EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
September 30, 2016

This management's discussion and analysis (MD&A) dated November 4, 2016, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months and nine months ended September 30, 2016 and 2015, including significant accounting policies adopted (note 3), business acquisitions (note 6), financial instruments (note 7), the consolidated financial statements and MD&A for the year ended December 31, 2015, including standards and interpretations not yet applied (note 3(w)), related party transactions (note 27) and financial instruments (note 28), and the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "EPCOR", "it", "its", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. 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 November 4, 2016.

OVERVIEW

EPCOR is wholly owned by The City of Edmonton (the City). EPCOR, through wholly owned subsidiaries, builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure in Canada and the United States (U.S.) and provides Regulated Rate Option and default supply electricity related services and also sells electricity and natural gas to Alberta residential consumers under contracts through its Encor brand. EPCOR's water business provides water purification, water distribution, wastewater treatment and related management services within the city of Edmonton and several other communities in Western Canada and the Southwestern U.S. EPCOR also provides wastewater collection services in Western Canada and Southwestern U.S. The water business includes design, build, finance, operating and maintenance services for municipal and industrial customers in Western Canada.

Net income was $76 million and $221 million for the three and nine months ended September 30, 2016, respectively, compared with net loss of $13 million and net income of $195 million for the comparative periods in 2015, respectively. The increase of $89 million in the quarter is primarily due to more favorable fair value adjustments related to financial electricity purchase contracts and the recognition of the fair value gain resulting from the sale of Capital Power shares (also referred to as the "available-for-sale investment in Capital Power") partially offset by lower income from core operations, as described below. In addition, the third quarter of 2015 included the impairment of the available-for-sale investment in Capital Power. The increase of $26 million for the nine months ended September 30, 2016 was primarily due to higher income from core operations.

EPCOR's core operations performed well in the third quarter. Within the city of Edmonton, persistent rainfall throughout the North Saskatchewan River watershed significantly impacted the river's water quality. Edmonton and region residents were asked to reduce water consumption for a short period of time. EPCOR was able to maintain the required quality of Edmonton's drinking water throughout the period.

Net income from core operations was $61 million and $204 million for the three and nine months ended September 30, 2016, respectively, compared with $79 million and $177 million for the comparative periods in 2015, respectively. The decrease of $18 million in the quarter is primarily due to lower billing charge rates and higher depreciation, partially offset by higher approved electricity and water customer rates. The increase of $27 million for the nine months ended September 30, 2016 was primarily due to higher approved electricity and water customer rates and gains on sale of surplus land, partially offset by higher depreciation.

During the third quarter, the Company sold 3,239,786 common shares of Capital Power for net proceeds of $69 million. This is consistent with the Company's continued intention to sell all or a substantial portion of the shares over time as market conditions permit. Accordingly, the Company has reclassified the available-for-sale investment in Capital Power as a current asset. In addition, as a result of the sale of Capital Power shares, the Company reclassified $12 million in fair value gains from other comprehensive income to net income. At September 30, 2016, the Company owned 6,151,214 common shares of Capital Power representing approximately 6% of issued and outstanding common shares of Capital Power.

SIGNIFICANT EVENTS

Acquisition of the Assets of Blue Water Project 130 L.P. and Cross County Water Supply Corporation

On August 19, 2016, the Company completed the acquisition of the assets of Blue Water Project 130 L.P. (Blue Water) and Cross County Water Supply Corporation (CCWSC) through its wholly owned U.S. subsidiaries EPCOR 130 Project Inc. and 130 Regional Water Supply Corporation, respectively, for total consideration of $82 million (US$64 million).

The Blue Water and CCWSC assets include an 85 kilometer (53 mile) water supply pipeline, near Austin, Texas, U.S., with designed capacity of nearly 18 million gallons per day along with groundwater well production systems and long term wholesale water supply agreements

$48 million of the total consideration was paid at closing with the balance ($34 million) of the consideration to be paid in the future, the majority of which is contingent on the "take or pay" capacity of new long term contracts for the supply of water. The Company has recorded the full amount of this consideration based on expected growth in the region. The Company funded the closing payment by issuing US$40 million private-debt notes.

