EPCOR UTILITIES INC.

Management's Discussion and Analysis

For nine months ended September 30, 2021

EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
September 30, 2021

This interim management's discussion and analysis (MD&A) dated October 29, 2021 should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the nine months ended September 30, 2021 and 2020, including significant accounting policies (note 3), business acquisition (note 4), expropriation of the Bullhead City water utility systems (note 5), loans and borrowings (note 7), financial instruments (note 8) and financial risk management (note 9), the consolidated financial statements and MD&A for the year ended December 31, 2020, and the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "the Corporation", "EPCOR", "it", "its", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. Financial information in this MD&A is based on the condensed consolidated interim financial statements, which were prepared in accordance with International Accounting Standard - 34 "*Interim Financial Reporting*" as issued by International Accounting Standards Board, and is presented in Canadian dollars unless otherwise specified. Terms used throughout this MD&A are defined in the Glossary at the end of this document.

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 October 29, 2021.

OVERVIEW

The Corporation, through its wholly owned subsidiaries, builds, owns and operates electrical, natural gas, and water transmission and distribution networks, water and wastewater facilities and sanitary and stormwater systems and infrastructure in Canada and the United States (U.S.). The Company also provides electricity, natural gas and water products and services to residential and commercial customers. The Company provides Regulated Rate Option (RRO) and default supply electricity related services and sells electricity and natural gas to Alberta residential consumers under contracts through its Encor brand. In addition, EPCOR provides design, build, finance, operating and maintenance services for electrical, water, wastewater and natural gas infrastructure for municipal and industrial customers in Canada and the U.S. As part of its environmental initiative, EPCOR also intends to invest in renewable energy generation projects, where commodity risk can be appropriately managed. EPCOR operates its business under the Water Services, Distribution and Transmission, Energy Services and U.S. Operations segments. The Company operates in Canada and the Southwestern U.S.

Net income was $146 million and $287 million for the three and nine months ended September 30, 2021, respectively, compared with net income of $92 million and $212 million for the comparative periods in 2020, respectively. The increase of $54 million for the three months ended September 30, 2021 was primarily due to the gain on expropriation of the Bullhead City (BHC) water utility systems, higher transmission system access service charge net collections and higher Adjusted EBITDA, as described below, partially offset by unfavorable fair value adjustments related to financial electricity purchase contracts, as well as, higher income tax, depreciation and finance expenses. The increase of $75 million for the nine months ended September 30, 2021 was primarily due to the gain on expropriation of the BHC water utility systems, favorable fair value adjustments related to financial electricity purchase contracts and higher Adjusted EBITDA, as described below, partially offset by lower transmission system access service charge net collections, lower net collections of U.S. natural gas procurement costs, as well as, higher income tax, depreciation and finance expenses.

Adjusted EBITDA is a non-IFRS financial measure as described in Adjusted EBITDA and Net Income section on page 5 of this MD&A.

Adjusted EBITDA was $227 million and $640 million for the three and nine months ended September 30, 2021, respectively, compared with $218 million and $576 million for the comparative periods in 2020, respectively. The increase of $9 million and $64 million for the three and nine months ended September 30, 2021, respectively, was primarily due to higher water consumption due to hot, dry weather conditions in the city of Edmonton, higher rates and customer growth, Adjusted EBITDA from the newly acquired Johnson Utility LLC (JU) operations and lower water treatment costs for operations in the city of Edmonton due to better water quality. These increases were partially offset by lower water consumption in Arizona and New Mexico due to a wet summer, lower Energy Price Setting Plan (EPSP) margins and higher staff costs related to additional operational support required for the implementation of the Customer Information System Replacement project (a new customer billing system for various EPCOR business units). In addition, for the nine months ended September 30, 2021, provision for expected credit losses from customers was also lower.

KEY PERFORMANCE INDICATORS

On August 16, 2021, EPCOR published its 2020 Environment, Social and Governance (ESG) Report - Leading for the Future. The report includes a scorecard of 25 performance measures and 17 targets, feature stories and videos profiling key initiatives, and interviews with leading experts and scientists from across the Company. The ESG report is available on the EPCOR website at www.epcor.com/esg.

SIGNIFICANT EVENTS

Business acquisition of Johnson Utilities LLC operations

On January 29, 2021, the Company acquired the operations of JU through its wholly owned U.S. subsidiary EPCOR Water Arizona Inc., for total consideration of $141 million (US$110 million) including cash consideration of $128 million (US$100 million) and long-term unsecured promissory note of $13 million (US$10 million).

The operations acquired from JU include water treatment and distribution and wastewater collection and treatment assets (collectively JU operations), located southeast of the greater metropolitan Phoenix area. These operations provide services to approximately 30,000 water and 42,000 wastewater customers and hold a certificate of convenience and necessity that covers 160 square miles. The JU operations are regulated by the Arizona Corporation Commission.

For further information on the acquisition, refer to business acquisition (note 4) of the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the nine months ended September 30, 2021 and 2020.

Expropriation of the Bullhead City water utility systems

On November 5, 2019, voters in BHC, a U.S. municipality where EPCOR owned and operated the Mohave and North Mohave water utility systems (water utility systems), passed Proposition 415, authorizing the local government to take steps to acquire the Company’s water utility systems using power of eminent domain. Power of eminent domain is the right of a government to expropriate private property for public use, with payment of fair and equitable compensation. The passage of Proposition 415 allowed BHC to pursue the purchase of the Company’s water utility systems through a legal process and failing agreement between the parties, ultimately allow the courts to decide the purchase price. On March 27, 2020, BHC filed a suit seeking to expropriate and take immediate possession of the water utility systems. On May 21, 2021, the judge in the suit ruled that the BHC must post a bond in the amount of US$80 million in order to Quick Take possession of and begin operating the water utility systems as municipal utility systems. The ruling did not set the final purchase price of the water utility systems and the fair value of the water utility systems will be determined by a jury trial scheduled to commence in January 2022.

