EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
September 30, 2017

This management's discussion and analysis (MD&A) dated November 7, 2017, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months and nine months ended September 30, 2017 and 2016 including significant accounting policies (note 3), business transfer and acquisition (note 4), changes in liabilities arising from financing activities (note 5), financial instruments (note 6), subsequent event (note 8) and the consolidated financial statements and MD&A for the year ended December 31, 2016, including standards and interpretations not yet applied (note 3(v)), related party transactions (note 27) and financial instruments (note 28), and the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "EPCOR", "it", "its", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. In this MD&A, Capital Power refers to Capital Power Corporation and its directly and indirectly owned subsidiaries including Capital Power L.P., except where otherwise noted or the context otherwise indicates. Financial information in this MD&A is based on the condensed consolidated interim financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS), and is presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. This MD&A was approved and authorized for issue by the Board of Directors on November 7, 2017.

OVERVIEW

EPCOR is wholly owned by the City of Edmonton (the City). EPCOR, through its subsidiaries, builds, owns and operates electrical, natural gas and water transmission and distribution networks, water and wastewater treatment facilities, and sanitary and stormwater systems in Canada and the United States (U.S). The Company also provides electricity, natural gas and water products and services to residential and commercial customers. The Company provides Regulated Rate Option (RRO) and default supply electricity related services and sells electricity and natural gas to Alberta residential consumers under contracts through its Encor brand. In addition, EPCOR provides design, build, finance, operating and maintenance services for electrical, water and wastewater infrastructure for municipal and industrial customers in Canada and the U.S.

Net income was $75 million and $169 million for the three and nine months ended September 30, 2017, respectively, compared with net income of $76 million and $221 million for the comparative periods in 2016, respectively. The decrease of $1 million and $52 million, respectively, from the comparative periods was due to lower recognition of a fair value gain on sale of the remaining investment in Capital Power (also referred to as the "available-for-sale investment in Capital Power") in January 2017 compared with the fair value gains recognized on sales of the investment in the third quarter of 2016, no dividend income due to the sale of the remaining Capital Power shares, and unfavorable fair value adjustments related to financial electricity purchase contracts in 2017. Partially offsetting these decreases were unfavorable fair value adjustments related to interest rate swaps in 2016 with no corresponding transactions in the current year. In addition, the three months ended September 30, 2017 include higher income from core operations and the nine months ended September 30, 2017 include lower income from core operations, as described below.

Net income from core operations was $79 million and $169 million for the three and nine months ended September 30, 2017, respectively, compared with $61 million and $204 million for the comparative periods in 2016, respectively, as described in the net income table on page 5 of this MD&A. The increase of $18 million in the quarter was driven by higher water, wastewater and electricity distribution customer rates, higher net system access service collections and higher water and wastewater volumes due to weather conditions in Canada and

U.S. Partially offsetting these increases were lower Energy Price Setting Plan margins, higher depreciation expense due to asset additions and lower income from industrial services contracts primarily due to the termination of the Suncor financing and operating agreements in 2016. The decrease of $35 million for the nine months ended September 30, 2017 was driven by lower income from industrial services contracts primarily due to the termination of the Suncor financing and operating agreements in 2016, lower net system access service collections, lower Energy Price Setting Plan margins, lower water and wastewater volumes due to higher precipitation in Canada, higher depreciation expense due to asset additions and losses on sale of surplus land in 2017 compared with gains on sale of surplus land in 2016. Partially offsetting these decreases were higher water, wastewater and electricity distribution and transmission customer rates. Income from core operations is a non-IFRS financial measure as described in Net Income on page 4 of this MD&A.

SIGNIFICANT EVENTS

Transfer of Drainage Utility Services from the City of Edmonton

The City transferred its Drainage Utility Services (Drainage) to EPCOR on September 1, 2017 pursuant to an Asset and Liability Transfer Agreement. Drainage operations are comprised of the sanitary drainage utility and the stormwater drainage utility which provide wastewater and stormwater collection and conveyance, and bio solids management and disposal.

The transfer of Drainage was a business combination involving a business under common control as it did not result in a change in the ultimate control of the Drainage business. The Company applied book value accounting to the transaction which resulted in all assets and liabilities transferred being initially recognized at their carrying amounts on the date of transfer, adjusted to align with IFRS.

Consideration for the transfer included transition cost compensation with a present value of $72 million ($75 million of contractual cash payments, of which $8 million has been paid in the quarter), and the issuance of a promissory note with a fair value of $604 million ($593 million of principal) to the City, the terms of which mirror the principal and interest payment obligations of debentures issued by the City in respect of the Drainage operations. The difference of $793 million between the adjusted carrying amounts of the net assets transferred of $1,469 million less the fair value of consideration due of $676 million was recognized as a capital contribution received from the City. The reported book value of net assets transferred and the fair value of consideration due are preliminary based on information available to management at the time of preparation of these financial statements. The amounts will be finalized on completion of review by management which could result in material adjustment to the amounts.

Transition of the Drainage operations to EPCOR has proceeded smoothly including the transfer of Drainage employees on September 1, 2017 which was facilitated by finalization of all the necessary union transition agreements. EPCOR has or will enter into various service level agreements with the City in order to ensure continued safe and reliable operations throughout the transition process.

The financial results and the assets and liabilities of Drainage have been incorporated into the condensed consolidated interim financial statements from the date of transfer of Drainage to the Company. Accordingly, the comparative information does not include any financial information relating to Drainage prior to the transfer date. For further information on the transfer of Drainage, refer to the unaudited condensed consolidated interim financial statements of EPCOR Utilities Inc. for the nine months ended September 30, 2017 and the Capital Requirements and Contractual Obligations section below.

Acquisition of Hughes Gas Resources, Inc.