The fair value estimates of the assets acquired and liabilities assumed are preliminary and will be finalized upon completion of review by management. Such review could result in material adjustments to the fair value purchase price allocation. For further information on the fair value estimates, refer to the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months and nine months ended September 30, 2016 and 2015.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(unaudited, $millions)	Three months	Nine months
Revenues for the periods ended September 30, 2015	**$ 511**	**$ 1,473**
Lower Water Services segment revenues	(12)	(14)
Higher electricity Distribution and Transmission segment revenues	19	54
Lower Energy Services segment revenues	(13)	(39)
Other	(1)	(16)
Decrease in revenues from core operations	(7)	(15)
Revenues for the periods ended September 30, 2016	**$ 504**	**$ 1,458**

Consolidated revenues were lower by $7 million and $15 million for the three and nine months ended September 30, 2016, respectively, compared with the corresponding periods in 2015 primarily due to the net impact of the following:

- Water Services segment revenues were lower for the three and nine months ended September 30, 2016, compared with the corresponding periods in 2015 primarily due to lower construction revenues from the Regina wastewater treatment plant project, partially offset by higher customer rates, industrial service contracts revenues and foreign exchange translation gains. In addition, water volumes were lower for the three month ended September 30, 2016.
- Electricity Distribution and Transmission segment revenues were higher for the three and nine months ended September 30, 2016, compared with the corresponding periods in 2015 primarily due to higher approved electricity customer rates.
- Energy Services segment revenues were lower for the three and nine months ended September 30, 2016, compared with the corresponding periods in 2015 primarily due to lower electricity prices and volumes, partially offset by higher customer growth.

Net Income

We use income from core operations to distinguish operating results from the Company's water and electricity businesses from results related to its investment in Capital Power and changes in the fair value of financial instruments. In the first quarter of 2016, the definition of income from core operations was revised to exclude changes in the fair value of financial instruments. The change in the fair value of financial instruments is the difference between the opening fair value of the derivative instrument for the period and the closing fair value of the derivative instrument. Income from core operations 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. Net income from core operations is presented as it provides a useful financial measure of the Company's core operations and may be referred to by debt holders and other interested parties in evaluating the Company's financial performance and in assessing its creditworthiness.

(Unaudited, $ millions)		**Three months**		**Nine months**
Net income (loss) for the period ended September 30, 2015	**$**	**(13)**	**$**	**195**
2015 change in the fair value of contracts-for-difference		42		(4)
2015 change in the fair value of interest rate swaps		3		5
2015 equity share of income from Capital Power L.P. (net of income tax recovery)		-		(14)
2015 dividend income from available-for-sale investment in Capital Power		(3)		(6)
2015 gain on sale of a portion of investment in Capital Power L.P. (net of income tax)		-		(19)
2015 gain on reclassification of investment in Capital Power L.P. as available-for-sale investment (net of income tax)		-		(30)
2015 impairment of available-for-sale investment in Capital Power L.P.		50		50
2015 income from core operations		**79**		**177**
Higher (lower) Water Services segment operating income		(5)		17
Higher electricity Distribution and Transmission segment operating income		5		24
Higher (lower) Energy Services segment operating income excluding change in the fair value of contracts-for-differences		(5)		1
Higher income tax expense		(6)		(5)
Higher net financing expense		(1)		(4)
Lower deferred income tax recovery		(3)		(2)
Other		(3)		(4)
Increase (decrease) in income from core operations		(18)		27
2016 income from core operations		**61**		**204**
2016 change in the fair value of contracts-for-difference		3		5
2016 change in the fair value of interest rate swaps		(2)		(9)
2016 dividend income from available-for-sale investment in Capital Power		2		9
2016 fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income		12		12
Net income for the period ended September 30, 2016	**$**	**76**	**$**	**221**

Changes in each business segment's operating results compared with the corresponding periods in 2015 are described in Segment Results below. Explanations of the remaining variances in net income for the three and nine months ended September 30, 2016 are as follows:

- Income tax expense was higher for the three months ended September 30, 2016, compared with the corresponding period in 2015, primarily due the income tax recovery on the fair value adjustments to the available-for-sale investment in Capital Power in 2015. Income tax expense was higher for the nine months ended September 30, 2016, compared with the corresponding period in 2015, primarily due to increased tax expense in the Water Services segment due to the termination of the Suncor agreement and increased income in the U.S.

