EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
September 30, 2020

This interim management's discussion and analysis (MD&A) dated October 29, 2020, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the nine months ended September 30, 2020 and 2019, including significant accounting policies (note 3), loans and borrowings (note 5), financial instruments (note 6) and financial risk management (note 7), the consolidated financial statements and MD&A for the years ended December 31, 2019 and 2018, including significant accounting policies (note 3), other financial assets (note 13), property, plant and equipment (note 15), other liabilities (note 21), related party balances and transactions (note 25), financial instruments (note 26) 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", "Corporation", "it", "its", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. 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. Terms used throughout this MD&A are defined in the Glossary at the end of this document.

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 October 29, 2020.

OVERVIEW

The Corporation, through its wholly owned subsidiaries, builds, owns and operates electrical, natural gas, and water transmission and distribution networks, water and wastewater facilities and sanitary and stormwater systems and infrastructure 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. EPCOR operates its business under the Water Services, Distribution and Transmission, Energy Services and U.S. Operations segments. The Company operates in Canada and the Southwestern U.S.

Net income was $92 million and $212 million for the three and nine months ended September 30, 2020, respectively, compared with net income of $76 million and $172 million for the comparative periods in 2019. The $16 million increase for the three months ended September 30, 2020, was primarily due to favorable fair value adjustments related to financial electricity purchase contracts and higher Adjusted EBITDA, as described below, partially offset by higher depreciation, income tax and finance expenses. The $40 million increase for the nine months ended September 30, 2020, was primarily due to higher transmission system access service charge net collections, lower income tax expense and higher Adjusted EBITDA, as described below, partially offset by unfavorable fair value adjustments related to financial electricity purchase contracts, higher depreciation and finance expenses.

Adjusted EBITDA was $218 million and $576 million for the three and nine months ended September 30, 2020, respectively, compared with $201 million and $536 million for the comparative periods in 2019. The increase of $17 million and $40 million for the three and nine months ended September 30, 2020, respectively, was primarily due to higher water and wastewater rates and customer growth, higher electricity distribution and transmission customer rates, and higher water consumption in Arizona due to hot and dry weather conditions, partially offset by higher provisions for expected credit losses from customers resulting from the deferral of utility bill payments, lower other revenues resulting from the temporary suspension of late payment and disconnections fees (collectively referred to as the customer utility bill payment deferral program) and lower Energy Price Setting Plan (EPSP) margins. In addition, for the nine months ended September 30, 2020, water revenues were higher in Arizona due to a tax reform adjustment credit on customer bills in 2019 with no corresponding credit in 2020. Adjusted EBITDA is a non-IFRS financial measure as described in the Adjusted EBITDA and Net Income section on page 4 of this MD&A.

SIGNIFICANT EVENTS

Changes to the Board of Directors

On April 28, 2020, Helen Sinclair, retired from the Board of Directors of the Company after serving as a Director since 2008 and Leontine Atkins was appointed to the Board of Directors of the Company.

Novel Coronavirus (COVID-19)

In response to the novel coronavirus (COVID-19) outbreak, which was declared a pandemic in March 2020, governmental authorities in Canada, the U.S. and internationally introduced various recommendations and measures to try to limit the spread of the pandemic, including non-essential business closures, quarantines, self-isolation, social and physical distancing and shelter-in-place. These measures caused disruptions to businesses globally, resulting in an economic slowdown.

One of the economic impacts of the COVID-19 outbreak is on our customers. The Company, in collaboration with various governments, provided support to customers in these difficult economic conditions with measures including deferral of utility bill payments, as well as, temporarily suspending customer disconnections and collections activities. These measures have resulted in delays in the collection of amounts due from customers, as well as higher expected credit losses from customers. The Company is working with its various regulators regarding methods for recovering losses being incurred by the Company. As a result of COVID-19 pandemic, the Company is experiencing a decline in the sale of water and electricity to its commercial customers, which is mostly offset by higher sales to residential and multi-residential customers. The overall decline in sales volume, as a result of COVID-19, is not expected to have a material impact on the financial results of the Company for 2020.

For further discussion of the COVID-19 outbreak and its impacts on the Company, please refer to the Risk Factors and Risk Management section below.

SIGNIFICANT ACCOUNTING POLICY CHANGES

The condensed consolidated interim financial statements for the nine months ended September 30, 2020 and 2019, have been prepared following the same accounting policies and methods as those used in preparing the Company's most recent annual consolidated financial statements. The Company has adopted amendments to various accounting standards effective January 1, 2020, which did not have significant impact on the Company's financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, $ millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Water Services segment	$ 176	$ 167	$ 506	$ 484
Distribution and Transmission segment	126	116	363	331
Energy Services segment	107	126	326	356
U.S. Operations segment	84	75	215	189
Other	34	17	89	52
Intersegment eliminations	(9)	(8)	(23)	(22)
Revenues	**$ 518**	**$ 493**	**$ 1,476**	**$ 1,390**

Consolidated revenues were higher by $25 million and $86 million for the three and nine months ended September 30, 2020, respectively, compared with the corresponding periods in 2019, primarily due to the net impact of the following:

- Water Services' segment revenues increased by $9 million and $22 million for the three and nine months ended September 30, 2020, respectively, compared with the corresponding periods in 2019, primarily due to higher water and wastewater customer rates, customer growth and higher water consumption for residential and multi-residential customers, partially offset by lower construction work and lower water consumption for commercial customers. In addition, for the nine months ended September 30, 2020, there were lower commercial revenues due to end of certain operating and maintenance contracts in 2019.

