EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
March 31, 2015

This management's discussion and analysis (MD&A) dated May 8, 2015, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months ended March 31, 2015, and 2014, including significant accounting policies adopted (note 3), the consolidated financial statements and MD&A for the year ended December 31, 2014, including standards and interpretations not yet applied (note 3(x)), related party transactions (note 28) and financial instruments (note 29), and the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "EPCOR", "it", "its", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries and joint arrangements. In this MD&A, Capital Power refers to Capital Power Corporation and its directly and indirectly owned subsidiaries including Capital Power L.P., except where otherwise noted or the context otherwise indicates. Financial information in this MD&A is based on the condensed consolidated interim financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS), and is presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. This MD&A was approved and authorized for issue by the Board of Directors on May 8, 2015.

OVERVIEW

EPCOR is wholly-owned by The City of Edmonton (the City). EPCOR builds, owns and operates electrical transmission and distribution networks in Canada as well as water and wastewater treatment facilities and infrastructure in Canada and the United States (U.S.). EPCOR also provides electricity and water services as well as products to residential and commercial customers. EPCOR's electricity (collectively the Distribution and Transmission and Energy Services segments) and water (including wastewater treatment) businesses consist primarily of rate-regulated and long-term commercial contracted operations.

EPCOR's net income was $69 million for the three months ended March 31, 2015 compared with net income of $38 million for the comparative period in 2014. The increase of $31 million was primarily due to higher approved customer rates, higher favorable fair value adjustments related to financial electricity purchase contracts, higher equity share of income of Capital Power, and lower tax expensed due to the re-organization of Energy Services in 2014. This was partially offset by a loss on fair value adjustments related to interest rate swaps.

EPCOR's core operations performed well in the first quarter without any significant issues or disruptions to customers. The Company reported $26 million higher income from core operations in 2015 than in 2014, as described in the net income table on page 2. Income from core operations is a non-IFRS financial measure; see Non-IFRS Financial Measure on page 8 of this MD&A. EPCOR's equity share of income of Capital Power, net of income taxes, was $5 million higher for the three months ended March 31, 2015, than in 2014.

In February of 2015, Suncor gave the Company notice that it will exercise its contractual rights to buy back the leased assets and terminate the related financing and operating agreements. The transfer of assets and operations back to Suncor is to take place over an 18-month period unless the parties agree otherwise. This is not expected to have a material impact on the Company or its operations.

In April of 2015, David Stevens announced his retirement from EPCOR. David will remain in his position as the Board of Directors initiates the recruitment process for his replacement.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, $ millions)		
Revenues for the period ended March 31, 2014	**$**	**464**
Higher Water Services segment revenues		27
Higher electricity Distribution and Transmission segment revenues		14
Lower Energy Services segment revenues		(29)
Other		(3)
Increase in revenues from core operations		9
Revenues for the period ended March 31, 2015	**$**	**473**

Consolidated revenues were higher by $9 million for the three months ended March 31, 2015, compared with the corresponding period in 2014 primarily due to the net impact of the following:

- Water Services segment revenues were higher for the three months ended March 31, 2015, compared with the corresponding period in 2014 primarily due to higher construction revenue and higher approved customer rates.
- Electricity Distribution and Transmission segment revenues were higher for the three months ended March 31, 2015, compared with the corresponding period in 2014 primarily due to higher approved electricity rates.
- Energy Services segment revenues were lower for the three months ended March 31, 2015, compared with the corresponding period in 2014 primarily due to lower electricity prices and volumes.

Net Income

(Unaudited, $ millions)		
Net income for the period ended March 31, 2014	**$**	**38**
2014 equity share of income from Capital Power (net of income tax)		(9)
2014 income from core operations		**29**
Higher Water Services segment operating income		2
Higher Distribution and Transmission segment operating income		12
Higher Energy Services segment operating income		11
Other		1
		26
2015 income from core operations		**55**
2015 equity share of income from Capital Power (net of income tax)		14
Net income for the period ended March 31, 2015	**$**	**69**

Net income was higher for the three months ended March 31, 2015, compared with the corresponding period in 2014 primarily due to the following:

- EPCOR's equity share of income of Capital Power was higher for the three months ended March 31, 2015, compared with the corresponding period in 2014 reflective of the Company's equity share of higher Capital Power net income.
- Changes in each business segment's operating results for the three months ended March 31, 2015, compared with the corresponding period in 2014 as described under Segment Results below.

SEGMENT RESULTS

Water Services

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2015**		**2014**
Revenues	$	147	$	120
Expenses		(116)		(91)
Operating income	**$**	**31**	**$**	**29**

Water Services' operating income increased by $2 million for the three months ended March 31, 2015, compared with the corresponding period in 2014 primarily due to higher approved customer rates. This was partially offset by higher chemical costs due to early spring run-off conditions.

