EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
September 30, 2012

This management's discussion and analysis (MD&A), dated November 9, 2012, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. and its subsidiaries for the nine months ended September 30, 2012 and 2011, the consolidated financial statements and MD&A for the year ended December 31, 2011 and the cautionary statement regarding forward-looking information on pages 13 and 14. 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 requires. 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. The Board of Directors has approved this MD&A.

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 seek out ways of maximizing the efficiency of its electricity and water operations.

EPCOR's net income was $63 million and $87 million, respectively, for the three and nine months ended September 30, 2012, compared with net income of $59 million and $91 million, respectively, for the comparative periods in 2011. EPCOR's core operations performed well in the third quarter without any significant issues or disruptions to customers and reported $6 million and $23 million higher income for the three and nine months ended September 30, 2012, respectively, than the corresponding periods in 2011. EPCOR's equity share of income of Capital Power, net of income taxes, was $2 million lower and $9 million higher for the three and nine months ended September 30, 2012, respectively, than the corresponding periods in 2011.

Our 2012 capital expenditure plan includes work on a number of significant projects such as a water distribution system renewal program within the city of Edmonton, a replacement and extension of underground electricity distribution cable program, and, in partnership with Altalink, L.P., construction of the Heartland electricity transmission line. Work on these projects and others will continue through 2012 and into 2013. 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.

EPCOR closed its Calgary contact center at the end of May 2012 as the result of a review that determined efficiencies could be gained by consolidating the Company's customer contact centers. Employees in Calgary who chose to relocate to Edmonton to continue their careers with EPCOR had their relocation costs paid by the Company. Those employees not remaining with EPCOR received severance and outplacement services.

In April 2012, EPCOR sold 9,775,000 common shares of Capital Power at an offering price of $23.55 per share for aggregate gross proceeds of $230 million. Following the completion of the offering, EPCOR indirectly owns 29% of the common shares of Capital Power on a fully diluted basis. EPCOR incurred a non-cash loss of $36 million related to the sale.

On January 31, 2012, the Company completed the acquisition of 100% of the stock of Arizona-American Water Company and New Mexico-American Water Company, Inc. from American Water Works Company, Inc. for total consideration of $460 million (US$458 million) and the assumption of $9 million (US$9 million) in long-term debt, subject to certain adjustments. The acquired companies were renamed EPCOR Water Arizona Inc. (Arizona Water) and EPCOR Water New Mexico Inc. (New Mexico Water), respectively. Arizona Water and New Mexico Water are public utility companies engaged principally in the purchase, production, distribution and sale of water to approximately 123,000 customers and wastewater treatment and related services to approximately 51,000 customers. These customers live in 13 municipalities in the states of Arizona and New Mexico. This investment provides the Company with a strong hub in the U.S. Southwest, consistent with the Company's strategic plan for expansion.

CONSOLIDATED RESULTS OF OPERATIONS

Net Income

(Unaudited, $ millions)		Three months		Nine months
Net income for the periods ended September 30, 2011	**$**	**59**	**$**	**91**
Higher (lower) equity share of income from Capital Power (net of income taxes)		(2)		9
Loss on sale of a portion of investment in Capital Power		-		(36)
		57		64
Higher Water segment operating income		23		36
Higher Distribution and Transmission segment operating income		6		25
Higher Energy Services segment operating income		2		-
Floating-rate notes		-		(6)
Higher net financing expenses		(4)		(13)
No unrealized gain on foreign exchange derivative instruments in 2012		(17)		(19)
Other		(4)		-
Increase in income from core operations		6		23
Net income for the periods ended September 30, 2012	**$**	**63**	**$**	**87**

Explanations of the primary period-over-period changes in net income are as follows:

- The Company's equity share of Capital Power's income was lower for the three months and higher for the nine months ended September 30, 2012, respectively, compared with the corresponding periods in 2011. The changes reflect EPCOR's equity share of Capital Power's increases or decreases in income from the corresponding periods, compounded by the impact of EPCOR's reduced economic interest in Capital Power as a result of the Company's sale of portions of its investment in Capital Power in April 2012 and December 2011 in addition to dilutions of our economic interest resulting from Capital Power's issuances of common shares in 2011 and 2012.
- Loss on sale of a portion of our investment in Capital Power reflects the difference between the carrying amount of the portion of our investment that was sold, and the consideration received less direct expenses plus reclassified accumulated other comprehensive income.
- The changes in each business segment's operating results for the three and nine months ended September 30, 2012 compared with the corresponding periods in 2011 are described under Segment Results below.

