EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
June 30, 2017

This management's discussion and analysis (MD&A) dated August 3, 2017, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the three months and six months ended June 30, 2017 and 2016 including business transfer and acquisition (note 4), changes in liabilities arising from financing activities (note 5), financial instruments (note 6) and the consolidated financial statements and MD&A for the year ended December 31, 2016, including standards and interpretations not yet applied (note 3(v)), 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 August 3, 2017.

OVERVIEW

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

Net income was $56 million and $94 million for the three and six months ended June 30, 2017, respectively, compared with net income of $67 million and $145 million for the comparative periods in 2016, respectively. The decrease of $11 million and $51 million, respectively, from the comparative periods was in part due to lower income from core operations, as described below, and no dividend income due to the sale of remaining Capital Power shares (also referred to as the "available-for-sale investment in Capital Power"). Partially offsetting these decreases were greater favorable fair value adjustments related to financial electricity purchase contracts in 2017 and unfavorable fair value adjustments related to interest swaps in 2016 with no corresponding transaction in the current year. In addition, the six months ended June 30, 2017 include the recognition of the fair value gain resulting from the final sale of Capital Power shares.

Net income from core operations was $52 million and $90 million for the three and six months ended June 30, 2017, respectively, compared with $68 million and $143 million for the comparative periods in 2016, respectively, as described in the net income table on page 4 of this MD&A. The decrease in income from core operations for the three and six months ended June 30, 2017 was driven in part by lower income from industrial services contracts due primarily to the termination of the Suncor financing and operating agreements in 2016, lower Energy Price Setting Plan margins, lower water and wastewater volumes due to higher precipitation, higher water treatment costs due to poor river quality conditions in the city of Edmonton and loss on sale of surplus land in 2017. The decreases for the three months ended June 30, 2017 were partially offset by higher electricity transmission, water and wastewater rates and higher net system access service collections. In addition, the decrease for the six months ended June 30, 2017 was also due to lower gains as a result of sales of surplus land in the first quarter of 2016 and lower net system access service collections. Partially offsetting these decreases were higher water, wastewater and electricity distribution and transmission rates. Income from core operations is a non-IFRS financial measure as described in Net Income on page 3 of this MD&A.

SIGNIFICANT EVENTS

Acquisition of Hughes Gas Resources, Inc.

On June 1, 2017, the Company acquired 100% of the common shares of Hughes Gas Resources, Inc., (Hughes), a natural gas distribution, transmission and services holding company with four wholly owned subsidiaries operating northwest of Houston, Texas, for total consideration of $54 million (US$40 million) and the assumption of $13 million (US$10 million) in third party debt.

Hughes is primarily involved in the distribution of natural gas to approximately 4,300 customer connections through its rate regulated subsidiary Hughes Natural Gas, Inc. which owns and operates a 354 kilometer (220 mile) natural gas distribution network. Other subsidiaries include Alamo Pipeline, LLC, the owner and operator of a rate regulated natural gas transmission pipeline which transports natural gas from suppliers to Hughes Natural Gas, Inc. through its 51 kilometer (32 mile) pipeline. These operations are regulated by the Texas Railroad Commission. The acquisition also includes two unregulated subsidiaries, Pinehurst Utility Construction, LLC (infrastructure contractor) and Goliad Midstream Energy, LLC (intermediary company for negotiation of supply contracts).

At closing, $46 million of the total consideration was paid with the $8 million balance of the consideration to be paid in the future contingent upon the addition of new customer connections above a minimum of 600 incremental customer connections over a period of six years from the date of closing. The Company has recorded the full amount of this contingent consideration based on expected growth in the region. The Company funded the closing payment using existing cash resources.

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 adjustments to the purchase price allocation between assets acquired and liabilities assumed. For further information on the fair value estimates, refer to the unaudited condensed consolidated interim financial statements of EPCOR Utilities Inc. for the six months ended June 30, 2017. Refer to the Capital Requirements and Contractual Obligations section for additional information.

Appointments to the Board of Directors

On May 8, 2017, Richard H. Cruickshank and Janice G. Rennie were appointed to the Board of Directors of the Company.

