EPCOR UTILITIES INC.

Management's Discussion and Analysis

For three months ended March 31, 2022

EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
March 31, 2022

This interim management's discussion and analysis (MD&A) dated May 3, 2022, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months ended March 31, 2022 and 2021, including significant accounting policies (note 3), financial instruments (note 5), financial risk management (note 6) and commitments (note 7), the consolidated financial statements and MD&A for the year ended December 31, 2021, and the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "the Corporation", "EPCOR", "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 Accounting Standard - 34 "*Interim Financial Reporting*" as issued by International Accounting Standards Board (IASB), 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 May 3, 2022.

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, 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 $74 million for the three months ended March 31, 2022, compared with net income of $55 million for the comparative period in 2021. The increase of $19 million for the three months ended March 31, 2022 was primarily due to higher transmission system access service charge net collections, higher net collection of U.S. natural gas procurement costs and higher Adjusted EBITDA, as described below, partially offset by unfavorable fair value adjustments related to financial electricity purchase contracts, and higher income tax expense.

Adjusted EBITDA is a financial measure, which is not prescribed by International Financial Reporting Standards (IFRS) as issued by IASB, as described in the Adjusted EBITDA and Net Income section on page 3 of this MD&A.

Adjusted EBITDA was $209 million for the three months ended March 31, 2022, compared with $194 million for the comparative period in 2021. The $15 million increase was primarily due to higher rates and customer growth, higher Adjusted EBITDA from the San Tan operations acquired on January 29, 2021 and higher Energy Price Setting Plan (EPSP) margins, partially offset by a higher provision for expected credit losses from customers and lower Adjusted EBITDA due to expropriation of the Bullhead City (BHC) water utility operations on September 1, 2021.

SIGNIFICANT EVENTS

Novel Coronavirus (COVID-19)

The Novel Coronavirus (COVID-19) pandemic continued to disrupt some business activities during the first quarter of 2022. However, the local and federal governments across Canada and the U.S. have rolled out plans to either relax or remove the restrictions and health measures put in place during peak of pandemic. Since the beginning of the pandemic, the Company has been operating under its business continuity plan to ensure safety of its employees and customers. In view of the relaxation of restrictions by the local governments, the Company has initiated re-integration of its non-field / plant employees working from home, back to their work locations in a phased manner. The Company is closely monitoring the situation, including announcements from governments and regulators, to assess potential impact of those announcements on its operations.

The Company continued providing undisrupted safe and reliable services to all its customers and has not experienced any significant impact on its operations. During the three months ended March 31, 2022, the COVID-19 pandemic did not result in any material impact on the financial results of the Company.

SIGNIFICANT ACCOUNTING POLICY CHANGES

The condensed consolidated interim financial statements for the three months ended March 31, 2022 and 2021 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, 2022, which did not have a significant impact on the Company's financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, $ millions) **Three months ended March 31,**	**2022**	**2021**
Water Services segment	$ 168	$ 170
Distribution and Transmission segment	125	116
Energy Services segment	205	145
U.S. Operations segment	74	64
Other	26	30
Intersegment eliminations	(7)	(6)
Revenues	**$ 591**	**$ 519**

Consolidated revenues were higher by $72 million for the three months ended March 31, 2022, compared with the corresponding period in 2021, primarily due to the net impact of the following:

- Water Services' segment revenues decreased by $2 million primarily due to lower construction and commercial revenues from certain construction, operating and maintenance contracts, partially offset by higher water and wastewater rates and customer growth.
- Distribution and Transmission segment revenues increased by $9 million primarily due to higher transmission system access service charge net collections, as well as, higher electricity distribution and transmission rates and higher commercial services revenues, partially offset by lower revenues related to lighting, traffic signals and light rail transit (LRT) electrical services for The City of Edmonton (the City).
- Energy Services' segment revenues increased by $60 million primarily due to higher electricity prices and higher other revenues due to recovery of utility payment deferral program (UPDP), partially offset by lower electricity volumes due to lower customer sites. In addition, certain customer contracts have moved from variable price

plan to fixed price plan resulting in presentation of revenues net of related expenses compared with gross revenues in 2021.

