EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
June 30, 2013

This management's discussion and analysis (MD&A) dated August 8, 2013, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. and its subsidiaries for the three and six months ended June 30, 2013 and 2012, the consolidated financial statements and MD&A for the year ended December 31, 2012 and the cautionary statement regarding forward-looking information on pages 12 and 13 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. 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 August 8, 2013.

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 $45 million and $102 million, respectively, for the three and six months ended June 30, 2013 compared with a net loss of $20 million and net income of $24 million, respectively, for the comparative periods in 2012.

EPCOR's core operations performed well in the second quarter without any significant issues or disruptions to customers. Several of the southern Alberta municipalities in which EPCOR operates experienced flooding in the latter half of June and early July. The impact on our operations was minimal but did result in boil water advisory orders being issued to customers, which have since been lifted. Net income from core operations was $39 million and $79 million, respectively, for the three and six months ended June 30, 2013, compared with $39 million and $52 million, respectively, for the comparative periods in 2012. Income from core operations is a non-IFRS financial measure; see Non-IFRS Financial Measure on pages 9 and 10 of this MD&A.

Our 2013 capital expenditure plan includes work continued from 2012 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, a project to replace the gaseous chlorine chemical system at the Rossdale water treatment plant with an on-site hypochlorite generation system, upgrades to a digester and pre-treatment and solids handling infrastructure project at the Gold Bar wastewater treatment facility (Gold Bar), an underground electricity distribution cable replacement and extension program, and, in partnership with Altalink, L.P., construction of the Heartland electricity transmission line. Our capital expenditure plan also includes various new capital projects. This plan is aimed towards better water management practices and improvement of electricity distribution and transmission infrastructure to replace aging infrastructure and meet the growing demand for electricity. Expenditures on certain distribution capital projects will be on hold until the Company receives a decision from the Alberta Utilities Commission on its 2013 capital tracker application discussed in further detail under Outlook below.

CONSOLIDATED RESULTS OF OPERATIONS

Net Income

(Unaudited, $ millions)		Three months		Six months
Net income (loss) for the periods ended June 30, 2012	**$**	**(20)**	**$**	**24**
Higher (lower) equity share of income from Capital Power (after tax)		29		15
No loss on sale of a portion investment in Capital Power in 2013		36		36
		45		75
Higher Water Services segment operating income		8		22
Lower Distribution and Transmission segment operating income		(8)		(5)
Higher Energy Services segment operating income		-		6
No foreign exchange loss in 2013		-		3
Other		-		1
Increase in income from core operations		-		27
Net income for the periods ended June 30, 2013	**$**	**45**	**$**	**102**

Net income was higher for the three and six months ended June 30, 2013 compared with the corresponding periods in 2012 primarily due to the net impact of the following:

- EPCOR's equity share of income of Capital Power was higher for the three and six months ended June 30, 2013 compared with the corresponding periods in 2012 reflective of the Company's equity share of higher Capital Power net income, partially offset by the impact of EPCOR's reduced economic interest in Capital Power as a result of the Company's sale of a portion of its investment in Capital Power in April 2012.
- The Company incurred a loss on the sale of a portion of its investment in Capital Power in April 2012 with no similar loss incurred in 2013.
- The changes in each business segment's operating results for the three and six months ended June 30, 2013 compared with the corresponding periods in 2012 are described under Segment Results below.
- The Company incurred a loss on the settlement of foreign exchange contracts in the first quarter of 2012 with no similar loss incurred in 2013.

Revenues

(Unaudited, $ millions)		Three months		Six months
Revenues for the periods ended June 30, 2012	**$**	**424**	**$**	**924**
Higher Water Services revenues		15		40
Higher Distribution and Transmission revenues		16		16
Higher (lower) Energy Services revenues		15		(59)
Other		(1)		1
Increase (decrease) in revenues from core operations		45		(2)
Revenues for the periods ended June 30, 2013	**$**	**469**	**$**	**922**

Consolidated revenues were higher by $45 million for the three months ended June 30, 2013 and lower by $2 million for six months ended June 30, 2013 compared with the corresponding periods in 2012 primarily due to the net impact of the following:

- Water Services segment revenues were higher for the three and six months ended June 30, 2013 compared with the corresponding periods in 2012 primarily due to higher approved customer rates, six months of revenue in 2013 compared with only five months in 2012 from EPCOR's U.S. water operations acquired at the end of January 2012, and revenues from a new Canadian commercial water contract that started in the fourth quarter of 2012.