Transfer of Drainage Utility Services from the City of Edmonton

On April 12, 2017, Edmonton`s City Council approved the transfer of its Drainage Utility Services (Drainage) to EPCOR. Drainage operations are comprised of the sanitary drainage utility and the stormwater drainage utility which provide services in sanitary wastewater and stormwater collection and bio solids management and disposal. The transfer of the Drainage utility will be structured as a transfer of assets and assumption of liabilities between the City and EPCOR, with EPCOR assuming financial responsibility for all existing Drainage related debt. Finalization of the terms of the Drainage transfer, including execution of a franchise agreement, is nearing completion with the transfer of the assets and assumption of liabilities expected to take place on September 1, 2017. Significant integration activities are currently underway including the set-up of information and accounting systems, the design of the Drainage organization chart and the finalization of the necessary union transfer agreements to facilitate the transfer of all union employees. Refer to the Capital Requirements and Contractual Obligations section for additional information relating to the Drainage transfer.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(unaudited, $ millions)		Three months		Six Months
Revenues for the periods ended June 30, 2016	**$**	**479**	**$**	**954**
Lower Water Services segment revenues		(16)		(31)
Higher electricity Distribution and Transmission segment revenues		13		16
Higher (lower) Energy Services segment revenues		3		(4)
Other		(5)		(6)
Decrease in revenues from core operations		(5)		(25)
Revenues for the periods ended June 30, 2017	**$**	**474**	**$**	**929**

Consolidated revenues were lower by $5 million and $25 million for the three and six months ended June 30, 2017, respectively, compared with the corresponding periods in 2016 primarily due to the net impact of the following:

- Water Services segment revenues were lower for the three and six months ended June 30, 2017, compared with the corresponding periods in 2016 primarily due to lower construction revenues from the Regina wastewater treatment plant project, lower industrial services contract revenues and lower water and wastewater volumes due to higher precipitation in the city of Edmonton, partially offset by growth and higher customer rates.
- Electricity Distribution and Transmission segment revenues were higher for the three and six months ended June 30, 2017, compared with the corresponding periods in 2016 primarily due to higher system access service revenue and higher electricity transmission customer rates. In addition, the increase for the six months ended June 30, 2017 was also due to higher electricity distribution customer rates, partially offset by lower revenue from commercial services.
- Energy Services segment revenues were higher for the three months ended June 30, 2017, compared with the corresponding period in 2016 primarily due to customer growth, partially offset by lower electricity prices and volume. Energy Services segment revenues were lower for the six months ended June 30, 2017, compared with the corresponding period in 2016 primarily due to lower electricity prices and volumes, partially offset by customer site growth.

Net Income

We use income from core operations to distinguish operating results from the Company’s water, electricity and natural gas businesses from results with respect to its investment in Capital Power and 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 instruments for the period and the closing fair value of the derivative instruments. 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. However, it is presented below as it provides a useful income performance measure of the Company’s core business operations and may be referred to by debtholders and other interested parties in evaluating the Company’s financial performance and in assessing its creditworthiness.

(Unaudited, $ millions)		Three months		Six Months
Net income for the period ended June 30, 2016	**$**	**67**	**$**	**145**
2016 change in the fair value of contracts-for-difference		3		(2)
2016 change in the fair value of interest rate swaps		2		7
2016 dividend income from available-for-sale investment in Capital Power		(4)		(7)
2016 income from core operations		**68**		**143**
Lower Water Services segment operating income		(13)		(30)
Lower Distribution and Transmission segment operating income		(3)		(22)
Lower Energy Services segment operating income excluding change in the fair value of contracts-for-differences		(3)		(6)
Lower income tax expense		2		5
Other		1		-
Decrease in income from core operations		(16)		(53)
2017 income from core operations		**52**		**90**
2017 change in the fair value of contracts-for-difference		4		3
2017 fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income		-		1
Net income for the period ended June 30, 2017	**$**	**56**	**$**	**94**

Changes in each business segment's operating results compared with the corresponding periods in 2016 are described in Segment Results below. Explanations of the remaining variances in net income for the three and six months ended June 30, 2017, are as follows:

- Greater favorable changes in the fair value of contracts-for-differences.
- Unfavorable fair value adjustments related to interest rate swaps for the three months and six months ended June 30, 2016, with no corresponding adjustments in 2017 due to the settlement of the interest rate swaps.
- No dividend income from the Capital Power shares recognized for the three months and six months ended June 30, 2017, compared with the corresponding periods in 2016, due to the sale of the remaining shares in January 2017.
- Recognition of a fair value gain on sale of its remaining investment in Capital Power in January 2017 with no corresponding transaction in 2016.
- Income tax expense was lower for the three and six months ended June 30, 2017, compared with the corresponding periods in 2016, primarily due to decreased tax expense in the Water Services segment resulting from lower industrial services contract income in Canada.