- U.S. Operations' segment revenues increased by $10 million primarily due to customer growth, higher water rates in Arizona, higher natural gas sales in Texas due to lower temperatures, higher construction and commercial revenues, as well as, higher water and wastewater revenues from the San Tan operations acquired in January 29, 2021, partially offset by lower water sales revenues due to expropriation of the BHC water utility systems in September, 2021.
- Other revenues decreased by $4 million primarily due to lower construction revenues related to the electricity sub-station infrastructure for the Trans Mountain pipeline expansion project and the Darlington Nuclear Generating Station (Darlington) water treatment plant project as a result of lower activity, partially offset by higher lease financing income related to the Trans Mountain pipeline expansion project and higher natural gas revenues in Ontario primarily due to higher commodity prices and volume.

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, transmission system access service charge net collections, net collections of U.S. natural gas procurement costs and other unusual items (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 service 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 are collected from or returned to electricity retailers as the transmission system access service charges and customer billing determinants are finalized. Net collections of U.S. natural gas procurement costs represents the difference between collection of flow through natural gas procurement costs from customers and natural gas procurement costs paid to suppliers or producers. Net collections of U.S. natural gas procurement costs are timing differences, which are collected from or returned to customers on finalization of the regulatory process.

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, and 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 March 31,**		**2022**		**2021**
Adjusted EBITDA by Segment				
Water Services segment	$	83	$	88
Distribution and Transmission segment		60		60
Energy Services segment		21		8
U.S. Operations segment		33		28
Other		12		10
Adjusted EBITDA		**209**		**194**
Finance expenses		(37)		(36)
Income tax recovery (expense)		(4)		1
Depreciation and amortization		(91)		(92)
Change in fair value of financial electricity purchase contracts		(6)		5
Transmission system access service charge net collections		3		(3)
Net collections of U.S. natural gas procurement costs		-		(14)
Net income	**$**	**74**	**$**	**55**

Changes in each business segment's Adjusted EBITDA, for the three months ended March 31, 2022, compared with the corresponding period in 2021, are described in Segment Results below. Explanations of the remaining significant variances in net income for the three months ended March 31, 2022, compared with the corresponding period in 2021, are as follows:

- Higher income tax expense of $5 million was primarily due to higher income subject to income tax in U.S. Operations as a result of higher net collection of U.S. natural gas procurement costs and higher income subject to income tax in Canadian operations.
- Unfavorable changes in the fair value of financial electricity purchase contracts of $11 million were primarily due to a market forward prices being higher than contracted prices in 2022, compared to contracted prices being higher than the electricity market forward in 2021.
- Higher transmission system access service charge net collections of $6 million were primarily due to lower payments to the Alberta Electric System Operator (AESO) for system access, partially offset by lower collections from customers.
- No net collection of U.S. natural gas procurement costs in 2022 compared to $14 million lower net collections from customers in 2021, due to winter storm "Uri" in February 2021.

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 March 31,**		**2022**		**2021**
Revenues	$	168	$	170
Expenses		124		123
Operating income		**44**		**47**
Exclude depreciation and amortization		39		41
Adjusted EBITDA	**$**	**83**	**$**	**88**

Water Services' Adjusted EBITDA decreased by $5 million for the three months ended March 31, 2022, compared with the corresponding period in 2021, primarily due to lower commercial margins from certain operating and maintenance contracts, higher contractor costs related to maintenance of wastewater facilities, higher water treatment costs for operations in the city of Edmonton due to poor water quality caused by early spring runoff, and higher staff costs, partially offset by higher water and wastewater rates and customer growth.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. The segment also provides contract commercial services including the design, construction and maintenance and other support services of street lighting, traffic signal, LRT and other utility electrical infrastructure for 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. Transmission expects to file its next Facility Owner Tariff Application in third quarter of 2022.

Distribution's current performance based rate tariff covers the years 2018 to 2022. On June 18, 2021, the AUC issued its decision directing that the 2023 rates will be set through a hybrid cost of service approach in which the extent of expenditure examination will be guided by the nature, size or complexity of the associated costs. EPCOR filed its application on January 17, 2022, the decision on which is expected in the fourth quarter of 2022.

In January 2022, EPCOR received notification from the AUC on their planned approach to the 2023 Generic Cost of Capital (GCOC) and future years. The AUC has requested all interested parties to submit comments by February 2022 on whether the 2022 GCOC rates should be maintained throughout 2023 (37% equity and 8.5% return on equity (ROE)). On March 31, 2022, the AUC issued its decision to extend the 2022 cost of capital parameters to 2023. The AUC also notified interested parties that it would like to consider a formula-based approach to the GCOC for the year 2024 and beyond. The AUC is of the view that a formula-based approach to ROE could increase transparency and predictability, and ultimately save customers and utilities considerable time, resources and money associated with having fully litigated proceedings every one to three years. The 2024 formula-based approach proceeding is planned for the third quarter of 2022.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2022**		**2021**
Revenues	$	125	$	116
Expenses		88		84
Operating income		**37**		**32**
Exclude depreciation and amortization		26		25
Exclude transmission system access service charge net collections		(3)		3
Adjusted EBITDA	**$**	**60**	**$**	**60**

Distribution and Transmission's Adjusted EBITDA remained unchanged for the three months ended March 31, 2022, compared with the corresponding period in 2021, primarily due to higher electricity distribution and transmission rates and lower staff costs, offset by higher property taxes, lower work volumes and margin rates related to lighting, traffic signals and LRT electrical services for the City and lower commercial services margins.

