

**EPCOR UTILITIES INC.**

**Management's Discussion and Analysis**

For nine months ended September 30, 2023

# **EPCOR Utilities Inc.**

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

### **September 30, 2023**

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This interim management's discussion and analysis (MD&A), dated November 1, 2023 should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three and nine months ended September 30, 2023 and 2022, including 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 November 1, 2023.

#### **Overview**

The Corporation, through its wholly owned subsidiaries, builds, owns and operates electrical, natural gas, and water transmission and distribution networks, water and wastewater treatment facilities, and sanitary and stormwater systems in Canada and the United States (U.S.). The Company also provides electricity, natural gas and water products and services to residential and commercial customers. The Company provides Regulated Rate Option (RRO) and default supply electricity related services and sells electricity and natural gas to Alberta residential and commercial 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 \$118 million and \$266 million for the three and nine months ended September 30, 2023, compared with net income of \$119 million and \$286 million for the comparative periods in 2022, respectively. The decrease of \$1 million and \$20 million for the three and nine months ended September 30, 2023, respectively, was primarily due to fair value adjustments related to financial electricity purchase contracts, as well as higher depreciation and finance expenses in 2023, partially offset by higher Adjusted EBITDA, as described below.

Adjusted EBITDA is a non-GAAP financial measure and is not a standardized financial measure under International Financial Reporting Standards (IFRS) and might not be comparable to similar financial measures disclosed by other issuers. It is described in the Adjusted EBITDA and Net Income section on page 3 of this MD&A.

Adjusted EBITDA was \$305 million and \$805 million for the three and nine months ended September 30, 2023, compared with \$265 million and \$707 million for the comparative periods in 2022, respectively. The increase of \$40 million and \$98 million for the three and nine months ended September 30, 2023, respectively, was primarily due to higher construction activity, customer growth and higher rates, partially offset by higher operating costs.

## Significant Events

### Samsung Austin Semiconductor, LLC Projects (Samsung Projects)

During the year ended December 31, 2022, the Company signed two Preliminary Services Agreements and subsequent amending agreements (collectively, the PSAs) with Samsung, a wholly owned subsidiary of Samsung Electronics Co., Ltd., to carry out design work, site investigation, procurement of long lead equipment and completion of early works for construction of a groundwater supply system (Project Sandow) and an industrial water reclamation facility (Project Blue Sky) to support Samsung's new semiconductor fabrication facility in Taylor, Texas.

The Company signed definitive Project Agreements (the PAs) in December 2022 and April 2023 for Projects Sandow and Blue Sky, respectively, to carry out the remaining work to design, build, own, operate, maintain and transfer the project assets to Samsung at the expiry of the full operation and maintenance term, or in certain instances of early termination. The construction of the projects is expected to be substantially complete in 2024, with initial operation and maintenance period of 30 years after completion of construction. Under the terms of the PAs, the Company is committed to fund US\$300 million during the projects.

During the nine months ended September 30, 2023, the Company recorded construction revenues of \$1,236 million (2022 - \$242 million) related to the Samsung Projects, which were recognized on the basis of costs incurred plus an agreed-upon margin. The construction expenditures, totalling \$1,178 million (2022 - \$235 million), were recorded in other raw materials and operating charges.

As at September 30, 2023, the Company recorded \$187 million (December 31, 2022 - \$407 million) in the current portion of other financial assets, and \$14 million (December 31, 2022 - \$nil) in the non-current portion of other financial assets, which represents unbilled construction revenues translated at the period end exchange rate.

### Material Accounting Policy Changes

The condensed consolidated interim financial statements for the nine months ended September 30, 2023 and 2022 have been prepared following the same accounting policies and methods as those used in preparing the Company's most recent annual consolidated financial statements.

## Consolidated Results of Operations

### Revenues

| (Unaudited, \$ millions)              | Three months ended |               | Nine months ended |                 |
|---------------------------------------|--------------------|---------------|-------------------|-----------------|
|                                       | September 30,      |               | September 30,     |                 |
|                                       | 2023               | 2022          | 2023              | 2022            |
| Water Services segment                | \$ 222             | \$ 209        | \$ 619            | \$ 568          |
| Distribution and Transmission segment | 128                | 111           | 389               | 362             |
| Energy Services segment               | 252                | 204           | 715               | 544             |
| U.S. Operations segment               | 601                | 341           | 1,528             | 502             |
| Other                                 | 22                 | 26            | 84                | 76              |
| Intersegment eliminations             | (12)               | (9)           | (36)              | (24)            |
| <b>Revenues</b>                       | <b>\$ 1,213</b>    | <b>\$ 882</b> | <b>\$ 3,299</b>   | <b>\$ 2,028</b> |

