which is accounted for on an equity basis. The loss was greater than expected primarily due to unfavourable results from PERH’s Harbor Coal joint venture, which have been impacted by an inventory adjustment resulting from a physical measurement of coke and coal and lower than forecast commodity prices. The inventory adjustment has been determined based on projected consumption at the facility using initial results of physical inventory measurements conducted by Harbor Coal’s joint venture’s site host and customer. Pending further research, these preliminary estimates could change resulting in either a positive or negative impact in future quarters.

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

A steam turbine generator failure occurred at PERH’s North Lake Energy Project on April 19, 2007. A preliminary estimate for the repairs to be completed and the facility to return to normal operations could be up to 60 days. Management estimates this could negatively impact results for the Partnership in the second quarter of 2007 by as much as \$0.4 million.

PERH may require a waiver of certain loan covenants to continue the payment of dividends on its Class B common interests and its Class B preferred interests depending on the impact of the Harbor Coal inventory adjustment and the North Lake outage. In the first quarter of 2007, the Partnership received dividends on its preferred interest of \$0.4 million and dividends of \$1.3 million from its common interests in PERH.

### Financial charges and other

Financial charges and other expenses of \$14.7 million for the three months ended March 31, 2007 were \$8.8 million higher compared with the first quarter in 2006. The increase was primarily due to short-term debt and long-term debt under committed facilities used to finance the PEV acquisition. Contributing to the increase was interest on capital lease obligations assumed as part of the PEV acquisition and long-term debt used to finance the Frederickson acquisition. This was partially offset by \$0.4 million earned on the investment in PERH Class B preferred shares.

### Income taxes

Income taxes relate to the taxes of the Partnership’s US subsidiaries and withholding taxes on distributions from the US subsidiaries. The decrease of \$6.7 million in income tax expense for the quarter compared to 2006 was due primarily to decreased income from the Partnership’s US operations.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash distributions

Cash distributions of \$0.63 per unit were declared for the first quarter of 2007, consistent with the same period in 2006. When cash provided by operating activities plus the dividend from PERH exceeds cash distributions and maintenance capital expenditures, the Partnership utilizes the difference to stabilize future quarterly cash distributions, to finance future capital expenditures and to make debt repayments. Cash provided by operating activities of \$59.4 million in 2007 and \$54.3 million in 2006 plus the dividend from PERH exceeded cash distributions and maintenance capital expenditures by \$28.0 million in 2007 and \$23.6 million in 2006.

<b>Three months ended March 31, 2007</b> (millions of dollars)(unaudited)	<b>2007</b>	<b>2006</b>
Cash provided by operating activities	<b>59.4</b>	54.3
Cash distributions	<b>31.4</b>	29.9
Additions to property, plant and equipment	<b>1.1</b>	0.8
Dividend from PERH	<b>1.3</b>	-

The first quarter 2007 cash distribution of \$0.63 per unit were paid on April 30, 2007 to unitholders of record on March 30, 2007.

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

### Capital expenditures

Capital expenditures for the three months ended March 31, 2007 totalled \$1.1 million compared with \$0.8 million for the same period in 2006. Capital spending in the remaining quarters of 2007 is expected to be higher than the first quarter. Full year 2007 expenditures will be slightly higher than full year 2006 due to the addition of the PEV plants.

### FOREIGN EXCHANGE RISK MANAGEMENT

The Partnership manages the foreign exchange risk of its future anticipated US dollar-denominated cash flows from its US plants through the use of forward foreign exchange contracts for periods up to seven years. As at March 31, 2007, \$410 million (US\$351 million) or approximately 76% of expected future cash flows were economically hedged for 2007 to 2013 at a weighted average exchange rate of \$1.14 to US \$1.00. In addition, the Partnership has entered US dollar foreign exchange contracts for \$180 million (US\$154 million) in anticipation of the issuance of permanent financing to replace US debt drawn upon the purchase of PEV.

