EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
March 31, 2014

This management's discussion and analysis (MD&A) dated May 8, 2014, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. and its subsidiaries for the three months ended March 31, 2014 and 2013, the consolidated financial statements and MD&A for the year ended December 31, 2013 and the cautionary statement regarding forward-looking information on pages 9 and 10 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, 2014.

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 and 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 continuous improvement objective is to maximize the efficiency of its electricity and water operations.

EPCOR's net income was $38 million for the three months ended March 31, 2014 compared with net income of $57 million for the comparative period in 2013.

EPCOR's core operations performed well in the first quarter without any significant issues or disruptions to customers. Net income from core operations was $29 million for the three months ended March 31, 2014, compared with $40 million for the comparative period in 2013. Income from core operations is a non-IFRS financial measure; see Non-IFRS Financial Measure on pages 7 of this MD&A.

Our 2014 capital expenditure plan will continue work from 2013 on several significant upgrade projects such as the annual water main renewal program to improve Edmonton's water distribution system, a new water laboratory and related office building, upgrades to a digester and pre-treatment tanks and solids handling infrastructure at the Gold Bar wastewater treatment facility (Gold Bar), distribution system relocation work as a result of the City's Light Rail Transit expansion, an underground electricity distribution cable replacement and extension program, the Genesee Interface to High Voltage Direct Current Converter Station project which constitutes part of Altalink's West Alberta Transmission Line project, and, in partnership with Altalink, L.P., completion of work associated with the Heartland electricity transmission line. Our capital expenditure plan also includes new capital placement such as a lagoon treatment project at Gold Bar, construction of new reservoirs and water system upgrades at the White Rock water treatment facility and various annual recurring projects, such as the underground residential distribution servicing project to meet continuing customer growth in the city of Edmonton. This plan is aimed towards better water management practices and improvement of electricity distribution and transmission infrastructure to replace aging assets and meet the growing demand for electricity.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, $ millions)		
Revenues for the period ended March 31, 2013	**$**	**453**
Higher Water Services operating revenues		5
Higher electricity distribution and transmission revenues		10
Lower Energy Services revenues		(4)
Increase in revenues from core operations		11
Revenues for the period ended March 31, 2014	**$**	**464**

Consolidated revenues were higher by $11 million for the three months ended March 31, 2014 compared with the corresponding period in 2013 primarily due to the net impact of the following:

- Water Services segment revenues were higher for the three months ended March 31, 2014 compared with the corresponding period in 2013 primarily due to higher approved customer rates and increased volumes.
- Electricity distribution and transmission revenues were higher for the three months ended March 31, 2014 compared with the corresponding period in 2013 primarily due to higher approved electricity rates.
- Energy Services segment revenues were lower for the three months ended March 31, 2014 compared with the corresponding period in 2013 primarily due to lower settlements from prior quarter accruals.

Net Income

(Unaudited, $ millions)		
Net income for the period ended March 31, 2013	**$**	**57**
Lower equity share of income from Capital Power (net of income tax)		(8)
		49
Higher Water Services segment operating income		5
Lower Distribution and Transmission segment operating income		(6)
Lower Energy Services segment operating income		(6)
Other		(4)
Decrease in income from core operations		(11)
Net income for the period ended March 31, 2014	**$**	**38**

Net income was lower for the three months ended March 31, 2014 compared with the corresponding period in 2013 primarily due to the net impact of the following:

- EPCOR's equity share of income of Capital Power was lower for the three months ended March 31, 2014 compared with the corresponding period in 2013 reflective of the Company's equity share of lower Capital Power net income and the impact of EPCOR's reduced economic interest in Capital Power.
- Changes in each business segment's operating results for the three months ended March 31, 2014 compared with the corresponding period in 2013 as described under Segment Results below.

SEGMENT RESULTS

Water Services

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2014**		**2013**
Revenues	$	120	$	115
Expenses		(91)		(91)
Operating income	**$**	**29**	**$**	**24**

Water Services' operating income increased by $5 million for the three months ended March 31, 2014 compared with the corresponding period in 2013 primarily due to higher approved customer rates and increased volumes.

Distribution and Transmission

(Unaudited, $ million, including intersegment transactions) **Three months ended March 31,**		**2014**		**2013**
Revenues	$	129	$	119
Expenses		(111)		(95)
Operating income	**$**	**18**	**$**	**24**

Distribution and Transmission's operating income decreased by $6 million for the three months ended March 31, 2014 compared with the corresponding period in 2013 primarily due to higher transmission charge deferral account collections in 2013 due to the rate freeze and true-up of 2011 transmission flow-through charges refunded from the Alberta Electric System Operator in the first quarter of 2013 with no comparable refund in the first quarter of 2014. The decrease was partially offset by increased revenue from higher approved electricity rates.

Energy Services

(Unaudited, $ millions, including intersegment transactions) **Three months ended March 31,**		**2014**		**2013**
Revenues	$	257	$	261
Expenses		(248)		(246)
Operating income	**$**	**9**	**$**	**15**

Energy Services' operating income decreased by $6 million for the three months ended March 31, 2014 compared with the corresponding period in 2013 primarily due to lower favorable fair value adjustments related to financial electricity purchase contracts.