SEGMENT RESULTS

Water Services

(Unaudited, $ millions, including intersegment transactions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenues	$ 158	$ 174	$ 294	$ 325
Expenses	(112)	(115)	(218)	(219)
Operating income	**$ 46**	**$ 59**	**$ 76**	**$ 106**

Water Services' operating income decreased by $13 million and $30 million for the three and six months ended June 30, 2017, respectively, compared with the corresponding periods in 2016, primarily due to lower income related to industrial services contracts, lower water and wastewater volumes due to higher precipitation in the city of Edmonton, higher water treatment costs due to poor river quality conditions in the city of Edmonton and higher depreciation and staff costs, partially offset by growth and higher customer rates. In addition, the first quarter of 2016 included gains from the sale of surplus land.

Distribution and Transmission

(Unaudited, $ millions, including intersegment transactions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenues	$ 177	$ 164	$ 336	$ 320
Expenses	(155)	(139)	(294)	(256)
Operating income	**$ 22**	**$ 25**	**$ 42**	**$ 64**

Distribution and Transmission's operating income decreased by $3 million for the three months ended June 30, 2017, compared with the corresponding period in 2016, primarily due to loss on sale of surplus land and lower income from commercial services, partially offset by higher net system access service collections and electricity transmission customer rates.

Distribution and Transmission's operating income decreased by $22 million for the six months ended June 30, 2017, compared with the corresponding period in 2016, primarily due to lower net system access service collections, loss on sale of surplus land and lower income from commercial services, partially offset by higher electricity distribution and transmission rates.

Energy Services

(Unaudited, $ millions, including intersegment transactions)	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Revenues	$ 191	$ 188	$ 401	$ 405
Expenses	(180)	(181)	(381)	(380)
Operating income	**11**	**7**	**20**	**25**
Exclude change in the fair value of contracts-for-differences	(4)	3	(3)	(2)
Operating income excluding change in the fair value of contracts-for-differences	**$ 7**	**$ 10**	**$ 17**	**$ 23**

Energy Services' operating income excluding change in the fair value of contracts-for-differences decreased by $3 million and $6 million for the three and six months ended June 30, 2017, respectively, compared with the corresponding periods in 2016, primarily due to lower Energy Price Setting Plan margins.

Capital Spending and Investment

(Unaudited, $ millions) **Six months ended June 30,**	**2017**	**2016**
Water Services	$ 83	$ 79
Distribution and Transmission	118	126
Energy Services	2	2
Corporate	3	3
	206	210
Business acquisition	46	-
Total capital spending and investment	**$ 252**	**$ 210**

Total capital spending and investment was higher for the six months ended June 30, 2017, compared with the corresponding period in 2016, primarily due to the acquisition of Hughes and increased spending in the Water segment on the Gold Bar Hydrovac Sanitary Waste Facility project as well as various projects in the U.S. This was partially offset by decreased spending in the Water Services segment due to the Gold Bar Grit Tanks project being substantially completed and placed into service in 2016. The Distribution and Transmission segment had decreased spending on various growth and lifecycle projects which was only partially offset by increased spending on renovations to its major work center.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - ASSETS