### TRANSACTIONS WITH RELATED PARTIES

<b>Three months ended March 31</b>	<b>2007</b>	<b>2006</b>
<i>(millions of dollars)(unaudited)</i>		
<b><u>Transactions with the Manager</u></b>		
<b>Cost of Fuel - Castleton gas demand charge</b>	<b>0.6</b>	0.5
<b>Operating and Maintenance Expense</b>	<b>13.4</b>	7.1
<b>Management and Administration</b>		
Base fee	<b>0.3</b>	0.3
Incentive fee	<b>0.5</b>	0.5
Enhancement fee	<b>0.2</b>	0.4
Administration fee	<b>0.2</b>	0.2
	<b>1.2</b>	1.4
<b><u>Transactions with PERC</u></b>		
<b>Revenue</b>		
Base management fees	<b>0.9</b>	-

### CONTRACTUAL OBLIGATIONS

During the quarter, the Partnership entered into one and two year coal supply agreements for the North Carolina plants. The Partnership’s minimum future purchase obligations, estimated based on existing contract terms, are \$16.3 million in 2007 and \$8.1 million in 2008.

There have been no other material changes to the Partnership’s purchase obligations during the first quarter, including payments for the next five years and thereafter, since December 31, 2006. For further information on these obligations, refer to the Partnership’s 2006 Annual MD&A.

## **SIGNIFICANT ACCOUNTING ESTIMATES**

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the Partnership’s consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgment. The Partnership’s critical accounting estimates include the accrued liability on the NAL Resources Limited (“NAL”) and Devon Canada Corporation (“Devon”) claims, depreciation and amortization expense, asset retirement obligations and fair value estimates. For further information on the Partnership’s critical accounting estimates, refer to the Partnership’s 2006 Annual MD&A.

The implementation of the new accounting standards in 2007 requires additional estimates and assumptions associated with the calculation of fair value of the Partnership’s natural gas supply contracts. The fair value of non-financial derivatives reflects changes in the commodity market prices, interest rates and foreign exchange rates. Fair value amounts reflect management’s best estimates considering various factors including closing exchange or over-the-counter quotations, estimates of futures prices and foreign exchange rates, time value and volatility. It is possible that the assumptions used in establishing fair value amounts will differ from actual prices and the impact of such variations could be material.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes made to the Partnership’s internal control over financial reporting during the interim period ended March 31, 2007 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. The Manager continues to review the design of controls that pertain to the PEV business that was acquired in late 2006. Documentation and evaluation of the design of internal control over financial reporting for the PEV business is expected to be finalized by the end of the second quarter of 2007.

## **BUSINESS RISKS**

The Partnership’s business and operational risks remain substantially unchanged since December 31, 2006. For further information on business risks, refer to the Partnership’s December 31, 2006 MD&A.

## **NAL and Devon Claims**

The status and expected outcome of the claims of NAL and Devon has not changed significantly from December 31, 2006. In the first quarter of 2007 the Partnership accrued approximately \$1 million for expected additional payments to natural gas suppliers including NAL and Devon.

## **Proposed Tax Measures**

On October 31, 2006, the Canadian Minister of Finance (“Finance”) announced the “Tax Fairness Plan” which proposed changes to the manner in which certain publicly traded trusts and partnerships are taxed. At March 31, 2007, these proposed changes had not been substantively enacted. Substantive enactment of the proposed rules will require recognition of future income tax amounts based on estimated net taxable temporary differences of \$381 million that will reverse after 2010 and for which no tax has been recorded in the Partnership’s financial statements for the quarter ended March 31, 2007. Accordingly, future income tax expense and a net future income tax liability of approximately \$120 million are expected to be

## **EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1**

recognized at the date the 2006 proposed rules become substantively enacted. These amounts have increased from the amounts disclosed for the period ending December 31, 2006 due to the expected temporary differences that result from the fair value changes in financial instruments that were recorded in the first quarter of 2007.

On March 19, 2007, Finance tabled its 2007 Federal Budget, which included proposals to change the Income Tax Act, including restrictions on the deductibility of interest expense related to investments in foreign affiliates. Management is examining the proposed changes to assess their potential impact on the Partnership.