- We recorded a gain on the sale of our floating-rate notes in the second quarter of 2011 and a negative fair value adjustment in the first quarter of 2011 with no corresponding gain or fair value adjustment in 2012.
- Net financing expenses were higher for the three and nine months ended September 30, 2012 compared with the corresponding periods in 2011 primarily due to higher debt levels and lower income from the sinking fund associated with certain long-term debt.
- Foreign exchange expense was higher for the three and nine months ended September 30, 2012 compared with the corresponding periods in 2011 primarily due to positive fair value adjustments on foreign exchange forward contracts in 2011 with no corresponding adjustments in 2012. In the first quarter of 2012, we recorded a loss on the settlement of these contracts at less than their fair value since their revaluation to market at December 31, 2011. The foreign exchange forward contracts were entered into in April 2011 as cash flow hedges to manage the foreign exchange risk related to the January 2012 acquisition of Arizona Water and New Mexico Water. The forward contracts were effective in removing the foreign exchange risk associated with the acquisition.

Revenues

(Unaudited, $ millions)		**Three months**		**Nine months**
Revenues for the periods ended September 30, 2011	**$**	**480**	**$**	**1,282**
Higher U.S. water operating revenues		36		89
Higher (lower) retail regulated rate tariff electricity revenues		(11)		23
Higher Canadian water operating revenues		9		18
Higher (lower) electricity distribution and transmission tariff revenues		(1)		16
Higher (lower) transportation services revenues		(1)		8
Increase in revenues from core operations		32		154
Revenues for the periods ended September 30, 2012	**$**	**512**	**$**	**1,436**

Consolidated revenues were higher for the three and nine months ended September 30, 2012 compared with the corresponding periods in 2011 primarily due to the net impact of the following:

- U.S. water operating revenues were higher for the three and nine months ended September 30, 2012 compared with the corresponding periods in 2011 due to the expansion of U.S. operations with the 2012 acquisition of Arizona Water and New Mexico Water, compared with only four months of revenue from Chaparral City Water Company (Chaparral) in 2011. Chaparral was acquired in May 2011.
- Retail Regulated Rate Tariff (RRT) electricity revenues were lower for the three months ended September 30, 2012 primarily due to lower customer electricity volumes and customer RRT rates, as set by the associated Energy Price Setting Plan (EPSP) and reflective of market rates.

  RRT electricity revenues were higher for the nine months ended September 30, 2012 primarily due to higher customer RRT rates, as set by the EPSP and reflective of market rates, partially offset by lower customer electricity volumes.
- Canadian water operating revenues were higher for the three and nine months ended September 30, 2012 primarily due to higher approved customer rates, a new commercial water contract in 2012 and a lower provision recorded in 2012 compared with 2011 related to a regulatory decision with respect to a Regional Water Customer Group (RWCG) rate complaint hearing. These increases were partially offset by lower commercial water construction activity in 2012 compared with 2011.

- Electricity distribution and transmission tariff revenues were lower for the three months ended September 30, 2012 primarily due to increased costs charged by the Alberta Electric System Operator (AESO) and lower approved transmission customer rates, partially offset by higher system access revenues. The higher system access revenues were due to higher approved rates.

  Electricity distribution and transmission tariff revenues were higher for the nine months ended September 30, 2012 primarily due to higher approved distribution customer rates and higher system access revenue. The higher system access revenues were due to higher approved rates, partially offset by increased costs charged by the AESO and lower approved transmission customer rates.

- Transportation services activity, within the Distribution and Transmission business segment, was lower for the three months ended September 30, 2012 primarily due to lower rates charged under an agreement with the City in 2012 compared with 2011.

  Transportation services activity was higher for the nine months ended September 30, 2012 primarily due to increased contract services provided in 2012 compared with 2011.