On September 1, 2021, the Company received the bond proceeds of $101 million (US$ 80million) from BHC and transferred possession of the water utility systems to BHC in compliance with the order of the court. As the final purchase price has not yet been determined, the consideration has been measured at US$80 million, which is equal to the preliminary proceeds received by the Company. The Company has recognized a preliminary gain on the expropriation of the BHC water utility systems of $69 million (US$54 million).

The Company maintains that the preliminary compensation received from BHC does not represent the fair value of the water utility systems, supported by the fair value appraisals carried out by a number of valuation consulting firms engaged by the Company, which indicate a significantly higher value. Therefore, in accordance with requirements of International Financial Reporting Standard (IFRS) 15 - *Revenue from contracts with customers*, the Company has constrained the variable consideration and recognized the preliminary consideration, to the extent of the proceeds received from BHC, in the absence of a the final purchase price to be determined by jury trial. When the jury trial concludes, the Company will increase or decrease the consideration to equal the fair value of the utility systems, with any corresponding impact to the gain on expropriation being recognized in income at that time.

For further information on the expropriation, refer to expropriation of the Bullhead City water utility systems (note 5) of the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the nine months ended September 30, 2021 and 2020.

Novel Coronavirus

The Novel Coronavirus (COVID-19) pandemic continues to disrupt the business activities around the world. Over the summer, given a decline in cases of virus infection in Canada and the U.S. where the Company's operations are based, the local governments started relaxing restrictions and announced multi-phase re-opening plans. More recently, the number of virus infection cases in Canada and U.S. have increased significantly, resulting in reintroduction of certain restrictions by the local governments. In view of the surge in number of virus infections, the Company is planning to cautiously phase-in the reintegration of its employees back to their permanent work locations. The Company is closely monitoring the situation, including announcements from governments and regulators, to assess potential impact on the operations of the Company.

Despite working under challenging circumstances created by the pandemic, the Company continued providing undisrupted safe and reliable services to all its customers and has not experienced any significant impact on its operations. One of the economic impacts of the COVID-19 outbreak in 2020 was on our customers. Last year, the Company, in collaboration with various governments, provided support to its customers during the difficult economic conditions with measures including deferral of utility bill payments, as well as, temporarily suspending customer disconnections and collection activities. These measures resulted in delays in the collection of amounts due from customers, as well as, higher expected credit losses from customers. The Company is expecting to recover the majority of the losses incurred under the utility bill payment deferral program and has been working with various regulators regarding methods for this recovery. Another economic impact of the COVID-19 pandemic faced by the Company is a decline in the sale of water and electricity to its commercial customers resulting from the closure of businesses as a consequence of government imposed restrictions, which has largely been offset by higher sales to residential and multi-residential customers. During the nine months ended September 30, 2021, the COVID-19 pandemic did not result in any material impact on the financial results of the Company.

For further discussion of the COVID-19 outbreak and its impacts on the Company, refer to the MD&A for the year ended December 31, 2020.

SIGNIFICANT ACCOUNTING POLICY CHANGES

The condensed consolidated interim financial statements for the nine months ended September 30, 2021 and 2020, have been prepared following the same accounting policies and methods as those used in preparing the Company's most recent annual consolidated financial statements. The Company has adopted amendments to various accounting standards effective January 1, 2021, which did not have a significant impact on the Company's financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, $ millions)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Water Services segment	$ 194	$ 176	$ 551	$ 506
Distribution and Transmission segment	137	126	366	363
Energy Services segment	160	107	424	326
U.S. Operations segment	85	84	230	215
Other	26	34	87	89
Intersegment eliminations	(7)	(9)	(22)	(23)
Revenues	**$ 595**	**$ 518**	**$ 1,636**	**$ 1,476**

Consolidated revenues were higher by $77 million and $160 million for the three and nine months ended September 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to the net impact of the following:

- Water Services segment revenues increased by $18 million and $45 million for the three and nine months ended September 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to higher water consumption due to hot, dry weather conditions in the city of Edmonton, higher water and wastewater rates, customer growth, as well as, higher commercial revenues from certain operating and maintenance contracts. In addition, for the nine months ended September 30, 2021, there were higher construction revenues.
- Distribution and Transmission segment revenues increased by $11 million for the three months ended September 30, 2021, compared with the corresponding period in 2020, primarily due to higher electricity distribution rates, partially offset by lower transmission system access service charge net collections, lower transmission rates and lower revenues related to lighting, traffic signals and light rail transit electrical services for the City of Edmonton (the City).