### **Proposed Emissions Regulations**

On April 25, 2007, the Canadian Environment Minister announced a new regulatory framework to reduce greenhouse gas emissions and air pollution in Canada. The Canadian government has set targets of a 20% reduction in greenhouse gases by 2020 and a 50% reduction in air pollution by 2015. The Partnership is an emitter of carbon dioxide (a greenhouse gas), nitrogen oxide and sulphur dioxide which are all targeted for reduction under the proposed new legislation. The Partnership complies, in all material respects, with current federal, provincial, state and local environmental legislation and guidelines. The operational and financial impact to the Partnership of the new regulatory framework cannot be determined until further details are announced.

### **OUTLOOK**

The short-term outlook for the Partnership’s business remains substantially unchanged since December 31, 2006. There are a number of factors that will influence 2007 cash flow from operating activities including natural gas prices, waste heat energy availability, plant operations and water flows. Changes in the value of the US dollar relative to the Canadian dollar as well as the fair value of the Ontario natural gas contracts can have a material impact on net income but should not have a significant impact on cash from operating activities.

Based on the Partnership’s 2007 operating and capital plan and taking into consideration the above noted factors, management estimates that 2007 cash provided by operating activities and PERH dividends will exceed the amounts required to fund cash distributions at existing per unit amounts and maintenance capital spending. This assessment would not be altered if PERH is unable to continue its interest and dividend payments due to the events discussed previously as the PERH interest and dividends provide a relatively small contribution to the overall cash generated by the Partnership.

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

### SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

<i>(unaudited)</i> <i>(millions of dollars except per unit amounts)</i>	2007		2006			2005		
	First	Fourth	Third	Second	First	Fourth	Third	Second
Revenues	<b>142.9</b>	105.3	72.6	81.0	91.3	81.5	67.4	72.3
Operating margin <sup>(1)</sup>	<b>103.9</b>	43.3	38.2	48.3	63.4	53.6	42.6	46.6
Net Income	<b>69.4</b>	(12.9)	10.8	30.3	33.9	21.2	28.0	15.5
Cash provided by operating activities	<b>59.4</b>	37.4	29.6	33.1	54.3	45.5	25.5	37.8
Capital Expenditures	<b>1.1</b>	9.0	2.2	1.2	0.8	9.2	2.1	2.6
Cash Distributions <sup>(2)</sup>	<b>31.4</b>	31.4	31.4	29.9	29.9	29.9	29.9	29.9
<b>Per Unit Statistics</b>								
Net Income	<b>\$ 1.39</b>	\$ (0.26)	\$ 0.22	\$ 0.64	\$ 0.72	\$ 0.45	\$ 0.59	\$ 0.33
Cash provided by operating activities <sup>(1)</sup>	<b>\$ 1.19</b>	\$ 0.75	\$ 0.60	\$ 0.70	\$ 1.15	\$ 0.96	\$ 0.54	\$ 0.80
Cash Distributions <sup>(2)</sup>	<b>\$ 0.63</b>	\$ 0.63	\$ 0.63	\$ 0.63	\$ 0.63	\$ 0.63	\$ 0.63	\$ 0.63

<sup>(1)</sup>The selected quarterly consolidated financial data has been prepared in accordance with GAAP except for operating margin and cash provided by operating activities per unit. See "Non-GAAP Measures"

<sup>(2)</sup>Total cash distributions include a \$0.63 special payment on the 2,460,000 Subscription Receipts issued for the Frederickson acquisition, paid on August 4, 2006.

### Factors Impacting Quarterly Financial Results

The Partnership’s Selected Quarterly and Annual Consolidated Financial Data, which has been prepared in accordance with GAAP, is set out above. Quarterly revenues, net income and cash provided by operating activities are affected by seasonal contract pricing, seasonal weather conditions, fluctuations in US dollar exchange rates relative to the Canadian dollar, attainment of firm energy requirements, natural gas prices, waste heat availability and planned and unplanned plant outages, as well as items outside of the normal course of operations. Quarterly net income is also affected by unrealized foreign exchange gains and losses on the Partnership’s US dollar-denominated long-term debt and fair value changes in forward foreign exchange contracts and natural gas supply contracts. Under the power sales contracts for the Ontario plants, the Partnership receives higher per megawatt (“MWh”) prices in the winter months (October to March) and lower prices in the summer months (April to September). The lower summer prices reduce the threshold for economic curtailments thereby increasing the profitability of enhancements, natural gas prices being equal. Contributions from the Williams Lake plant are usually lower in the fourth quarter once the annual firm energy requirements are met and the plant is only producing lower-priced excess energy. Revenues from the hydroelectric facilities are anticipated to be higher in the spring months due to seasonally higher water flows. Results for the year ended December 31, 2006 were indicative of these trends.