On June 1, 2017, the Company acquired 100% of the common shares of Hughes Gas Resources, Inc., (Hughes), a natural gas distribution, transmission and services holding company with four wholly owned subsidiaries operating northwest of Houston, Texas, for total consideration of $54 million (US$40 million) and the assumption

of $14 million (US$10 million) in third party debt.

Hughes is primarily involved in the distribution of natural gas to approximately 4,300 customer connections through its rate regulated subsidiary Hughes Natural Gas, Inc. which owns and operates a 354 kilometer (220 mile) natural gas distribution network. Other subsidiaries include Alamo Pipeline, LLC, the owner and operator of a rate regulated natural gas transmission pipeline which transports natural gas from suppliers to Hughes Natural Gas, Inc. through its 51 kilometer (32 mile) pipeline. These operations are regulated by the Texas Railroad Commission. The acquisition also includes two unregulated subsidiaries, Pinehurst Utility Construction, LLC (infrastructure contractor) and Goliad Midstream Energy, LLC (intermediary company for negotiation of supply contracts).

At closing, $46 million of the total consideration was paid with the $8 million balance of the consideration contingent upon the addition of new customer connections above a minimum of 600 incremental customer connections over a period of up to six years from the date of closing. The Company has recorded the full amount of this contingent consideration based on expected growth in the region. The Company funded the closing payment using existing cash resources.

For further information on the fair value estimates, refer to the unaudited condensed consolidated interim financial statements of EPCOR Utilities Inc. for the nine months ended September 30, 2017. Refer to the Capital Requirements and Contractual Obligations section for additional information.

SUBSEQUENT EVENT

Acquisition of Natural Resources Gas Limited

On November 1, 2017, EPCOR acquired substantially all of the natural gas distribution assets of Natural Resource Gas Limited (NRGL) for cash consideration of $22 million. NRGL sells and distributes natural gas in southwestern Ontario near London, providing services to over 8,700 residential, commercial and industrial customers in the counties of Elgin, Middlesex, Oxford and Norfolk.

CONSOLIDATED RESULTS OF OPERATIONS

Segment Disclosures

During the quarter, the Company reassessed its business segments due to the addition of Drainage. Drainage has been aggregated with the existing Canadian water operations under the Water Services segment while U.S. Operations are now being reported as a separate business segment. The comparative business segment information in this MD&A has been restated to conform to these changes.

Revenues

(unaudited, $ millions)	Three months	Nine Months
Revenues for the periods ended September 30, 2016	**$ 504**	**$ 1,458**
Higher (lower) Water Services segment revenues	4	(31)
Higher electricity Distribution and Transmission segment revenues	17	33
Higher Energy Services segment revenues	12	8
Higher U.S. Operations segment revenues	3	8
Other	(6)	(13)
Increase in revenues from core operations	30	5
Revenues for the periods ended September 30, 2017	**$ 534**	**$ 1,463**

Consolidated revenues were higher by $30 million and $5 million for the three and nine months ended September 30, 2017, respectively, compared with the corresponding periods in 2016 primarily due to the net impact of the following:

- Water Services segment revenues were higher for the three months ended September 30, 2017, compared with the corresponding period in 2016, primarily due to the increase in revenues from the transferred Drainage operations, higher water and wastewater revenues due to customer growth and higher customer rates, and higher water and wastewater volumes due to lower precipitation in the city of Edmonton, partially offset by lower construction revenues from the Regina wastewater treatment plant project and lower industrial services contract revenues.

  Water Services segment revenues were lower for the nine months ended September 30, 2017, compared with the corresponding period in 2016, primarily due to lower construction revenues from the Regina wastewater treatment plant project, lower industrial services contract revenues and lower water and wastewater volumes due to higher precipitation in the city of Edmonton, partially offset by an increase in revenues from the transferred Drainage operations and higher water and wastewater revenues due to customer growth and higher customer rates.
- Electricity Distribution and Transmission segment revenues were higher for the three and nine months ended September 30, 2017, compared with the corresponding periods in 2016, primarily due to higher system access service revenue and higher electricity distribution customer rates. In addition, the increase for the nine months ended September 30, 2017 was also due to higher electricity transmission customer rates partially offset by lower commercial services revenue.
- Energy Services segment revenues were higher for the three months ended September 30, 2017, compared with the corresponding period in 2016, primarily due to customer growth and higher electricity volumes, partially offset by lower electricity prices. Energy Services segment revenues were higher for the nine months ended September 30, 2017, compared with the corresponding period in 2016, primarily due to customer growth partially offset by lower electricity prices and volumes.
- U.S. Operations segment revenues were higher for the three and nine months ended September 30, 2017, compared with the corresponding periods in 2016, primarily due to higher commercial services revenue from the EPCOR 130 Pipeline and revenues from Hughes acquired in 2017. In addition, wastewater rates and water volumes were higher.

Net Income

We use income from core operations to distinguish operating results from the Company's water, electricity and natural gas businesses from results with respect to its previous investment in Capital Power and changes in the fair value of financial instruments. The change in the fair value of financial instruments is the difference between the opening fair value of the derivative instruments for the period and the closing fair value of the derivative instruments. Income from core operations is a non-IFRS financial measure which does not have any standardized meaning prescribed by IFRS and is unlikely to be comparable to similar measures published by other entities. However, it is presented below as it provides a useful income performance measure of the Company's core business operations and may be referred to by debtholders and other interested parties in evaluating the Company's financial performance and in assessing its creditworthiness.