Consolidated revenues were higher by \$331 million and \$1,271 million for the three and nine months ended September 30, 2023, respectively, compared with the corresponding periods in 2022 primarily due to the net impact of the following:

- Water Services segment revenues increased by \$13 million and \$51 million for the three and nine months ended September 30, 2023, respectively, primarily due to higher rates and customer growth.
- Distribution and Transmission segment revenues increased by \$17 million and \$27 million for the three and

nine months ended September 30, 2023, respectively, primarily due to higher electricity distribution and transmission rates and higher transmission system access service charge net collections, partially offset by lower commercial services revenues due to the cessation of lighting, traffic signals and LRT electrical services.

- Energy Services segment revenues increased by \$48 million and \$171 million for the three and nine months ended September 30, 2023, respectively, primarily due to higher electricity rates partially offset by lower electricity volumes due to fewer RRO customer sites.
- U.S. Operations segment revenues increased by \$260 million and \$1,026 million for the three and nine months ended September 30, 2023, respectively, primarily due to higher construction revenues for the Samsung Projects and higher water and wastewater rates in Arizona.
- Other revenues decreased by \$4 million for the three months ended September 30, 2023, primarily due to lower construction revenues for a water treatment plant at the Darlington Nuclear Generating station (Darlington). Other revenues increased by \$8 million for the nine months ended September 30, 2023 primarily due to higher construction revenues for the water treatment plant at Darlington.

### **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, 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.

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-GAAP financial measure and is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers.

| (Unaudited, \$ millions)   | Three months ended |               | Nine months ended |               |
|--|--------------------|---------------|-------------------|---------------|
|  | September 30,      |               | September 30,     |               |
|  | 2023               | 2022          | 2023              | 2022          |
| <b>Adjusted EBITDA by Segment</b>                                |                    |               |                   |               |
| Water Services segment   | \$ 131             | \$ 122        | \$ 341            | \$ 308        |
| Distribution and Transmission segment                            | 72                 | 68            | 198               | 190           |
| Energy Services segment  | 19                 | 7             | 47                | 42            |
| U.S. Operations segment  | 77                 | 57            | 192               | 137           |
| Other  | 6                  | 11            | 27                | 30            |
| <b>Adjusted EBITDA</b>   | <b>305</b>         | <b>265</b>    | <b>805</b>        | <b>707</b>    |
| Finance expenses   | (46)               | (40)          | (140)             | (114)         |
| Income tax expense   | (6)                | (14)          | (8)               | (23)          |
| Depreciation and amortization                                    | (107)              | (102)         | (317)             | (293)         |
| Change in fair value of financial electricity purchase contracts | (29)               | 27            | (85)              | 18            |
| Transmission system access service charge net collections        | 1                  | (17)          | 11                | (9)           |
| <b>Net income</b>  | <b>\$ 118</b>      | <b>\$ 119</b> | <b>\$ 266</b>     | <b>\$ 286</b> |

Changes in each business segment's Adjusted EBITDA, for the three and nine months ended September 30, 2023, compared with the corresponding periods in 2022, are described in Segment Results below. Explanations of the remaining significant variances in net income for the three and nine months ended September 30, 2023, compared with the corresponding periods in 2022, are as follows:

- Higher finance expense of \$6 million and \$26 million for the three and nine months ended September 30, 2023, respectively, was primarily due to interest expense on long-term debt issued in 2022, and higher interest expense due to higher short-term debt rates and balances.
- Lower income tax expense of \$8 million and \$15 million for the three and nine months ended September 30, 2023, respectively, primarily due to lower income subject to tax in Canada, which includes unfavourable changes in the fair market value of electricity purchase contracts in Energy Services, partially offset by higher income subject to tax in the U.S. Operations, which is primarily due to increased income from the Samsung projects.
- Higher depreciation and amortization of \$5 million and \$24 million for the three and nine months ended September 30, 2023, respectively, primarily due to 2022 asset additions.
- Unfavourable changes in the fair value of financial electricity purchase contracts of \$56 million for the three months ended September 30, 2023, were primarily due to contracted prices being higher than electricity market forward prices in 2023, compared to electricity market forward prices being higher than contracted prices in 2022. Unfavourable changes in the fair value of financial electricity purchase contracts of \$103 million for the nine months ended September 30, 2023, were primarily due to the difference between settled electricity market forward prices and contracted electricity prices and contracted prices being higher than electricity market forward prices in 2023, compared to electricity market forward prices being higher than contracted prices in 2022.