The PEV acquisition has also changed the seasonality of Partnership’s cash flow and earnings. The acquisition of the PEV facilities is expected to reduce the quarterly variability in financial performance of the Partnership as the strongest quarters for the PEV facilities (the second and third quarters) complement the historically weaker quarters for the balance of the Partnership’s facilities.

Significant items which impacted the last eight quarters’ net income were as follows:

In the first quarter of 2007, the Partnership began reporting the natural gas supply contracts for the Ontario plants at their fair value. The Partnership recorded a gain on the change in the fair value of the natural gas supply contracts.

Unrealized foreign exchange gains on US dollar-denominated debt were recorded in the third quarter of 2005, the second quarter of 2006 and the first quarter of 2007. Losses were recorded

## EPCOR Power L.P. – Management’s discussion and analysis – 2007 Q1

in the second and fourth quarters of 2005 and the first, third and fourth quarters of 2006. The gains and losses are due to fluctuations in the US dollar relative to the Canadian dollar.

The fourth quarter of 2005, the first, second and fourth quarters of 2006 and the first quarter of 2007 had unseasonably high water flows at the Curtis Palmer facility. Lower pricing for electricity produced at the Curtis Palmer facility started in the first quarter of 2006 when a cumulative MWh threshold was reached. Enhancement and diversion revenues at the Ontario plants increased due to higher natural gas prices in the third and fourth quarters of 2005 and the first quarter of 2006.

In the first quarter of 2006, the Partnership reached a settlement with the OEFC on a replacement for the Direct Customer Rate index. The retroactive portion of the settlement was recorded in the quarter and increased revenues, net income and cash provided by operating activities.

In the second quarter of 2006, the Partnership de-designated all of the foreign exchange contracts existing at April 1, 2006. Unrealized fair value changes in these contracts and amortization of the deferred gain resulted in a gain in the second quarter of 2006 and losses in the third and fourth quarters of 2006. A \$3.0 million fuel charge was accrued in the second quarter of 2006 for the potential payments to natural gas suppliers, which impacts net income.

In the third and fourth quarters of 2006, the Partnership acquired Frederickson and PEV, respectively.

### QUARTERLY UNIT TRADING INFORMATION

The Partnership units trade on the Toronto Stock Exchange under the symbol EP.UN.

<b>For the three months ended</b> <i>(unaudited)</i>	<b>Mar. 31</b> <b>2007</b>	<b>Dec. 31</b> <b>2006</b>	<b>Sep. 30</b> <b>2006</b>	<b>Jun. 30</b> <b>2006</b>	<b>Mar. 31</b> <b>2006</b>
<b>Unit Price</b>					
High	\$29.00	\$33.74	\$33.60	\$33.90	\$36.00
Low	\$25.27	\$22.51	\$30.76	\$30.30	\$33.05
Close	\$25.60	\$26.75	\$32.27	\$33.00	\$33.75
<b>Volume traded (millions)</b>	5.1	9.7	5.1	4.6	4.9

As at March 31, 2007, the Partnership had 49.9 million units outstanding. The weighted average number of units outstanding for the three months ended March 31, 2007 was 49.9 million which is 2.5 million higher than the same period in 2006 due to the issue of 2,460,000 units related to the Frederickson acquisition.