Distribution and Transmission

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2015**		**2014**
Revenues	$	143	$	129
Expenses		(113)		(111)
Operating income	**$**	**30**	**$**	**18**

Distribution and Transmission's operating income increased by $12 million for the three months ended March 31, 2015, compared with the corresponding period in 2014 primarily due to higher net system access collections and distribution access rates.

Energy Services

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2015**		**2014**
Revenues	$	228	$	257
Expenses		(208)		(248)
Operating income	**$**	**20**	**$**	**9**

Energy Services' operating income increased by $11 million for the three months ended March 31, 2015, compared with the corresponding period in 2014 primarily due to higher favorable fair value adjustments related to financial electricity purchase contracts.

In March 2014, EPCOR completed its reorganization of Energy Services. The services formerly offered directly by EPCOR Energy Alberta Inc. are now provided by EPCOR Energy Alberta Limited Partnership, through its general partner EPCOR Energy Alberta GP Inc.

Capital Spending and Investment

(Unaudited, $ millions) **Three months ended March 31,**		**2015**		**2014**
Water Services	$	27	$	25
Distribution and Transmission		41		36
Energy Services		-		1
Corporate		2		1
Total capital spending and investment	**$**	**70**	**$**	**63**

Total capital spending and investment was higher for the three months ended March 31, 2015, compared with the corresponding period in 2014 primarily due to increased spending in the Distribution and Transmission segment on lifecycle replacement and growth projects, and increased construction activity in the Water Services segment at the Rossdale water treatment plant, Gold Bar wastewater treatment plant, and on the White Rock Total Water Quality Management project. This was partially offset by decreased construction activity in the Distribution and Transmission segment due to the Heartland Transmission Project being completed in 2014.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, $ millions)	March 31, 2015	December 31, 2014	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	$ 40	$ 37	$ 3	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	474	333	141	Increase primarily due to an increase in current portion of finance lease receivables due from Suncor and other financial assets (see below), partially offset by lower electricity accruals and billings resulting from lower electricity volumes and prices.
Inventories	14	14	-	
Finance lease receivables	92	118	(26)	Decrease primarily due to re-classifying non-current lease receivables to current (recorded in trade and other receivables above) resulting from the Suncor buy back decision.
Other financial assets	265	408	(143)	Decrease due to portion of CPC debt and portion of Regina receivable becoming current (recorded in trade and other receivables above), partially offset by higher construction revenue recognized.
Deferred tax assets	69	69	-	
Investment in Capital Power	408	393	15	Increase due to equity share of Capital Power income, partially offset by limited partnership distributions.
Property, plant and equipment	4,221	4,112	109	Increase primarily due to capital expenditures and foreign currency valuation adjustments, partially offset by depreciation expense.
Intangible assets and goodwill	268	254	14	Increase primarily due to capital expenditures, partially offset by amortization expense on assets with finite lives.
Trade and other payables	220	248	(28)	Decrease primarily due to lower electricity purchase accruals as a result of lower volumes and prices.
Loans and borrowings (including current portion)	2,111	2,080	31	Increase primarily due to foreign currency valuation adjustments on US debt.
Deferred revenue (including current portion)	898	870	28	Increase primarily due to contributed assets received and favorable foreign currency valuation adjustments, partially offset by revenue recognized.
Provisions (including current portion)	143	135	8	Increase primarily due to contributions from developers, partially offset by lower employee benefit obligations.
Derivative liabilities (including current portion)	12	9	3	Increase primarily due to unrealized fair value loss on interest rate swap.
Other liabilities (including current portion)	36	37	(1)	Decrease primarily due to decrease in customer deposits.
Deferred tax liabilities	21	19	2	Increase primarily due to foreign currency valuation adjustments.
Equity attributable to the Owner of the Company	2,410	2,340	70	Increase due to comprehensive income, partially offset by dividends paid.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended March 31,	**2015**	**2014**	**Increase (decrease)**	**Explanation**
Operating	$ 113	$ 100	$ 13	Increase primarily reflects higher funds from operations, partially offset by lower non-cash operating working capital primarily resulting from a larger decrease in accounts payable.
Investing	(80)	(68)	(12)	Decrease primarily due to higher advances on financial lease receivables and other assets and higher capital expenditures, partially offset by lower non-cash investing working capital and lower payments for Gold Bar transfer fees.
Financing	(30)	(36)	6	Increase primarily due to proceeds from issuance of short-term loans and borrowings.
Opening cash and cash equivalents	37	130	(93)	
Closing cash and cash equivalents	$ 40	$ 126	$ (86)	

LIQUIDITY AND CAPITAL RESOURCES

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

Capital Requirements and Contractual Obligations

During the first quarter of 2015, there were no material changes to the Company's capital requirements or purchase obligations, including payments for the next five years and thereafter.