  Distribution and Transmission segment revenues increased by $3 million for nine months ended September 30, 2021, compared with the corresponding period in 2020, primarily due to higher electricity distribution and transmission rates, partially offset by lower transmission system access service charge net collections, lower revenues related to lighting, traffic signals and light rail transit electrical services for the City and lower commercial services revenues.
- Energy Services segment revenues increased by $53 million and $98 million for the three and nine months ended September 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to higher electricity prices, higher other revenues due to expiry of restrictions on collection of late payment charges and connection fees from customers resulting from the utility bill payments deferral program in 2020 and higher Encor revenues due to a change in the terms of certain customer contracts resulting in presentation of gross revenues in 2021, compared to revenues net of related expenses in the corresponding periods in 2020.
- U.S. Operations segment revenues increased by $1 million and $15 million for the three and nine months ended September 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to revenues from JU operations acquired in January 2021, higher commercial services revenues related to the operations and maintenance services for the Vista Ridge pipeline, as well as, customer growth, partially offset by lower water consumption primarily resulting from a wet summer in Arizona and New Mexico and lower foreign exchange rates.

- Revenues in other operations decreased by $8 million and $2 million for the three and nine months ended September 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to lower construction revenues related to the electricity sub-station infrastructure for the Trans Mountain pipeline expansion project and lower energy revenues from operations in Ontario, partially offset by higher construction revenues related to commercial construction contracts in Ontario.

Adjusted EBITDA and Net Income

We use earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments, transmission system access service charge net collections, net collections of U.S. natural gas procurement costs and other unusual items (collectively, Adjusted EBITDA) to discuss operating results for the Company's lines of business.

Change in fair value of derivative financial instruments represents the change in fair value of financial electricity purchase contracts between the electricity market forward prices and the contracted prices at the end of the reporting period, for the contracted volumes of electricity. Transmission system access service charge net collections is the difference between the transmission system access services charges paid to the provincial system operators and the transmission system access service charges collected from electricity retailers. Transmission system access service charge net collections are timing differences, which will be collected from or returned to electricity retailers as the transmission system access service charges and customer billing determinants are finalized. Net collections of U.S. natural gas procurement costs represents the difference between collection of flow through natural gas procurement costs from customers and natural gas procurement costs paid to suppliers or producers. Net collections of U.S. natural gas procurement costs are timing differences which will be collected from or returned to customers on finalization of the regulatory process.

We believe that Adjusted EBITDA provides an indicator of the Company's ongoing ability to fund capital expenditures, to incur and service debt and to pay dividends to its shareholder, and may be useful for external stakeholders in evaluating the operations and performance of the Company. Adjusted EBITDA 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.

(Unaudited, $ millions)	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Adjusted EBITDA by Segment				
Water Services segment	$ 98	$ 90	$ 289	$ 251
Distribution and Transmission segment	63	64	185	171
Energy Services segment	8	10	20	25
U.S. Operations segment	45	50	117	115
Other	13	4	29	14
Adjusted EBITDA	**227**	**218**	**640**	**576**
Finance expenses	(39)	(35)	(113)	(102)
Income tax expense	(20)	(8)	(24)	(11)
Depreciation and amortization	(95)	(87)	(277)	(255)
Change in fair value of financial electricity purchase contracts	(4)	7	10	4
Transmission system access service charge net collections	8	(3)	(4)	-
Net collections of U.S. natural gas procurement costs	-	-	(14)	-
Gain on expropriation of the BHC water utility systems	69	-	69	-
Net income	**$ 146**	**$ 92**	**$ 287**	**$ 212**

Changes in each business segment's Adjusted EBITDA, for the three and nine months ended September 30, 2021, respectively, compared with the corresponding periods in 2020, are described in Segment Results below. Explanations of the remaining variances in net income for the three and nine months ended September 30, 2021, respectively, compared with the corresponding periods in 2020, are as follows:

- Higher finance expenses of $4 million for the three months ended September 30, 2021 were primarily due to issuance of long-term debt in June 2021 and the unwinding of interest on advances in aid of construction assumed on acquisition of JU operations

  Higher finance expenses of $11 million for the nine months ended September 30, 2021 were primarily due to issuance of long-term debt in May 2020 and June 2021, the unwinding of interest on advances in aid of construction assumed on acquisition of JU operations, lower capitalized interest primarily due to the completion of the Customer Information System Replacement project in 2020 and losses on forward contracts and interest rate swaps.

- Higher income tax expense of $12 million and $13 million for the three and nine months ended September 30, 2021, respectively, was primarily due to the income tax expense related to gain on expropriation of the BHC water utility systems, partially offset by lower income subject to income tax in Canadian and U.S. Operations. In the nine months ended September 30, 2021 the lower income subject to income tax in U.S. Operations was primarily a result of lower net collection of U.S. natural gas procurement costs.

- Higher depreciation and amortization of $8 million and $22 million for the three and nine months ended September 30, 2021, respectively, was primarily due to depreciation expense on 2020 and 2021 asset additions, as well as depreciation on JU assets acquired in January 2021.

- Unfavorable changes in the fair value of financial electricity purchase contracts of $11 million for the three months ended September 30, 2021 were primarily due to a contracted prices being higher than market forward prices in 2021, compared to electricity market forward prices being higher than the contracted prices in 2020.

Favorable changes in the fair value of financial electricity purchase contracts of $6 million for the nine months ended September 30, 2021 were primarily due to higher favorable difference between electricity market forward prices and contracted electricity prices in 2021, compared to 2020.

- Higher transmission system access service charge net collections of $11 million for the three months ended September 30, 2021 were primarily due to lower payments to the Alberta Electric System Operator (AESO) for system access, partially offset by lower collections from customers in Alberta and higher payments to Independent Electricity System Operator in Ontario.

  Lower transmission system access service charge net collections of $4 million for the nine months ended September 30, 2021 were primarily due to lower collections from customers in Alberta, partially offset by higher electricity distribution flow though collections from customers in Ontario.