**EPCOR Power L.P.**  
**CONSOLIDATED STATEMENTS OF INCOME**

*(unaudited)*

*(In millions of dollars except units and per unit amounts)*

**Three months ended March 31**

	<b>2007</b>	<b>2006</b>
<b>Revenues</b>	<b>\$ 142.9</b>	<b>\$ 91.3</b>
<b>Cost of fuel</b>	<b>15.9</b>	<b>16.9</b>
<b>Operating and maintenance expense</b>	<b>16.2</b>	<b>7.1</b>
<b>Other plant operating expenses</b>	<b>6.9</b>	<b>3.9</b>
	<b>103.9</b>	<b>63.4</b>
<b>Other costs</b>		
Depreciation and amortization	<b>23.2</b>	<b>17.0</b>
Management and administration	<b>3.8</b>	<b>2.0</b>
Foreign exchange (gains) losses	<b>(5.5)</b>	<b>0.7</b>
Equity in losses of investment	<b>1.1</b>	<b>-</b>
Financial charges and other, net	<b>14.7</b>	<b>5.9</b>
	<b>37.3</b>	<b>25.6</b>
<b>Net income before tax</b>	<b>66.6</b>	<b>37.8</b>
Income tax (recovery) expense	<b>(2.8)</b>	<b>3.9</b>
<b>Net income</b>	<b>\$ 69.4</b>	<b>\$ 33.9</b>
<b>Net income per unit</b>	<b>\$1.39</b>	<b>\$0.72</b>
<b>Weighted average units outstanding (millions)</b>	<b>49.9</b>	<b>47.4</b>

See accompanying notes to the consolidated financial statements.

**EPCOR Power L.P.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**

<i>(unaudited)</i>	<b>Three months ended March 31</b>	
<i>(In millions of dollars)</i>	<b>2007</b>	<b>2006</b>
<b>Operating activities</b>		
Net income	\$ 69.4	\$ 33.9
Items not affecting cash:		
Depreciation and amortization	23.2	17.0
Future income tax	(4.6)	2.5
Fair value changes on derivative instruments	(37.9)	-
Unrealized foreign exchange (gains) losses	(6.0)	0.7
Other	1.8	(3.5)
	<b>45.9</b>	<b>50.6</b>
Decrease in operating working capital	13.5	3.7
Cash provided by operating activities	<b>59.4</b>	<b>54.3</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(1.1)	(0.8)
Dividends received from PERH	1.3	-
Cash provided by (used in) investing activities	<b>0.2</b>	<b>(0.8)</b>
<b>Financing activities</b>		
Distributions paid	(31.4)	(29.9)
Long-term debt repaid	(14.9)	(0.5)
Cash used in financing activities	<b>(46.3)</b>	<b>(30.4)</b>
<b>Increase in cash and cash equivalents</b>	<b>13.3</b>	<b>23.1</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>32.0</b>	<b>32.2</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 45.3</b>	<b>\$ 55.3</b>
<b>Supplementary cash flow information</b>		
Income taxes paid	\$ 0.4	\$ 2.8
Interest paid	\$ 14.3	\$ 8.6

See accompanying notes to the consolidated financial statements.

**EPCOR Power L.P.**  
**CONSOLIDATED BALANCE SHEETS**

*(unaudited)*  
*(In millions of dollars)*

	<b>March 31, 2007</b>	December 31, 2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 45.3	\$ 32.0
Accounts receivable	60.6	66.8
Inventories	15.4	15.3
Prepays and other	4.4	5.9
Derivative instruments asset	49.1	9.2
	<b>174.8</b>	129.2
<b>Property, plant and equipment</b>	<b>1,080.6</b>	1,093.7
<b>Power purchase arrangements</b>	<b>478.4</b>	486.8
<b>Long-term investments</b>	<b>54.3</b>	56.9
<b>Goodwill</b>	<b>50.1</b>	50.1
<b>Derivative instruments asset</b>	<b>100.3</b>	6.1
<b>Other assets</b>	<b>51.3</b>	57.8
	<b>\$ 1,989.8</b>	<b>\$ 1,880.6</b>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term debt	\$ 214.3	\$ 216.3
Accounts payable	59.6	53.5
Distributions payable	31.4	31.4
Long-term debt due within one year	5.0	18.0
Derivative instruments liability	3.0	1.0
	<b>313.3</b>	320.2
<b>Asset retirement obligations</b>	<b>22.1</b>	21.7
<b>Long-term debt</b>	<b>689.0</b>	700.1
<b>Derivative instruments liability</b>	<b>5.1</b>	15.1
<b>Contract liabilities</b>	<b>7.7</b>	8.3
<b>Future income taxes</b>	<b>5.2</b>	9.8
<b>Partners' equity</b>	<b>947.4</b>	805.4
<b>Commitments and contingencies (Note 4)</b>		
<b>Subsequent event (Note 5)</b>		
	<b>\$ 1,989.8</b>	<b>\$ 1,880.6</b>