(Unaudited, $ millions)	**June 30, 2017**	**December 31, 2016**	**Increase (decrease)**	**Explanation of material changes**
Cash and cash equivalents	$ 14	$ 191	$ (177)	Refer to Consolidated Statements of Cash Flows section.
Trade and other Receivables	479	325	154	Increase primarily due to reclassification of the current portion of the Capital Power receivable related to the back-to-back debt ($174 million), partially offset by a decrease in electricity accruals.
Available-for-sale investment in Capital Power	-	6	(6)	Decrease due to sale of the remaining Capital Power shares.
Derivatives	1	-	1	
Inventories	15	14	1	
Other financial assets	92	265	(173)	Decrease due to reclassification of the current portion of the Capital Power receivable related to the back-to-back debt to trade and other receivables ($174 million), net of construction financing.
Deferred tax assets	85	84	1	
Property, plant and equipment	5,133	4,983	150	Increase primarily due to the acquisition of Hughes and capital expenditures, partially offset by unfavorable foreign currency valuation adjustments, depreciation and asset disposals and retirements.
Intangible assets and goodwill	286	293	(7)	Decrease primarily due to amortization of assets with finite lives and unfavorable foreign currency valuation adjustments, partially offset by the acquisition of Hughes and capital expenditures.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, $ millions)	June 30, 2017	December 31, 2016	Increase (decrease)	Explanation of material changes
Trade and other payables	$ 238	$ 299	$ (61)	Decrease primarily due to lower electricity and capital accruals as well as payments and release of holdbacks on the Regina wastewater treatment plant project, partially offset by an increase in electricity delivery service charges payable.
Loans and borrowings (including current portion)	1,913	1,920	(7)	Decrease primarily due to repayment of long-term debt and favorable foreign currency valuation adjustments on U.S. dollar denominated debt, partially offset by Hughes acquisition assumption of debt.
Deferred revenue (including current portion)	1,044	1,041	3	Increase primarily due to contributions received from developers, partially offset by revenue recognized and favorable foreign currency valuation adjustments.
Provisions (including current portion)	107	111	(4)	Decrease primarily due to payment of employee benefits in excess of accruals and favorable foreign currency valuation adjustments, partially offset by net receipts of refundable contributions from customers and developers.
Other liabilities (including current portion)	78	72	6	Increase primarily due to contingent consideration recorded on the acquisition of Hughes, partially offset by favorable foreign currency valuation adjustments.
Deferred tax liabilities	49	46	3	
Equity attributable to the Owner of the Company	2,676	2,672	4	Increase due to comprehensive income for the period, partially offset by dividends paid.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended June 30,	**2017**	**2016**	**Increase (decrease)**	**Explanation**
Operating	$ 50	$ 87	$ (37)	Decrease primarily due to lower funds from the change in non-cash operating working capital resulting from an increase in trade and other receivables and a decrease in trade and other payables, partially offset by higher funds from operations due primarily to a decrease in the change in employee benefit provisions.
Investing	(140)	(109)	(31)	Decrease is primarily due to acquisition of Hughes, lower change in non-cash investing working capital and lower distributions from Capital Power, partially offset by lower capital expenditures and lower advances on construction financing.
Financing	(39)	15	(54)	Decrease is primarily due to proceeds from the net issuance of short-term debt in the second quarter of 2016 and higher dividend payments to the City in 2017.
Opening cash and cash equivalents	143	36	107	
Closing cash and cash equivalents	$ 14	$ 29	$ (15)	

(Unaudited, $ millions) **Cash inflows (outflows)**				
Six months ended June 30,	**2017**	**2016**	**Increase (decrease)**	**Explanation**
Operating	$ 132	$ 223	$ (91)	Decrease primarily due to lower funds from operations as a result of reduced net income and lower funds from the change in non-cash operating working capital resulting from a lower decrease in trade and other receivables and a higher decrease in trade and other payables.
Investing	(231)	(26)	(205)	Decrease is primarily due to lower payments related to long-term loans receivable from Capital Power, lower payments from Regina due to receipt of the milestone payment in the first quarter of 2016, acquisition of Hughes, lower change in non-cash investing working capital, lower proceeds from the disposal of assets and lower distributions from Capital Power, partially offset by lower advances on construction financing and proceeds from the sale of the remaining shares of Capital Power.
Financing	(78)	(204)	126	Increase is primarily due to higher repayment of long-term debt in 2016, partially offset by higher dividend payments to the City in 2017.
Opening cash and cash equivalents	191	36	155	
Closing cash and cash equivalents	$ 14	$ 29	$ (15)	

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 2017 with a combination of cash on hand, cash flow from operating activities, the issuance of commercial paper, public or private debt offerings and draws upon existing credit facilities described below under Financing.