- Lower net collection of U.S. natural gas procurement costs of $14 million for the nine months ended September 30, 2021 represents higher payments for procurement of natural gas in Texas, due to winter storm "Uri" (winter storm) in February 2021, compared to collections from customers. For further information, refer to U.S. Operations segment below.

- Gain on expropriation of the BHC water utility systems of $69 million (US$54 million) has been recognized on the preliminary proceeds of $101 million (US$80 million) during the quarter, and will be adjusted on the final determination of the purchase price by the jury trial. For further information, refer to Significant Events section above.

SEGMENT RESULTS

Water Services

Water Services is primarily involved in the treatment, transmission, distribution and sale of water, the collection and conveyance of sanitary and stormwater and the treatment of wastewater within Edmonton and other communities in Western Canada. This segment's water and wastewater business also includes the provision of design, build, finance, operating and maintenance services for municipal and industrial customers in Western Canada.

With the scheduled expiration of the Bylaw 17698 "EPCOR Water Services and Wastewater Treatment Bylaw" and Bylaw 18100 "EPCOR Drainage Services Bylaw" on March 31, 2022, EPCOR initiated the process of seeking approval of new bylaws for these services. The Performance Based Regulation (PBR) applications were filed in February 2021. The Utility Committee of the City initiated the proceedings for review of the PBR applications, which concluded with City Council approving the new bylaws on August 30, 2021. The decision includes an average return on equity (ROE) of 9.64% for water and wastewater treatment services for the PBR term. For the sanitary and stormwater services an average ROE of 7.14% has been approved for the PBR term. The decision also includes a consumption deferral account that will accumulate over the PBR terms based on the difference between actual and forecast consumption, with a refund to or collection from customers in the subsequent PBR terms. The new PBR for water services covers the five-year period effective from April 1, 2022 to March 31, 2027, while the new PBR for wastewater, sanitary and stormwater services covers a three-year period effective from April 1, 2022 to March 31, 2025.

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenues	$ 194	$ 176	$ 551	$ 506
Expenses	139	126	386	372
Operating income	**55**	**50**	**165**	**134**
Exclude depreciation and amortization	43	40	124	117
Adjusted EBITDA	**$ 98**	**$ 90**	**$ 289**	**$ 251**

Water Services Adjusted EBITDA increased by $8 million and $38 million for the three and nine months ended September 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to higher water consumption due to hot, dry weather conditions in the city of Edmonton, higher water and wastewater rates, customer growth, lower water treatment costs for operations in the city of Edmonton due to better water quality, lower provision for expected credit losses from customers mainly due to the customer payment deferral program in 2020 with no such program in 2021 and higher margin from the commercial operations, partially offset by higher operating and staff costs.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. The segment also provides contract commercial services including the design, construction and maintenance and other support services of street lighting, traffic signal, light rail transit and other utility electrical infrastructure for municipal and commercial customers in Alberta.

Distribution's current performance based rate tariff covers the years 2018 to 2022. On March 1, 2021, the Alberta Utilities Commission (AUC) initiated a generic proceeding to determine the approach for a one year 2023 forecast, which could be used to set going in rates for the next performance based rate tariff, should the AUC continue with that format for Distribution utilities. On March 22, 2021, utilities filed their proposed approaches to establishing 2023 Distribution rates with the AUC. On June 18, 2021, the AUC issued its decision directing that the 2023 rates will be set through a hybrid cost of service approach in which the extent of expenditure examination will be guided by the nature, size or complexity of the associated costs. EPCOR has been directed to file its application by January 17, 2022.

In addition, on March 1, 2021, the AUC initiated a generic proceeding to review and evaluate the performance based rate tariff regulated framework in terms of whether it has achieved its intended goals and whether distribution utilities should continue with performance based rate tariff. The AUC is seeking to understand the impacts performance based rate tariff has had on utility efficiencies, customer rates, regulatory efficiency and burden, service quality, and the potential scope of a next performance based rate tariff proceeding. Responses to the AUC were filed on April 22, 2021. On June 30, 2021, the AUC issued its decision that there will be a 3rd performance based rate term commencing January 1, 2024. The 2023 Distribution cost of service rates will be the basis for the 3rd performance based rate term.

Early in 2020, EPCOR participated in the 2021 Generic Cost of Capital (GCOC) proceeding in which the AUC was planning to set the ROE and capital structure for 2021 and 2022 (GCOC parameters). On October 13, 2020, the AUC directed that the ROE for 2021 remains at 8.5% and the equity ratio remains at 37% for both Distribution and Transmission utilities extending the currently approved rate for the full duration of 2021. On December 22, 2020, the AUC initiated a GCOC proceeding for 2022. Utilities filed submissions requesting extension of current GCOC parameters into 2022 on a prospective and final basis. On March 4, 2021, the AUC approved the extension of current GCOC parameters (37% Equity and 8.5% ROE) for 2022 on a final basis. In April 2021, the Utilities Consumer Advocate (UCA) filed an application with the Alberta Court of Appeal seeking permission to appeal the AUC 2022 GCOC decision. The UCA also filed an application with the AUC for review and variance of the 2022

GCOC decision. On August 9, 2021, the AUC denied the UCA's review and variance request and on October 7, 2021, the Alberta Court of Appeal also denied the UCA's request for appeal.