- Distribution and Transmission segment revenues increased by $10 million for the three months ended September 30, 2020, compared with the corresponding period in 2019, primarily due to higher electricity distribution and transmission rates and higher commercial services revenues, partially offset by lower transmission system access service charge net collections.

  Distribution and Transmission segment revenues increased by $32 million for the nine months ended September 30, 2020, compared with the corresponding period in 2019, primarily due to higher electricity distribution and transmission rates, higher transmission system access service charge net collections and higher commercial services revenues.

- Energy Services' segment revenues decreased by $19 million and $30 million for the three and nine months ended September 30, 2020, respectively, compared with the corresponding periods in 2019, primarily due to lower EPSP and default supply revenues due to lower electricity prices, lower electricity consumption due to lower site counts and lower other revenues due to the temporary suspension of late payment charges and collection fees as a result of the COVID-19 utility bill payment deferral program, partially offset by higher commercial services revenues related to billing and customer care services and higher Encor revenues due to a change in certain customer contracts from an agent to a principal relationship resulting in presentation of gross revenues in 2020, compared to net revenues in corresponding periods in 2019.

- U.S. Operations' segment revenues increased by $9 million and $26 million for the three and nine months ended September 30, 2020, respectively, compared with the corresponding periods in 2019, primarily due to higher water rates, customer growth, higher water consumption due to hot and dry weather conditions, higher commercial services revenues due to commencement of operations and maintenance of the Vista Ridge pipeline in April, 2020, and higher foreign exchange rates. In addition, for the nine months ended September 30, 2020, water revenues were higher in Arizona due to a tax reform adjustment credit on customer bills in 2019, with no corresponding credit in 2020.

- Other revenues increased by $17 million and $37 million for the three and nine months ended September 30, 2020, respectively, compared with the corresponding periods in 2019, primarily due to higher construction revenues with the commencement of work on the electricity sub-station infrastructure for Trans Mountain pipeline expansion project in April, 2020, and higher electricity prices for operations in Ontario.

Adjusted EBITDA and Net Income

We use earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments and transmission system access service charge net collections (collectively, Adjusted EBITDA) to discuss operating results for the Company's lines of business.

Change in fair value of derivative financial instruments represents the change in fair value of financial electricity purchase contracts between the electricity market forward prices and the contracted prices at the end of the reporting period, for the contracted volumes of electricity. Transmission system access service charge net collections is the difference between the transmission system access services charges paid to the provincial system operators and the transmission system access service charges collected from electricity retailers. Transmission system access service charge net collections are timing differences, which will be collected from or returned to electricity retailers as the transmission system access service charges and customer billing determinants are finalized.

We believe that Adjusted EBITDA provides an indicator of the Company's ongoing ability to fund capital expenditures, to incur and service debt and to pay dividends to its shareholder, which may be useful for external stakeholders in evaluating the operations and performance of the Company. Adjusted EBITDA 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.

(Unaudited, $ millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2020	**2019**	**2020**	**2019**
Adjusted EBITDA by Segment				
Water Services segment	$ 90	$ 79	$ 251	$ 228
Distribution and Transmission segment	64	57	171	159
Energy Services segment	10	12	25	35
U.S. Operations segment	50	46	115	103
Other	4	7	14	11
Adjusted EBITDA	**218**	**201**	**576**	**536**
Finance expenses	(35)	(34)	(102)	(98)
Income tax expense	(8)	(7)	(11)	(32)
Depreciation and amortization	(87)	(82)	(255)	(239)
Change in fair value of financial electricity purchase contracts	7	-	4	10
Transmission system access service charge net collections	(3)	(2)	-	(5)
Net income	**$ 92**	**$ 76**	**$ 212**	**$ 172**

Changes in each business segment's Adjusted EBITDA, for the three and nine months ended September 30, 2020, respectively, compared with the corresponding periods in 2019, are described in Segment Results below. Explanations of the remaining variances in net income for the three and nine months ended September 30, 2020, compared with the corresponding periods in 2019, are as follows:

- Higher financing expenses of $1 million and $4 million for the three and nine months ended September 30, 2020, respectively, were primarily due to interest on issuances of long-term debt in July, 2019, and May, 2020, partially offset by higher capitalization of interest in 2020.
- Higher income tax expense of $1 million for the three months ended September 30, 2020, was primarily due to higher income subject to tax in the current quarter.