(Unaudited, $ millions)		Three months		Nine Months
Net income for the period ended September 30, 2016	**$**	**76**	**$**	**221**
2016 change in the fair value of contracts-for-difference		(3)		(5)
2016 change in the fair value of interest rate swaps		2		9
2016 dividend income from available-for-sale investment in Capital Power		(2)		(9)
2016 fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income		(12)		(12)
2016 income from core operations		**61**		**204**
Higher (lower) Water Services segment operating income		3		(25)
Higher (lower) Distribution and Transmission segment operating income		11		(11)
Lower Energy Services segment operating income excluding change in the fair value of contracts-for-differences		-		(6)
Higher U.S. Operations segment operating income		1		-
Higher financing expenses		(3)		(1)
Lower income tax expense		6		11
Other		-		(3)
Increase (decrease) in income from core operations		18		(35)
2017 income from core operations		**79**		**169**
2017 change in the fair value of contracts-for-difference		(4)		(1)
2017 fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income		-		1
Net income for the period ended September 30, 2017	**$**	**75**	**$**	**169**

Changes in each business segment's operating results compared with the corresponding periods in 2016 are described in Segment Results below. Explanations of the remaining variances in net income for the three and nine months ended September 30, 2017, are as follows:

- Unfavorable changes in the fair value of contracts-for-differences.
- Unfavorable fair value adjustments related to interest rate swaps for the three months and nine months ended September 30, 2016, with no corresponding adjustments in 2017 due to the settlement of the interest rate swaps on January 3, 2017.
- No dividend income from the Capital Power shares recognized for the three months and nine months ended September 30, 2017, compared with the corresponding periods in 2016, due to the sale of the remaining shares in January 2017.
- Lower recognition of a fair value gain on sale of the remaining investment in Capital Power in January 2017 compared with the fair value gains recognized on sales of the investment in the third quarter of 2016.
- Higher financing expenses for the three and nine months ended September 30, 2017, compared with the corresponding periods in 2016, primarily due to higher interest expense on new debt due to the transfer of Drainage and higher interest expense on debt to acquire Blue Water Project 130 L.P.
- Income tax expense was lower for the three and nine months ended September 30, 2017, compared with the corresponding periods in 2016, primarily due to decreased income tax expense in the Water Services segment resulting from lower industrial services contract income in Canada. In addition, income tax expense was lower for the nine months ended September 30, 2017, due to decreased income tax expense in the U.S. Operations segment resulting from lower income before tax.

SEGMENT RESULTS

Water Services

Water Services is primarily involved in the treatment, transmission and distribution, and sale of water, the collection and conveyance of wastewater and stormwater and the treatment of wastewater within Edmonton and other communities in Western Canada. This segment's water and wastewater business also includes the provision of design, build, finance, operating and maintenance services for municipal and industrial customers in Western Canada.

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenues	$ 124	$ 120	$ 313	$ 344
Expenses	(86)	(85)	(228)	(234)
Operating income	**$ 38**	**$ 35**	**$ 85**	**$ 110**

Water Services' operating income increased by $3 million for the three months ended September 30, 2017, compared with the corresponding period in 2016, primarily due to higher water and wastewater revenues due to customer growth and higher customer rates, higher water and wastewater volumes due to lower precipitation in the city of Edmonton, lower water treatment costs due to better river quality conditions in the North Saskatchewan River in 2017 and income from the transferred Drainage operations. These increases were partially offset by lower income related to industrial services contracts and higher depreciation expense.

Water Services' operating income decreased by $25 million for the nine months ended September 30, 2017, compared with the corresponding period in 2016, primarily due to lower income related to industrial services contracts, lower water and wastewater volumes due to higher precipitation in the city of Edmonton, higher water treatment costs due to poor river quality conditions in the North Saskatchewan River early in 2017 and higher depreciation expense, partially offset by customer growth and higher customer rates. In addition, the first quarter of 2016 included gains from the sale of surplus land.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. This segment also provides commercial services including the construction and maintenance of street lighting, traffic signal and light rail transit electrical infrastructure for the City and for other municipal and commercial customers in Alberta.

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenues	$ 184	$ 167	$ 520	$ 487
Expenses	(148)	(142)	(442)	(398)
Operating income	**$ 36**	**$ 25**	**$ 78**	**$ 89**

Distribution and Transmission's operating income increased by $11 million for the three months ended September 30, 2017, compared with the corresponding period in 2016, primarily due higher net system access service collections and higher electricity distribution customer rates, partially offset by lower income from commercial services and higher depreciation expense.

Distribution and Transmission's operating income decreased by $11 million for the nine months ended September 30, 2017, compared with the corresponding period in 2016, primarily due to lower net system access service collections, losses on sale of surplus land, lower income from commercial services and higher depreciation

expense, partially offset by higher electricity distribution and transmission customer rates and lower losses on disposal of assets.

Energy Services

Energy Services is primarily involved in the provision of the regulated rate tariff electricity service and default supply electricity services to residential, small commercial and agricultural customers in Alberta. The segment also provides competitive electricity and natural gas products under the Encor brand.

(Unaudited, $ millions, including intersegment transactions)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2017	**2016**	**2017**	**2016**
Revenues	$ 218	$ 206	$ 619	$ 611
Expenses	(214)	(195)	(595)	(575)
Operating income	**4**	**11**	**24**	**36**
Exclude change in the fair value of contracts-for-differences	4	(3)	1	(5)
Operating income excluding change in the fair value of contracts-for-differences	**$ 8**	**$ 8**	**$ 25**	**$ 31**

Energy Services' operating income excluding change in the fair value of contracts-for-differences remained the same for the three months ended September 30, 2017, compared with the corresponding period in 2016. This was primarily due to growth in the competitive business offset by lower Energy Price Setting Plan margins.

Energy Services' operating income excluding change in the fair value of contracts-for-differences decreased by $6 million for the nine months ended September 30, 2017, compared with the corresponding period in 2016. This was primarily due to lower Energy Price Setting Plan margins, partially offset by growth in the competitive business.

U.S. Operations

U.S. operations are primarily involved in the treatment, transmission and distribution, and sale of water, and the collection and treatment of wastewater within the Southwestern U.S. In addition, this segment also provides natural gas distribution and transmission services in Texas, U.S. All of the Company's operations conducted in the U.S. are included in this segment.