- Net financing expense was higher in the three and nine months ended September 30, 2016, compared with the corresponding periods in 2015, primarily due to lower capitalized interest and higher foreign exchange on the interest expense for U.S. denominated debt.
- Deferred income tax recovery was lower in 2016 compared with the corresponding periods in 2015 due to an increase in the current year forecast taxable income as compared with 2015.
- Greater favorable changes in the fair value of contracts-for-differences.
- Greater favorable fair value adjustments related to interest rate swaps for the three months ended September 30, 2016, compared with the corresponding period in 2015. Less favorable fair value adjustments related to interest rate swaps for the nine months ended September 30, 2016, compared with the corresponding period in 2015.
- EPCOR's equity share of income of Capital Power L.P. was lower for the nine months ended September 30, 2016, compared with the corresponding period in 2015. This was due to the Company transitioning from equity accounting to accounting for its investment in Capital Power as an available-for-sale asset following the sale of Capital Power shares in April 2015, when the Company's ownership interest was reduced to below 10%.
- EPCOR's dividend income from the Capital Power shares was lower for the three months ended September 30, 2016, compared with the corresponding period in 2015 due to sell down of shares in the current quarter, partially offset by an increase in dividend rate. EPCOR's dividend income from the Capital Power shares was higher for the nine months ended September 30, 2016, compared with the corresponding periods in 2015. This was due to accounting for the investment in Capital Power as an available-for-sale asset commencing in the second quarter of 2015 as described above and an increase in the dividend rate.
- EPCOR recognized a gain on sale of a portion of its investment in Capital Power L.P. in April 2015 with no corresponding transaction in 2016.
- EPCOR recognized a gain on the initial recognition of the investment in Capital Power as an available-for-sale investment in April 2015 with no corresponding gain in 2016.
- EPCOR recognized an impairment charge on the Capital Power shares in 2015 with no corresponding transaction in 2016.
- As a result of the sale of Capital Power shares in the quarter, the Company reclassified gains of $12 million from other comprehensive income to net income, with no corresponding reclassification in 2015.

SEGMENT RESULTS

Water Services

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Revenues	$ 179	$ 191	$ 504	$ 518
Expenses	(121)	(128)	(340)	(371)
Operating income	**$ 58**	**$ 63**	**$ 164**	**$ 147**

Water Services' operating income decreased by $5 million for the three months ended September 30, 2016, compared with the corresponding period in 2015 primarily due to higher depreciation, lower water volumes, and higher chemical costs, partially offset by higher income related to industrial services contracts and higher approved customer rates.

Water Services' operating income increased by $17 million for the nine months ended September 30, 2016, compared with the corresponding period in 2015 primarily due to higher income related to industrial services contracts, gains on sales of surplus land, and higher approved customer rates, partially offset by higher depreciation.

Distribution and Transmission

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Revenues	$ 167	$ 148	$ 487	$ 433
Expenses	(142)	(128)	(398)	(368)
Operating income	**$ 25**	**$ 20**	**$ 89**	**$ 65**

Distribution and Transmission's operating income increased by $5 million for the three months ended September 30, 2016, compared with the corresponding period in 2015 primarily due to higher customer rates. This was partially offset by lower net system access collections and higher depreciation.

Distribution and Transmission's operating income increased by $24 million for the nine months ended September 30, 2016, compared with the corresponding period in 2015 primarily due to higher net system access collections and customer rates. This was partially offset by higher depreciation.

Energy Services

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Revenues	$ 206	$ 219	$ 611	$ 650
Expenses	(195)	(248)	(575)	(616)
Operating income	**11**	**(29)**	**36**	**34**
Exclude change in the fair value of contracts-for-differences	(3)	42	(5)	(4)
Operating income excluding change in the fair value of contracts-for-differences	**$ 8**	**$ 13**	**$ 31**	**$ 30**

Energy Services' operating income, excluding change in the fair value of contracts-for-differences, decreased by $5 million for the three months ended September 30, 2016, compared with the corresponding period in 2015 primarily due to lower billing charge rates, partially offset by higher Energy Price Setting Plan margins.

Energy Services' operating income excluding change in the fair value of contracts-for-differences increased by $1 million for the nine months ended September 30, 2016, compared with the corresponding period in 2015 primarily due to higher Energy Price Setting Plan margins and growth in competitive business, mostly offset by lower billing charge rates.