  Lower income tax expense of $21 million for the nine months ended September 30, 2020, was primarily due to lower income subject to income tax in 2020, as well as, higher deferred income tax expense resulting from a decrease in the Alberta corporate income tax rate in 2019 with no corresponding expense in 2020.
- Higher depreciation and amortization of $5 million and $16 million for the three and nine months ended September 30, 2020, respectively, was primarily due to depreciation expense on 2019 and 2020 asset additions.
- Favorable changes in the fair value of financial electricity purchase contracts of $7 million for the three months ended September 30, 2020, were primarily due to electricity market forward prices being higher than contracted prices in 2020, compared to contracted prices being higher than electricity market forward prices in 2019.

  Unfavorable changes in the fair value of financial electricity purchase contracts of $6 million for the nine months ended September 30, 2020, were primarily due to lower difference between the electricity contracted prices and the market forward prices in 2020.
- Lower transmission system access service charge net collections of $1 million for the three months ended September 30, 2020, were primarily due to higher payments to provincial system operators, partially offset by higher collections from customers.
- Higher transmission system access service charge net collections of $5 million for the nine months ended September 30, 2020, were primarily due to higher collections from customers, partially offset by higher payments to provincial system operators.

SEGMENT RESULTS

Water Services

Water Services is primarily involved in the treatment, transmission, distribution and sale of water, the collection and conveyance of sanitary 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,	
	2020	2019	2020	2019
Revenues	$ 176	$ 167	$ 506	$ 484
Expenses	126	127	372	366
Operating income	**50**	**40**	**134**	**118**
Exclude depreciation and amortization	40	39	117	110
Adjusted EBITDA	**$ 90**	**$ 79**	**$ 251**	**$ 228**

Water Services' Adjusted EBITDA increased by $11 million and $23 million for the three and nine months ended September 30, 2020, respectively, compared with the corresponding periods in 2019, primarily due to higher water and wastewater customer rates, customer growth, higher water consumption for residential and multi-residential customers, lower water treatment costs for operations in the city of Edmonton due to better water quality of the North Saskatchewan River and lower operating costs, partially offset by lower water consumption for commercial customers. In addition, for the nine months ended September 30, 2020, there is a higher provision for expected credit losses from customers as a result of deferral of customer utility bill payments.

Distribution and Transmission

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

Transmission filed its 2020-2022 Transmission Facility Owner Tariff Application with the Alberta Utilities Commission (AUC) on July 31, 2019. On April 17, 2020, a favorable decision on the tariff application was received and final rates were effective from August, 2020.

EPCOR participated in the 2021 Generic Cost of Capital (GCOC) proceeding in which the AUC was planning to set the return on equity (ROE) and capital structure for 2021 and 2022. On October 13, 2020, the AUC issued its 2021 GCOC decision. The AUC directed that the ROE for 2021 will remain at 8.5% and the equity ratio will remain at 37% for both Distribution and Transmission utilities extending the currently approved rate for the full duration of 2021. The AUC decided that the scope of future GCOC proceeding will no longer include 2021 and will only address future periods.

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Revenues	$ 126	$ 116	$ 363	$ 331
Expenses	91	85	265	246
Operating income	**35**	**31**	**98**	**85**
Exclude depreciation and amortization	26	24	73	69
Exclude transmission system access service charge net collections	3	2	-	5
Adjusted EBITDA	**$ 64**	**$ 57**	**$ 171**	**$ 159**

Distribution and Transmission's Adjusted EBITDA increased by $7 million and $12 million for the three and nine months ended September 30, 2020, respectively, compared with the corresponding periods in 2019, primarily due to higher electricity distribution and transmission rates, as well as higher work volumes for commercial services partially offset by lower commercial services margins and higher provision for expected credit losses.

Energy Services

Energy Services is primarily involved in the provision of the RRO electricity service and default supply electricity services to 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,	
	2020	**2019**	**2020**	**2019**
Revenues	$ 107	$ 126	$ 326	$ 356
Expenses	91	115	302	316
Operating income	**16**	**11**	**24**	**40**
Exclude depreciation and amortization	1	1	5	5
Exclude change in fair value of financial electricity purchase contracts	(7)	-	(4)	(10)
Adjusted EBITDA	**$ 10**	**$ 12**	**$ 25**	**$ 35**

Energy Services' Adjusted EBITDA decreased by $2 million and $10 million for the three and nine months ended September 30, 2020, respectively, compared with the corresponding periods in 2019, primarily due to a higher provision for expected credit losses from customers and lower other revenues resulting from the customer utility bill payment deferral program, lower EPSP margins and higher staff costs related to additional operational support required during development of the new billing system, partially offset by higher commercial services revenues related to billing and customer care services.

U.S. Operations

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

In the first quarter of 2019, the Arizona Corporation Commission (ACC) considered U.S. Operation's rate application for consolidation of all 11 Arizona water utility districts, which resulted in a tie vote with no decision being rendered. The Company filed for interim rates for all 11 Arizona water utility districts, which were approved by the ACC in March 2019. The ACC ordered the Company to file a new rate application for all 11 Arizona water utility districts that could include regional consolidation options. The application, including various consolidation options, was filed on June 15, 2020, and a decision is expected in late 2021.

On August 20, 2020, EPCOR purchased the assets of Brooke Water LLC (Brooke) for cash consideration of $2 million. Brooke is located near the Town of Parker, near EPCOR's existing service area in Lake Havasu City, Arizona. Brooke is currently serving approximately 2,100 water customers.