(Unaudited, $ millions, including intersegment transactions)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2017	**2016**	**2017**	**2016**
Revenues	$ 63	$ 60	$ 168	$ 160
Expenses	(36)	(34)	(108)	(100)
Operating income	**$ 27**	**$ 26**	**$ 60**	**$ 60**

U.S. Operations' operating income increased by $1 million for the three months ended September 30, 2017, compared with the corresponding period in 2016, primarily due higher wastewater customer rates and higher water volumes due to above average temperatures, partially offset by lower foreign exchange rates.

U.S. Operations' operating income remained the same for the nine months ended September 30, 2017, compared with the corresponding periods in 2016, primarily due to higher wastewater customer rates and higher water volumes due to above average temperatures, offset by higher depreciation expense and lower foreign exchange rates.

Capital Spending and Investment

(Unaudited, $ millions) **Nine months ended September 30,**		**2017**		**2016**
Water Services	$	112	$	87
Distribution and Transmission		172		197
Energy Services		3		2
U.S. Operations		59		49
Other		6		6
Total capital spending		352		341
Blue Water Project 130 L.P. and Cross County Water Supply Corporation acquisition		-		48
Willow Valley Water Company acquisition		-		3
Hughes acquisition		46		-
Total investment spending		46		51
Total capital spending and investment	**$**	**398**	**$**	**392**

Total capital spending was higher for the nine months ended September 30, 2017, compared with the corresponding period in 2016, primarily due to increased spending in the Water Services segment as a result of Drainage capital spending in September, the distribution mains Accelerated Fire Protection Program project, the Gold Bar Digester 3 Upgrades project, and the Gold Bar Hydrovac Sanitary Waste Facility project. This was partially offset by decreased spending in the Water Services segment due to the Gold Bar Grit Tanks project being substantially completed and placed into service in 2016. The Distribution and Transmission segment had decreased spending on the Advanced Meter Infrastructure Project and on various growth and lifecycle projects which was partially offset by increased spending on renovations to its major work center and new circuit additions. The U.S. Operations segment had increased spending on various growth projects.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, $ millions)	September 30, 2017	December 31, 2016	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	$ 51	$ 191	$ (140)	Refer to Consolidated Statements of Cash Flows section.
Trade and other Receivables	593	325	268	Increase primarily due to reclassification of the current portion of the Capital Power receivable related to the back-to-back debt from other financial assets ($174 million) and the Drainage transfer ($91 million).
Available-for-sale investment in Capital Power	-	6	(6)	Decrease due to sale of the remaining Capital Power shares.
Inventories	16	14	2	
Other financial assets	92	265	(173)	Decrease due to reclassification of the current portion of the Capital Power receivable related to the back-to-back debt to trade and other receivables ($174 million), net of construction financing.
Deferred tax assets	87	84	3	
Property, plant and equipment	8,759	4,983	3,776	Increase primarily due to the Drainage transfer ($3,571 million), acquisition of Hughes and capital expenditures, partially offset by unfavorable foreign currency valuation adjustments, depreciation expense and asset disposals and retirements.
Intangible assets and goodwill	278	293	(15)	Decrease primarily due to amortization of assets with finite lives and unfavorable foreign currency valuation adjustments, partially offset by the Drainage transfer ($1 million), acquisition of Hughes and capital expenditures.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, $ millions)	**September 30, 2017**	**December 31, 2016**	**Increase (decrease)**	**Explanation of material changes**
Trade and other payables	$ 316	$ 299	$ 17	Increase primarily due to the Drainage transfer ($39 million), higher capital accruals primarily due to Drainage operations and an increase in electricity delivery charges, partially offset by lower electricity accruals as well as payments and release of holdbacks on the Regina wastewater treatment plant project.
Loans and borrowings (including current portion)	2,571	1,920	651	Increase primarily due to issuance of a promissory note for the Drainage transfer ($604 million net of current period principal payments of $3 million) and issuance of short-term debt, partially offset by repayment of long-term debt and favorable foreign currency valuation adjustments on U.S. dollar denominated debt.
Deferred revenue (including current portion)	3,192	1,041	2,151	Increase primarily due to the Drainage transfer ($2,146 million) and contributions received from developers, partially offset by deferred revenue recognized and favorable foreign currency valuation adjustments.
Provisions (including current portion)	101	111	(10)	Decrease primarily due to payment of employee benefits in excess of accruals and favorable foreign currency valuation adjustments, partially offset by net receipts of refundable contributions from customers and developers.
Derivatives	1	-	1	
Other liabilities (including current portion)	152	72	80	Increase primarily due to the Drainage transfer ($10 million), recognition of the Drainage transition cost compensation liability ($72 million fair value net of current period payments of $8 million) and contingent consideration recorded on the acquisition of Hughes.
Deferred tax liabilities	53	46	7	
Equity attributable to the Owner of the Company	3,490	2,672	818	Increase due to the Drainage transfer ($793 million) and comprehensive income for the period, partially offset by dividends paid.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended September 30,	2017	2016	Increase (decrease)	Explanation
Operating	$ 131	$ 143	$ (12)	Decrease primarily due to lower funds from the change in non-cash operating working capital resulting from an increase in trade and other receivables, partially offset by higher funds from operations.
Investing	(124)	3	(127)	Decrease primarily due to payment from Suncor related to the lease receivable in 2016, proceeds from the partial sale of the Capital Power shares in 2016, lower distributions from Capital Power, higher capital expenditures and payment of the Drainage transition cost compensation. The decrease was partially offset by the acquisition of Blue Water Project 130 L.P. in 2016, higher funds from the change in non-cash investing working capital and lower advances on construction financing.
Financing	30	(90)	120	Increase primarily due to repayment of short-term debt in 2016, proceeds from short-term debt issued in 2017, partially offset by proceeds from long-term debt issued in 2016, higher repayment of long-term debt in 2017 and higher dividend payments to the City in 2017.
Opening cash and cash equivalents	14	29	(15)	
Closing cash and cash equivalents	$ 51	$ 85	$ (34)	