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.

The 2021-2022 RRO Non-Energy rate application (including the recovery of lost revenues and bad debts related to the UPDP deferral period) was filed in August 2021 and the Company refiled the application for the final rates on April 12, 2022. Rates for the majority of the year ended December 31, 2021 were based on the prior 2018-2020 Non-Energy decision. The AUC approved the 2021 and 2022 Non-Energy interim rates effective December 1, 2021, and these rates will be in effect until the final decision on 2021-2022 application is received with all true-ups expected by the end of 2022.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2022**		**2021**
Revenues	$	205	$	145
Expenses		192		134
Operating income		**13**		**11**
Exclude depreciation and amortization		2		2
Exclude change in the fair value of financial electricity purchase contracts		6		(5)
Adjusted EBITDA	**$**	**21**	**$**	**8**

Energy Services' Adjusted EBITDA increased by $13 million for the three months ended March 31, 2022, compared with the corresponding period in 2021, primarily due to higher EPSP margins and higher other revenues due to UPDP recoveries, partially offset by higher energy procurement costs and a provision for expected credit losses from customers as a result of higher commodity prices.

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.

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2022**		**2021**
Revenues	$	74	$	64
Expenses		57		66
Operating income (loss)		**17**		**(2)**
Exclude depreciation and amortization		16		16
Exclude net collection of U.S. natural gas procurement costs		-		14
Adjusted EBITDA	**$**	**33**	**$**	**28**

U.S. Operations' Adjusted EBITDA increased by $5 million for the three months ended March 31, 2022, compared with the corresponding period in 2021, primarily due to customer growth and higher rates in Arizona, higher Adjusted EBITDA from the San Tan operations acquired January 29, 2021, and lower administrative expenses, partially offset by lower Adjusted EBITDA due to expropriation of the BHC water utility systems in September 2021.

Capital Spending and investment

(Unaudited, $ millions) **Three months ended March 31,**	**2022**	**2021**
Water Services segment	$ 74	$ 71
Distribution and Transmission segment	55	50
U.S. Operations segment	32	17
Other	6	7
Total capital spending	167	145
San Tan operations acquisition (net of acquired cash)	-	126
Total capital spending and investment	**$ 167**	**$ 271**

Total capital spending and investment decreased by $104 million for the three months ended March 31, 2022, compared with the corresponding period in 2021, primarily due to the acquisition of San Tan operations in 2021 with no corresponding acquisition in the first quarter of 2022, partially offset by higher capital spending in the Company's Water Services, Distribution and Transmission, and U.S. Operations segments. The details of major capital projects are as follows:

Growth Projects

- Higher Distribution and Transmission segment spending on a new substation to facilitate interconnection of two new power generation units.
- Higher U.S. Operations segment spending on extension and construction of wastewater treatment facilities in Arizona.

Sustaining and Lifecycle Projects

- Higher Distribution and Transmission segment spending on relocating distribution infrastructure as per direction from the City.
- Higher Water Services segment spending on construction of the new operations service centre.
- Lower Water Services segment spending on sanitary trunk and chamber rehabilitation projects, which were substantially complete in 2021.
- Lower Distribution and Transmission segment spending on distribution pole and aerial line life cycle replacements projects.

Business Development Projects

- Higher Water Services segment spending on the solar farm near E.L. Smith Water Treatment Plant (E.L. Smith WTP).