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Revenues	$ 84	$ 75	$ 215	$ 189
Expenses	49	42	144	125
Operating income	**35**	**33**	**71**	**64**
Exclude depreciation and amortization	15	13	44	39
Adjusted EBITDA	**$ 50**	**$ 46**	**$ 115**	**$ 103**

U.S. Operations' Adjusted EBITDA increased by $4 million and $12 million for the three and nine months ended September 30, 2020, respectively, compared with the corresponding periods in 2019, primarily due to higher water rates, customer growth, higher water consumption due to hot and dry weather conditions in Arizona and higher foreign exchange rate, partially offset by increases in various operating expenses. In addition, for the nine months ended September 30, 2020, water revenues in Arizona were higher due to a tax reform adjustment credit on customer bills in 2019 with no corresponding credit in 2020.

Capital Spending and Investment

(Unaudited, $ millions) **Nine months ended September 30,**		**2020**		**2019**
Water Services segment	$	316	$	215
Distribution and Transmission segment		158		158
Energy Services segment		-		2
U.S. Operations segment		85		59
Other		51		45
Total capital spending		**610**		**479**
Rio Verde Utilities Inc. acquisition		-		31
Brooke Water LLC acquisition		2		-
Payment for Vista Ridge project		12		-
Total capital spending and investment	**$**	**624**	**$**	**510**

Total capital spending and investment increased by $114 million for the nine months ended September 30, 2020, compared with the corresponding period in 2019, primarily due to higher capital spending in most of the Company's operating segments and payment of outstanding balance of the investment in the Vista Ridge project, partially offset by lower spending on a business acquisition.

Explanations of the significant variances in capital spending in each business segment for the nine months ended September 30, 2020, compared with the corresponding period in 2019, are as follows:

- The Water Services segment had higher spending primarily on acquisition of a new operations service center, Parkallen Dry Pond project, South Edmonton Sanitary Sewer project, Gold Bar Pipe Racks project, several water and sanitary sewer main projects and various lifecycle projects. This was partially offset by lower spending on the Gold Bar Sludge line replacement project, Private Development Water Transmission Mains and E.L. Smith Clarifier & Filter Building HVAC upgrade, which were substantially complete in 2019.
- The Distribution and Transmission segment had no change in spending primarily due to higher spending on a 15kV and 25 kV circuits duct bank under the North Saskatchewan River, West Valley Light Rail Transit system relocation project and various lifecycle replacement projects, fully offset by lower spending on a new substation in southwest Edmonton which was substantially complete in 2019 and various other growth projects.
- The U.S. Operations segment had higher spending on the sewer main extension and wastewater treatment plant expansion west of metropolitan Phoenix to accommodate new industrial and commercial customers, higher spending on various growth projects, as well as, higher foreign exchange on capital spending.
- In Other, higher spending was primarily due to the Customer Information System Replacement project, which is a new customer billing system for various segments that are served by Energy Services.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – ASSETS

(Unaudited, $ millions)	September 30, 2020	December 31, 2019	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	$ 120	$ 33	$ 87	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	449	473	(24)	Decrease primarily due to lower receivables from the City relating to construction work and lower electricity revenue accruals resulting from lower volumes, partially offset by increase in receivables due to COVID-19 customer utility bill payment deferral program net of higher provision for expected credit losses on customer bills and higher developer contributions receivable.
Inventories	17	18	(1)	
Other financial assets	178	127	51	Increase primarily due to purchase of early works assets and construction on the Trans Mountain pipeline expansion project, partially offset by payments received on long-term receivables and finance lease receivables.
Deferred tax assets	99	102	(3)	Decrease is primarily due to utilization of deferred tax asset against income subject to income tax for 2020.
Property, plant and equipment	10,748	10,280	468	Increase primarily due to capital expenditures and foreign currency valuation adjustments, partially offset by depreciation expense.
Intangible assets and goodwill	410	388	22	Increase primarily due to capital expenditures and foreign currency valuation adjustments, partially offset by amortization expense.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, $ millions)	September 30, 2020	December 31, 2019	Increase (decrease)	Explanation of material changes
Trade and other payables	$ 437	$ 431	$ 6	Increase primarily due to higher accrued interest on long-term debt and accruals for construction costs of the Trans Mountain pipeline expansion project and Southern Bruce project, partially offset by lower electricity accruals due to lower price and volumes, decrease in payables to the Alberta Electric System Operator for electricity costs due to timing of payments and lower capital accruals.
Loans and borrowings (including current portion)	3,469	3,081	388	Increase primarily due to issuance of long-term debt ($400 million) and foreign currency valuation adjustments on U.S. dollar denominated debt, partially offset by principal repayments of long-term and short-term debts, and payments for debt issuance costs.
Deferred revenue (including current portion)	3,926	3,778	148	Increase primarily due to customer and developer contributions received and foreign currency valuation adjustments, partially offset by deferred revenue recognized.
Provisions (including current portion)	130	130	-	
Other liabilities (including current portion)	205	241	(36)	Decrease primarily due to Drainage transition cost compensation payment, payment of the outstanding balance for investment in the Vista Ridge project, payments for lease liabilities and decrease in customer deposits, partially offset by foreign currency valuation adjustments.
Deferred tax liabilities	50	56	(6)	Decrease is primarily due to recognition of timing differences for US operations, partially offset by foreign currency valuation adjustments.
Equity attributable to the Owner of the Company	3,804	3,704	100	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended September 30,	**2020**	**2019**	**Increase (decrease)**	**Explanation**
Operating	$ 246	$ 236	$ 10	Higher inflows are primarily due to higher net cash flows from operations and higher funds from the changes in non-cash operating working capital.
Investing	(274)	(182)	(92)	Higher outflows are primarily due to higher capital expenditures and higher advances on other financial assets primarily related to the Trans Mountain project, partially offset by higher funds from the changes in non-cash investing working capital.
Financing	(70)	135	(205)	Higher outflows are primarily due to proceeds from issuance of long-term debt in 2019 ($450 million) compared to no issuance in 2020, partially offset by lower repayments of short-term debt $22 million in 2020 compared to $263 million in 2019 and payments for debt issuance costs in 2019 compared to no payment in 2020.
Opening cash and cash equivalents	218	31	187	
Closing cash and cash equivalents	$ 120	$ 220	$ (100)	