(Unaudited, $ millions)
Cash inflows (outflows)

Nine months ended September 30,	2017	2016	Increase (decrease)	Explanation
Operating	$ 263	$ 366	$ (103)	Decrease primarily due to lower funds from operations as a result of reduced net income and lower funds from the change in non-cash operating working capital resulting from an increase in trade and other receivables and a decrease in trade and other payables.
Investing	(355)	(23)	(332)	Decrease primarily due to lower payments received on other financial assets as 2016 included the payment received from Capital Power related to the back-to-back debt, the payment from Suncor related to the lease receivable and receipt of the milestone payment from the City of Regina, lower proceeds from the disposal of assets, higher capital expenditures, lower distributions from Capital Power and payment of the Drainage transition cost compensation. The decrease was partially offset by lower advances on construction financing, lower funds expended on business acquisitions, and higher funds from the change in non-cash investing working capital.
Financing	(48)	(294)	246	Increase primarily due to higher repayment of long-term debt in 2016, repayment of short-term debt in 2016, proceeds from short-term debt issued in 2017, partially offset by proceeds from long-term debt issued in 2016 and higher dividend payments to the City in 2017.
Opening cash and cash equivalents	191	36	155	
Closing cash and cash equivalents	$ 51	$ 85	$ (34)	

Operating Activities and Liquidity

The Company maintains its financial position through rate-regulated utility and contracted operations which generate stable cash flows.

The Company expects to have sufficient liquidity to finance its plans and fund its obligations for the remainder of 2017 with a combination of cash on hand, cash flow from operating activities, the issuance of commercial paper, public or private debt offerings and availability of committed existing credit facilities described below under Financing.

Cash flows from operating activities would be impaired by events that cause severe damage to our facilities and would require unplanned cash outlays for system restoration repairs. Under those circumstances, more reliance would be placed on our credit facilities for working capital requirements until a regulatory approved recovery mechanism or insurance proceeds are put in place.

Capital Requirements and Contractual Obligations

The City transferred Drainage to EPCOR on September 1, 2017 as described in the Significant Events section. Consistent with our commitment to the City of Edmonton, we are increasing the EPCOR dividend from $146 million to $153 million in 2017 with a further increase to $166 million in 2018; these increases have been approved by the Board and Shareholder.

EPCOR will pay franchise fees to the City at a rate of 8% of qualifying revenues of Drainage. EPCOR is also responsible for future capital costs and for the first full year of operations, capital spending, net of contributions, is expected to be approximately $120 million to $200 million.

As a result of the Drainage transfer, EPCOR issued the City a promissory note with $593 million of contractual principal repayments as back-to-back debt which mirrors the principal and interest payment obligations of debentures issued by the City in respect of the Drainage operations.

The following table represents the Company's contractual obligations for Drainage by year:

($ millions)	October to December 2017	2018	2019	2020	2021	2022 and thereafter	Total
Construction project[1]	$ 3	$ -	$ -	$ -	$ -	$ -	$ 3
Other projects[2]	2	10	-	-	-	-	12
Transition cost compensation[3]	-	21	17	13	10	6	67
Loans and borrowings[4]	11	24	24	25	25	481	590
Interest payments on loans and borrowings[4]	9	22	21	20	18	152	242
Operating leases, net[5]	-	1	1	1	1	3	7
Total contractual obligations	$ 25	$ 78	$ 63	$ 59	$ 54	$ 642	$ 921

1. The Company has a construction project commitment.
2. The Company has commitments for projects that are based on contracts for a specific contracted dollar amount with no termination or cancellation clause outside of negligence.
3. The Company has a commitment to compensate the City for stranded costs, including liabilities retained by the City, related to the Drainage transfer. The Company paid $8 million to the City on the transfer date, with the remaining $67 million due over the next five years.
4. As a result of the Drainage transfer, EPCOR issued the City a promissory note of $593 million as described above. The Company paid $3 million in September 2017.
5. The leases relate to building space that is currently occupied and amounts are primarily based on estimates as most of the lease agreements are still under negotiation.

The timing of the total commitment of $91 million for several Distribution and Transmission projects, as directed by Alberta Electricity System Operator, has changed since the fourth quarter of 2016 to $2 million in 2017, $40 million in 2018, $45 million in 2019 and $4 million in 2020.

As a result of the acquisition of Hughes in June 2017, the Company is committed to pay a fee to the previous owners of Hughes based on the addition of new customer connections above a minimum of 600 incremental customer connections over a period of up to six years from the date of closing. The fee is capped at US$8 million. In the third quarter, the Company settled $14 million of debt which had been assumed in the transaction.

During the first nine months of 2017 there were no other material changes to the Company's capital requirements or purchase obligations, including payments for the next five years and thereafter, as previously disclosed in the 2016 annual MD&A.

Financing

Generally, our external capital is raised at the corporate level and invested in the operating business units. Our external financing consists of commercial paper issuance, borrowings under committed syndicated bank credit facilities, debentures payable to the City, publicly issued medium-term notes, U.S. private-debt notes and issuance of preferred shares.

New loans and borrowings consist of obligations to the City which match the debentures issued by the City in respect of Drainage operations; refer to Capital Requirements and Contractual Obligations section for additional information.

The Company has bank credit facilities, which are used principally for the purpose of backing the Company's commercial paper program and providing letters of credit, as outlined below:

(Unaudited, $ millions) **September 30, 2017**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2019	$ 200	$ -	$ 62	$ 138
Syndicated bank credit facility	November 2020	350	87	-	263
Total committed		550	87	62	401
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total credit facilities		**$ 575**	**$ 87**	**$ 62**	**$ 426**

(Unaudited, $ millions) **December 31, 2016**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2019	$ 200	$ -	$ 73	$ 127
Syndicated bank credit facility	November 2020	350	-	-	350
Total committed		550	-	73	477
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total credit facilities		**$ 575**	**$ -**	**$ 73**	**$ 502**

1 Restricted to letters of credit.

Letters of credit are issued to meet the credit requirements of energy market participants and conditions of certain service agreements. Letters of credit totaling $62 million (December 31, 2016 - $73 million) were issued and outstanding at September 30, 2017.