Capital Spending and Investment

(Unaudited, $ millions) **Nine months ended September 30,**		**2016**		**2015**
Water Services	$	136	$	153
Distribution and Transmission		197		165
Energy Services		2		1
Corporate		6		7
		341		326
Business acquisition		51		-
Total capital spending and investment	**$**	**392**	**$**	**326**

Total capital spending and investment was higher for the nine months ended September 30, 2016, compared with the corresponding period in 2015 primarily due to the acquisition of the assets of Blue Water and CCWSC, increased spending in the Distribution and Transmission segment on the Advanced Meter Infrastructure Project and the Work Centre Redevelopment Project, and increased spending in the Water Services segment on lifecycle projects. This was partially offset by the completion of construction of the new laboratory and office building at the Rossdale location in the Water Services segment in 2015 as well as decreased spending in the Water Services segment at Gold Bar and at the Walker and Big Lake booster stations in Edmonton.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - ASSETS

(Unaudited, $ millions)	September 30, 2016	December 31, 2015	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	$ 85	$ 36	$ 49	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	348	620	(272)	Decrease primarily due to payment of the current portion of the Capital Power receivable related to the back-to-back debt, Suncor receivable payments, the Regina milestone payment, lower electricity billings and accruals resulting from lower electricity price and volumes, partially offset by an increase in current portion of the Regina long-term receivable (see below).
Inventories	15	15	-	
Finance lease receivables	1	1	-	
Other financial assets	280	316	(36)	Decrease due to portions of the Regina long-term receivable reclassified to trade and other receivables, net of construction financing.
Deferred tax assets	79	77	2	Increase due to recognition of tax loss carry forward amounts.
Available-for-sale investment in Capital Power	127	167	(40)	Decrease due to sale of a portion of the Capital Power shares, partially offset by fair value adjustments. The investment has been reclassified from non-current to current.
Property, plant and equipment	4,839	4,568	271	Increase primarily due to the acquisition of the assets of Blue Water and CCWSC and capital expenditures, partially offset by depreciation expense, unfavorable foreign currency valuation adjustments, sales of land, and asset retirements.
Intangible assets and goodwill	290	288	2	Increase primarily due to the acquisition of the assets of Blue Water and CCWSC and capital expenditures, partially offset by amortization of assets with finite lives and unfavorable foreign currency valuation adjustments.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, $ millions)	**September 30, 2016**	**December 31, 2015**	**Increase (decrease)**	**Explanation of material changes**
Trade and other payables	270	259	11	Increase primarily due to higher operating and capital accruals, partially offset by lower electricity accruals resulting from lower electricity prices and volumes.
Loans and borrowings (including current portion)	1,915	2,117	(202)	Decrease primarily due to repayment of short-term and long-term debt, including the Capital Power back-to-back debt, and favorable foreign currency valuation adjustments on U.S. dollar denominated debt, partially offset by proceeds from long-term debt issuance.
Deferred revenue (including current portion)	983	952	31	Increase primarily due to contributions received, partially offset by deferred revenue recognized and favorable foreign currency valuation adjustments.
Provisions (including current portion)	171	160	11	Increase primarily due to the contingent consideration recorded on the acquisition of the Blue Water and CCWSC assets, partially offset by payout of employee benefits, favorable foreign currency valuation adjustments and net refunds of advances from developers.
Derivative liabilities (including current portion)	19	12	7	Increase primarily due to higher unfavorable fair value adjustments related to the interest rate swaps.
Other liabilities (including current portion)	36	38	(2)	
Deferred tax liabilities	44	35	9	Increase primarily due to tax depreciation in excess of accounting depreciation.
Equity attributable to the Owner of the Company	2,626	2,515	111	Increase due to increase in comprehensive income partially offset by dividends paid.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended September 30,	**2016**	**2015**	**Increase (decrease)**	**Explanation**
Operating	$ 143	$ 21	$ 122	Increase primarily reflects higher funds from operations and changes in non-cash operating working capital resulting primarily from an increase in accounts payables.
Investing	3	(118)	121	Increase primarily due to payments received on other financial assets including the payment from Suncor related to the lease receivable, lower advances on other financial assets and proceeds from the partial sale of the Capital Power shares, partially offset by acquisition of the Blue Water and CCWSC assets.
Financing	(90)	(26)	(64)	Decrease primarily due to higher repayment of short-term loans and borrowings, net of proceeds from a long-term debt issuance.
Opening cash and cash equivalents	29	157	(128)	
Closing cash and cash equivalents	$ 85	$ 34	$ 51	