(Unaudited, $ millions) **Cash inflows (outflows)**							
Nine months ended September 30,		**2020**		**2019**		**Increase (decrease)**	**Explanation**
Operating	$	541	$	435	$	106	Higher inflows are primarily due to higher net cash flows from operations including higher contributions received and higher funds from the changes in non-cash operating working capital.
Investing		(695)		(501)		(194)	Higher outflows are primarily due to higher capital expenditures, payment of remaining balance for investment in the Vista Ridge project in 2020 compared to no payment in 2019, higher advances on other financial assets primarily related to the Trans Mountain project and lower funds from the changes in non-cash investing working capital, partially offset by lower cash outflows on business acquisition and lower payment related to Drainage transition cost compensation.
Financing		241		254		(13)	Lower inflows are primarily due to lower proceeds from issuance of long-term debt in 2020 ($400 million) compared to proceeds in 2019 ($450 million), partially offset by lower repayments of short-term debt.
Opening cash and cash equivalents		33		32		1	
Closing cash and cash equivalents	$	120	$	220	$	(100)	

Operating Activities and Liquidity

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

The COVID-19 outbreak has resulted in lower than anticipated cash flows from operating activities due to lower than anticipated sales of water and electricity, particularly to the commercial customers, deferral of utility bill payments by customers and the higher expected credit losses from customer defaults. The Company expects to have sufficient liquidity to finance its plans and fund its obligations, including current liabilities in excess of current assets, for the next twelve months, with a combination of available cash, funds from operations, issuance of commercial paper, public or private debt offerings and availability of liquidity from committed syndicated bank credit facility described under the Financing section below.

Capital Requirements and Contractual Obligations

During the nine months ended September 30, 2020, there were no material changes to the Company's capital requirements or purchase obligations, including payments for the next five years and thereafter, from those previously disclosed in the 2019 annual MD&A except for the commitment related to execution of the Trans Mountain pipeline expansion project, as described in Outlook section of this MD&A.

Financing

Generally, our external financing is raised at the corporate level and invested in the operating business units. Our external financing has consisted of commercial paper issuance, bank loans under credit facilities, debentures payable to the City related to utility assets transferred from the City, debentures payable to other municipalities, publicly issued medium-term notes and U.S. private debt notes.

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

(Unaudited, $ millions) **September 30, 2020**	**Expiry**	**Total facilities**	**Letters of credit issued**	**Banking commercial paper issued**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2024	$ 600	$ -	$ 19	$ 581
Uncommitted					
Bank credit facilities[2]	No expiry	200	72	-	128
Bank credit facility	No expiry	25	-	-	25
Bank credit facility	November 2020	13	-	-	13
Total uncommitted		238	72	-	166
Total credit facilities		**$ 838**	**$ 72**	**$ 19**	**$ 747**

(Unaudited, $ millions) **December 31, 2019**	**Expiry**	**Total facilities**	**Letters of credit issued**	**Banking commercial paper issued**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2024	$ 600	$ -	$ 22	$ 578
Uncommitted					
Bank credit facilities[2]	No expiry	200	99	-	101
Bank credit facility	No expiry	25	-	-	25
Bank credit facility	November 2020	13	-	-	13
Total uncommitted		238	99	-	139
Total credit facilities		**$ 838**	**$ 99**	**$ 22**	**$ 717**

1 The Company's $600 million committed syndicated bank credit facility is available and primarily used for backstopping EPCOR's commercial paper program. The committed syndicated bank credit facility 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 facility gives the Company the option each year to re-price and extend the terms of the facility 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. At September 30, 2020, commercial paper totaling $19 million was issued and outstanding (December 31, 2019 - $22 million).