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – ASSETS

(Unaudited, $ millions)	March 31, 2022	December 31, 2021	Increase (decrease)	Explanation of material changes
Cash	$ 26	$ 30	$ (4)	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	553	582	(29)	Decrease primarily due to settlement proceeds related to expropriation of the BHC water utility systems ($25 million), reduction in receivable for electricity sales and distribution charges due to lower volumes, as well as reduction in receivables from the City relating to construction work, partially offset by fair value change in bond forward contract, and higher accrual for developer contribution receivables.
Inventories	17	18	(1)	
Other financial assets	248	243	5	Increase primarily due to fair value change in interest rate swap, construction on the water treatment plant at Darlington, partially offset by payments received on long-term receivables and finance lease receivable.
Deferred tax assets	89	91	(2)	Decrease is primarily due to utilization of deferred tax assets against income subject to income tax for 2022.
Property, plant and equipment	11,785	11,725	60	Increase primarily due to capital expenditures, partially offset by depreciation expense, disposal of asset and foreign currency valuation adjustments.
Intangible assets and goodwill	550	558	(8)	Decrease primarily due to amortization expense and foreign currency valuation adjustments, partially offset by capital expenditures.
Total Assets	$ 13,268	$ 13,247	$ 21	

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, $ millions)	March 31, 2022	December 31, 2021	Increase (decrease)	Explanation of material changes
Trade and other payables	$ 476	$ 506	$ (30)	Decrease primarily due to decrease in payables to the AESO for electricity costs and lower capital accruals, partially offset by higher accrued interest on long-term debt, higher operating accruals, higher distribution and transmission charges payable to Fortis and higher franchise fees payable to the City.
Loans and borrowings (including current portion)	4,045	4,029	16	Increase primarily due to issuance of short-term debt, partially offset by foreign currency valuation adjustments on U.S. dollar denominated debt and principal repayments of long-term debt.
Deferred revenue (including current portion)	4,203	4,187	16	Increase primarily due to developer contributions received, partially offset by foreign currency valuation adjustments and deferred revenue recognized.
Provisions (including current portion)	227	221	6	Increase primarily due to higher employee benefit accruals, partially offset by foreign currency valuation adjustments.
Other liabilities (including current portion)	216	223	(7)	Decrease primarily due to Drainage transition cost compensation payment, payments for lease liabilities, decrease in customer deposits and foreign currency valuation adjustments, partially offset by change in fair value of cross currency interest rate swaps.
Deferred tax liabilities	75	74	1	Increase is primarily due to timing difference for U.S. Operations, partially offset by foreign currency valuation adjustments.
Equity	4,026	4,007	19	
Total Liabilities and Equity	$ 13,268	$ 13,247	$ 21	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended March 31,	2022	2021	Increase (decrease)	Explanation
Operating	$ 199	$ 182	$ 17	Higher inflows primarily due to higher net cash flows from operations due to higher net income and higher contributions received, partially offset by lower funds from non-cash operating working capital.
Investing	(173)	(326)	153	Lower outflows primarily due to acquisition of San Tan operations net of acquired cash ($126 million) in 2021, settlement proceeds related to expropriation of the BHC water utility systems ($25 million), higher proceeds on disposal of assets, lower net advances on other financial asset, lower Drainage transition cost compensation payment and lower outflow of funds related to the change in non-cash investing working capital, partially offset by higher capital expenditures.
Financing	(30)	158	(188)	Higher outflows primarily due to lower proceeds from net issuance of short-term debt and higher dividend payments.
Opening cash	30	8	22	
Closing cash	$ 26	$ 22	$ 4	

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, 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 credit facilities described under the Financing section below. 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 Company has entered into a commitment related to new Preliminary Services Agreements (PSAs) signed in U.S. Operations, as described in the Outlook section of this MD&A. There were no other 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 2021 annual 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 the 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:

($ millions) **March 31, 2022**	**Expiry**	**Total facilities**	**Letters of credit issued**	**Banking Commercial paper issued**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2026	$ 600			
Bank credit facility[1]	November 2025	200			
Total committed		$ 800	$ -	$ 280	$ 520
Uncommitted					
Bank credit facilities[2]	No expiry	200	128	-	72
Bank credit facility	No expiry	25	-	-	25
Total uncommitted		225	128	-	97
Total credit facilities		**$ 1,025**	**$ 128**	**$ 280**	**$ 617**

($ millions) **December 31, 2021**	**Expiry**	**Total facilities**	**Letters of credit issued**	**Banking Commercial paper issued**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2026	$ 600			
Bank credit facility[1]	March 2024	200			
Total committed		$ 800	$ -	$ 256	$ 544
Uncommitted					
Bank credit facilities[2]	No expiry	200	134	-	66
Bank credit facility	No expiry	25	-	-	25
Total uncommitted		225	134	-	91
Total credit facilities		**$ 1,025**	**$ 134**	**$ 256**	**$ 635**

[1] The Company's $600 million committed syndicated bank credit facility and $200 million committed bank credit facility are available and can be used for direct borrowings, issuance of letters of credit and backstopping EPCOR's commercial paper program. The committed 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 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 lenders. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates. At March 31, 2022, commercial paper totaling $280 million was issued and outstanding (December 31, 2021 - $256 million).