- Distribution and Transmission segment revenues were higher for the three and six months ended June 30, 2013 compared with the corresponding periods in 2012 primarily due to higher system access service revenues as a result of higher approved rates and transmission flow-through charges, and higher transmission tariff revenue related to 2012 Alberta Electric System Operator flow-through charges that were prevented from being billed to customers in 2012 due to the electricity rate freeze in effect at the time. Partially offsetting these increases were lower transportation services revenues under an agreement with the City for the three and six months ended June 30, 2013 compared with the corresponding periods in 2012.
- Energy Services segment revenues were higher for the three months ended June 30, 2013 compared with the corresponding period in 2012 primarily due to higher average approved customer rates partially offset by slightly lower customer electricity volumes. Revenues were lower for the six months ended June 30, 2013 compared with the corresponding period in 2012 primarily due to lower average approved customer rates and slightly lower customer electricity volumes.

Capital Spending and Investment

(Unaudited, $ millions) **Six months ended June 30,**		**2013**		**2012**
Water Services	$	43	$	32
Distribution and Transmission		130		86
Energy Services		3		1
Corporate		3		4
		179		123
Business acquisition		-		460
Total capital spending and investment	**$**	**179**	**$**	**583**

Total capital spending and investment was lower for the six months ended June 30, 2013 compared with the corresponding period in 2012 primarily due to the acquisition of the U.S. water businesses in 2012 with no similar acquisition in 2013. Capital expenditures for property, plant and equipment were higher for the six months ended June 30, 2013 compared to the corresponding period in 2012 primarily due to increased construction activity on the Heartland electricity transmission line, reflecting EPCOR's 50% share of the project.

SEGMENT RESULTS

Water Services

	Three months ended June 30,				**Six months ended June 30,**			
(Unaudited, $ millions, including intersegment transactions)		**2013**		**2012**		**2013**		**2012**
Revenues	$	134	$	119	$	249	$	209
Expenses		(98)		(91)		(189)		(171)
Operating income	**$**	**36**	**$**	**28**	**$**	**60**	**$**	**38**

Water Services' operating income increased by $8 million and $22 million for the three and six months ended June 30, 2013, respectively, compared with the corresponding periods in 2012 primarily due to higher approved customer rates and lower provisions. In 2012, we recorded a provision related to a water rate complaint by an Edmonton regional water customer group with no similar provision recorded in 2013. Partially offsetting these increases were higher chemical costs compared with the corresponding periods in 2012 primarily due to higher precipitation in 2013 resulting in higher turbidity in the North Saskatchewan river compared with the corresponding periods in 2012.

Distribution and Transmission

(Unaudited, $ millions, including intersegment transactions)	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Revenues	$ 140	$ 124	$ 259	$ 243
Expenses	(124)	(100)	(219)	(198)
Operating income	**$ 16**	**$ 24**	**$ 40**	**$ 45**

Distribution and Transmission's operating income decreased $8 million and $5 million for the three and six months ended June 30, 2013, respectively, compared with the corresponding periods in 2012 primarily due to higher transmission flow-through charges not yet approved to be billed to customers. Partially offsetting these decreases were higher system access service revenues as a result of higher approved rates and electricity volumes in addition to higher transmission tariff revenues related to 2012 Alberta Electric System Operator flow-through charges which were expensed as incurred in 2012 and not billed to customers until 2013 due to the electricity rate freeze in effect in 2012, as discussed above. Operating income increased for the six months ended June 30, 2013 compared with the corresponding period in 2012 due to a refund received from the Alberta Electric System Operator for the true-up of 2011 transmission flow-through charges, which will be refunded to customers through rates commencing in the second half of 2013.