- Higher transmission system access service charge net collections of \$18 million for the three months ended September 30, 2023, are primarily due to lower payments to Alberta Electricity System Operator (AESO), partially offset by lower collections from customers. Higher transmission system access service charge net collections of \$20 million for the nine months ended September 30, 2023, are due to higher collections from customers.

## 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.

#### Water Services Operating Income and Adjusted EBITDA

| (Unaudited, \$ millions, including intersegment transactions) | Three months ended<br>September 30, |               | Nine months ended<br>September 30, |               |
|---|-------------------------------------|---------------|------------------------------------|---------------|
|   | 2023                                | 2022          | 2023                               | 2022          |
| Revenues  | \$ 222                              | \$ 209        | \$ 619                             | \$ 568        |
| Expenses  | 139                                 | 132           | 419                                | 387           |
| <b>Operating income</b>                                       | <b>83</b>                           | <b>77</b>     | <b>200</b>                         | <b>181</b>    |
| Exclude depreciation and amortization                         | 48                                  | 45            | 141                                | 127           |
| <b>Adjusted EBITDA</b>  | <b>\$ 131</b>                       | <b>\$ 122</b> | <b>\$ 341</b>                      | <b>\$ 308</b> |

Water Services' Adjusted EBITDA increased by \$9 million and \$33 million for the three and nine months ended September 30, 2023, compared with the corresponding periods in 2022, respectively, primarily due to higher rates and customer growth, partially offset by higher contractor, maintenance and staff costs.

### Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. The segment also provides EPCOR affiliates with professional services, engineering design, project management and fleet services.

The Alberta Utilities Commission (AUC) initiated a proceeding in June 2022 to establish the parameters of the Performance Based Regulation plans for Alberta distribution facility owners that will start in 2024. EPCOR received a decision on October 4, 2023, that approved the continuation of a similar framework to the previous plan for the years 2024 to 2028 with some modifications to include an earnings sharing mechanism, increased capital funding provision changes and modifications to the productivity and inflation factor calculations. Additionally, the Commission removed the Efficiency Carry-Over Mechanism that was present in the previous two plans. EPCOR will submit a compliance filing in November 2023 to set the 2024 rates.

EPCOR filed its 2023 to 2025 Transmission Facility Owner Tariff Application in September 2022. In February 2023 EPCOR filed a negotiated settlement agreement on this application which was subsequently approved by the AUC in April 2023. EPCOR completed the true-up of interim to final rates in May 2023 and are charging approved rates through to the end of 2025.

On October 9, 2023, EPCOR received a decision on the 2024 Generic Cost of Capital (GCOC) that established a formula-based approach to setting parameters for the next five years. The capital structure remained at the previously approved 37% equity and 63% debt, while the return on equity percentage is to be calculated annually based upon a 9% base rate adjusted by changes in future bond yields.

In October 2021, the AUC issued a decision that revised the regulatory accounting treatment for AESO directed customer contributions. As per the decision, any AESO directed customer contributions made by the distribution facility owners after April 23, 2021, requires the contributing entity to expense the contributions for regulatory purposes in the year they are incurred. These contributions were previously considered rate base for which the contributing entity earned a return. EPCOR filed a request for permission to appeal this decision with the Court of Appeal of Alberta, which was granted by the court in January 2022. The intent of the appeal is to reverse this decision and treat the contributions as capital investment on which either the transmission facility owner or distribution utility owner is entitled to earn a fair return. The appeal hearing took place in February 2023. EPCOR expects a decision by the first quarter of 2024. To comply with the decision the company has included contribution related expenses in EPCOR's 2023 distribution revenue requirement, with a true up between forecast and actual contributions to be settled in a future year.