Capital Spending and Investment

(Unaudited, $ millions) **Nine months ended September 30,**	**2012**	**2011**
Water Services	$ 71	$ 63
Distribution and Transmission	141	100
Energy Services	3	-
Corporate	5	23
	220	186
Business acquisition	460	29
	$ 680	**$ 215**

Capital expenditures for property, plant and equipment and investments were higher for the nine months ended September 30, 2012 compared with the corresponding period in 2011 primarily due to the acquisition of Arizona Water and New Mexico Water on January 31, 2012 and construction activity on the Heartland Transmission project. This was partially offset by lower construction activity on EPCOR Tower leasehold improvements in 2012 as most of the construction was completed in 2011. Capital spending includes EPCOR's 50% joint venture share of the Heartland Transmission project's capital expenditures.

SEGMENT RESULTS

In the third quarter of 2011, management of the Company's Technologies business was transferred from Water Services to Distribution and Transmission. As a result, Water Services' and Distribution and Transmission's 2011 comparative operating income numbers in the tables below were restated to reflect the transfer.

Water Services

(Unaudited, $ millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
(including intersegment transactions)	**2012**	**2011**	**2012**	**2011**
Revenues	$ 130	$ 85	$ 339	$ 232
Expenses	88	66	259	188
Operating income	**$ 42**	**$ 19**	**$ 80**	**$ 44**

Water Services' operating income increased $23 million and $36 million for the three and nine months ended September 30, 2012, respectively, compared with the corresponding periods in 2011 due primarily to the net impact of the following items:

- U.S. water operating income for the three and nine months ended September 30, 2012 was higher due to the Arizona Water and New Mexico Water operations acquired in January 2012 and Chaparral operations acquired in May 2011, compared with only four months of income from Chaparral in 2011; and
- Edmonton water and wastewater operating income was higher for the three and nine months ended September 30, 2012 compared with the corresponding periods in 2011 primarily due to higher approved customer rates, lower chemical costs and a lower provision recorded in 2012 related to a regulatory decision with respect to a RWCG complaint hearing compared with 2011. Chemical costs were higher in 2011 due to high snowpack and extended spring run-off as well as higher precipitation which resulted in higher levels of silt (turbidity) in the North Saskatchewan River, requiring more chemical treatment.

Distribution and Transmission

(Unaudited, $ millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
(including intersegment transactions)	**2012**	**2011**	**2012**	**2011**
Revenues	$ 138	$ 136	$ 381	$ 345
Expenses	118	122	316	305
Operating income	**$ 20**	**$ 14**	**$ 65**	**$ 40**

Distribution and Transmission's operating income increased $6 million and $25 million for the three and nine months ended September 30, 2012, respectively, compared with the corresponding periods in 2011 primarily due to increased revenues from higher approved electricity distribution customer rates and electricity sales volumes, partially offset by lower approved transmission customer rates and increased costs charged by the AESO in 2012. In addition, improved timing of approvals to bill and collect electricity transmission flow-through costs from customers in 2012 compared to 2011 also contributed to increased operating income.

Energy Services

(Unaudited, $ millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
(including intersegment transactions)	**2012**	**2011**	**2012**	**2011**
Revenues	$ 289	$ 300	$ 845	$ 822
Expenses	295	308	833	810
Operating income (loss)	**$ (6)**	**$ (8)**	**$ 12**	**$ 12**

Energy Services' operating loss decreased $2 million for the three months ended September 30, 2012 compared with the corresponding period in 2011 primarily due to slightly improved margins under the Company's EPSP, including any fair value adjustment on the related financial electricity purchase contracts, in addition to lower customer contact centre costs as a result of consolidating the Edmonton and Calgary contact centres in the second quarter of 2012. This was partially offset by lower billing charge income due to a lower number of customer sites billed in 2012.