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenues	$ 137	$ 126	$ 366	$ 363
Expenses	93	91	262	265
Operating income	**44**	**35**	**104**	**98**
Exclude depreciation and amortization	27	26	76	73
Exclude transmission system access service charge net collections	(8)	3	5	-
Adjusted EBITDA	**$ 63**	**$ 64**	**$ 185**	**$ 171**

Distribution and Transmission's Adjusted EBITDA decreased by $1 million for the three months ended September 30, 2021, compared with the corresponding period in 2020, primarily due to lower electricity transmission rates and lower work volumes and margin rates related to lighting, traffic signals and light rail transit electrical services for the City, partially offset by higher distribution rates.

Distribution and Transmission's Adjusted EBITDA increased by $14 million for the nine months ended September 30, 2021, compared with the corresponding period in 2020, primarily due to higher electricity distribution and transmission rates, partially offset by lower work volumes and margin rates related to lighting, traffic signals and light rail transit electrical services for the City.

Energy Services

Energy Services is primarily involved in the provision of the RRO electricity service and default supply electricity services to customers in Alberta. The segment also provides competitive electricity and natural gas products under the Encor brand.

The 2018-2021 EPSP was implemented effective April 1, 2019. In the first quarter of 2021, an application was filed with the AUC for the 2021-2024 EPSP and a final decision on the plan was received from AUC on October 27, 2021, wherein the AUC approved the EPSP as filed. The 2021-2024 EPSP will be effective in May 2022.

An application was filed with the AUC on July 16, 2021, for recovery of the lost revenues and bad debts incurred as a direct result of the Utility Payment Deferral Program mandated by the Government of Alberta in 2020 in response to the COVID-19 pandemic. A decision on the application was received in August 2021 wherein the AUC approved the recovery of bad debts and carrying costs related to the three-month deferral period between March 18, 2020, to June 18, 2020, to be collected through a province wide rate rider between November 2021 and February 2022. The AUC directed that the recovery of the remaining lost revenues and bad debts incurred outside the aforementioned three-month deferral period shall be applied for as a part of the 2021-2022 RRO Non-Energy rate application.

The 2021-2022 RRO Non-Energy rate application (including the recovery of lost revenues and bad debts outside the deferral period) was filed in August 2021 and the regulatory process is underway with a decision expected in the first half of 2022. Current rates are based on the prior 2018-2020 Non-Energy decision and Energy Services had filed an application for the implementation of interim rates. A decision on the application for interim rates was received on October 25, 2021, wherein the AUC approved the 2021 and 2022 Non-Energy interim rates as filed, which will be effective on December 1, 2021.

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenues	$ 160	$ 107	$ 424	$ 326
Expenses	158	91	400	302
Operating income	**2**	**16**	**24**	**24**
Exclude depreciation and amortization	2	1	6	5
Exclude change in fair value of financial electricity purchase contracts	4	(7)	(10)	(4)
Adjusted EBITDA	**$ 8**	**$ 10**	**$ 20**	**$ 25**

Energy Services Adjusted EBITDA decreased by $2 million and $5 million for the three and nine months ended September 30, 2021, respectively, compared with the corresponding periods in 2020, primarily due to lower EPSP margins and higher staff costs related to additional operational support required for the stabilization of the Customer Information System, partially offset by a lower provision for expected credit losses from customers and higher other revenues due to the expiry of restrictions under the Utility Payment Deferral Program in 2020.

U.S. Operations

U.S. Operations is primarily involved in the treatment, transmission, distribution and sale of water, the collection and treatment of wastewater, and operating and maintenance services within the Southwestern U.S. This segment also provides natural gas distribution and transmission services in Texas. All of the Company's operations conducted in the U.S. are included in this segment.

In February 2021, Texas faced record-low temperatures during a winter storm, resulting in higher demand for natural gas and a significant increase in the natural gas market spot prices. EPCOR's physical infrastructure in Texas was not significantly impacted by the winter storm and during the storm we were able to provide natural gas to approximately 99.9% of our customers throughout the entire event. Due to the high demand during the winter storm, natural gas prices increased exponentially resulting in residential customer bills for the month of February escalating to thousands of dollars compared to average monthly bill of around one hundred dollars per customer under normal circumstances. In order to minimize the immediate impact of utility bills on customers, the Railroad Commission of Texas (RCT), through its notice dated February 13, 2021, restricted the natural gas utility companies from immediately passing on the extraordinary natural gas costs to the customers. Subsequently, the Texas legislature approved a house bill HB1520 which was designed to repay the natural gas utility companies for the extraordinary cost of the natural gas procured (after ensuring reasonableness of the costs), and was enacted into law on June 16, 2021.

As per the requirements of the new law, the Company has filed an application with the RCT for repayment of extraordinary procurement costs for natural gas, which is expected to be approved in late 2021. The natural gas procurement costs are considered flow through costs to customers in Texas and normally any shortfall in the recovery of procurements costs will be recovered by utility companies through regulatory mechanism in future periods. However, for the nine months ended September 30, 2021, this event has resulted in an after tax loss of approximately $10 million (US$8 million) for procurement costs incurred, that have not been billed to customers. The Company has adjusted the impact of flow through costs of $14 million (US$11 million) in the calculation of Adjusted EBITDA.

The U.S. federal government has announced its plans to increase the federal corporate income tax rates from the existing rate of 21% to 26.5%. If the proposed plan is approved and federal income tax rates are increased, the change will significantly increase the deferred tax liability related to the Company's U.S. Operations. Over the long-term, the change in tax rate is not expected to have any material impact on the financial results of the Company, as the majority of Company's operations in the U.S. are rate regulated such that any increase in corporate income tax expense resulting from a rate increase should be recoverable in future rates from customers.