### Distribution and Transmission Operating Income and Adjusted EBITDA

| (Unaudited, \$ millions, including intersegment transactions)     | Three months ended |              | Nine months ended |               |
|---|--------------------|--------------|-------------------|---------------|
|   | September 30,      |              | September 30,     |               |
|   | 2023               | 2022         | 2023              | 2022          |
| Revenues  | \$ 128             | \$ 111       | \$ 389            | \$ 362        |
| Expenses  | 83                 | 89           | 260               | 266           |
| <b>Operating income</b>   | <b>45</b>          | <b>22</b>    | <b>129</b>        | <b>96</b>     |
| Exclude depreciation and amortization                             | 28                 | 30           | 81                | 86            |
| Exclude transmission system access service charge net collections | (1)                | 16           | (12)              | 8             |
| <b>Adjusted EBITDA</b>  | <b>\$ 72</b>       | <b>\$ 68</b> | <b>\$ 198</b>     | <b>\$ 190</b> |

Distribution and Transmission's Adjusted EBITDA increased by \$4 million and \$8 million for the three and nine months ended September 30, 2023, respectively, compared with the corresponding periods in 2022, primarily due to increases in electricity distribution and transmission rates and a decrease in staff costs and employee benefits, partially offset by lower commercial services revenues due to the cessation of lighting, traffic signals and LRT electrical services.

### 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, which partly mitigates the impact of RRO customer attrition. The service offerings, which includes green energy options, provides an option to customers wishing to move from the RRO to a competitive contract with an Encor offering.

In December 2022, interim rates were filed for 2023 due to the delay in filing the 2023-2025 Non-Energy application and were subsequently approved by the AUC. The 2023-2025 Non-Energy rate application was filed in September 2023 with a decision expected in the first half of 2024.

Application for a new 2024-2025 Energy Price Setting Plan (EPSP) is expected to be filed by the end of 2023. The 2021-2024 EPSP is effective until June 2024.

In December 2022, the Government of Alberta (GOA) passed Bill 2 including amendments to the Regulated Rate Option Stability Act, to implement a ceiling on rates billed to RRO customers of 13.5 cents per kWh for electricity consumed during the three-month period from January 2023 to March 2023. The difference between the approved RRO rate and the rate ceiling is being collected from RRO customers through adjustments to electricity rates which started in April 2023 and will conclude in December 2024. Consequently, during the three months ended March 31, 2023, the Company received \$138 million of funding from the GOA which is being repaid to the GOA upon collection

of deferred amounts from RRO customers during the billing periods between April 2023 and December 2024. As at September 30, 2023, the Company recorded \$96 million in the current portion of other liabilities, \$20 million in the non-current portion of other liabilities, and \$22 million has been repaid to the GOA. The GOA, working with industry, is conducting a review of the RRO with the goal of improving affordability and rate stability. The review process is ongoing.

### Energy Services Operating Income and Adjusted EBITDA

| (Unaudited, \$ millions, including intersegment transactions)            | Three months ended |             | Nine months ended |              |
|--|--------------------|-------------|-------------------|--------------|
|  | September 30,      |             | September 30,     |              |
|  | 2023               | 2022        | 2023              | 2022         |
| Revenues   | \$ 252             | \$ 204      | \$ 715            | \$ 544       |
| Expenses   | 264                | 172         | 759               | 490          |
| <b>Operating income</b>  | <b>(12)</b>        | <b>32</b>   | <b>(44)</b>       | <b>54</b>    |
| Exclude depreciation and amortization                                    | 2                  | 2           | 6                 | 6            |
| Exclude change in fair value of financial electricity purchase contracts | 29                 | (27)        | 85                | (18)         |
| <b>Adjusted EBITDA</b>   | <b>\$ 19</b>       | <b>\$ 7</b> | <b>\$ 47</b>      | <b>\$ 42</b> |

Energy Services' Adjusted EBITDA increased by \$12 million and \$5 million for the three and nine months ended September 30, 2023, respectively, compared with the corresponding periods in 2022, primarily due to increased competitive site counts. Additionally, for the three months ended September 30, 2023, there were higher EPSP margins.

### U.S. Operations

U.S. Operations are primarily involved in the treatment, transmission, distribution and sale of water, the collection and treatment of wastewater, construction of related facilities, and the provision of 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, including work related to the Samsung Projects as noted above in the Significant Events section.

### U.S. Operations Operating Income and Adjusted EBITDA

| (Unaudited, \$ millions, including intersegment transactions) | Three months ended |              | Nine months ended |               |
|---|--------------------|--------------|-------------------|---------------|
|   | September 30,      |              | September 30,     |               |
|   | 2023               | 2022         | 2023              | 2022          |
| Revenues  | \$ 601             | \$ 341       | \$ 1,528          | \$ 502        |
| Expenses  | 544                | 301          | 1,399             | 414           |
| <b>Operating income</b>                                       | <b>57</b>          | <b>40</b>    | <b>129</b>        | <b>88</b>     |
| Exclude depreciation and amortization                         | 20                 | 17           | 63                | 49            |
| <b>Adjusted EBITDA</b>  | <b>\$ 77</b>       | <b>\$ 57</b> | <b>\$ 192</b>     | <b>\$ 137</b> |

U.S. Operations' Adjusted EBITDA increased by \$20 million and \$55 million for the three and nine months ended September 30, 2023, respectively, compared with the corresponding periods in 2022, primarily due to higher construction activity related to the Samsung Projects and increased water and wastewater rates in Arizona. Additionally, there were lower purchased water costs due to credits received from the Company's participation in the 2023 Intentionally Created Surplus Preservation Program (ICS) offered by the Central Arizona Water Conservation District and the Arizona Department of Water Resources. The ICS paid participants for conservation efforts related to Lake Mead.