2 The Company's uncommitted bank credit facility consists of five bilateral credit facilities (totaling $200 million)

which are restricted to letters of credit. At September 30, 2020, letters of credit totaling $72 million have been issued and outstanding (December 31, 2019 - $99 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

The Company has a Canadian base shelf prospectus under which it may raise up to $2 billion of debt with maturities of not less than one year. At September 30, 2020, the available amount remaining under this base shelf prospectus was $1.60 billion (December 31, 2019 - $2 billion). The Canadian base shelf prospectus expires in December 2021.

On May 19, 2020, the Company issued $400 million of dual-tranche long-term unsecured public debentures, consisting of a $100 million three-year note with a coupon rate of 1.30% and an effective interest rate of 1.45%, and a $300 million 30-year note with a coupon rate of 2.90% and an effective interest rate of 2.95%. The interest is payable semi-annually and the principal is due at maturity for both the notes.

If the economy or capital market conditions 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 add temporary liquidity sources, reduce capital expenditures and operating costs.

Credit Rating

In September 2020, DBRS confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt and Standard & Poor's Ratings Services confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR.

These credit ratings reflect the Company's ability to meet its financial obligations given the stable cash flows generated from the rate-regulated water, wastewater, natural gas and electricity businesses. A credit rating downgrade for EPCOR could result in higher interest costs on new borrowings and reduce the availability of sources and tenor of investment capital.

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its syndicated bank credit facility, 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 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 2019 annual MD&A.

RISK FACTORS AND RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2019 annual MD&A. Risk management is a key component of the Company's culture and we have cost-effective risk management practices in place. Risk management is 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 developing events and proposed transactions to consider their impact on the risk profile of the Company.

In the first quarter of 2020, the COVID-19 outbreak developed into a pandemic, exposing the Company to a number of potential effects in addition to the risks disclosed in the Company's 2019 annual MD&A. The key short-term potential effects to EPCOR associated with the COVID-19 outbreak include: failure to maintain continuity of service to customers due to a shortage of available employees and / or key supplies to maintain operations should measures implemented to reduce spread of the virus be unsuccessful; and lower net income due to lower revenues primarily from commercial customers, increased credit losses from customers, costs incurred to mitigate risks of the outbreak and lower capitalization of operating costs due to reduced capital activity. The Company has implemented its business continuity plan designed to ensure the health and safety of its employees and continuity of services to customers.

The extent of the Company's exposure to the effects of the COVID-19 outbreak is dependent upon a number of factors including, but not limited to: the spread, mortality rate and duration of the outbreak, including the length of time social distancing and isolation measures are to be applied as recommended by healthcare experts or required under government order; impact on customers, capital markets and the economy; ability of the Company's key suppliers to maintain service continuity; any government orders imposed on utilities preventing the cut-off of customers for non-payment during the COVID-19 outbreak or allowing customers to defer payment of their bills, for example; effectiveness of the Company's business continuity plan; and ability to mitigate the various COVID-19 risks.

Due to increased cyber security threats from malicious actors exploiting the world's heightened vulnerability during the COVID-19 outbreak, the Company has implemented additional controls and precautionary measures to protect against cyber-attacks and prevent fraud during this period.

Following the end of the COVID-19 outbreak, the Company could experience a further and sustained decline in revenues, income and cash flows if the economy fails to recover quickly or fully, possibly compounded by sustained low oil prices if world oil consumption does not return to pre-COVID-19 outbreak levels, which would exacerbate circumstances in Alberta where EPCOR's operations are most extensive. Other long-term effects could include operational challenges due to failure of the Company's supply chain relied upon for key parts, supplies and services, a credit rating downgrade leading to increased borrowing costs which in turn, could result in goodwill impairment or make the Company's cost of capital less competitive and limit growth potential.

In addition to the risks associated with the COVID-19 outbreak outlined above, EPCOR's other risks include political and legislative risk, regulatory risk, health and safety risk, weather and climate-change risk, environmental risk, new business integration risk, strategy execution risk, competitive risk, cybersecurity risks, reputational damage and stakeholder activism, actual performance compared to approved revenue requirement, billing error risk, business interruption risks, failure to attract, retain or develop top talent, electricity price and volume risk, project risk, credit risk, financial liquidity risk, foreign exchange risk, conflicts of interest, and general economic conditions, business environment and other risks.

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 of standards have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after January 1, 2021. The Company does not expect the implementation of these new accounting pronouncements to have a significant impact on its accounting policies.

CRITICAL ACCOUNTING ESTIMATES

In preparing the condensed consolidated interim financial statements, management necessarily made 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, costs and unbilled consumption, expected credit loss allowance, 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 energy, water, related impact on sanitary system, changes in energy 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 consolidated financial statements and MD&A for the years ended December 31, 2019, and 2018.

OUTLOOK

For the remainder of 2020, EPCOR will focus on ensuring uninterrupted services to our customers as a result of the COVID-19 outbreak, continuing electrical sub-station infrastructure construction related to Trans Mountain expansion project, Luke 303 wastewater treatment plant expansion in the U.S. Operations, natural gas pipeline construction in the Southern Bruce region of Ontario and continuing to target growth in rate-regulated and contracted water, wastewater, and 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. We intend to expand our water and electricity commercial services activities and to invest in renewable energy generation, including solar and biogas facilities, which will be ancillary to our existing operations and will enhance our environmental performance.