[2] The Company's uncommitted bank credit facilities consists of five bilateral credit facilities (totaling $200 million) which are restricted to letters of credit. At March 31, 2022, letters of credit totaling $128 million have been issued and outstanding (December 31, 2021 - $134 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 March 31, 2022, the available amount remaining under this base shelf prospectus was $2 billion (December 31, 2021 - $2 billion). The Canadian base shelf prospectus expires in January 2024.

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 2021, DBRS Morningstar confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt. In October 2021, S&P Global Ratings 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 committed 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.

RISK FACTORS AND RISK MANAGEMENT

This section should be read in conjunction with the Risk Factors and Risk Management section of the 2021 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.

Currently, EPCOR's principal risks, in order of severity from most to least serious include government and regulatory, weather and climate-change, health and safety, new business integration, public health crisis, cybersecurity, reputational damage and stakeholder activism, actual performance compared to approved revenue requirement, failure to attract, retain or develop top talent, deterioration of sanitary trunk line infrastructure, business interruption, electricity price and volume, project delivery, supply chain, environmental, credit, financial liquidity, foreign exchange, conflicts of interest, labor disruption, technological change, groundwater contamination, significant decline in the Alberta Economy and general economic conditions, business environment and other risks.

During the period ended March 31, 2022, the Company entered into an interest rate swap contract and a bond forward contract (the hedging instruments) to manage its interest rate risk associated with movements in long-term Canadian benchmark interest rates related to future planned long-term debt issuances (the hedged items). These financial instruments have been classified as cash flow hedges. For further information on the Company's interest rate swap contract and bond forward contract, refer to financial risk management (note 6) in the condensed consolidated interim financial statements for the periods ended March 31, 2022 and 2021.

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 IASB and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after January 1, 2023. 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, 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 year ended December 31, 2021.

OUTLOOK

For the remainder of 2022, EPCOR will focus on the expansion and construction of wastewater treatment plants and completion of early works on a groundwater supply system in the U.S., the natural gas pipeline construction in the Southern Bruce region of Ontario, the construction of a solar farm near E.L. Smith WTP, the construction of a water treatment plant in Darlington, Ontario and 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. 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 help reduce greenhouse gas emissions.

EPCOR has been considering constructing a renewable natural gas facility within the footprint of its existing Gold Bar wastewater treatment facility. The proposed facility would reduce flaring and greenhouse gas emissions while creating a green energy product for re-sale. The proposed facility would be expected to produce approximately 230,000 gigajoules of renewable natural gas per year of operation. Further development of the proposed facility has been put on hold by the Company until the financial viability of the project has been finalized.

EPCOR was awarded franchises by two municipalities and one township in the Southern Bruce region of Ontario near Kincardine to use municipal rights-of-way to build, own and operate a natural gas distribution system. EPCOR received all 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 started connections to industrial, agricultural and residential customers in second half of 2020. At March 31, 2022, 254 km out of total 296 km length of the pipeline has been installed. The remaining portion of the system, including two small communities, is expected to be substantially complete by the end of 2022.

On June 9, 2021, the Province of Ontario announced that EPCOR was selected for $20 million in funding from the Ontario Natural Gas Expansion Program for a proposed project to extend natural gas service to customers in the Municipality of Brockton. The Company is in the process of obtaining necessary approvals for this project.

The Company is developing a solar farm on EPCOR owned land adjacent to its existing E.L. Smith WTP. The solar farm, which is expected to have a rated generation capacity of 13.6 megawatts with a 4 megawatts battery energy storage system, will generate “green” energy to help power the E.L. Smith WTP. The project has received all requisite approvals including approval on the re-zoning application from the Edmonton City Council after public hearing and a development permit from the City. In December 2020, an opponent of the project, Edmonton River Valley Conservation Coalition Society (ERVCCS), filed a judicial review of City Council’s re-zoning approval alleging that the City erred in failing to apply the deemed essential test as set out in the North Saskatchewan River Valley Area Redevelopment Plan Bylaw. The judicial review application was heard in November 2021 and a decision was received by EPCOR in early January 2022 dismissing the ERVCCS’ application. ERVCCS has appealed the dismissal of their judicial review application to the Alberta Court of Appeal, which is expected to be heard at the end of 2022. EPCOR commenced construction on the project in the second quarter of 2021 and anticipates energization of the system in 2022.