CONSOLIDATED BALANCE SHEETS

(Unaudited, $ millions)	September 30, 2012	December 31, 2011	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	$ 292	$ 316	$ (24)	Refer to liquidity and capital resources section.
Trade and other receivables	364	372	(8)	Decrease primarily due to lower electricity prices and accrued interest income, partially offset by assumption of Arizona Water and New Mexico Water accounts receivable.
Inventories	13	12	1	
Derivatives	(2)	11	(13)	Decrease primarily reflects the settlement of foreign exchange forward contracts.
Finance lease receivables	126	127	(1)	
Other financial assets	385	402	(17)	Primarily reflects the collection of certain notes receivable.
Deferred tax assets	44	43	1	
Investment in Capital Power	745	987	(242)	Reflects the sale of a portion of the investment in 2012 and limited partnership distributions, partially offset by equity share of income of Capital Power.
Intangible assets	203	104	99	Reflects the acquisition of Arizona Water and New Mexico Water goodwill and other intangible assets, partially offset by amortization of intangible assets with finite useful lives.
Property, plant and equipment	3,425	2,658	767	Reflects capital expenditures and the acquisition of Arizona Water and New Mexico Water, partially offset by depreciation expense.
Trade and other payables	291	264	27	Increase primarily due to higher electricity purchases payable as a result of the timing of the payment and the assumption of Arizona Water and New Mexico Water trade payables, partially offset by lower accrued interest expense on long-term debt.
Other current liabilities	33	34	(1)	
Loans and borrowings (including current portion)	1,972	1,699	273	Reflects issuance of long-term debt, partially offset by scheduled repayment of long-term debt.
Deferred revenues (including current portion)	873	602	271	Primarily reflects the assumption of Arizona Water and New Mexico Water deferred revenues.
Deferred tax liabilities	1	1	-	
Provisions (including current portion)	73	51	22	Primarily reflects the assumption of Arizona Water and New Mexico Water provisions, partially offset by settlement of the Rossdale power plant decommissioning liability.
Other non-current liabilities	18	30	(12)	Primarily reflects Gold Bar asset transfer fee payment to the City in the first quarter of 2012.
Equity attributable to the Owner of the Company	2,334	2,351	(17)	Decrease reflects total comprehensive income, more than offset by dividends paid.

LIQUIDITY AND CAPITAL RESOURCES

Cash inflows (outflows)

(Unaudited, $ millions)	Three months ended September 30, 2012	2011	Increase (decrease)	Explanation
Operating	$ 74	$ 23	$ 51	Increase primarily reflects higher cash flow from core operations and increased cash flow resulting from the year-over-year change in non-cash operating working capital.
Investing	(54)	(70)	16	Increase primarily reflects increased cash flow generated by the change in non-cash investing working capital.
Financing	(42)	29	(71)	Primarily reflects net issuance of short-term debt in 2011 with no corresponding issuance in 2012.

Cash inflows (outflows)

(Unaudited, $ millions)	Nine months ended September 30, 2012	2011	Increase (decrease)	Explanation
Operating	$ 241	$ 86	$ 155	Increase primarily reflects higher cash flow from operations and increased cash flow resulting from the year-over-year change in non-cash operating working capital.
Investing	(430)	(119)	(311)	Decrease primarily reflects the acquisition of Arizona Water and New Mexico Water, higher capital expenditures in 2012 and cash flow from the sale of floating-rate notes in 2011, partially offset by cash flow from the sale of a portion of the investment in Capital Power in 2012.
Financing	165	(50)	215	Increase primarily reflects higher net issuance of long-term debt, partially offset by lower net issuance of short-term debt.

In February 2012, the Company issued $300 million, 4.55% medium-term notes due February 28, 2042 under its base shelf prospectus. The notes were priced to yield 4.565%, pay interest semi-annually and rank equally, except as to sinking fund and statutory preferred exceptions, with all other unsecured and unsubordinated indebtedness of the Company. The notes were used to pay down commercial paper indebtedness and for general corporate purposes. The Company has a Canadian shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At September 30, 2012, the available amount remaining under this shelf prospectus was $700 million. The shelf prospectus expires in January 2014.

The Company has 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) **September 30, 2012**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility	November 2014	$ 250	$ -	$ -	$ 250
Syndicated bank credit facility	January 2015	400	-	118	282
Syndicated bank credit facility	November 2016	250	-	-	250
Total committed		900	-	118	782
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Bank line of credit	November 2012	20	-	-	20
Total uncommitted		45	-	-	45
		$ 945	$ -	$ 118	$ 827

Effective November 9, 2012, the Company's committed syndicated bank credit facilities were extended. The expiry dates of the two $250 million syndicated bank credit facilities were extended to November 2015 and November 2017 respectively, and the expiry date of the $400 million syndicated bank credit facility was extended to November 2015.