The committed syndicated bank credit facilities cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's committed syndicated bank credit facilities gives the Company the option each year to re-price and extend the terms of the

facilities by one or more years subject to agreement with the lending syndicate. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates.

The Company has a Canadian base shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At September 30, 2017, the available amount remaining under this base shelf prospectus was $1 billion (December 31, 2016 - $1 billion). The base shelf prospectus expires in December 2017. The Company is currently preparing a new Canadian base shelf prospectus to be filed in the fourth quarter of 2017 and we expect that it will be in place for December 1, 2017.

Commercial paper of $87 million was issued and outstanding at September 30, 2017 (December 31, 2016 - nil).

If the economy were to deteriorate in the longer term, particularly in Canada and the U.S., the Company's ability to extend the maturity or revise the terms of bank credit facilities, arrange long-term financing for its capital expenditure programs and acquisitions, or refinance outstanding indebtedness when it matures could be adversely impacted. We believe that these circumstances have a low probability of occurring. We continually monitor our capital programs and operating costs to minimize the risk that the Company becomes short of cash or unable to honor its debt servicing obligations. If required, the Company would look to reduce capital expenditures and operating costs.

Credit Rating

In September 2017, DBRS confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt ratings for EPCOR. In October 2017, Standard & Poor's Ratings Services confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR.

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its syndicated bank credit facilities, Canadian public medium-term notes and U.S. private debt notes. Based on current financial covenant calculations, the Company has sufficient borrowing capacity to fund current and long-term requirements. Although the risk is low, breaching these covenants could potentially result in a revocation of EPCOR's credit facilities causing a significant loss of access to liquidity or resulting in the Company's publicly issued medium-term notes and private debt notes becoming immediately due and payable thereby causing the Company to find a means of funding which could include the sale of assets.

For further information on the Company's contractual obligations, refer to the 2016 annual MD&A.

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2016 annual MD&A. EPCOR believes that risk management is a key component of the Company's culture and we have put cost-effective risk management practices into place. At the same time, EPCOR views risk management as an ongoing process and we continually review our risks and look for ways to enhance our risk management processes.

As part of ongoing risk management practices, the Company reviews current and proposed transactions to consider their impact on the risk profile of the Company. EPCOR's risk profile and risk management strategies as described in the 2016 annual MD&A have been updated to reflect the transfer of Drainage, the Hughes acquisition and the acquisition of NRGL.

Currently, EPCOR's risks include new business integration risk, strategy execution risk, political and legislative risk, regulatory risk, health and safety risk, information technology related security risks, risk of reputational damage, environment risk, business interruption risks, failure to attract, retain or develop top talent, water scarcity risk, electricity price and volume risk, project risk, weather risk, financial liquidity risk, counterparty and credit risk,

billing error risk, foreign exchange risk, conflicts of interest, and general economic conditions, business environment and other risks.

The following risk has been revised since issuance of the 2016 annual MD&A as follows:

New Business Integration Risk

EPCOR plans to diversify its utility infrastructure investments across investment types and North American geographies to reduce investment risk. The Company is accomplishing this through expansion into the natural gas distribution and Drainage utility businesses as well as entry into new geographies.

These types of utility businesses are new to EPCOR which introduces risk to the Company due to potential unfamiliarity with the associated operational, safety and regulatory risks in addition to the risks associated with integrating these businesses into EPCOR.

The transfer of Drainage took place on September 1, 2017, with the Company assuming responsibility for the Drainage operations. Business integration planning was initiated well in advance of the September 1, 2017 transfer with most of the key integration elements completed. Integration of the Company's NRGL acquisition in Ontario, which closed on November 1, 2017, is underway, and the Company's Hughes acquisition in Texas, which closed on June 1, 2017, continues to progress well. Work to integrate all these businesses will continue into 2018. Failing to successfully integrate these new businesses could have long-term adverse effects on the Company, including reputational impact.

Litigation Update

The Company is not involved in any material litigation at this time.

FUTURE ACCOUNTING STANDARD CHANGES

A number of new standards, amendments to standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after January 1, 2018. Those which may be relevant to the Company and may impact the accounting policies of the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 9 – *Financial Instruments* (IFRS 9), which replaces IAS 39 – *Financial Instruments: Recognition and Measurement*, includes a new classification and measurement approach for financial assets that reflects the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets including (i) measured at amortized cost, (ii) fair value through other comprehensive income and (iii) fair value through profit and loss. IFRS 9 also replaces the "incurred loss" model under IAS 39 with a forward looking "expected credit loss" model for recognition of impairment on financial instruments. The effective date for implementation of IFRS 9 has been set for annual periods beginning on or after January 1, 2018. Based on the Company's existing financial instruments, the Company is currently evaluating the impact of the application of IFRS 9 but does not expect it to have a significant impact on its consolidated financial statements.

IFRS 15 – *Revenue from Contracts with Customers* (IFRS 15), which replaces IAS 11 – *Construction Contracts* and IAS 18 – *Revenue* and related interpretations, is effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

The Company has developed an implementation plan and is currently performing detailed analysis on each revenue stream and the underlying contracts with customers to determine the impact of IFRS 15 on the

consolidated financial statements. A significant portion of the Company's revenue is generated from the provision of utility goods and services that are simultaneously received and consumed by customers. Therefore, the Company will continue to recognize utility revenue over time as the goods and services are provided because the output method of revenue recognition depicts the entity's performance towards complete satisfaction of its performance obligation. The Company is reviewing whether IFRS 15 is applicable to contributions from customers and developers and, if applicable, the appropriate treatment of contributions under IFRS 15. For other contracts with customers, analysis is ongoing and the Company expects to report more detailed information, including estimated quantitative impacts, in future periods.