On December 16, 2021, EPCOR entered into a 30-year agreement with Ontario Power Generation to design, construct, finance and operate a demineralized water treatment plant at Darlington to provide ultra-pure demineralized water. As of March 31, 2022, design of the facility has been completed and construction is anticipated to be completed in 2023, with operations and maintenance of the facility anticipated to continue until 2053.

The Company has signed two PSAs with a wholly owned subsidiary of an investment grade company in Texas, to carry out design work, site investigation, procurement of long lead equipment and completion of early works for construction of a groundwater supply system and an industrial water treatment plant in central Texas. The initial value of the PSAs is estimated to be $394 million (US$315 million). The Company has retained third party consultants and sub-contractors to carry out the initial work including the procurement of the long-lead equipment. On completion of the early works, the parties will either enter into definitive agreements to proceed with the construction of a groundwater supply system and an industrial water treatment plant or the costs incurred under the PSA’s will become recoverable by the Company.

QUARTERLY RESULTS

($ millions)	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Revenues	$ 591	$ 590	$ 595	$ 522
Expenses	476	466	459	393
Operating income	**115**	**124**	**136**	**129**
Other income	-	7	-	-
Finance expenses	(37)	(35)	(39)	(38)
Gain on expropriation of BHC water utility systems	-	20	69	-
Income tax expense	(4)	(15)	(20)	(5)
Net income[1,2, 3]	**$ 74**	**$ 101**	**$ 146**	**$ 86**

($ millions)		March 31, 2021		December 31, 2020		September 30, 2020		June 30, 2020
Revenues	$	519	$	512	$	517	$	471
Expenses		429		408		383		365
Operating income		**90**		**104**		**134**		**106**
Other income		-		-		1		-
Finance expenses		(36)		(35)		(35)		(33)
Income tax recovery (expense)		1		(5)		(8)		(3)
Net income[1,3]	**$**	**55**	**$**	**64**	**$**	**92**	**$**	**70**

1 Quarterly results may 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.

2 Higher net income during the quarters ended September 30, 2021 and December 31, 2021 was primarily due to the gain on expropriation of the BHC water utility systems.

3 Lower net income during the quarter ended March 31, 2021 was primarily due to extraordinary natural gas procurement costs in U.S. Operations during the winter storm Uri. Collection of extraordinary natural gas procurement costs were recorded during the quarter ended December 31, 2021.

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.

There have been no changes in the material forward-looking information previously disclosed in the 2021 annual MD&A, including related material factors or assumptions and risk factors. 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, including current liabilities in excess of current assets, for 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, limiting or restricting the Company’s ability to access funds through the various means otherwise available.
The initial value of the PSAs is estimated to be $394 million (US$315 million). On completion of the early works, the parties may enter into definitive agreements to proceed with the construction of a groundwater supply systems and an industrial water treatment plant.	The Company is able to complete the early design work, site investigation and procurement of long lead items satisfactorily and the customer agrees to the costs estimates and timelines for next phase and awards the construction of a groundwater supply systems and an industrial water treatment plant to EPCOR.	The Company is unable to complete the early design work, site investigation and procurement of long lead items within time and within reasonable costs and the customer is not satisfied with the costs estimates and timelines for next phase and does not award the construction of a groundwater supply systems and an industrial water treatment plant to EPCOR.

For further information on the Company's forward looking information, refer to the 2021 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

Adjusted EBITDA means earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments, transmission system access service charge net collections, net collections of U.S. natural gas procurement costs and other unusual items	**GCOC** means Generic Cost of Capital
AESO means Alberta Electric System Operator	**IASB** means International Accounting Standards Board
AUC means the Alberta Utilities Commission	**IFRS** means International Financial Reporting Standard(s)
BHC means Bullhead City	**LRT** means light rail transit
COVID-19 means novel coronavirus	**PSA** means preliminary services agreement
Darlington means Darlington Nuclear Generating station	**ROE** means return on equity
Drainage means drainage utility services within the city of Edmonton	**RRO** means Regulated Rate Option
E.L. Smith WTP means E.L. Smith Water Treatment Plant	**San Tan Operations** mean water treatment and distribution and wastewater collection and treatment assets acquired from JU
EPSP means Energy Price Setting Plan	**the City** means The City of Edmonton
ERVCCS means Edmonton River Valley Conservation Coalition Society	**UPDP** means utility payment deferral program

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2021 Annual Information Form is available on SEDAR at www.sedar.com.