(Audited, $ millions) **December 31, 2011**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility	November 2014	$ 250	$ -	$ -	$ 250
Syndicated bank credit facility	November 2016	250	-	203	47
Total committed		500	-	203	297
Uncommitted					
Bank lines of credit	No expiry	120	-	50	70
Bank line of credit	November 2012	20	-	19	1
Total uncommitted		140	-	69	71
		$ 640	$ -	$ 272	$ 368

The Company's working capital and contractual obligations for the remainder of 2012 will be funded from cash on hand, operating cash flows, limited partnership distributions from Capital Power, interest received in relation to the long-term receivable from Capital Power, and, if necessary, commercial paper issuance and the Company's credit facilities. In addition, the Company may issue additional private or public medium-term notes or sell a portion of its interest in Capital Power to fund its long-term obligations.

Effects of Economic and Market Uncertainty

During the third quarter of 2012, Canadian and U.S. economies showed mixed signs of recovery and the sovereign debt crisis in Europe remains unresolved as the European recession worsens. As a result, there is a continuing risk of a stalled economic recovery and a potential world-wide recession. If the economy were to deteriorate in the longer term, 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 continue to 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 honour its obligations.

In the first three months of 2012, the Company secured financing to fund a portion of its capital expenditures and working capital requirements at a weighted average interest rate of 1.069% per annum through the issue of commercial paper. No commercial paper was issued in the second or third quarters of 2012. The Company also issued $300 million in 30-year medium-term notes in the first quarter of 2012. Should the credit and economic environments worsen, they may adversely affect the interest rates at which we are able to borrow.

CONTRACTUAL OBLIGATIONS

Arizona Water maintains agreements with the Central Arizona Water Conservation District for the purchase and transportation of water. These agreements are for terms of 100 years expiring at the end of 2107. Under the terms of these agreements, certain minimum payments of approximately $0.5 million are due each year in order to maintain the agreements until they expire. Additional payment obligations related to orders placed in the fall of each year for water to be purchased and transported the following year, commit the Company only for the amount of the water ordered. The obligations are $4 million in 2012, $6 million in total from 2013 through 2016, and $1 million in total from 2017 through 2018.

The Company has entered into an agreement for billing and customer care services for Arizona Water and New Mexico Water. The contract term is for ten years, expiring on August 31, 2021. The payments are estimated to be $5 million in 2012, $18 million in total between 2013 and 2016, and $13 million in aggregate thereafter.

For further information on the Company's contractual obligations, refer to the 2011 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, allowance for doubtful accounts, useful lives of assets, income taxes and allocation of purchase price. 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.

Significant accounting estimates were made in determining the fair value of identifiable assets acquired and liabilities assumed in connection with the Arizona Water and New Mexico Water acquisition including discount rates, future income, replacement costs, useful lives, residual values and weighted average cost of capital. The fair values were determined using generally accepted methods and the assistance of a third party valuation expert.

For further information on the Company's other critical accounting estimates, refer to the 2011 annual MD&A.

NON-IFRS FINANCIAL MEASURES

Management uses funds from operations to measure the Company's ability to generate funds from current operations. Funds from operations is a non-IFRS financial measure, 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 is commonly referred to by debt holders and other interested parties in evaluating the Company's financial position and in assessing its creditworthiness. A reconciliation of funds from operations to cash flows from operating activities is as follows:

(Unaudited, $ millions)	Three months ended September 30,				Nine months ended September 30,			
		2012		**2011**		**2012**		**2011**
Funds from operations	**$**	**78**	**$**	**46**	**$**	**196**	**$**	**109**
Change in non-cash operating working capital		(4)		(23)		45		(23)
Cash flows from operating activities	**$**	**74**	**$**	**23**	**$**	**241**	**$**	**86**

Income from core operations is used 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 September 30,				Nine months ended September 30,			
		2012		**2011**		**2012**		**2011**
Income from core operations	**$**	**35**	**$**	**29**	**$**	**87**	**$**	**64**
Loss on sale of a portion of investment in Capital Power		-		-		(36)		-
Equity share of income from Capital Power		26		23		33		28
Income tax recovery (expense) related to the above item		2		7		3		(1)
Net income	**$**	**63**	**$**	**59**	**$**	**87**	**$**	**91**

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the most recent 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, project risk, availability of people risk, electricity price and volume risk, environment risk, regulated rate option and default supply credit risk, water credit risk, health and safety risk, conflicts of interest risk, foreign exchange risk and general economic conditions and business environment risks. The Company employs active programs to manage these risks.