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

Capital Requirements and Contractual Obligations

As a result of the acquisition of Hughes in June 2017, the Company is committed to pay a fee to the previous owners of Hughes based on the addition of new customer connections above a minimum of 600 incremental customer connections over a period of six years from the date of closing. The fee is capped at US$8 million. The Company also assumed existing third party debt with a fair value of $13 million as part of transaction. A portion of the assumed debt has been settled and the remaining debt has terms-to-maturity of up to four years at interest rates ranging between 4.51% and 7.00% per annum and certain of the Hughes assets are pledged as security.

In April 2017, Edmonton City Council approved the transfer of Drainage to EPCOR as described in the Significant Events section. Under the proposed terms, EPCOR expects to increase the dividend paid to the City by $20 million in 2018 and by a prorated amount in 2017, subject to Board and Shareholder approval. In addition, the Company will pay $75 million to the City over a period of time to be determined by the City to compensate the City for stranded costs related to the transfer. EPCOR will become responsible for future capital costs and assume responsibility for approximately $600 million to $650 million in current drainage-related City debt through a back-to-back agreement with the City. For the first full year of operations, capital spending, net of contributions, is expected to be approximately $120 million to $200 million.

The timing of the total commitment of $91 million for several Distribution and Transmission projects, as directed by Alberta Electricity System Operator, has changed since the fourth quarter of 2016 to $2 million in 2017, $38 million in 2018, $46 million in 2019 and $5 million in 2020.

During the first half of 2017 there were no other 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 2016 annual MD&A.

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.

The Company assumed third party debt as a result of the Hughes acquisition; refer to Capital Requirements and Contractual Obligations section for additional information.

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) **June 30, 2017**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2019	$ 200	$ -	$ 58	$ 142
Syndicated bank credit facility	November 2020	350	-	-	350
Total committed		550	-	58	492
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total credit facilities		**$ 575**	**$ -**	**$ 58**	**$ 517**

(Unaudited, $ millions) **December 31, 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 2019	$ 200	$ -	$ 73	$ 127
Syndicated bank credit facility	November 2020	350	-	-	350
Total committed		550	-	73	477
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total credit facilities		**$ 575**	**$ -**	**$ 73**	**$ 502**

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 $58 million (December 31, 2016 - $73 million) were issued and outstanding at June 30, 2017.

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

No commercial paper was issued and outstanding at June 30, 2017 (December 31, 2016 - nil).

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.

Credit Rating

In August 2016, DBRS confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt ratings for EPCOR and Standard & Poor's Ratings Services confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR. We do not anticipate any changes to EPCOR's credit ratings due to the transfer of Drainage.

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 or resulting in the Company's publicly issued medium-term notes and private debt notes becoming immediately due and payable thereby causing the Company to find a means of funding which could include the sale of assets.

For further information on the Company's contractual obligations, refer to the 2016 annual MD&A.

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2016 annual MD&A. EPCOR believes that risk management is a key component of the Company's culture and we have put cost-effective risk management practices into place. At the same time, EPCOR views risk management as an ongoing process and we continually review our risks and look for ways to enhance our risk management processes.

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. EPCOR's risk profile and risk management strategies as described in the 2016 annual MD&A have been updated to reflect the transfer of Drainage, the Hughes acquisition and the anticipated acquisition of Natural Resource Gas Limited (NRGL).

Currently, EPCOR's risks include new business integration, strategy execution risk, political and legislative risk, regulatory risk, health and safety risk, information technology related security risks, risk of reputational damage, environment risk, business interruption risks, failure to attract, retain or develop top talent, water scarcity risk, electricity price and volume risk, project risk, weather risk, financial liquidity risk, counterparty and credit risk, billing error risk, foreign exchange risk, conflicts of interest, and general economic conditions, business environment and other risks.

The following risk has been revised since issuance of the 2016 annual MD&A as follows:

New Business Integration Risk

EPCOR plans to diversify its utility infrastructure investments across investment types and North American geographies to reduce investment risk. The Company is planning to accomplish this through expansion into the natural gas distribution and drainage utility businesses as well as new geographies.

These types of utility businesses are new to EPCOR which introduces risk to the Company due to potential unfamiliarity with the associated operational, safety and regulatory risks in addition to the risks associated with integrating these businesses into EPCOR.

In April 2017, the City approved the transfer of its Drainage utility to EPCOR. The transfer will be material to the Company due to the size of the utility, requiring substantial efforts to successfully integrate the operations into EPCOR. The integration will encompass many important elements that must be completed successfully. In addition, the Company may be integrating NRGL concurrently with the Drainage integration along with the ongoing integration of Hughes. Failing to successfully integrate these new businesses and the resultant effects on the Company, including reputational impact, make this EPCOR's most significant risk at the current time.