See accompanying notes to the consolidated financial statements.

**EPCOR Power L.P.**  
**CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY**

*(unaudited)*  
*(In millions of dollars)*

**Three months ended March 31**

	<b>2007</b>	<b>2006</b>
<b>Partnership capital</b>		
Balance at beginning of period	\$ 1,095.5	\$ 1,015.6
Issue of Partnership units	-	-
Balance at end of period	<u>\$ 1,095.5</u>	<u>\$ 1,015.6</u>
<b>Accumulated deficit</b>		
Balance at beginning of period:		
As previously reported	\$ (290.1)	\$ (228.0)
Adjustment for change in accounting policy (Note 2)	<u>96.3</u>	<u>-</u>
As restated	(193.8)	(228.0)
Net income	69.4	33.9
Cash distributions	<u>(31.4)</u>	<u>(29.9)</u>
Balance at end of period	<u>\$ (155.8)</u>	<u>\$ (224.0)</u>
<b>Accumulated other comprehensive income</b>		
Balance at beginning of period	\$ -	\$ -
Cumulative effect of adopting new accounting policies (Note 2)	8.6	-
Other comprehensive loss	<u>(0.9)</u>	<u>-</u>
Balance at end of period	<u>\$ 7.7</u>	<u>\$ -</u>
<b>Partners' equity</b>	<u>\$ 947.4</u>	<u>\$ 791.6</u>

See accompanying notes to the consolidated financial statements.

**EPCOR Power L.P.**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<i>(unaudited)</i>	<b>Three months ended March 31</b>	
<i>(In millions of dollars)</i>	<b>2007</b>	
<b>Net income</b>	<b>\$</b>	<b>69.4</b>
<b>Other comprehensive loss, net of income taxes</b>		
Amortization of deferred gains on derivatives de-designated as cash flow hedges to income		(0.9)
		(0.9)
<b>Comprehensive income</b>	<b>\$</b>	<b>68.5</b>

See accompanying notes to the consolidated financial statements.

### **Note 1. Significant Accounting Policies**

The consolidated financial statements of EPCOR Power L.P. (“the Partnership”) have been prepared by the management of the General Partner in accordance with Canadian generally accepted accounting principles (“GAAP”). The accounting policies applied are consistent with those outlined in the Partnership’s annual financial statements for the year ended December 31, 2006, except for the changes as described in Note 2. These consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. These consolidated financial statements for the three months ended March 31, 2007 do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements included in the Partnership’s 2006 Annual Report.

Quarterly revenues, net income and cash provided by operating activities are affected by seasonal contract pricing, seasonal weather conditions, fluctuations in US dollar exchange rates, attainment of firm energy requirements, natural gas prices, waste heat availability and planned and unplanned plant outages, as well as items outside of the normal course of operations. Quarterly net income is also affected by unrealized foreign exchange gains and losses on the Partnership’s US dollar-denominated monetary assets and liabilities and fair value changes in derivative instruments. Revenues, net income and cash provided by operating activities from the Partnership’s Ontario plants are generally higher in the winter months (October to March) and lower in the summer months (April to September) due to seasonal pricing under the power purchase arrangements (“PPAs”). Revenues and net income from the Partnership’s hydroelectric plants are generally higher in the spring months due to seasonally higher water flows. The California and North Carolina plants acquired on November 1, 2006 are expected to generate the majority of their operating margin during the summer months.