(Unaudited, $ millions) **Cash inflows (outflows)** **Nine months ended September 30,**	**2016**	**2015**	**Increase (decrease)**	**Explanation**
Operating	$ 366	$ 304	$ 62	Increase primarily reflects higher funds from operations and changes in non-cash operating working capital. The higher funds from non-cash operating working capital resulted from a higher decrease in trade and other receivables, partially offset by a lower increase in accounts payable.
Investing	(23)	(103)	80	Increase due to higher payments received on other financial assets including the payment received from Capital Power related to the back-to-back debt and the payment from Suncor related to the lease receivable as well as lower advances on other financial assets, partially offset by lower proceeds on the partial sale of Capital Power shares, the acquisition of the Blue Water and CCWSC assets, and higher capital expenditures.
Financing	(294)	(204)	(90)	Decrease primarily due to higher repayment of long-term and short-term loans and borrowings, net of proceeds from debt issuance.
Opening cash and cash equivalents	36	37	(1)	
Closing cash and cash equivalents	$ 85	$ 34	$ 51	

Operating Activities and Liquidity

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

The Company expects to have sufficient liquidity to finance its plans and fund its obligations for the remainder of 2016 with a combination of cash on hand, cash flow from operating activities, the issuance of commercial paper, public and / or private debt offerings and drawing upon existing credit facilities described below under Financing. EPCOR will continue to sell all or a substantial portion of its remaining interest in Capital Power subject to market conditions, to fund its requirements for capital and other circumstances that may arise in the future.

Cash flows from operating activities would be impaired by events that cause severe damage to our facilities and would require unplanned cash outlays for system restoration repairs. Under those circumstances, more reliance would be placed on our credit facilities for working capital requirements until a regulatory approved recovery mechanism was in place or insurance proceeds were received.

Capital Requirements and Contractual Obligations

During the third quarter of 2016, there were no material changes to the Company’s capital requirements or purchase obligations, including payments for the next five years and thereafter as previously disclosed in the 2015 annual MD&A, except as described below.

As a result of the acquisition of the Blue Water and CCWSC assets, the Company is committed to pay Blue Water a fee based on the “take or pay” capacity of new long term contracts for supply of water. This fee is capped at US$32 million with no time limit for payment of the fee.

Financing

Generally, our external capital is raised at the corporate level and invested in the operating business units. Our external financing consists of commercial paper issuance, borrowings under committed syndicated bank credit facilities, debentures payable to the City, publicly issued medium-term notes, U.S. private-debt notes and issuance of preferred shares.

In the third quarter of 2016, the Company issued US$40 million private-debt notes to fund the acquisition of the Blue Water and CCWSC assets. The U.S. dollar denominated private-debt notes were issued with a term-to-maturity of 25 years and three months and an interest rate of 3.63% per annum.

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) **September 30, 2016**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2018	$ 200	$ -	$ 41	$ 159
Syndicated bank credit facility	November 2020	350	-	-	350
Total committed		550	-	41	509
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total uncommitted		25	-	-	25
Total credit facilities		**$ 575**	**$ -**	**$ 41**	**$ 534**

1 Restricted to letters of credit.

(Unaudited, $ millions) **December 31, 2015**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2018	$ 200	$ -	$ 48	$ 152
Syndicated bank credit facility	November 2020	350	98	-	252
Total committed		550	98	48	404
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total uncommitted		25	-	-	25
Total credit facilities		**$ 575**	**$ 98**	**$ 48**	**$ 429**

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. Letters of credit totaling $41 million (December 31, 2015 - $48 million) were issued and outstanding at September 30, 2016.

The committed syndicated bank credit facilities cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's committed syndicated bank credit facilities gives the Company the option each year to re-price and extend the terms of the facilities by one or more years subject to agreement with the lending syndicate. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates.

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 September 30, 2016, the available amount remaining under this base shelf prospectus was $1 billion (December 31, 2015 - $1 billion). The base shelf prospectus expires in December 2017.

No commercial paper was issued and outstanding at September 30, 2016 (December 31, 2015 - $98 million).

If the economy were to deteriorate in the longer term, particularly in Canada and the U.S., the Company's ability to extend the maturity or revise the terms of bank credit facilities, arrange long-term financing for its capital expenditure programs and acquisitions, or refinance outstanding indebtedness when it matures could be adversely impacted. We believe that these circumstances have a low probability of occurring. We continually monitor our capital programs and operating costs to minimize the risk that the Company becomes short of cash or unable to honor its debt servicing obligations. If required, the Company would look to reduce capital expenditures and operating costs and / or sell a portion of its investment in Capital Power as market conditions permit.