On November 5, 2019, voters in Bullhead City, a U.S. municipality where EPCOR owns a water utility system, passed Proposition 415, authorizing local government to take steps to acquire EPCOR's Mohave and North Mohave water systems and operations using powers of eminent domain, which is the right of a government to expropriate private property for public use, with payment of compensation. The passage of Proposition 415 allows Bullhead City to pursue the purchase of EPCOR's assets through a legal process and failing agreement between the parties, ultimately allow the courts to decide the purchase price. EPCOR will pursue all avenues to ensure that the Company receives fair market value. On March 27, 2020, Bullhead City filed a suit seeking to expropriate the utility systems and seeking immediate possession of the utility systems. The hearing for the suit is scheduled for February 21, 2021, and the final outcome of the suit remains uncertain. The financial impact of the water utility system operations is not considered material to EPCOR's operations or financial conditions.

On March 31, 2020, EPCOR entered into a 20-year design, build, own, maintain and transfer (DBOMT) agreement with the Trans Mountain Corporation and a corresponding design-build agreement with a partnership between Kiewit Energy Group and Western Pacific Enterprises. The scope of the DBOMT is to build and maintain electrical sub-station infrastructure along the Trans Mountain pipeline expansion project. As part of the DBOMT agreement, EPCOR acquired certain early work assets completed in respect to the electrical sub-station infrastructure from Trans Mountain Corporation. The Company started construction on the project in April, 2020, which is expected to complete by the fourth quarter of 2021, with the maintenance period lasting 20 years. The project will require an estimated investment of approximately $101 million, of which $55 million has already been incurred up to September 30, 2020.

EPCOR is proposing to build a new renewable natural gas facility within the footprint of its existing Gold Bar wastewater treatment facility. The proposed facility will reduce flaring and greenhouse gas emissions while creating a green energy product for re-sale. The facility is proposed to be constructed and operational by second half of 2021 and is expected to produce 230,000 gigajoules of renewable natural gas in its first full year of operations. EPCOR expects that production of renewable gas at the facility will grow proportionally with Edmonton's population. On July 22, 2020, EPCOR entered into an off-take agreement with Fortis BC for certain renewable natural gas output of the facility, for which approval has been received from the British Columbia Utilities Commission on October 13, 2020. The proposed facility would be the first commercial scale renewable natural gas project developed at a wastewater treatment plant in Western Canada.

EPCOR has been awarded franchises by two municipalities and one township in the Southern Bruce region of Ontario near Kincardine to use municipal rights-of-ways to build, own and operate a natural gas distribution system. EPCOR received all the requisite approvals and started construction of the gas distribution system in July 2019, through a design build contractor. EPCOR's Southern Bruce natural gas distribution system was connected to two industrial customers and one agricultural customer in the Municipality of Kincardine in August, 2020. Connections to residential customers have also commenced in October 2020. The remaining portion of the system is expected to be substantially complete by the end of 2021.

The Company is proposing to build a new solar farm on EPCOR owned land at its existing E.L. Smith Water Treatment Plant (E.L. Smith WTP). The solar farm, which is expected to have a peak generation capacity of 12 megawatts, will generate "green" energy to help power the E.L. Smith WTP. The project has received approval from the AUC. The project also requires approval of a re-zoning application by the City. Edmonton City Council had asked for further consultation on the project with the Enoch Cree Nation and advice by the City Administration on whether the project would satisfy the "deemed essential" criteria applicable to developments on the City owned land. On September 1, 2020, Enoch Cree Nation and EPCOR signed a memorandum of understanding to signify our commitment to working together in the spirit of reconciliation and collaboration. On October 19, 2020, Edmonton City Council, after a public hearing, voted to allow for the development of a solar farm. EPCOR has received all the requisite approvals and plans to start construction in early 2021.

On October 6, 2020, EPCOR executed an asset purchase agreement with Johnson Utilities LLC (Johnson Utilities). Johnson Utilities provides services to approximately 30,000 water and 42,000 wastewater customers, with a certificate of convenience and necessity that covers 90 square miles in the fast-growing southeastern Phoenix metropolitan area. The acquisition of assets is subject to regulatory approval from the ACC and other customary closing conditions. A joint change of control application has been filed with the ACC, which is expected to be approved by the end of the year.

QUARTERLY RESULTS

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income**
September 30, 2020	$ 518	$ 92
June 30, 2020	471	70
March 31, 2020	487	50
December 31, 2019	474	59
September 30, 2019	493	76
June 30, 2019	439	40
March 31, 2019	458	56
December 31, 2018	466	107

Events for the past eight quarters compared to the same quarters of the prior years that have significantly impacted net income included:

- September 30, 2020, third quarter results included favorable fair value adjustments related to financial electricity purchase contracts, higher water and wastewater rates, customer growth, higher electricity distribution and transmission customer rates, higher water consumption in Arizona due to hot and dry weather conditions and lower water treatment costs for operations in the city of Edmonton due to better water quality conditions of the North Saskatchewan River, partially offset by higher depreciation, income tax and finance expenses, higher provisions for expected credit losses from customers, lower other revenues resulting from the temporary suspension of late payment and disconnections fees, and lower EPSP margins.