Energy Services

(Unaudited, $ millions, including intersegment transactions)	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Revenues	$ 236	$ 221	$ 497	$ 556
Expenses	(227)	(212)	(473)	(538)
Operating income	**$ 9**	**$ 9**	**$ 24**	**$ 18**

Energy Services' operating income increased by $6 million for the six months ended June 30, 2013, compared with the corresponding periods in 2012 primarily due to lower losses on selling excess electricity purchased in connection with the Company's Energy Price Setting Plan. Operating income also increased due to no contact centre consolidation costs incurred in 2013 compared with the corresponding period in 2012, and lower bad debt expense due to an additional allowance made in 2012 for doubtful accounts receivable. Partially offsetting these increases were lower favorable fair value adjustments related to financial electricity purchase contracts in 2013 compared to 2012.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, $ millions)	June 30, 2013	December 31, 2012	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	$ 80	$ 232	$ (152)	Refer to liquidity and capital resources section.
Trade and other receivables	339	359	(20)	Decrease primarily due to year-over-year decrease in customer electricity volumes and rates.
Inventories	16	13	3	Increase due to higher activity levels during summer construction season.
Finance lease receivables	123	125	(2)	Decrease due to scheduled lease payments received.
Other financial assets	382	383	(1)	
Deferred tax assets	52	52	-	
Investment in Capital Power	624	621	3	Increase due to equity share of higher Capital Power income, partially offset by limited partnership distributions.
Property, plant and equipment	3,562	3,417	145	Increase primarily due to capital expenditures, partially offset by depreciation expense.
Intangible assets	227	222	5	Increase due to software capital expenditures.
Trade and other payables	243	303	(60)	Decrease primarily due to earlier settlement of electricity purchases payable in the period compared to the end of 2012.
Loans and borrowings (including current portion)	1,979	1,970	9	Increase primarily due to foreign currency valuation adjustments.
Deferred revenue (including current portion)	775	762	13	Increase primarily due to foreign exchange rate adjustments.
Provisions (including current portion)	99	112	(13)	Decrease primarily due to lower employee benefits obligations.
Derivative liabilities	-	2	(2)	
Other liabilities (including current portion)	39	49	(10)	Decrease primarily due to the scheduled Gold Bar asset transfer fee payment to the City in the first quarter of 2013.
Deferred tax liabilities	7	5	2	
Equity attributable to the Owner of the Company	2,263	2,221	42	Increase due to comprehensive income, partially offset by dividends paid.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended June 30,	2013	2012	Increase (decrease)	Explanation
Operating	$ 30	$ 107	$ (77)	Decrease primarily reflects changes in non-cash operating working capital resulting from an increase in accounts receivable and a decrease in accounts payable.
Investing	(98)	167	(265)	Decrease primarily due to proceeds received on sale of a portion of investment in Capital Power in April 2012 with no corresponding proceeds in 2013.
Financing	(35)	(50)	15	Increase primarily reflects lower repayment of loans and borrowing in 2013.
Opening cash and cash equivalents	183	89	94	
Closing cash and cash equivalents	$ 80	$ 313	$ (233)	

(Unaudited, $ millions)
Cash inflows (outflows)

Six months ended June 30,	2013	2012	Increase (decrease)	Explanation
Operating	$ 105	$ 166	$ (61)	Decrease primarily reflects changes in non-cash operating working capital resulting from an increase in accounts receivable and a decrease in accounts payable, partially offset by higher funds from operations.
Investing	(182)	(376)	194	Increase primarily due to the net effect of acquisition of the U.S. water businesses in January 2012 with no corresponding acquisition in 2013 and proceeds received in April 2012 on sale of a portion of investment in Capital Power with no corresponding proceeds in 2013.
Financing	(75)	207	(282)	Decrease primarily reflects no debt issuance in 2013 whereas $300 million was issued in 2012.
Opening cash and cash equivalents	232	316	(84)	
Closing cash and cash equivalents	$ 80	$ 313	$ (233)	