In March 2014, EPCOR completed its restructuring 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,**		**2014**		**2013**
Water Services	$	25	$	14
Distribution and Transmission		36		77
Energy Services		1		1
Corporate		1		1
Total capital spending and investment	**$**	**63**	**$**	**93**

Total capital spending and investment was lower for the three months ended March 31, 2014 compared with the corresponding period in 2013 primarily due to the decreased construction activity on the Heartland electricity transmission line, reflecting EPCOR's 50% share of the project. This is partially offset by increased construction activity at the Rossdale water treatment and Gold Bar wastewater treatment plants.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, $ millions)	March 31, 2014	December 31, 2013	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	$ 126	$ 130	$ (4)	Refer to liquidity and capital resources section.
Trade and other receivables	307	360	(53)	Decrease primarily due to higher customer collections and lower accruals resulting from lower customer electricity volumes partially offset from higher customer water and electricity rates.
Inventories	15	14	1	
Finance lease receivables	121	122	(1)	
Other financial assets	368	367	1	
Deferred tax assets	53	53	-	
Investment in Capital Power	388	385	3	Increase due to equity share of Capital Power income, partially offset by limited partnership distributions.
Property, plant and equipment	3,833	3,776	57	Increase primarily due to capital expenditures, partially offset by depreciation expense.
Intangible assets	243	240	3	Increase primarily due to capital expenditures, partially offset by amortization expense on assets with finite lives.
Trade and other payables	214	245	(31)	Decrease primarily due to lower electricity accruals resulting from lower volumes and prices and lower interest accruals on debt.
Loans and borrowings (including current portion)	1,981	1,972	9	Increase primarily due to foreign currency valuation adjustments.
Deferred revenue (including current portion)	818	806	12	Increase primarily due to contributed assets received.
Provisions (including current portion)	117	109	8	Increase primarily due to higher employee benefit obligations.
Derivative liabilities	1	1	-	
Other liabilities (including current portion)	34	40	(6)	Decrease primarily due to the scheduled Gold Bar asset transfer fee payment to the City in the first quarter of 2014.
Deferred tax liabilities	12	12	-	
Equity attributable to the Owner of the Company	2,277	2,262	15	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,	**2014**	**2013**	**Increase (decrease)**	**Explanation**
Operating	$ 101	$ 75	$ 26	Increase primarily reflects changes in non-cash operating working capital resulting from a smaller decrease in accounts payable.
Investing	(69)	(84)	15	Increase primarily due to lower capital expenditure on the Heartland electricity transmission line, partially offset by increased non-cash investing working capital.
Financing	(36)	(40)	4	Increase primarily due to lower scheduled principal repayments.
Opening cash and cash equivalents	130	232	(102)	
Closing cash and cash equivalents	$ 126	$ 183	$ (57)	

LIQUIDITY AND CAPITAL RESOURCES

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, 2014**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2016	$ 400	$ -	$ 133	$ 267
Syndicated bank credit facility Tranche A	November 2016	250	-	-	250
Syndicated bank credit facility Tranche B	November 2018	250	-	-	250
Total committed		900	-	133	767
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Bank line of credit	November 2014	22	-	-	22
Total uncommitted		47	-	-	47
Total credit facilities		**$ 947**	**$ -**	**$ 133**	**$ 814**

[1] Restricted to letters of credit.

(Unaudited, $ millions) **December 31, 2013**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2016	$ 400	$ -	$ 100	$ 300
Syndicated bank credit facility Tranche A	November 2016	250	-	-	250
Syndicated bank credit facility Tranche B	November 2018	250	-	-	250
Total committed		900	-	100	800
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Bank line of credit	November 2014	21	-	-	21
Total uncommitted		46	-	-	46
Total credit facilities		**$ 946**	**$ -**	**$ 100**	**$ 846**

[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, 2014, the available amount remaining under this shelf prospectus was $1 billion (December 31, 2013 - $1 billion). The shelf prospectus expires in December 2015.

The Company's working capital and contractual obligations for the remainder of 2014 will be funded from cash on hand, operating cash flows, limited partnership distributions from Capital Power, interest and principal payments related to the long-term receivable from Capital Power, and if necessary, commercial paper issuance, drawing upon existing credit facilities, public and private debt offerings or the sale of a portion of our interest in Capital Power. Cash flows from operating activities would be impaired by storm events that cause severe damage to our facilities and would require unplanned cash outlays for repairs for system restoration. 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 were in place.

No commercial paper was issued and outstanding at March 31, 2014 (December 31, 2013 - nil).

EPCOR is currently in compliance with all of its financial covenants as set out in its bank credit agreements and the financial covenants of its 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, particularly in Canada and the U.S., the Company's ability to extend the maturity or revise the terms of the 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 and be unable to extend the maturity or revise the terms of its bank credit facilities or access the public or private debt markets. We continue to 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 pursuant to applicable agreements with Capital Power and as market conditions permit.