## Capital Spending and Investment

| (Unaudited, \$ millions)                     |  |               |               |
|--|--|---------------|---------------|
| <b>Nine months ended September 30,</b>       |  | <b>2023</b>   | <b>2022</b>   |
| Water Services segment                       |  | \$ 290        | \$ 314        |
| Distribution and Transmission segment        |  | 239           | 182           |
| Energy Services segment                      |  | 1             | 1             |
| U.S. Operations segment                      |  | 134           | 104           |
| Other  |  | 23            | 30            |
| <b>Total capital spending and investment</b> |  | <b>\$ 687</b> | <b>\$ 631</b> |

Total capital spending and investment increased by \$56 million for the nine months ended September 30, 2023, compared with the corresponding period in 2022, primarily due to higher capital spending in the Company's Distribution and Transmission segment due to the construction of a new substation to facilitate interconnection of two new power generation units and in the U.S. Operations segment due to construction of a new wastewater treatment facility in Arizona. The increase was partially offset by lower capital spending in the Company's Water Services segment due to the completion of the k̄isikāw p̄sim solar farm project and construction of a shared facility for operations in 2022.

## Consolidated Statements of Financial Position – Assets

| (Unaudited, \$ millions)       | <b>September<br/>30, 2023</b> | <b>December<br/>31, 2022</b> | <b>Increase<br/>(decrease)</b> | <b>Explanation of material changes</b>  |
|--------------------------------|-------------------------------|------------------------------|--------------------------------|---|
| Cash and cash equivalents      | \$ 130                        | \$ 130                       | \$ -                           | Refer to Consolidated Statements of Cash Flows section.   |
| Trade and other receivables    | 856                           | 653                          | 203                            | Increase is primarily due to higher construction, energy, and water receivables.  |
| Inventories                    | 28                            | 25                           | 3                              |   |
| Other financial assets         | 526                           | 682                          | (156)                          | Decrease primarily due to lower unbilled construction receivables relating to the Samsung Projects, partially offset by higher derivative financial assets and higher long-term receivables related to the Regulated Rate Option Stability Act.         |
| Deferred tax assets            | 78                            | 67                           | 11                             | Increase is primarily due to increases in non-capital loss carry forward balances resulting from lower income subject to tax in Canada, which includes the unfavourable changes in the fair value of electricity purchase contracts in Energy Services. |
| Property, plant and equipment  | 12,959                        | 12,491                       | 468                            | Increase primarily due to capital expenditures, partially offset by depreciation expense, asset disposals, and foreign currency valuation adjustments.  |
| Intangible assets and goodwill | 542                           | 558                          | (16)                           | Decrease primarily due to amortization expense and foreign currency valuation adjustments, partially offset by capital expenditures.  |
| <b>Total Assets</b>            | <b>\$ 15,119</b>              | <b>\$ 14,606</b>             | <b>\$ 513</b>                  |   |

## Consolidated Statements of Financial Position – Liabilities and Equity

| (Unaudited, \$ millions)                            | September<br>30, 2023 | December<br>31, 2022 | Increase<br>(decrease) | Explanation of material changes  |
|---|-----------------------|----------------------|------------------------|--|
| Trade and other payables                            | \$ 872                | \$ 832               | \$ 40                  | Increase is primarily due to higher construction payables related to the Samsung Projects, partially offset by lower energy purchase prices and volume and rebates payable from the Alberta Government initiated Electricity Rebate program. |
| Loans and borrowings<br>(including current portion) | 4,670                 | 4,557                | 113                    | Increase primarily due to a net issuance of short-term debt, partially offset by principal repayments of long-term debt.   |
| Deferred revenue<br>(including current portion)     | 4,545                 | 4,429                | 116                    | Increase primarily due to cash and asset contributions received, partially offset by deferred revenue recognized and foreign currency valuation adjustments.   |
| Provisions (including current portion)              | 188                   | 182                  | 6                      | Increase primarily attributable to the receipt of construction advances, partially offset by lower employee benefit accruals.  |
| Other liabilities<br>(including current portion)    | 307                   | 201                  | 106                    | Increase primarily due to the addition of funding received (net of repayments) under the Regulated Rate Option Stability Act partially offset by a decrease in customer deposits and payments for lease liabilities.                         |
| Deferred tax liabilities                            | 81                    | 83                   | (2)                    | Decrease is primarily due to the reversal of taxable temporary differences for U.S. Operations relating to property, plant and equipment, and foreign exchange translation adjustments.  |
| Equity  | 4,456                 | 4,322                | 134                    |  |
| <b>Total Liabilities and Equity</b>                 | <b>\$ 15,119</b>      | <b>\$14,606</b>      | <b>\$ 513</b>          |  |