Following the Alberta Utilities Commission's (AUC) approval of the Heartland Transmission project facility application on November 1, 2011, appeals were filed with the AUC and the Alberta Court of Appeal. Strathcona County and the citizens' group "Responsible Electricity Transmission for Albertans" (RETA) filed their appeals with the AUC, asking it to review and vary its original decision. The AUC denied those appeals. The Alberta Court of Appeal granted local residents leave to appeal to determine whether the AUC correctly interpreted legislation on critical transmission infrastructure and heard oral arguments on October 12, 2012. The Court will render its decision at a later date.

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 annual MD&A for 2011 that have affected the condensed consolidated financial statements for the nine months ended September 30, 2012.

OUTLOOK

Income from core operations for the year is expected to be higher than 2011 primarily due to better than anticipated results from Arizona Water and New Mexico Water which were acquired at the beginning of 2012.

In February 2012, the Government of Alberta announced a number of initiatives including a rate freeze on electricity distribution, transmission, and administrative charges and an independent panel review of the retail electricity market in Alberta. As a result, the Retail Market Review Committee was established to review the regulated rate option to help address volatility and costs. The committee reported its findings to the Alberta government in September 2012. The outcome and any consequential actions of the review will impact Energy Services and Distribution and Transmission. The Alberta government stated that it will not make any decisions regarding the report until a thorough analysis of the recommendations is complete. If the rate freeze continues to the end of 2012, Distribution and Transmission expects it could result in a revenue shortfall between $2 million and $5 million.

In May 2012, Energy Services filed its 2012 - 2013 regulated rate tariff application with the AUC. A decision is expected in 2013.

Energy Services and other regulated rate option electricity providers in Alberta are seeking changes to their EPSP with the objective of improving the margin earned relative to the risk assumed by the regulated electricity retailers under their EPSP and moderating the volatility of regulated electricity prices for consumers. Ongoing negotiations with interveners commenced in August 2012.

In December 2006, the RWCG filed a complaint with the Alberta Energy and Utilities Board, the AUC's predecessor, with respect to water rates charged by EPCOR in 2004-2007. In June 2011, the AUC issued its decision on the proceeding and in September 2011, EPCOR filed its compliance filing. In June 2012, EPCOR filed its second compliance filing in accordance with an April 2012 AUC decision. In August 2012, the AUC accepted the second re-filing, establishing final rates for the 2004 - 2007 period.

In September 2012, the AUC published its decision on Distribution and Transmission's 2013 – 2017 performance based regulation (PBR) plan. The decision was primarily a generic decision with most of the approved PBR elements applying to all electricity and natural gas distribution utility companies in Alberta. The unique aspects that each company applied for were mostly denied, including Distribution and Transmission's proposal to include its transmission operations with the PBR plan and exclude capital costs from its PBR proposal. Under the approved PBR framework, rates will change annually based on a formula comprised of the following factors: inflation factor, productivity factor, capital trackers, flow-through items and exogenous adjustments. The productivity factor approved in the PBR plan decision was higher than what the Company included in its plan and will challenge the Company's ability to meet its approved target return on equity. The Company's PBR plan contemplated the capital component of customer rates continuing to be set under cost of service. However, the AUC's PBR plan decision approved the use of a capital tracker factor. While further clarification of the capital tracker factor is required, the Company believes that it could restrict the amount of necessary capital investment permitted to be recovered through customer rates, further challenging the Company's ability to meet its approved target return on equity. The PBR plan decision relative to the other factors in the PBR formula more closely aligned with the Company's expectations. In October 2012, a number of Alberta electricity and natural gas distribution utilities, including EPCOR, filed notices of leave to appeal the AUC's PBR plan decision. In November 2012, the Company plans on filing a request for review and variance of the AUC's PBR plan decision as it relates to the capital tracker factor, among other things. The complete impact of the PBR plan decision on the Company will not be known until management has completed its assessment and further clarity is provided relative to the capital tracker factor.