LIQUIDITY AND CAPITAL RESOURCES

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

(Unaudited, $ millions) **June 30, 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 2015	$ 400	$ -	$ 208	$ 192
Syndicated bank credit facility Tranche A	November 2015	250	-	-	250
Syndicated bank credit facility Tranche B	November 2017	250	-	-	250
Total committed		900	-	208	692
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Bank line of credit	November 2013	21	-	-	21
Total uncommitted		46	-	-	46
Total credit facilities		**$ 946**	**$ -**	**$ 208**	**$ 738**

1 Restricted to letters of credit.

(Unaudited, $ millions) **December 31, 2012**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2015	$ 400	$ -	$ 139	$ 261
Syndicated bank credit facility Tranche A	November 2015	250	-	-	250
Syndicated bank credit facility Tranche B	November 2017	250	-	-	250
Total committed		900	-	139	761
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Bank line of credit	November 2013	20	-	-	20
Total uncommitted		45	-	-	45
Total credit facilities		**$ 945**	**$ -**	**$ 139**	**$ 806**

1 Restricted to letters of credit.

Letters of credit are issued to meet the credit requirements of electricity 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 June 30, 2013, the available amount remaining under this shelf prospectus was $700 million (December 31, 2012 - $700 million). The shelf prospectus expires in January 2014.

The Company's working capital and contractual obligations for the remainder of 2013 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.

No commercial paper was issued and outstanding at June 30, 2013 (December 31, 2012 - 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 renew 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 be unable to renew its credit facilities or access the public debt markets and may suffer a credit rating downgrade. We believe that these circumstances have a low probability of occurring, however, we continue to monitor EPCOR's capital programs and operating costs to minimize the risk that the Company becomes short of cash or unable to honor its obligations.

In July 2013, Standard & Poor's affirmed its BBB+ long-term corporate credit and senior unsecured debt ratings for EPCOR Utilities Inc. and revised its outlook to positive from stable.

CONTRACTUAL OBLIGATIONS

During the first half of 2013, 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 2012 annual MD&A.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2013, the Company adopted accounting policies in accordance with the following new and amended accounting standards relevant to EPCOR:

IFRS 7 – Financial Instruments – Disclosures – Offsetting Financial Assets and Liabilities (Amendment)
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements (IFRS 11)
IFRS 12 – Disclosure of Interests in Other Entities
IFRS 13 – Fair Value Measurement (IFRS 13)
IAS 1 – Presentation of Items of Other Comprehensive Income
IAS 19 – Employee Benefits (Amendment) (IAS 19)
IAS 28 – Investments in Associates and Joint Ventures (Amendment)
IAS 34 – Interim Financial Reporting (Amendment) (IAS 34)

Of the new and amended accounting standards which became effective January 1, 2013, the following had an impact on the Company as a result of accounting policies adopted effective January 1, 2013:

IFRS 11 was issued to replace IAS 31 – Interest in Joint Ventures. The new standard classifies joint arrangements into two types, joint operations and joint ventures. The standard defines a joint operation as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement and are required to recognize assets, liabilities, revenues and expenses in proportion to its interest in the joint arrangement. The standard defines a joint venture as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and are required to recognize and account for the investment in the joint arrangement using the equity method. The Company applied the new standard effective January 1, 2013 and classified its interest in the Heartland Transmission project as a joint operation. As a result, the Company's condensed consolidated interim financial statements for the periods ended June 30, 2013 and 2012, include EPCOR's relative share of the joint operation's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis.

Unrealized gains and losses on transactions between EPCOR and the joint operation are eliminated to the extent of EPCOR's interest in the joint operation, and unrealized losses are eliminated only to the extent there is no evidence of impairment.

IFRS 13 replaced the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements. The Company does not expect the standard to have a material impact on the annual financial statements. However, IAS 34 was amended as a result of IFRS 13, to require financial instrument fair value disclosure in an entity's interim financial statements.