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Revenues	$ 85	$ 84	$ 230	$ 215
Expenses	56	49	175	144
Operating income	**29**	**35**	**55**	**71**
Exclude depreciation and amortization	16	15	48	44
Exclude net collections of U.S. natural gas procurement costs	-	-	14	-
Adjusted EBITDA	**$ 45**	**$ 50**	**$ 117**	**$ 115**

U.S. Operations Adjusted EBITDA decreased by $5 million for the three months ended September 30, 2021, compared with the corresponding period in 2020, primarily due to lower water consumption in Arizona and New Mexico resulting from a wet summer, higher legal expenses as a result of expropriation proceedings related to Bullhead City, higher staff costs and lower foreign exchange rates. These decreases were partially offset by Adjusted EBITDA from JU operations acquired in January 2021, higher commercial services margins related to the operations and maintenance of the Vista Ridge pipeline, as well as, customer growth.

U.S. Operations Adjusted EBITDA increased by $2 million for the nine months ended September 30, 2021, compared with the corresponding period in 2020, primarily due to Adjusted EBITDA from JU operations acquired in January 2021, higher commercial services margins from the operations and maintenance of the Vista Ridge pipeline, as well as, customer growth. These increases were partially offset by lower water consumption in Arizona and New Mexico resulting from a wet summer, higher legal expenses as a result of expropriation proceedings related to Bullhead City and lower foreign exchange rates.

Capital Spending and Investment

(Unaudited, $ millions) **Nine months ended September 30,**	**2021**	**2020**
Water Services segment	$ 308	$ 316
Distribution and Transmission segment	172	158
Energy Services	1	-
U.S. Operations segment	89	85
Other	33	51
Total capital spending	**603**	**610**
JU operations acquisition (net of acquired cash)	127	-
Brooke Water LLC acquisition	-	2
Payment of consideration for Vista Ridge	-	12
Total acquisition and investment	**127**	**14**
Total capital spending and investment	**$ 730**	**$ 624**

Total capital spending and investment increased by $106 million for the nine months ended September 30, 2021, compared with the corresponding period in 2020. Explanations of the significant variances for the nine months ended September 30, 2021, compared with the corresponding period in 2020, are as follows:

Growth Projects

- Higher Distribution and Transmission segment spending on the AESO direct assigned electricity transmission upgrade project.
- Higher U.S. Operations segment spending on the construction of a wastewater treatment plants due to acquisition of JU operations and to accommodate new industrial and commercial customers.
- Lower Distribution and Transmission segment spending on the 15kV and 25kV circuit additions project and the electricity transmission capacity project, which were substantially complete in 2020.

Sustaining and Lifecycle Projects

- Lower Water Services segment spending due to scope reduction and deferral of lifecycle renewal work, partially offset by higher spending on the sewer separation project and Stormwater Integrated Resource Planning driven projects.
- Lower spending in the Distribution and Transmission segment on the electricity system relocation project related to the West Valley light rail transit in the City of Edmonton, as a significant portion of the project was completed in 2020.
- Lower spending on the Customer Information System Replacement project due to substantial completion of the project in 2020.

Performance Improvement Projects

- Higher Distribution and Transmission segment spending on the switchgear replacement project which will maintain the reliability of the electricity supply and enhance the grid capacity.
- Lower Water Services segment spending due to the acquisition of the Aurum Facility in 2020.

Business Development Projects

- Acquisition of JU operations in 2021 compared to immaterial acquisition of Brooke Water LLC in the comparative period.
- Higher Water Services segment spending on the solar farm near E.L. Smith Water Treatment Plant (E.L. Smith WTP) due to commencement of construction.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – ASSETS

(Unaudited, $ millions)	September 30, 2021	December 31, 2020	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	$ 69	$ 8	$ 61	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	534	488	46	Increase primarily due to higher accrued construction revenues and higher accruals for water sales revenues and electricity sales revenue due to higher prices, partially offset by reduction in receivables from the City relating to construction work and lower accruals related to natural gas sales.
Inventories	19	17	2	
Other financial assets	213	189	24	Increase primarily due to construction on the electricity infrastructure for the Trans Mountain pipeline expansion project and acquisition of JU assets ($2 million), partially offset by payments received on long-term receivables and finance lease receivable.
Deferred tax assets	94	97	(3)	Decrease is primarily due to utilization of deferred tax assets against income subject to income tax for 2021.
Property, plant and equipment	11,463	10,913	550	Increase primarily due to capital expenditures and acquisition of JU assets ($216 million), partially offset by expropriation of the BHC water utility systems ($53 million) and depreciation expense.
Intangible assets and goodwill	561	468	93	Increase primarily due to capital expenditures and acquisition of JU assets ($98 million), partially offset by amortization expense.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, $ millions)	September 30, 2021	December 31, 2020	Increase (decrease)	Explanation of material changes
Trade and other payables	$ 496	$ 426	$ 70	Increase primarily due to increase in payables for electricity and distribution and transmission costs, higher capital and operating accruals and higher accrued interest on long-term debt, partially offset by lower natural gas payables.
Loans and borrowings (including current portion)	3,902	3,572	330	Increase primarily due to issuance of long-term debt ($500 million), issuance of long-term unsecured promissory note on acquisition of JU operations ($6 million), partially offset by net repayment of short-term debt and principal repayments of long-term debt.
Deferred revenue (including current portion)	4,124	3,992	132	Increase primarily due to assumption of JU liabilities ($60 million), customer and developer contributions received, partially offset by deferred revenue recognized and de-recognition of liability on expropriation of the BHC water utility systems ($7 million).
Provisions (including current portion)	203	142	61	Increase primarily due to assumption of JU liabilities ($84 million), partially offset by lower employee benefit accruals and de-recognition of liability on expropriation of the BHC water utility systems ($15 million).
Other liabilities (including current portion)	245	214	31	Increase primarily due to assumption of JU liabilities ($34 million), partially offset by Drainage transition cost compensation payment and payments for lease liabilities.
Deferred tax liabilities	49	43	6	Increase is primarily due to income tax expense on the gain on expropriation of the BHC water utility systems, partially offset by recognition of timing differences for US operations.
Equity	3,934	3,791	143	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)