## Consolidated Statements of Cash Flows

| (Unaudited, \$ millions)          |             |             |                   |  |
|-----------------------------------|-------------|-------------|-------------------|--|
| <b>Cash inflows (outflows)</b>    |             |             |                   |  |
| <b>Three months ended</b>         |             |             | <b>Increase</b>   |  |
| <b>September 30,</b>              | <b>2023</b> | <b>2022</b> | <b>(decrease)</b> | <b>Explanation</b>   |
| Operating                         | \$ 175      | \$ 298      | \$ (123)          | Lower net cash flows primarily due to changes in non-cash operating working capital, partially offset by higher contributions received.  |
| Investing                         | (241)       | (358)       | 117               | Lower net cash outflows primarily due to lower advances on financial assets, partially offset by changes in non-cash investing working capital.  |
| Financing                         | 103         | 43          | 60                | Higher net cash flows primarily due to higher net issuances of short-term debt and lower repayments of long-term debt, partially offset by proceeds from the issuance of long-term debt in 2022 and repayment of funds received under the Regulated Rate Option Stability Act. |
| Opening cash and cash equivalents | 93          | 56          | 37                |  |
| Closing cash and cash equivalents | \$ 130      | \$ 39       | \$ 91             |  |

| (Unaudited, \$ millions)          |             |             |                   |   |
|-----------------------------------|-------------|-------------|-------------------|---|
| <b>Cash inflows (outflows)</b>    |             |             |                   |   |
| <b>Nine months ended</b>          |             |             | <b>Increase</b>   |   |
| <b>September 30,</b>              | <b>2023</b> | <b>2022</b> | <b>(decrease)</b> | <b>Explanation</b>  |
| Operating                         | \$ 631      | \$ 655      | \$ (24)           | Lower net cash flows primarily due to changes in non-cash operating working capital and lower operating income partially offset by higher contributions received.   |
| Investing                         | (704)       | (762)       | 58                | Lower net cash outflows primarily due to lower advances on financial assets, partially offset by an increase in capital expenditures, the 2022 proceeds from the expropriation of Bullhead City water utility systems and changes in working capital. |
| Financing                         | 73          | 116         | (43)              | Lower net cash flows due to proceeds from the issuance of long-term debt in 2022, partially offset by higher net issuances of short-term debt and funding received under the Regulated Rate Option Stability Act.                                     |
| Opening cash and cash equivalents | 130         | 30          | 100               |   |
| Closing cash and cash equivalents | \$ 130      | \$ 39       | \$ 91             |   |

## 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 for the next twelve months, from 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 to finance its plans and fund its obligations, including current liabilities in excess of current assets. 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 commitments related to new PAs signed in U.S. Operations, as described in the Significant Events 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 2022 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 of Edmonton (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)                                |               | Total             | Banking           | Letters of credit       | Net              |
|--|---------------|-------------------|-------------------|-------------------------|------------------|
| <b>September 30, 2023</b>                    | <b>Expiry</b> | <b>facilities</b> | <b>Commercial</b> | <b>issued and other</b> | <b>amounts</b>   |
|  |               |                   | <b>paper</b>      | <b>facility draws</b>   | <b>available</b> |
|  |               |                   | <b>issued</b>     |                         |                  |
| <b>Committed</b>                             |               |                   |                   |                         |                  |
| Syndicated bank credit facility <sup>1</sup> | November 2027 | \$ 750            |                   |                         |                  |
| Bank credit facility <sup>1</sup>            | November 2025 | 200               |                   |                         |                  |
| Bank credit facility <sup>1</sup>            | May 2026      | 150               |                   |                         |                  |
| <b>Total committed</b>                       |               | <b>\$ 1,100</b>   | <b>\$ 617</b>     | <b>\$ -</b>             | <b>\$ 483</b>    |
| <b>Uncommitted</b>                           |               |                   |                   |                         |                  |
| Bank credit facilities <sup>2</sup>          | No expiry     | 340               | -                 | 144                     | 196              |
| Bank credit facility                         | No expiry     | 25                | -                 | -                       | 25               |
| <b>Total uncommitted</b>                     |               | <b>365</b>        | <b>-</b>          | <b>144</b>              | <b>221</b>       |
| <b>Total credit facilities</b>               |               | <b>\$ 1,465</b>   | <b>\$ 617</b>     | <b>\$ 144</b>           | <b>\$ 704</b>    |