Distribution and Transmission submitted its 2012 cost of service rate application in November 2011. In December 2011, the Company requested, and the AUC accepted, that common matters such as corporate costs for 2012, between Distribution and Transmission's cost of service rate application and Energy Services' 2012 – 2013 regulated rate tariff application, be addressed once only in Distribution and Transmission's 2012 cost of service rate application. A decision on Distribution and Transmission's cost of service rate application, including common matters also relating to Energy Services' 2012 – 2013 regulated rate tariff application, was received in October 2012. Among other things, the decision significantly reduced the amount of corporate costs permitted to be recovered through customer rates compared to what was applied for in Distribution and Transmission's 2012 cost of service rate application and Energy Services' 2012 – 2013 regulated rate tariff application. Most of the other elements of the decision were consistent with Distribution and Transmission's 2012 rate application. While Distribution and Transmission's cost of service rate application was for 2012, to a certain degree the decision will also impact Distribution and Transmission's 2013 – 2017 PBR plan with 2012 being the year in which certain costs will be based. Management is assessing the impact of this decision on the Company and will take the appropriate action necessary to mitigate the financial impact of the decision on the Company.

QUARTERLY RESULTS

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income (loss)**
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
June 30, 2011	391	23
March 31, 2011	411	9
December 31, 2010	383	6

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

- September 30, 2012 third quarter results include 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 Arizona Water and New Mexico Water 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 lower income from our equity share of Capital Power, a loss on sale of a portion of our interest in 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 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 Arizona Water and New Mexico Water 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 higher income from our equity share of Capital Power, increased income in Distribution and Transmission primarily due to increased rates, and increased income in Energy Services primarily due to positive fair value adjustments on financial electricity purchase contracts, 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 higher income from our equity share of Capital Power, increased income in Distribution and Transmission primarily due to increased rates 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 Arizona Water and New Mexico Water acquisition.
- September 30, 2011 third quarter results included higher income from our equity share of Capital Power, positive fair value adjustments on foreign exchange forward contracts, 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.
- June 30, 2011 second quarter results included higher income from our equity share in Capital Power, a gain on sale of our floating-rate notes, higher Energy Services operating income primarily due to positive 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 lower Distribution and Transmission operating income primarily due to higher electricity system operator costs.
- March 31, 2011 first quarter results included lower equity in the net income of Capital Power due to our reduced investment and lower Capital Power net income, lower Water Services operating income and higher Distribution and Transmission operating income.
- December 31, 2010 fourth quarter results included the loss on sale of a portion of the investment in Capital Power and lower revenues due to the sale of the power generation business in 2009, partially offset by operating income as a result of increased rates in Distribution and Transmission and Energy Services, transfer of Gold Bar from the City to the Company on March 31, 2009, the acquisition of Alberta oil sands related water and wastewater treatment operations in the fourth quarter of 2009 and interest revenue on the long-term loans receivable from Capital Power.

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 2012 capital expenditure plan; (ii) sources of funding for 2012 working capital and contractual obligations; (iii) expectations regarding the impact on the Company of the capital and credit market instability and expected risk mitigation plans; and (iv) expected timing and impact of regulatory decisions.

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 labour 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) 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 experiences 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.

This MD&A includes the following updates to previously issued forward-looking statements: (i) income from core operations is now expected to be higher than, rather than lower than, 2011; ii) the obligations under the agreements with the Central Arizona Water Conservation District have been extended to $4 million in 2012, $6 million in total from 2013 through 2016, and $1 million in total from 2017 through 2018, previously only $4 million in 2012 was disclosed; and iii) the payment terms under the contract to provide billing and customer care services for Arizona Water and New Mexico Water are estimated to be $5 million in 2012, $18 million in total between 2013 and 2016, and $13 million in aggregate thereafter as opposed to previously stated amounts of $4 million in 2012, $18 million in total between 2013 and 2016, and $15 million in aggregate thereafter.

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 EPCOR's annual information form, is available on SEDAR at www.sedar.com.