CONTRACTUAL OBLIGATIONS

During the first quarter of 2014, there were no material changes to the Company's purchase obligations, including payments for the next five years and thereafter.

For further information on the Company's contractual obligations, refer to the 2013 annual MD&A.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2014, the Company adopted accounting policies in accordance with the following new and amended accounting standards relevant to EPCOR:

IFRS 10 – Consolidated Financial Statements (Amendment)
IFRS 12 – Disclosure of Interests in Other Entities (Amendment)
IAS 32 – Financial Instruments: Presentation (Amendment)
IAS 36 – Impairment of Assets (Amendment)
IAS 39 – Financial Instruments: Recognition and Measurement (Amendment)
IFRIC 21 – Levies

There was no significant impact on the Company as a result of accounting policies adopted.

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, allowance for doubtful accounts, useful lives of assets 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 2013 annual consolidated financial statements and 2013 annual MD&A.

NON-IFRS FINANCIAL MEASURE

We use income from core operations to distinguish operating results from the Company's core 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 primary 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.

A reconciliation of income from core operations to net income is as follows:

(Unaudited, $ millions) **Three months ended March 31,**		**2014**		**2013**
Net income from core operations	**$**	**29**	**$**	**40**
Equity share of income from Capital Power		9		17
Net income	**$**	**38**	**$**	**57**

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2013 annual MD&A. EPCOR faces a number of risks including risk related to investment in Capital Power, operational risks, political and legislative risk, regulatory risk, strategy execution risk, weather risk, financial liquidity risk, environment risk, electricity price and volume risk, project risk, availability of people, credit risk, health and safety risk, information technology related security risks, conflicts of interest, foreign exchange risk, 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 2013 annual MD&A that have affected the condensed consolidated interim financial statements for the three months ended March 31, 2014.

OUTLOOK

In 2014, 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. With municipal budgets under pressure, municipal governments are considering the opportunities presented by public-private partnerships. We will pursue expansion of our portfolio of commercial water contracts, particularly in Western Canada.

QUARTERLY RESULTS

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income (loss)**
March 31, 2014	$ 464	$ 38
December 31, 2013	492	23
September 30, 2013	515	50
June 30, 2013	469	45
March 31, 2013	453	57
December 31, 2012	495	(68)
September 30, 2012	512	63
June 30, 2012	424	(20)

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

- March 31, 2014 first quarter results included lower income from our equity share of Capital Power and lower 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 customer water rates, higher electricity system access service revenues, 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.
- March 31, 2013 first quarter results included increased income primarily due to higher approved water rates, a refund from the Alberta Electric System Operator for the true-up of 2011 transmission flow-through charges, and lower losses on selling excess electricity purchased, partially offset by lower income from our equity share of Capital Power and lower favorable fair value adjustments on financial electricity purchase contracts.
- December 31, 2012 fourth quarter results included an impairment charge related to the investment in Capital Power, lower income from our equity share of Capital Power, lower water sales, increased staff and employee benefit costs, partially offset by positive fair value adjustments on financial electricity purchase contracts.
- September 30, 2012 third quarter results included increased income primarily due to higher approved electricity distribution and water and wastewater customer rates, higher electricity distribution and transmission sales volumes, the addition of Water Arizona and Water New Mexico operations, and slightly improved margins under the Company's EPSP, including any fair value adjustment on the related financial electricity purchase contracts. This was partially offset by lower billing charge income due to lower number of sites, and lower income from our equity share of Capital Power.
- June 30, 2012 second quarter results included a loss on sale of a portion of our interest in Capital Power, lower income from our equity share of Capital Power and decreased income in Energy Services primarily due to reduction in the fair value of financial electricity purchase contracts and losses on the sale of excess electricity purchases, fees no longer earned as a result of the expiration of the Alberta Energy Savings contract in November 2011 and costs related to the contact center consolidation, partially offset by increased income in Distribution and Transmission primarily due to increased volumes and approved customer rates, increased income in Water Services primarily due to the addition of Water Arizona and Water New Mexico operations, increase in Edmonton water and wastewater approved customer rates, decreased provision related to a regulatory decision and lower chemical costs.

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 2014.	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.

There are no updates to previously disclosed forward-looking information.

There are no comparisons between actual results and future-oriented-financial information previously disclosed.

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 and experience to differ materially from EPCOR's expectations. The primary risks and uncertainties relate to: (i) the Company's assessment of the economy, markets and regulatory environments in which it operates; (ii) operation of the Company's facilities; (iii) availability and price of electricity; (iv) regulatory and government decisions including changes to environmental, financial reporting and tax legislation; (v) weather conditions; (vi) competitive pressures; (vii) construction; (viii) availability and cost of financing; (ix) foreign exchange; (x) availability and cost of labor and management resources; (xi) performance of counterparties, including but not limited to, contractors and suppliers in fulfilling their obligations to the Company; (xii) quality and sufficiency of water supply; (xiii) customer consumption volumes of water and electricity; and (xiv) risks in addition to the above related to the Company's equity interest in Capital Power, including power plant availability and performance.

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 2013 Annual Information Form is available on SEDAR at www.sedar.com.