IAS 19 was amended to: (a) eliminate the option to defer the recognition of actuarial gains and losses associated with net defined benefit liabilities (assets); (b) require a new method of calculating finance costs on defined benefit plans whereby a single discount rate is applied to the net pension assets or obligations; and (c) enhance the disclosure requirements to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in these plans. In accordance with the transitional provisions of revised IAS 19, the Company applied the revised standard retrospectively commencing January 1, 2013 and recognized in retained earnings, $1 million of unrecognized actuarial gains related to 2012 and $6 million of unrecognized actuarial losses related to years prior to 2012, and in accumulated other comprehensive income, $8 million of remeasurement effects related to years prior to 2013. In addition, the Company increased non-current provisions by $13 million.

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. 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 2012 annual consolidated financial statements and 2012 annual MD&A.

NON-IFRS FINANCIAL MEASURE

Management uses 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 June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Income from core operations	**$ 39**	**$ 39**	**$ 79**	**$ 52**
Loss on sale of a portion of investment in Capital Power	-	(36)	-	(36)
Equity income (loss) from Capital Power	7	(23)	24	7
Income tax recovery (expense) related to the above items	(1)	-	(1)	1
Net income (loss)	**$ 45**	**$ (20)**	**$ 102**	**$ 24**

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2012 annual MD&A. EPCOR faces a number of risks including risks related to its investment in Capital Power, operational risks, political, legislative and 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, conflicts of interest, foreign exchange risk and general economic conditions and business environment 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 2012 annual MD&A that have affected the condensed consolidated interim financial statements for the three and six months ended June 30, 2013.

OUTLOOK

In 2013, the Company intends to focus on continued growth in water and electricity rate-regulated infrastructure in conjunction with further expansion of commercial water operations.

Demand for clean drinking water is expected to continue to increase as the population grows, 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. At the same time, the Alberta oil and gas industry continues to seek assistance with water treatment and management at sites where they operate. EPCOR will continue pursuing commercial water contract opportunities in Western Canada in 2013.

Effective July 2013, Distribution and Transmission's electricity transmission business will be on interim 2013 rates, which are equivalent to final 2012 rates.

A decision on the 2012 electricity distribution general tariff application re-filing was received in April 2013 and the application for the true-up between interim 2012 rates and final 2012 rates was submitted to the Alberta Utilities Commission in May 2013 with the true-up amounts expected to be billed to customers in the fourth quarter of 2013.

In April 2013, interim refundable rates under the new performance based regulation applicable to the Distribution and Transmission's electricity distribution business came into effect. The interim refundable rates allow Distribution and Transmission to include 60% of the capital applied for under the limited additional capital additions provisions of the performance based regulation (K-Factor). The K-Factor is an adjustment for revenues over and above the capital-related revenues funded under the performance based regulation formula for capital projects meeting specific criteria outlined in the performance based regulation decision. Continuing in the third quarter of 2013, Distribution and Transmission will be participating in a joint utility hearing regarding its K-Factor and is expecting a decision in the fourth quarter of 2013. The K-Factor hearing could have an impact on the final rates with any resulting true-up of the difference between interim rates and final rates expected to occur in 2014.

The complete impact of the performance based regulation plan decision on the Company will not be known until further clarity is provided relative to the K-Factor.

The Alberta Electric System Operator has outlined significant capital development for Alberta's electricity transmission infrastructure and has received approval from the Alberta Utilities Commission to develop certain projects through a competitive bid process. The first project expected to go through the process is the proposed west Fort McMurray electricity transmission project. This would differ from the historic process whereby each transmission facility owner develops, owns and operates all transmission facilities within their designated service area. EPCOR now has the opportunity to bid on this project.

Following the decisions by the Alberta government regarding the Regulated Rate Option in January 2013, EPCOR reached an agreement with its customer representatives to amend its Energy Price Setting Plan to include a new procurement purchasing window (increased from 45 days to 120 days) in a revised Energy Price Setting Plan. The revised Energy Price Setting Plan agreement was signed in April 2013 and subsequently filed for approval. The changes to the agreement are expected to be implemented in the second half of 2013, subject to approval by the Alberta Utilities Commission.