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its syndicated bank credit facilities, Canadian public medium-term notes and U.S. private-debt notes. Based on current financial covenant calculations, the Company has sufficient borrowing capacity to fund current and long-term requirements. Although the risk is low, breaching these covenants could potentially result in a revocation of EPCOR's credit facilities causing a significant loss of access to liquidity.

For further information on the Company's financial covenants, refer to the 2015 annual MD&A.

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2015 annual MD&A. EPCOR faces a number of risks including strategy execution risk, regulatory risk, political and legislative risk, health and safety risk, risk related to investment in Capital Power, information technology related security risks, water scarcity risk, environment risk, operational risks, electricity price and volume risk, project risk, weather risk, financial liquidity risk, counterparty credit risk, availability of people, foreign exchange risk, conflicts of interest, and general economic conditions, business environment and other risks. The Company employs active programs to manage these risks.

As part of ongoing risk management practices, the Company reviews current and proposed transactions to consider their impact on the risk profile of the Company. There have been no material changes to the risk profile or risk management strategies of EPCOR as described in the 2015 annual MD&A that have affected the condensed consolidated interim financial statements for the nine months ended September 30, 2016.

CRITICAL ACCOUNTING ESTIMATES

In preparing the condensed consolidated interim financial statements, management necessarily made judgments and estimates in determining transaction amounts and financial statement balances. The following are the items for which significant estimates were made in the condensed consolidated interim financial statements: electricity revenues and costs, unbilled consumption of electricity and water, fair values and income taxes. Although the current condition of the economy has not impacted our methods of estimating accounting values, it has impacted the inputs in those determinations and the resulting values. Interim results will fluctuate due to the seasonal demands for electricity and water, changes in electricity prices, and the timing and recognition of regulatory decisions. Consequently, interim results are not necessarily indicative of annual results.

For further information on the Company's other critical accounting estimates, refer to the 2015 annual consolidated financial statements, the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months and nine months ended September 30, 2016 and 2015, and the 2015 annual MD&A.

OUTLOOK

For the remainder of 2016, we will continue to focus on growth in rate-regulated water and electricity infrastructure. We expect this investment to come from new infrastructure to accommodate customer growth and lifecycle replacement of existing infrastructure primarily related to the Edmonton and U.S. based operations. We also intend to expand our water and electricity commercial services activities.

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

In June 2016, EPCOR submitted a proposal to Edmonton City Council (City Council) outlining the potential benefits of transferring the City's Drainage Utility Services (Drainage) to EPCOR and City Council voted in favor of proceeding with a review to determine the feasibility of the proposed transfer. This review involved an independent, third-party assessment which will be considered by City Council in the fourth quarter of 2016. EPCOR currently operates three of the four components of the City's water utility cycle – water treatment, water distribution and wastewater treatment. The City's Drainage department operates the fourth component of the water system, the wastewater and storm water collection system.

EPCOR has been awarded franchises by three municipalities in the Southern Bruce region of Ontario near Kincardine to build and operate a natural gas distribution system. In March 2016, EPCOR applied to the Ontario Energy Board (OEB) for the approval of these franchise agreements. The OEB is expected to consider these applications following its decision in a generic proceeding that is considering alternative ratemaking frameworks for natural gas service for Ontario communities that do not currently have access to natural gas.

In October 2016, EPCOR's Water Services segment received the decision related to its 2017 – 2021 Edmonton water and wastewater performance-based rate application. The decision reduced the return on equity (ROE) from 10.875% to 10.175%. The decision is not expected to have a material impact on the Company's results.

EPCOR's Distribution and Transmission segment received a $9 million refund from the Alberta Electricity System Operator for the 2013 and 2014 Deferral Account Reconciliation in the first quarter of 2016. This amount was refunded to customers in the third quarter of 2016.

The Energy Services segment received approval of their 2016 – 2018 Energy Price Setting Plan in the first quarter of 2016 and the Company implemented the new plan in the third quarter of 2016. The plan will adapt more quickly to changes in wholesale market conditions thereby reducing EPCOR's risk.