EPCOR has developed comprehensive integration plans and integration of the Drainage and natural gas distribution businesses will be a top priority for the Company, ensuring that personnel with appropriate skills are in place to operate the businesses safely and properly immediately upon becoming part of EPCOR.

Litigation Update

The Company is not involved in any material litigation at this time.

FUTURE ACCOUNTING STANDARD CHANGES

A number of new standards, amendments to standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committee the application of which is effective for periods beginning on or after January 1, 2018. Those which may be relevant to the Company and may impact the accounting policies of the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 9 – Financial Instruments (IFRS 9), which replaces IAS 39 – Financial Instruments: Recognition and Measurement, eliminates the existing classification of financial assets and requires financial assets to be measured based on the business model in which they are held and the characteristics of their contractual cash flows. The effective date for implementation of IFRS 9 has been set for annual periods beginning on or after January 1, 2018. Based on the Company's existing financial instruments, the Company is currently evaluating the impact of the application of IFRS 9 but does not expect it to have a significant impact on its consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers (IFRS 15), which replaces IAS 11 - Construction Contracts and IAS 18 - Revenue and related interpretations, is effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. The Company has developed an implementation plan and is currently performing detailed analysis on each revenue stream and the underlying contracts with customers to determine the impact of IFRS 15 on the consolidated financial statements. A significant portion of the Company's revenue is generated from the provision of utility goods and services that are simultaneously received and consumed by customers. Therefore, the Company will continue to recognize utility revenue over time as the goods and services are provided because the output method of revenue recognition depicts the entity's performance towards complete satisfaction of its performance obligation. For other contracts with customers, analysis is ongoing and the Company expects to report more detailed information, including estimated quantitative impacts, in future periods.

IFRS 16 – Leases (IFRS 16), which replaces IAS 17 – Leases (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases in IAS 17 into a single lessee model. The Company is currently reviewing contracts that are identified as leases in order to evaluate the impact of adoption of IFRS 16 on the consolidated financial statements. Based on its preliminary assessment the Company expects that there will be a material impact on its statements of financial position requiring the recognition of lease assets and lease obligations with respect to its leases for office space, which are currently classified as operating leases.

IFRIC 23 - Uncertainty over Income Tax Treatments is effective for annual periods commencing on or after January 1, 2019. The interpretation provides guidance on the recognition and measurement of current and deferred tax assets and liabilities under IAS 12 when there is uncertainty over income tax treatments. The Company does not expect a material impact on initial application of the interpretation however the interpretation may impact the Company's recognition, measurement and disclosure of uncertain tax treatments in the future.

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 2016 annual consolidated financial statements and 2016 annual MD&A.

OUTLOOK

For the remainder of 2017, EPCOR will focus on the transfer and integration of the Drainage utility as well as the integration of Hughes and the expected closing of NRGL. In addition, we will continue to target growth in rate-regulated water, wastewater, electricity and natural gas infrastructure. We expect much of 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. EPCOR intends to expand our water and electricity commercial services activities and to invest in the area of renewable energy generation, including solar and biogas facilities to power our operations and enhance our environmental performance.

EPCOR is proposing to build a new solar farm just south of its existing E.L. Smith Water Treatment Plant (E.L. Smith WTP). The proposed solar farm will generate "green" energy to help power the existing E.L. Smith WTP and its water treatment and distribution processes, while reducing our greenhouse gas emissions. The solar farm is expected to have a peak generation capacity of approximately 12 megawatts. In May 2017, EPCOR submitted a Land Development Application to the City for approval to rezone the area as the zoning will need to be changed to Public Utility in order to build the solar farm on this site. Once EPCOR has received initial input from the public, EPCOR will submit an application to the Alberta Utilities Commission (AUC) for approval to build and operate the new solar farm. If approved by the City and the AUC, construction is anticipated to begin in the first half 2018 with construction expected to be completed in the fourth quarter of 2018.