Financing

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

(Unaudited, $ millions) **March 31, 2015**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	December 2017	$ 200	$ -	$ 63	$ 137
Syndicated bank credit facility	December 2019	350	109	-	241
Total committed		550	109	63	378
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total uncommitted		25	-	-	25
Total credit facilities		**$ 575**	**$ 109**	**$ 63**	**$ 403**

1 Restricted to letters of credit.

(Unaudited, $ millions) December 31, 2014	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	December 2017	$ 200	$ -	$ 82	$ 118
Syndicated bank credit facility	December 2019	350	103	-	247
Total committed		550	103	82	365
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total uncommitted		25	-	-	25
Total credit facilities		**$ 575**	**$ 103**	**$ 82**	**$ 390**

1 Restricted to letters of credit.

Letters of credit are issued to meet the credit requirements of energy market participants and conditions of certain service agreements.

The Company has a Canadian base shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At March 31, 2015, the available amount remaining under this shelf prospectus was $1 billion (December 31, 2014 - $1 billion). The shelf prospectus expires in December 2015.

The Company expects to have sufficient liquidity to finance its plans and fund its obligations for the remainder of 2015 with a combination of cash on hand, cash flow from operating activities, sell down of our interest in Capital Power, the issuance of commercial paper and drawings upon existing credit facilities. The Company has an adequate contractual liquidity position with credit available under various bank lines as described under Financing. Cash flows from operating activities would be impaired by events that cause severe damage to our facilities and would require unplanned cash outlays for system restoration repairs. Under those circumstances, more reliance would be placed on our credit facilities for working capital requirements until a regulatory approved recovery mechanism was in place or insurance proceeds were received.

EPCOR plans to eventually sell all or a substantial portion of its remaining interest in Capital Power subject to market conditions, based on its requirements for capital and other circumstances that may arise in the future.

Commercial paper was issued and outstanding at March 31, 2015 for $109 million (December 31, 2014 - $103 million).

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its bank credit facilities, Canadian public medium-term notes and U.S. private-debt notes. Based on current financial covenant calculations, the Company has sufficient capacity to borrow 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 facility causing a significant loss of access to liquidity.

If the economy were to deteriorate in the longer term, particularly in Canada and the U.S., the Company’s ability to extend the maturity or revise the terms of its 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. If market conditions worsen, the Company may suffer a credit rating downgrade. We believe that these circumstances have a low probability of occurring, however, we continue to monitor our capital programs and operating costs to minimize the risk that the Company becomes short of cash or unable to honor its obligations. If required, the Company would look to reduce capital expenditures and operating costs and / or sell a portion of its investment in Capital Power as market conditions permit.

For further information on the Company's contractual obligations, refer to the 2014 annual MD&A.

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 and costs, unbilled consumption of electricity and water, fair values and income taxes. Although the current condition of the economy has not impacted our methods of estimating accounting values, it has impacted the inputs in those determinations and the resulting values. Interim results will fluctuate due to the seasonal demands for electricity and water, changes in electricity prices, and the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

For further information on the Company's other critical accounting estimates, refer to the 2014 annual consolidated financial statements and 2014 annual MD&A.

NON-IFRS FINANCIAL MEASURE

We use income from core operations to distinguish operating results from the Company's water and electricity businesses from results with respect to its investment in Capital Power. It is a non-IFRS financial measure, which does not have any standardized meaning prescribed by IFRS and is unlikely to be comparable to similar measures published by other entities. However, it is presented since it provides a useful measure of the Company's core operations and it is referred to by debt holders and other interested parties in evaluating the Company's financial position and in assessing its creditworthiness.

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2014 annual MD&A. EPCOR faces a number of risks including risk related to investment in Capital Power, operational risks, regulatory risk, political and legislative risk, electricity price and volume risk, strategy execution risk, health and safety risk, information technology related security risks, environment risk, project risk, weather risk, financial liquidity risk, availability of people, counterparty credit risk, foreign exchange risk, conflicts of interest, and general economic conditions, business environment and other risks. The Company employs active programs to manage these risks.

As part of ongoing risk management practices, the Company reviews current and proposed transactions to consider their impact on the risk profile of the Company. There have been no material changes to the risk profile or risk management strategies of EPCOR as described in the 2014 annual MD&A that have affected the condensed consolidated interim financial statements for the three months ended March 31, 2015.

OUTLOOK

In 2015, we intend to continue to focus on growth in rate-regulated water and electricity infrastructure. We expect this growth to come from new infrastructure to accommodate growth and operational improvements in both rate-regulated water and electricity businesses primarily related to the Edmonton based operations. We also intend to expand our water and electricity commercial services offerings.