The Alberta Utilities Commission (AUC) issued its 2016 Generic Cost of Capital decision in October 2016. The AUC directed that the ROE for 2016 remain at 8.3% and increase to 8.5% in 2017 for all Alberta natural gas and electricity distribution and transmission utilities. The AUC also determined that a deemed equity ratio of 37% for both distribution and transmission utilities satisfies the fair return standard when combined with the ROEs set for these years and will enable the utilities to maintain a credit rating in the A category. This determination results in a 3% decrease and a 1% increase in the deemed equity ratios for the EPCOR distribution and transmission utilities, respectively. The various true-ups related to the decision will occur over the next several years. The decision will not have a material impact on the financial results of the Company.

The Government of Alberta is consulting on draft amendments to the Municipal Government Act (MGA) which would impose restrictions on the ability of a municipally controlled corporation (MCC) to conduct business outside of the municipality that controls it. EPCOR, which is a MCC of the City of Edmonton, is currently exempted from the MGA and a similar exemption is not present in the draft amendments. EPCOR is working to ensure that the existing exemption continues in any amendment to the MGA.

As a result of EPCOR's consistent and sustainable performance, EPCOR's Board of Directors has recommended to EPCOR's shareholder, the City, that the annual dividend paid by EPCOR to the City be increased by $5 million to $146 million commencing in 2017. EPCOR's Shareholder approved this recommendation, and in accordance with the EPCOR Dividend Policy, this amount will remain in effect until such time as the EPCOR Board recommends that it be changed.

QUARTERLY RESULTS

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income**
September 30, 2016	$ 504	$ 76
June 30, 2016	479	67
March 31, 2016	475	78
December 31, 2015	523	65
September 30, 2015	511	(13)
June 30, 2015	489	139
March 31, 2015	473	69
December 31, 2014	499	75

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

- September 30, 2016 third quarter results included more favorable fair value adjustments related to financial electricity purchase contracts, the recognition of the fair value gain resulting from the sale of the Capital Power shares, and higher approved electricity and water customer rates, partially offset by lower billing charge rates and higher depreciation. In addition, 2015 included an impairment of the Capital Power shares.
- June 30, 2016 second quarter results included lower favorable fair value adjustments related to financial electricity purchase contracts and interest rate swaps and excluded any gains related to Capital Power. These decreases were partially offset by higher approved electricity and water customer rates and higher income related to industrial service contracts.
- March 31, 2016 first quarter results included higher approved electricity and water customer rates, gains on sales of surplus lands, higher income related to industrial services contracts, and higher dividend income from Capital Power. This was partially offset by no equity share of income of Capital Power, and lower favorable fair value adjustments on financial electricity purchase contracts.
- December 31, 2015 fourth quarter results included an impairment of the available-for-sale investment in Capital Power, no equity share of income of Capital Power and lower deferred income tax recovery. This was partially offset by higher approved water and electricity customer rates, higher billing charge rates, higher customer water consumption, and higher favorable fair value adjustments on financial electricity purchase contracts.
- September 30, 2015 third quarter results included the impairment of the available-for-sale investment in Capital Power and unfavorable fair value adjustments related to the financial electricity purchase contracts, partially offset by higher approved water and electricity customer rates, higher billing charge rates, and higher Energy Price Setting Plan margins.
- June 30, 2015 second quarter results included a gain on sale of a portion of investment in Capital Power and a gain on reclassification of investment in Capital Power to an available-for-sale asset. It also included higher

approved water and electricity customer rates, higher fair value adjustments on financial electricity purchase contracts, lower income tax expense due to the re-organization of Energy Services, and favorable fair value adjustments related to the interest rate swap.

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

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 2016.	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 sell all or a substantial portion of its remaining interest in Capital Power.	EPCOR is able to find suitable lower-risk businesses and / or assets in which to invest the sell-down proceeds. 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 such that EPCOR no longer deems it feasible to sell all or substantially all of its remaining interest in Capital Power.
The annual dividend paid by EPCOR to the City will be increased by $5 million to $146 million commencing in 2017.	EPCOR is able to maintain consistent and stable results. The EPCOR Board of Directors does not revise the dividend to the City.	EPCOR’s operations do not generate the expected level of cash flow and / or circumstances arise limiting or restricting the Company’s ability to access funds through the various means otherwise available. The Board of Directors approves a revised dividend to the City.

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

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

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2015 Annual Information Form is available on SEDAR at www.sedar.com.