| (\$ millions)                                |               | Total           | Banking       | Letters of     | Net           |
|--|---------------|-----------------|---------------|----------------|---------------|
| December 31, 2022                            | Expiry        | facilities      | Commercial    | Issued and     | amounts       |
|  |               |                 | paper issued  | other facility | available     |
|  |               |                 |               | draws          |               |
| <b>Committed</b>                             |               |                 |               |                |               |
| Syndicated bank credit facility <sup>1</sup> | November 2027 | \$ 750          |               |                |               |
| Bank credit facility <sup>1</sup>            | November 2025 | 200             |               |                |               |
| Bank credit facility <sup>1</sup>            | May 2026      | 150             |               | \$ 32          |               |
| <b>Total committed</b>                       |               | <b>\$ 1,100</b> | <b>\$ 385</b> | <b>\$ 32</b>   | <b>\$ 683</b> |
| <b>Uncommitted</b>                           |               |                 |               |                |               |
| Bank credit facilities <sup>2</sup>          | No expiry     | 240             | -             | 236            | 4             |
| Bank credit facility                         | No expiry     | 25              | -             | -              | 25            |
| <b>Total uncommitted</b>                     |               | <b>265</b>      | <b>-</b>      | <b>236</b>     | <b>29</b>     |
| <b>Total credit facilities</b>               |               | <b>\$ 1,365</b> | <b>\$ 385</b> | <b>\$ 268</b>  | <b>\$ 712</b> |

<sup>1</sup> The Company's committed bank credit facilities 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 facility gives the Company the option each year to re-price and extend the term 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 September 30, 2023, commercial paper totalling \$617 million (December 31, 2022 - \$385 million) and letters of credit of \$nil (December 31, 2022 - \$32 million) were issued and outstanding.

<sup>2</sup> The Company's uncommitted bank credit facility consists of six bilateral credit facilities (totalling \$340 million) (December 31, 2022 – totalling \$240 million) which are restricted to letters of credit. At September 30, 2023, letters of credit totalling \$144 million have been issued and outstanding (December 31, 2022 - \$236 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, 2023, the available amount remaining under this base shelf prospectus was \$1.55 billion (December 31, 2022 - \$1.55 billion). The Canadian base shelf prospectus expires in January 2024.

Under the base shelf prospectus, on October 3, 2023 the Company issued 30-year unsecured public debentures totalling \$300 million with a coupon rate of 5.326%. The coupon rate of the debentures was determined based on market prices in effect on September 26, 2023. The interest is payable semi-annually and the principal is due at maturity.

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 and reduce capital expenditures and operating costs.

## **Credit Ratings**

EPCOR's current ratings from S&P Global Ratings are A- with a stable outlook for both its issuer credit rating and senior unsecured debt rating. S&P Global Ratings confirmed the senior unsecured debt rating in October 2023 and last reviewed the issuer credit rating in August 2023. In October 2023, DBRS Morningstar confirmed EPCOR's A (low) issuer rating and senior unsecured debenture rating with a stable trend, and commercial paper rating of R-1 (low) also with a stable trend. 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 2022 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 political and legislative change, regulatory, weather and climate-change, failure to attract, retain or develop top talent, cybersecurity, business interruption, project delivery, supply chain, reputational damage and stakeholder activism, health and safety, actual performance compared to approved revenue requirement, credit, public health crisis, groundwater contamination, electricity price and volume, environmental, labor disruption, new business integration, financial liquidity, foreign exchange, conflicts of interest, technological change, significant decline in the Alberta Economy and general economic conditions, business environment and other risks.