Demand for water is expected to continue to increase and we anticipate increased requirements for better water management practices including watershed management and conservation. We will pursue expansion of our portfolio of commercial water contracts, particularly in Canada.

The Alberta Utilities Commission's (AUC) 2013 Generic Cost of Capital decision set the return on equity for 2013 through 2015 to 8.3% (previously 8.75%) for all Alberta natural gas and electricity distribution and transmission utilities. The true up for the difference in approved return will occur in 2015 and 2016. The AUC also reduced the equity portion of the capital structure by 1%, based on improved credit market conditions.

Subsequent Event

In April 2015, EPCOR exchanged 9,450,000 limited partnership units for an equal number of common shares of Capital Power which were immediately sold at an offering price of $23.85 per share for aggregate gross proceeds of $225 million. As a result of this transaction, the Company will recognize a net gain of $19 million after tax in net income in the second quarter. In addition, EPCOR exchanged all of its remaining 9,391,000 outstanding exchangeable limited partnership units for common shares of Capital Power. Following the completion of the offering, EPCOR directly owns 9% of Capital Power. As a result, the Company will reclassify and account for the investment in Capital Power as available for sale.

Quarterly results

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income**
March 31, 2015	$ 473	$ 69
December 31, 2014	499	75
September 30, 2014	506	23
June 30, 2014	435	55
March 31, 2014	464	38
December 31, 2013	492	23
September 30, 2013	515	50
June 30, 2013	469	45

Events for the past eight quarters that have significantly impacted net income and cash flows and the comparability between quarters are:

- March 31, 2015 first quarter results included higher approved water and electricity customer rates, higher fair value adjustments on financial electricity purchase contracts, higher equity share of income of Capital Power, and lower income tax expense due to the re-organization of Energy Services. This was partially offset by a loss on fair value adjustments related to the interest rate swap.
- December 31, 2014 fourth quarter results included higher approved water and electricity customer rates, recovery of deferred income taxes due to the recognition of loss carry forwards as a result from an increase in forecasted taxable income in Energy Services, gain on dilution of interest in Capital Power and higher income from our equity share of Capital Power, partially offset by higher depreciation on capital assets in service, lower fair value adjustments on interest rate swap and financial electricity purchase contracts, and lower capitalized interest due to lower capital spend during the period.
- September 30, 2014 third quarter results included higher favorable fair value adjustments on financial electricity purchase contracts and higher approved water and electricity customer rates, partially offset by lower income from our equity share of Capital Power.
- June 30, 2014 second quarter results included higher favorable fair value adjustments on financial electricity purchase contracts and higher approved water and electricity customer rates, partially offset by lower income from our equity share of Capital Power.
- March 31, 2014 first quarter results included lower income from our equity share of Capital Power and higher unfavorable fair value adjustments on financial electricity purchase contracts, partially offset by higher approved water and electricity rates.

- December 31, 2013 fourth quarter results included increased income primarily due to a lower impairment charge related to the investment in Capital Power, higher income from our equity share of Capital Power and increased income from higher approved water and electricity customer rates, partially offset by a loss on sale of the partial investment in Capital Power.
- September 30, 2013 third quarter results included lower income primarily due to higher transmission flow-through charges not yet approved to be billed to customers and lower income from our equity share of Capital Power, partially offset by increased income from higher approved water customer rates.
- June 30, 2013 second quarter results included increased income primarily due to higher approved water rates, higher electricity system access rates, higher transmission tariff revenues and higher income from our equity share of Capital Power, partially offset by higher transmission flow-through charges not yet approved to be billed to customers.

FORWARD - LOOKING INFORMATION

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

The purpose of forward-looking information is to provide investors with management’s assessment of future plans and possible outcomes and may not be appropriate for other purposes.

Material forward-looking information within this MD&A, including related material factors or assumptions and risk factors, are noted in the table below:

Forward-looking Information	Material Factors or Assumptions	Risk Factors
The Company expects to have sufficient liquidity to finance its plans and fund its obligations in 2015.	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.
EPCOR plans to eventually sell all or a substantial portion of its ownership interest in Capital Power.	EPCOR is able to find suitable lower-risk businesses and / or assets to invest the sell-down proceeds in. Market conditions permit the sale of Capital Power shares at a price suitable to EPCOR.	EPCOR is unsuccessful in finding suitable businesses and / or assets to invest in, therefore negating further sell downs to raise funds. The market price of Capital Power shares declines to an amount that EPCOR no longer deems it feasible to sell all or substantially all of its interest in Capital Power.

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

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

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2014 Annual Information Form is available on SEDAR at www.sedar.com.