In November 2016, the Company entered into a definitive asset purchase agreement to acquire substantially all of the assets of NRGL for consideration of $21 million, subject to certain adjustments. NRGL is a natural gas distributor in southwestern Ontario near London, providing services to approximately 8,000 residential, commercial and industrial customers in the counties of Elgin, Middlesex, Oxford and Norfolk. The Ontario Energy Board (OEB) is currently reviewing the application for approval of this arrangement and the Company expects to complete the transaction in the second half of 2017.

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 OEB for the approval of these franchise agreements. In January 2017 the OEB requested indications of interest from any parties interested in servicing these areas and the OEB is developing a process for adjudicating competing applications. It is not clear at this time when the OEB will finalize and hold its competitive process.

Over the long-term, demand for water is expected to increase and we anticipate escalating requirements for better water management practices including watershed management and conservation. We will pursue expansion of our portfolio of commercial water contracts.

In December 2016, the Government of Alberta passed *Bill 21: the Modernized Municipal Government Act* (MGA) which could impose restrictions on the ability of a Municipally Controlled Corporation (MCC) to conduct its business. EPCOR, which is a MCC of the City of Edmonton, was previously exempted by regulation from the MGA and a similar exemption by way of regulation has not as of yet been tabled. EPCOR is working to ensure the previous exemption is re-instated as the related regulations are developed. Not having an exemption from the MGA could materially impact EPCOR's ability to execute on its Long Term Plan.

QUARTERLY RESULTS

(Unaudited, $ millions) Quarters ended	Revenues	Net income
June 30, 2017	$ 474	$ 56
March 31, 2017	455	38
December 31, 2016	474	88
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)

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

- June 30, 2017, second quarter results included lower income related to industrial services contracts, lower Energy Price Setting Plan margins, a loss on sale of surplus land, lower water and wastewater volumes due to higher precipitation in the city of Edmonton, higher water treatment costs due to poor river quality conditions in the city of Edmonton and no dividend income due to the sale of Capital Power shares. Partially offsetting these decreases were favorable fair value adjustments related to financial electricity purchase contracts in 2017 and unfavorable fair value adjustments related to interest swaps in 2016 with no corresponding transaction in the current year, higher electricity transmission, water and wastewater rates and higher net system access service collections.
- March 31, 2017, first quarter results included unfavorable fair value adjustments related to financial electricity purchase contracts and no dividend income due to the sale of Capital Power shares, lower net system access collections, lower gains as a result of sales of surplus land in the first quarter of 2016, lower income related to industrial services contracts and lower Energy Price Setting Plan margins. Partially offsetting these decreases was higher water, wastewater and electricity distribution and transmission rates and an unfavorable fair value adjustment related to interest swaps in the first quarter of 2016.
- December 31, 2016, fourth quarter results included the recognition of the fair value gain resulting from the sale of Capital Power shares, greater favorable fair value adjustments related to financial electricity purchase contracts and interest rate swaps and higher approved electricity distribution, water and wastewater rates, partially offset by lower electricity transmission customer rates, lower billing charge rates, higher depreciation and lower income related to industrial services contracts.
- September 30, 2016 third quarter results included greater 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, water and wastewater 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, water and wastewater rates and higher income related to industrial services contracts.
- March 31, 2016 first quarter results included higher approved electricity, water and wastewater 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 electricity, water and wastewater rates, higher billing charge rates, higher customer water consumption, and greater 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 electricity, water and wastewater rates, higher billing charge rates, and higher Energy Price Setting Plan margins.

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 2017.	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.

Forward-looking Information	Material Factors or Assumptions	Risk Factors
Drainage will be transferred under the proposed terms, including the estimated transfer date: • EPCOR expects to increase the dividend paid to the City by $20 million in 2018 and by a prorated amount in 2017, subject to Board and Shareholder approval. • In addition, the Company will pay $75 million to the City over a period of time to be determined by the City to compensate the City for stranded costs related to the transfer. • EPCOR will become responsible for future capital costs and assume responsibility for approximately $600 million to $650 million in current drainage-related City debt through a back-to-back agreement with the City. • For the first full year of operations, capital spending, net of contributions, is expected to be approximately $120 million to $200 million.	Transfer takes place on the estimated transfer date and under the proposed terms.	Estimated transfer date changes. Transfer or terms are varied. Actuals vary from estimated amounts.

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 2016 Annual Information Form is available on SEDAR at www.sedar.com.