Cash inflows (outflows)

Three months ended September 30,	**2021**	**2020**	**Increase (decrease)**	**Explanation**
Operating	$ 183	$ 246	$ (63)	Lower inflows primarily due to lower funds from the change in non-cash operating working capital, partially offset by higher contributions received from customers.
Investing	(128)	(274)	146	Lower outflows primarily due to proceeds from expropriation of the BHC water utility systems ($101 million), lower capital expenditures, higher inflow of funds related to the change in non-cash investing working capital and lower advances on other financial assets related to the Trans Mountain pipeline expansion project.
Financing	(151)	(70)	(81)	Higher outflows primarily due to higher net repayment of short-term debt and higher refund of contributions to the customers.
Opening cash and cash equivalents	165	218	(53)	
Closing cash and cash equivalents	$ 69	$ 120	$ (51)	

(Unaudited, $ millions) **Cash inflows (outflows)** **Nine months ended September 30,**	**2021**	**2020**	**Increase (decrease)**	**Explanation**
Operating	$ 514	$ 541	$ (27)	Lower inflows primarily due to lower funds from the change in non-cash operating working capital and lower contributions received from customers.
Investing	(636)	(695)	59	Lower outflows primarily due to proceeds from expropriation of the BHC water utility systems ($101 million), lower capital expenditures, payment of the outstanding consideration for Vista Ridge in 2020, higher inflow of funds related to the change in non-investing working capital, lower advances on other financial assets related to the Trans Mountain pipeline expansion project, and lower Drainage transition cost compensation payment, partially offset by funds used on acquisition of JU operations net of acquired cash ($127 million).
Financing	183	241	(58)	Lower inflows primarily due to higher net repayment of short-term debt in 2021 compared to 2020 and higher refunds of contributions to customers, partially offset by higher proceeds from issuance of long-term debt in 2021 ($500 million) compared to issuance of long-term debt of in 2020 ($400 million).
Opening cash and cash equivalents	8	33	(25)	
Closing cash and cash equivalents	$ 69	$ 120	$ (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, including current liabilities in excess of current assets, for the next twelve months, with a combination of available cash, funds from operations, issuance of commercial paper, public or private debt offerings and availability of liquidity from committed credit facilities described under the Financing section below. 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

During the nine months ended September 30, 2021, there were no material changes to the Company's capital requirements or purchase obligations, including payments for the next five years and thereafter, from those previously disclosed in the 2020 annual MD&A. For further information on the Company's contractual obligations, refer to the 2020 annual MD&A.

Financing

Generally, our external financing is raised at the corporate level and invested in the operating business units. Our external financing has consisted of commercial paper issuance, bank loans under credit facilities, debentures payable to the City related to utility assets transferred from the City, debentures payable to the other municipalities, publicly issued medium-term notes and U.S. private debt notes.

The Company has bank credit facilities which are used principally for the purpose of backing the Company's commercial paper program, issuance of bank loans for operational requirements and providing letters of credit, as outlined below:

($ millions) **September 30, 2021**	**Expiry**	**Total facilities**	**Letters of credit issued**	**Banking Commercial paper issued**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2024	$ 600			
Bank credit facility[1]	March 2024	200			
Total committed		$ 800	$ -	$ -	$ 800
Uncommitted					
Bank credit facilities[2]	No expiry	200	114	-	86
Bank credit facility	No expiry	25	-	-	25
Bank credit facility	November 2021	13	-	-	13
Total uncommitted		238	114	-	124
Total credit facilities		**$ 1,038**	**$ 114**	**$ -**	**$ 924**

($ millions) **December 31, 2020**	**Expiry**	**Total facilities**	**Letters of credit issued**	**Banking Commercial paper issued**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2024	$ 600	$ -	$ 154	$ 446
Uncommitted					
Bank credit facilities[2]	No expiry	200	85	-	115
Bank credit facility	No expiry	25	-	-	25
Bank credit facility	November 2021	13	-	-	13
Total uncommitted		238	85	-	153
Total credit facilities		**$ 838**	**$ 85**	**$ 154**	**$ 599**

1 The Company's $600 million committed syndicated bank credit facility and $200 million committed bank credit facility, added during the first quarter of 2021, are available and can be used for direct borrowings, issuance of letters of credit and backstopping EPCOR's commercial paper program. The committed 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 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 lenders. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates. At September 30, 2021, no commercial paper was issued and outstanding (December 31, 2020 - $154 million).

2 The Company's uncommitted bank credit facilities consist of five bilateral credit facilities (totaling $200 million)

which are restricted to letters of credit. At September 30, 2021, letters of credit totaling $114 million have been issued and outstanding (December 31, 2020 - $85 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

The Company has a Canadian base shelf prospectus under which it may raise up to $2 billion of debt with maturities of not less than one year. At September 30, 2021, the available amount remaining under this base shelf prospectus was $1.10 billion (December 31, 2020 - $1.60 billion). The Canadian base shelf prospectus expires in December 2021.