IFRS 16 – *Leases* (IFRS 16), which replaces IAS 17 – *Leases* (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases under IAS 17 into a single lessee model. The Company is currently reviewing contracts that are identified as leases in order to evaluate the impact of adoption of IFRS 16 on the consolidated financial statements. Based on its preliminary assessment, the Company expects that there will be a material impact on its statements of financial position requiring the recognition of lease assets and lease obligations with respect to its leases for office space, which are currently classified as operating leases.

IFRIC 23 – *Uncertainty over Income Tax Treatments* is effective for annual periods commencing on or after January 1, 2019. The interpretation provides guidance on the recognition and measurement of current and deferred tax assets and liabilities under IAS 12 – *Income Taxes* when there is uncertainty over income tax treatments. The Company does not expect a material impact on initial application of the interpretation however the interpretation may impact the Company's recognition, measurement and disclosure of uncertain tax treatments in the future.

CRITICAL ACCOUNTING ESTIMATES

In preparing the condensed consolidated interim financial statements, management necessarily made judgments and estimates in determining transaction amounts and financial statement balances. The following are the items for which significant estimates were made in the condensed consolidated interim financial statements: electricity revenues and costs, unbilled consumption of electricity and water, drainage utility wastewater and stormwater revenues and costs, fair values and income taxes. Although the current condition of the economy has not impacted our methods of estimating accounting values, it has impacted the inputs in those determinations and the resulting values. Interim results will fluctuate due to the seasonal demands for electricity, water, sanitary and stormwater systems, changes in electricity prices, and the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

For further information on the Company's other critical accounting estimates, refer to the 2016 annual consolidated financial statements and 2016 annual MD&A.

OUTLOOK

For the remainder of 2017, EPCOR will focus on the ongoing integration of the Drainage utility as well as the integration of Hughes and NRGL. In addition, we will continue to target growth in rate-regulated and contracted water, wastewater, electricity and natural gas infrastructure. We expect much of this investment to come from new infrastructure to accommodate customer growth and lifecycle replacement of existing infrastructure primarily related to the Edmonton and U.S. based operations. EPCOR intends to expand our water and electricity commercial services activities and to invest in the area of renewable energy generation, including solar and biogas facilities to power our operations and enhance our environmental performance.

EPCOR is proposing to build a new solar farm just south of its existing E.L. Smith Water Treatment Plant (E.L. Smith WTP). The proposed solar farm will generate "green" energy to help power the existing E.L. Smith WTP and its water treatment and distribution processes, while reducing our greenhouse gas emissions. The solar farm

is expected to have a peak generation capacity of approximately 12 megawatts. All necessary government approvals are currently expected to be received in the second quarter of 2018 which would allow construction to be completed by late 2018 or early 2019.

EPCOR has been awarded franchises by three municipalities in the Southern Bruce region of Ontario near Kincardine to build and operate a natural gas distribution system. In March 2016 EPCOR applied to the Ontario Energy Board (OEB) for the approval of these franchise agreements. In January 2017 the OEB requested indications of interest from any parties interested in servicing these areas and subsequently requested submission of proposals by October 16, 2017. EPCOR and another entity submitted proposals. The process and timeline for an OEB decision has not been determined at this time.

Over the long-term, demand for water is expected to increase and we anticipate escalating requirements for better water management practices including watershed management and conservation. We will pursue expansion of our portfolio of commercial water contracts.

In December 2016, the Government of Alberta passed *Bill 21: the Modernized Municipal Government Act* (MGA) which could impose restrictions on the ability of a Municipally Controlled Corporation (MCC) to conduct its business. EPCOR, which is a MCC of the City of Edmonton, was previously exempted by regulation from the MGA and a similar exemption by way of regulation has not as of yet been tabled. EPCOR is working to ensure the previous exemption is re-instated as the related regulations are developed. Not having an exemption from the MGA could materially impact EPCOR's ability to execute on its long term plan.

QUARTERLY RESULTS

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income**
September 30, 2017	$ 534	$ 75
June 30, 2017	474	56
March 31, 2017	455	38
December 31, 2016	474	88
September 30, 2016	504	76
June 30, 2016	479	67
March 31, 2016	475	78
December 31, 2015	523	65

Events for the past eight quarters compared to the same quarter of the prior year that have significantly impacted net income include:

- September 30, 2017, third quarter results included lower Energy Price Setting Plan margins, higher depreciation expense due to asset additions, lower income from industrial services contracts primarily due to the termination of the Suncor financing and operating agreements in 2016, no fair value gain on sale of investment in Capital Power, no dividend income due to the sale of Capital Power shares and lower favorable fair value adjustments related to financial electricity purchase contracts. Partially offsetting these decreases were higher water, wastewater and electricity distribution customer rates, higher net system access service collections and no unfavorable fair value adjustments related to interest rate swaps.
- June 30, 2017, second quarter results included lower income related to industrial services contracts, lower Energy Price Setting Plan margins, a loss on sale of surplus land, lower water and wastewater volumes due to higher precipitation in the city of Edmonton, higher water treatment costs due to poor river quality conditions in the North Saskatchewan River and no dividend income due to the sale of Capital Power shares. Partially offsetting these decreases were favorable fair value adjustments related to financial electricity purchase contracts in 2017 and unfavorable fair value adjustments related to interest rate swaps in 2016 with

no corresponding transaction in the current year, higher water, wastewater and electricity transmission customer rates and higher net system access service collections.