Since a determination of many assets, liabilities, revenues and expenses is dependent on future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions which have been made with careful judgment. In the opinion of management of the Partnership’s General Partner, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the Partnership’s accounting policies.

### **Note 2. Change in Accounting Policy**

Commencing January 1, 2007, the Partnership adopted new accounting standards as issued by the Canadian Institute of Chartered Accountants for Comprehensive Income, Equity and Financial Instruments. The new accounting standards have been applied prospectively and the comparative interim financial statements have not been restated. On January 1, 2007, the Partnership made the following adjustments to its balance sheet to adopt the new standards:

EPCOR Power L.P.  
Notes to the Interim Consolidated Financial Statements  
March 31, 2007  
(Unaudited)

Balance Sheet Category	As at January 1,		Explanation
Increase (Decrease) - \$ millions	2007	2007	
Other Assets	\$	(4.5)	To no longer record deferred financing costs as other assets using straight-line amortization
Derivative instruments - asset		96.0	To record natural gas supply contracts at fair value
Derivative instruments - net liability		(8.6)	To no longer record deferred unrealized gains as derivative instruments
Long-term debt		(4.8)	To record deferred financing costs as debenture discounts using effective interest method
Opening accumulated deficit		(96.3)	After tax impact to opening retained earnings resulting from adoption of new standards
Opening accumulated other comprehensive income		8.6	To record deferred unrealized gains as accumulated other comprehensive income

### Comprehensive income and equity

These new standards establish requirements for the reporting and presentation of comprehensive income which is comprised of net income and other comprehensive income as well as the presentation of equity and changes in equity due to the comprehensive income requirements. The Partnership's other comprehensive income includes amortization of deferred unrealized gains from previously de-designated cash flow hedges. Each component of the statement of comprehensive income is recorded net of income taxes. Accumulated other comprehensive income is a new component of partners' equity.

### Financial instruments – recognition and measurement

The new accounting standards require that financial assets be identified and classified as either available-for-sale, held for trading, held-to-maturity or loans and receivables. Financial liabilities are classified as either held for trading or other. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value with subsequent measurement determined by the classification of each financial asset and liability.

Financial assets and financial liabilities held for trading are measured at fair value with the changes in fair value reported in earnings. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost. Available-for-sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of, or becomes impaired.

Transaction costs related to available-for-sale, held to maturity and loans and receivables are generally capitalized and amortized over the expected life of the instrument using the effective interest method. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as "held for trading" are expensed.

EPCOR Power L.P.  
Notes to the Interim Consolidated Financial Statements  
March 31, 2007  
(Unaudited)

All derivative instruments, including embedded derivatives, are recorded at fair value on the balance sheet as derivative assets and derivative liabilities unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in net income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Partnership has elected to apply normal purchase and sale accounting to all of its host contracts that qualified under the new accounting standards. Because the natural gas supplied under long-term contracts is at times re-sold in the market and not entirely used to produce electricity, these contracts did not meet the requirements for a normal purchase election. Accordingly the natural gas contracts at the Ontario plants have been recorded at fair value at January 1, 2007 as a derivative instrument asset with a corresponding adjustment to opening accumulated deficit. Subsequent changes in the fair value of these contracts are reported in the Partnership's income statement.

Other significant accounting implications arising on the adoption of this accounting standard include the use of the effective interest method of amortizing transaction costs related to loans issued by the Partnership and attributing transaction costs to the related financial liability. Prior to January 1, 2007 the transactions costs were amortized to income on a straight-line basis over the life of the related loan. The new standard requires that the Partnership use the effective interest method to recognize the transaction costs whereby the amount recognized varies over the life of the loan based on the principal outstanding. At January 1, 2007, the Partnership reclassified its deferred transaction costs on its loans from other assets to long-term debt and adjusted the balance to reflect the use of the effective interest method.