During the nine months ended September 30, 2023, the Company entered into a bond forward contract (the hedging instrument) 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 item). This financial instrument has been classified as a cash flow hedge. On September 26, 2023, the Company terminated the bond forward and interest rate swap contracts, which were settled on October 3, 2023 concurrently with the issuance of long-term debentures. For further information on the Company's bond forward and interest rate swaps, refer to financial risk management (note 10) in the condensed consolidated interim financial statements for the periods ended September 30, 2023 and 2022.

## **Litigation Update**

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

## Future Accounting Standard Changes

A number of new standards, amendments to standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after January 1, 2024. The Company does not expect the implementation of these new accounting pronouncements to have a material 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, 2022.

## Outlook

For the remainder of 2023, EPCOR will focus on the expansion and construction of wastewater treatment plants, water treatment plants 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 lifecycle replacement of existing infrastructure primarily related to the Edmonton and U.S. based operations, new infrastructure, and acquisition of new customers. The Company also intends to expand its water and electricity commercial services activities and renewable energy investments, which will help reduce greenhouse gas emissions. The Company's dividend has been increased by 4.3% from \$185 million in 2023 to \$193 million in 2024.

## Quarterly Results

| (\$ millions)                 | September<br>30, 2023 | June 30,<br>2023 | March 31,<br>2023 | December 31,<br>2022 |
|-------------------------------|-----------------------|------------------|-------------------|----------------------|
| Revenues                      | \$ 1,213              | \$ 979           | \$ 1,107          | \$ 907               |
| Expenses                      | 1,043                 | 820              | 1,022             | 756                  |
| <b>Operating income</b>       | <b>170</b>            | <b>159</b>       | <b>85</b>         | <b>151</b>           |
| Other income                  | -                     | -                | -                 | 2                    |
| Finance expenses              | (46)                  | (47)             | (47)              | (46)                 |
| Income tax recovery (expense) | (6)                   | (10)             | 8                 | (14)                 |
| <b>Net income<sup>1</sup></b> | <b>\$ 118</b>         | <b>\$ 102</b>    | <b>\$ 46</b>      | <b>\$ 93</b>         |

| (\$ millions)  | September<br>30, 2022 | June 30,<br>2022 | March 31,<br>2022 | December 31,<br>2021 |
|--|-----------------------|------------------|-------------------|----------------------|
| Revenues   | \$ 882                | \$ 555           | \$ 591            | \$ 590               |
| Expenses   | 709                   | 420              | 476               | 466                  |
| <b>Operating income</b>                                      | <b>173</b>            | <b>135</b>       | <b>115</b>        | <b>124</b>           |
| Other income   | -                     | -                | -                 | 7                    |
| Finance expenses   | (40)                  | (37)             | (37)              | (35)                 |
| Gain on expropriation of Bullhead City water utility systems | -                     | -                | -                 | 20                   |
| Income tax recovery (expense)                                | (14)                  | (5)              | (4)               | (15)                 |
| <b>Net income<sup>1</sup></b>                                | <b>\$ 119</b>         | <b>\$ 93</b>     | <b>\$ 74</b>      | <b>\$ 101</b>        |

<sup>1</sup> 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.

## 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, 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 Company’s dividend has been increased by 4.3% from \$185 million in 2023 to \$193 million in 2024.   | EPCOR is able to generate the expected cash flow from operations and various means of funding remain available to the Company.<br><br>There is no further revision to the dividends to be paid to the City. | EPCOR is not able to generate the expected cash flow from operations and various means of funding are not available to the Company.<br><br>There is a revision to the dividends to be paid to the City.       |

For further information on the Company’s forward-looking information, refer to the 2022 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

|   |  |
|---|--|
| <b>Adjusted EBITDA</b> 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 and other unusual items | <b>IASB</b> means International Accounting Standards Board                   |
| <b>AESO</b> means Alberta Electric System Operator  | <b>LRT</b> means light rail transit  |
| <b>AUC</b> means the Alberta Utilities Commission   | <b>PA</b> means Project Agreement  |
| <b>Darlington</b> means Darlington Nuclear Generating station   | <b>PSA</b> means Preliminary Services Agreement                              |
| <b>EPSP</b> means Energy Price Setting Plan   | <b>RRO</b> means Regulated Rate Option                                       |
| <b>GCOC</b> means General Cost of Capital   | <b>Samsung Projects</b> means the Samsung Austin Semiconductor, LLC Projects |
| <b>GOA</b> means Government of Alberta  | <b>the City</b> means The City of Edmonton                                   |
| <b>IFRS</b> means International Financial Reporting Standard(s)   |  |

## Additional Information

Additional information relating to EPCOR including the Company's 2022 Annual Information Form is available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).