QUARTERLY RESULTS

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income (loss)**
June 30, 2013	$ 469	$ 45
March 31, 2013	453	57
December 31, 2012	495	(69)
September 30, 2012	512	63
June 30, 2012	424	(20)
March 31, 2012	500	44
December 31, 2011	512	53
September 30, 2011	480	59

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

- June 30, 2013 second quarter results included 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 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 to the investment of 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 EPCOR Water Arizona Inc. and EPCOR Water New Mexico Inc. operations, and slightly improved margins under the Company's Energy Price Setting Plan, 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 (AES) 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 EPCOR Water Arizona Inc. and EPCOR Water New Mexico Inc. operations, increase in Edmonton water and wastewater approved customer rates, decreased provision related to a regulatory decision and lower chemical costs.
- March 31, 2012 first quarter results included increased income in Distribution and Transmission primarily due to increased rates, increased income in Energy Services primarily due to positive fair value adjustments on financial electricity purchase contracts, and higher income from our equity share of Capital Power, partially offset by fees no longer earned as a result of the expiration of the AES contract in November 2011, costs related to the contact center consolidation and losses on the sale of excess electricity purchased.
- December 31, 2011 fourth quarter results included increased income in Distribution and Transmission primarily due to increased rates, higher income from our equity share of Capital Power and a lower loss on sale of a portion of our interest in Capital Power, partially offset by negative fair value adjustments on foreign exchange forward contracts and integration expenses relating to the EPCOR Water Arizona Inc. and EPCOR Water New Mexico Inc. acquisition.
- September 30, 2011 third quarter results included positive fair value adjustments on foreign exchange forward contracts, higher income from our equity share of Capital Power, lower Energy Services operating income primarily due to negative fair value adjustments on financial electricity purchase contracts, lower Water Services operating income due to higher maintenance and chemical costs and lower commercial services margins, and higher Distribution and Transmission operating income primarily due to increased transmission and distribution tariff rates.

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. Forward-looking information in this MD&A includes: (i) expectations regarding the Company’s 2013 capital expenditure plan; (ii) sources of funding for 2013 working capital and contractual obligations; (iii) the Company’s growth plans and expected future investment opportunities; (iv) expectations regarding demands for clean drinking water; (v) expectations regarding Alberta’s electricity transmission infrastructure project opportunities; and (vi) expectations regarding future regulatory proceedings, decisions and filings and their potential impact on the Company.

These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate. The material factors and assumptions underlying this forward-looking information include, but are not limited to: (i) the operation of the Company’s facilities; (ii) the Company’s assessment of the markets and regulatory environments in which it operates; (iii) weather; (iv) availability and cost of labor and management resources; (v) performance of contractors and suppliers; (vi) availability and cost of financing; (vii) foreign exchange rates; (viii) management’s analysis of applicable tax legislation; (ix) the currently applicable and proposed tax laws will not change and will be implemented; (x) counterparties will perform their obligations; (xi) expected interest rates and related credit spreads; (xii) ability to implement strategic initiatives which will yield the expected benefits; (xiii) the Company's assessment of capital markets; and (xiv) factors and assumptions in addition to the above related to the Company's equity 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 and experience to differ materially from EPCOR's expectations. The primary risks and uncertainties relate to: (i) operation of the Company's facilities; (ii) unanticipated maintenance and other expenditures; (iii) electricity load settlement; (iv) regulatory and government decisions including changes to environmental, financial reporting and tax legislation; (v) weather and economic conditions; (vi) competitive pressures; (vii) construction; (viii) availability and cost of financing; (ix) foreign exchange; (x) availability of labor and management resources; (xi) performance of counterparties, partners, contractors and suppliers in fulfilling their obligations to the Company; (xii) availability and price of electricity; (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 2012 Annual Information Form is available on SEDAR at www.sedar.com.