The change in accounting policy does not result in a change in the future income tax liability of the Partnership based on the current tax rules applicable to the Partnership. On October 31, 2006, the Canadian Minister of Finance announced the "Tax Fairness Plan" which proposed changes to the manner in which certain publicly traded trusts and partnerships are taxed. At March 31, 2007, these proposed changes had not been substantively enacted. Substantive enactment of the proposed rules will require recognition of future income tax amounts based on estimated net taxable temporary differences of \$381 million that will reverse after 2010 and for which no tax has been recorded in the Partnership's financial statements for the quarter ended March 31, 2007. Accordingly, future income tax expense and a net future income tax liability of approximately \$120 million are expected to be recognized at the date the 2006 proposed rules become substantively enacted. These amounts have increased from the amounts disclosed for the period ending December 31, 2006 due to the expected temporary differences that result from the fair value changes in financial instruments that were recorded in the first quarter of 2007.

#### **Impact during the first quarter**

During the first quarter the new accounting standards impacted the financial statements in the following manner:

EPCOR Power L.P.  
Notes to the Interim Consolidated Financial Statements  
March 31, 2007  
(Unaudited)

<b>Financial Statement Category</b>	<b>For the period ending or as at March 31 2007</b>	<b>Explanation</b>
<b>Increase (Decrease) - \$ millions</b>		
Accumulated other comprehensive income	<b>(0.9)</b>	To reclassify accumulated other comprehensive income related to de-designated cash flow hedges to income.
Cost of fuel	<b>(44.3)</b>	To record change in the fair value of natural gas contracts from January 1, 2007 to March 31, 2007
Derivative instruments - asset	<b>44.3</b>	

A \$44.3 million gain has been recorded to reflect the change in fair value of natural gas supply contracts for the period January 1, 2007 to March 31, 2007 and was credited to cost of fuel. Accumulated other comprehensive income was decreased by \$0.9 million due to the reclassification of gains on de-designated hedges to revenue. Under the Partnership's previous accounting policy the reclassification to revenue would have been from derivative financial instruments- net liability. The impact of the effective interest method was insignificant in the first quarter.

#### **Future accounting standards**

On December 1, 2006, the CICA issued new accounting standards for Capital Disclosures and Financial Instruments – Disclosures and Presentation. Effective January 1, 2008, the Partnership will adopt these new accounting standards. As required by the new standards, the Partnership will disclose quantitative and qualitative information that is intended to provide users of the financial statements with additional disclosures on the Partnership's management of capital and on the risks associated with financial instruments. The Partnership is currently reviewing the impact of these new standards on its financial statements.

#### **Note 3. US Operations**

For the three months ended March 31, 2007, the Partnership's US operations generated approximately \$85.9 million of revenue (\$25.6 million for the three months ended March 31, 2006). At March 31, 2007 the net book value of U.S. plant, property and equipment, PPAs, other intangible assets and goodwill was \$1,013.7 million (March 31, 2006 - \$544.6 million).

#### **Note 4. Commitments and contingencies**

##### **Contingencies**

- (a) The status and expected outcome of the claims of NAL Resources Limited ("NAL") and Devon Canada Corporation ("Devon"), has not changed significantly from December 31, 2006. In the first quarter of 2007 the Partnership accrued

approximately \$1 million for expected additional payments to natural gas suppliers including NAL and Devon.

- (b) The status and expected outcome of the possible retroactive adjustment of the formula for determining the energy pricing at the California plants has not changed significantly from December 31, 2006.

### **Commitments**

During the quarter the Partnership entered into one and two year coal supply agreements for the North Carolina plants. The Partnership's minimum future purchase obligations were estimated based on existing contract terms are \$16.3 million in 2007 and \$8.1 million in 2008.

### **Note 5. Subsequent Event**

On April 25, 2007, Primary Energy Recycling Corp. ("PERC") disclosed that due to adverse events at its Harbor Coal joint venture and North Lake Energy Project, PERC and Primary Energy Recycling Holdings LLC ("PERH"), a partially owned subsidiary of PERC, may require a waiver of certain loan covenants to continue the payment of distributions and interest. The Partnership holds a 17% common interest and a 14.2% preferred interest in PERH. During the quarter the Partnership received dividends on its common interest in PERH of \$1.3 million and dividends of \$0.4 million from its preferred interest.

For further information on the Partnership visit [www.epcorpowlp.ca](http://www.epcorpowlp.ca) or contact:

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