- June 30, 2020, second quarter results included favorable fair value adjustments related to financial electricity purchase contracts, higher transmission system access service charge net collections, lower income tax expense, higher water and wastewater rates, customer growth, higher water revenues in Arizona due to a tax reform adjustment credit on customer bills in 2019 with no corresponding credit in 2020 and higher electricity distribution customer rates. This was partially offset by higher depreciation and finance expenses, lower water consumption for operations in Edmonton, higher water treatment costs due to poor water quality conditions of the North Saskatchewan River, higher provisions for expected credit losses from customers and lower other revenues due to the customer utility bill payment deferral program due to the COVID-19 pandemic.
- March 31, 2020, first quarter results included unfavorable fair value adjustments related to financial electricity purchase contracts, lower transmission system access service charge net collections, higher depreciation expense, higher provision for expected credit losses from customers and lower work volumes and margins for street lighting, traffic signals and light rail transit electrical services for the City. This was partially offset by higher water and wastewater customer rates, customer growth and higher water consumption, higher distribution customer rates, higher EPSP margins, higher work volume and margins for commercial services work and lower income tax expense.
- December 31, 2019, fourth quarter results included lower work volumes related to street lighting, traffic signals and light rail transit electrical services for the City, lower water revenues due to a tax reform adjustment on customer bills, higher maintenance costs on water storage tanks in U.S. Operations, lower transmission system access service charge net collections, as well as, higher depreciation and income tax expenses. Partially offsetting these decreases were higher water and wastewater rates and customer growth, higher electricity distribution and transmission rates, higher EPSP margins, higher water volumes, higher commercial services revenues, lower unfavorable fair value adjustments related to financial electricity purchase contract and lower finance expenses.
- September 30, 2019, third quarter results included higher water and wastewater rates and customer growth, higher electricity distribution and transmission rates, higher EPSP margins, higher transmission system access service charge net collections and lower unfavorable fair value adjustments related to financial electricity purchase contracts. Partially offsetting these increases were lower work volumes related to street lighting, traffic signals and light rail transit electrical services for the City, lower water consumption resulting from lower temperatures and higher precipitation for operations in the city of Edmonton, higher water treatment costs due to poor water quality of North Saskatchewan River and higher depreciation, finance and income tax expenses.
- June 30, 2019, second quarter results included lower water consumption due to low temperatures and high precipitation, lower Arizona water revenues due a tax reform adjustment credit on customer bills, lower work volumes related to street lighting, traffic signals and light rail transit electrical services for the City, higher depreciation expense due to 2018 asset additions and ROU asset additions in 2019, higher deferred income tax expense due to a decrease in the Alberta corporate income tax rate and unfavorable fair value adjustments related to financial electricity purchase contracts. Partially offsetting these decreases were higher EPSP margins, higher electricity distribution and transmission revenues due to higher rates, higher water and wastewater customer rates, higher Encor customer growth and higher transmission system access service charge net collections.
- March 31, 2019, first quarter results included lower EPSP margins, lower water consumption due to low temperatures and high precipitation, higher water treatment costs due to an early spring run-off in 2019, higher depreciation expense due to 2018 additions and ROU asset additions, and higher income tax expense. Partially offsetting these decreases were higher electricity distribution customer revenues due to higher rates, favorable fair value adjustments related to financial electricity purchase contracts, higher Encor customer growth and higher transmission system access service charge net collections.

- December 31, 2018, fourth quarter results included higher income tax recovery due to recognition of non-capital loss carry-forward balances, higher distribution revenues due to higher customer rates, higher EPSP margins, higher transmission system access service charge net collections, lower finance expense due to lower average debt outstanding and lower interest rates, and no losses on sale of surplus land. Partially offsetting these increases were lower water and wastewater revenues, unfavorable fair value adjustments related to financial electricity purchase contracts and higher depreciation expense due to asset additions for 2018.

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 for the next twelve months.	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, including the COVID-19 outbreak, limiting or restricting the Company’s ability to access funds through the various means otherwise available.

There have been no changes in the material forward-looking information, related material factors or assumptions and risk factors previously disclosed in the 2019 annual MD&A.

For further information on the Company’s forward looking information, refer to the 2019 annual MD&A.

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 discussed in the Risk Factors and 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

ACC means Arizona Corporation Commission	**EPSP** means Energy Price Setting Plan
Adjusted EBITDA earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments and transmission system access service charge net collections	**GCOC** means Generic Cost of Capital
AUC means Alberta Utilities Commission	**IFRS** means International Financial Reporting Standard(s)
Brooke means Brooke Water LLC	**Johnson Utilities** means Johnson Utilities LLC
COVID-19 means novel coronavirus	**ROE** means Return on Equity
DBOMT means design, build, own, maintain and transfer	**RRO** means Regulated Rate Option
Drainage means drainage utility services within the city of Edmonton	**the City** means The City of Edmonton
E.L. Smith WTP means E.L. Smith Water Treatment Plant	

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2019 Annual Information Form is available on SEDAR at www.sedar.com.