- March 31, 2017, first quarter results included unfavorable fair value adjustments related to financial electricity purchase contracts and no dividend income due to the sale of Capital Power shares, lower net system access collections, lower gains as a result of sales of surplus land in the first quarter of 2016, lower income related to industrial services contracts and lower Energy Price Setting Plan margins. Partially offsetting these decreases were higher water, wastewater and electricity distribution and transmission customer rates and an unfavorable fair value adjustment related to interest rate swaps in the first quarter of 2016.
- December 31, 2016, fourth quarter results included the recognition of the fair value gain resulting from the sale of Capital Power shares, greater favorable fair value adjustments related to financial electricity purchase contracts and interest rate swaps and higher water, wastewater and electricity distribution customer rates, partially offset by lower electricity transmission customer rates, lower billing charge rates, higher depreciation and lower income related to industrial services contracts.
- September 30, 2016 third quarter results included greater favorable fair value adjustments related to financial electricity purchase contracts, the recognition of the fair value gain resulting from the sale of the Capital Power shares, and higher water, wastewater and electricity customer rates, partially offset by lower billing charge rates and higher depreciation expense. In addition, 2015 included an impairment of the Capital Power shares.
- June 30, 2016 second quarter results included lower favorable fair value adjustments related to financial electricity purchase contracts and interest rate swaps and excluded any gains related to Capital Power. These decreases were partially offset by higher water, wastewater and electricity customer rates and higher income related to industrial services contracts.
- March 31, 2016 first quarter results included higher water, wastewater and electricity customer rates, gains on sales of surplus lands, higher income related to industrial services contracts, and higher dividend income from Capital Power. This was partially offset by no equity share of income of Capital Power, and lower favorable fair value adjustments on financial electricity purchase contracts.
- December 31, 2015 fourth quarter results included an impairment of the available-for-sale investment in Capital Power, no equity share of income of Capital Power and lower deferred income tax recovery. This was partially offset by higher water, wastewater and electricity customer rates, higher billing charge rates, higher customer water consumption, and greater favorable fair value adjustments on financial electricity purchase contracts.

FORWARD - LOOKING INFORMATION

Certain information in this MD&A is forward-looking within the meaning of Canadian securities laws as it relates to anticipated financial performance, events or strategies. When used in this context, words such as “will”, “anticipate”, “believe”, “plan”, “intend”, “target”, and “expect” or similar words suggest future outcomes.

The purpose of forward-looking information is to provide investors with management’s assessment of future plans and possible outcomes and may not be appropriate for other purposes. Material forward-looking information within this MD&A, including related material factors or assumptions and risk factors, are noted in the table below:

Forward-looking Information	Material Factors or Assumptions	Risk Factors
The Company expects to have sufficient liquidity to finance its plans and fund its obligations in 2017.	EPCOR is able to generate the expected cash flow from operations and various means of funding remain available to the Company.	EPCOR’s operations do not generate the expected level of cash flow and / or circumstances arise limiting or restricting the Company’s ability to access funds through the various means otherwise available.
The City transferred Drainage to EPCOR on September 1, 2017 For the first full year of operations, capital spending, net of contributions, is expected to be approximately $120 million to $200 million.	EPCOR is able to complete its 2017 capital expenditure program on time and on budget and no material unplanned business.	Unforeseen circumstances result in construction delays and project delays.
The Company is currently preparing a new Canadian base shelf prospectus to be filed in the fourth quarter of 2017 and we expect that it will be in place for December 1, 2017.	Base shelf prospectus will be filed and in place within the expected time frame.	Base shelf prospectus is not filed and in place in the expected time frame.

The following table provides a comparison between actual results and future-oriented-financial information previously disclosed:

Material 2017 Objectives Previously Disclosed		Actual Result	Explanation of Material Differences from Objectives
Drainage will be transferred under the proposed terms, including the estimated transfer date:			
If Drainage is transferred, EPCOR will assume assets and liabilities.	Assets and liabilities of approximately $3.3 billion and $0.7 billion, respectively.	Assets and liabilities of $3.7 billion and $2.2 billion respectively (including $0.6 billion of debt).	The original disclosure only referenced the assumption of Drainage debt related to the transaction. The actual result includes all liabilities assumed in the transaction.
The Company will pay $75 million to the City over a period of time to be determined by the City to compensate the City for stranded costs related to the transfer.	$75 million to be paid over time.	Consideration for the transfer included $75 million of transition cost compensation of which $8 million was paid on the transfer date, with the remaining $67 million due over the next five years.	No difference.
EPCOR will become responsible for future capital costs and assume responsibility for current drainage-related City debt through a back-to-back agreement with the City.	Approximately $600 million to $650 million in current drainage-related City debt through a back-to-back agreement with the City.	$593 million contractual obligation for drainage-related City debt through a back-to-back agreement with the City.	The actual back-to-back debt was slightly less than anticipated in the original disclosure.
EPCOR expects to increase the dividend paid to the City by $20 million in 2018 and by a prorated amount in 2017, subject to Board and Shareholder approval.	Increase the dividend paid to the City by $20 million in 2018 and by a prorated amount in 2017.	Consistent with our commitment to the City of Edmonton, we are increasing the EPCOR dividend from $146 million to $153 million in 2017 with a further increase to $166 million in 2018, which has been approved by the Board and Shareholder.	No difference.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ from expectations and are identified in the Risk Management section above.

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

GLOSSARY

AUC means the Alberta Utilities Commission	**MGA** means *Bill 21: the Modernized Municipal Government Act*
Capital Power means Capital Power Corporation and its directly and indirectly owned subsidiaries including Capital Power L.P., except otherwise noted or the context otherwise indicates	**NRGL** means Natural Resource Gas Limited
E.L. Smith WTP means E.L. Smith Water Treatment Plant	**OEB** means Ontario Energy Board
IFRS means International Financial Reporting Standards	**RRO** means Regulated Rate Option
Hughes means Hughes Gas Resources, Inc.	**the City** means the City of Edmonton
MCC means Municipally Controlled Corporation	

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2016 Annual Information Form is available on SEDAR at www.sedar.com.