On June 28, 2021, the Company issued $500 million of three-tranche long-term unsecured public debentures, consisting of a $100 million three-year note with a coupon rate of 0.98% and an effective interest rate of 1.12%, a $200 million 10-year note with a coupon rate of 2.41% and an effective interest rate of 2.49% and a $200 million 30-year note with a coupon rate of 3.29% and an effective interest rate of 3.35%. The interest is payable semi-annually and the principal is due at maturity for all three notes.

If the economy or capital market conditions 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 add temporary liquidity sources, reduce capital expenditures and operating costs.

Credit Rating

In September 2021, DBRS confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt. In October 2021, Standard & Poor’s Ratings Services confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR.

These credit ratings reflect the Company’s ability to meet its financial obligations given the stable cash flows generated from the rate-regulated water, wastewater, natural gas and electricity businesses. A credit rating downgrade for EPCOR could result in higher interest costs on new borrowings and reduce the availability of sources and tenor of investment capital.

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its 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 causing the Company to find a means of funding which could include the sale of assets.

RISK FACTORS AND RISK MANAGEMENT

This section should be read in conjunction with the Risk Factors and Risk Management section of the 2020 annual MD&A. Risk management is a key component of the Company’s culture and we have cost-effective risk management practices in place. Risk management is 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 developing events and proposed transactions to consider their impact on the risk profile of the Company.

Currently, EPCOR's principal risks, in order of severity from most to least serious include public health crisis, political and legislative changes, regulatory, weather and climate change, health and safety, new business integration, cybersecurity, reputational damage and stakeholder activism, actual performance compared to approved revenue requirement, significant decline in the Alberta economy, billing errors, strategy execution, business interruption, electricity price and volume, failure to attract, retain or develop top talent, project delivery, environmental, credit, financial liquidity, foreign exchange, conflicts of interest, labor disruption, technological change and general economic conditions, business environment and other risks.

In order to manage the foreign exchange risk associated with the Company's net investment in foreign operations, the Company has executed two cross-currency interest rate swap (CCIRS) contracts in March 2021 and designated these as hedges of net investment in foreign operations. The change in fair value of the CCIRS of ($15) million on the effective portion of the hedges of net investment in foreign operations for the period ended September 30, 2021 was recorded in other comprehensive income. There was a negligible ineffective portion of the hedges of net investment in foreign operations identified during the period, which was recognized in net income within other administrative expenses.

The Company entered into two foreign exchange swap contracts in March 2021 to convert excess foreign currency to Canadian dollars for a short duration. The Company did not designate these financial contracts as hedges and changes in the fair value of the contracts on settlement of ($1) million was recognized in net income within other administrative expenses.

In addition, the Company entered into three foreign exchange forward contracts in April 2021 to manage the foreign exchange risk associated with the expected purchase of US dollars for settlement of liabilities, including US dollar denominated loans and borrowings. At maturity on December 15, 2021, the Company will exchange the currencies at predetermined exchange rates. The Company has not designated these financial contracts as hedges and changes in the fair value of the contracts are recognized in net income within other administrative expenses. During the period ended September 30, 2021, change in fair value of the foreign exchange forward contracts was $1 million.

For further information on the Company's financial instruments, refer to the financial risk management (note 9) of the condensed consolidated interim financial statements for the nine months ended September 30, 2021 and 2020.

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 of standards have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after January 1, 2022. The Company does not expect the implementation of these new accounting pronouncements to have a significant impact on its accounting policies.

CRITICAL ACCOUNTING ESTIMATES

In preparing the condensed consolidated interim financial statements, management necessarily made estimates in determining transaction amounts and financial statement balances. The following are the items for which significant estimates were made in the condensed consolidated interim financial statements: electricity revenues, costs and unbilled consumption, fair values, income taxes and gain on expropriation of the BHC water utility systems. 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 energy, water, related impact on sanitary system, changes in energy 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 consolidated financial statements and MD&A for the year ended December 31, 2020.

OUTLOOK

For the remainder of 2021, EPCOR will focus on ensuring continuity of services to our customers notwithstanding the COVID-19 pandemic, integration of the recent acquisition of JU operations, continuing electrical sub-station infrastructure construction related to the Trans Mountain pipeline expansion project, expansion and construction of wastewater treatment plants in the U.S. Operations segment, natural gas pipeline construction in the Southern Bruce region of Ontario, construction of a solar farm near E.L. Smith WTP, exploring construction of a renewable natural gas facility within Edmonton and continuing to target growth in rate-regulated and contracted 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. We intend to expand our water and electricity commercial services activities and to invest in renewable energy generation, including solar and biogas facilities, which will help reduce greenhouse gas emissions.

On March 31, 2020, EPCOR entered into a 20-year design, build, own, maintain and transfer (DBOMT) agreement with the Trans Mountain Pipeline L.P. and a corresponding design-build agreement with a partnership between Kiewit Energy Group and Western Pacific Enterprises. The scope of the DBOMT is to build and maintain electrical sub-station infrastructure along the Trans Mountain pipeline expansion project. The Company started construction on the project pursuant to the DBOMT in April 2020 and expects to complete the construction required to trigger the 20-year maintenance period by the fourth quarter of 2021.

EPCOR is considering constructing a renewable natural gas facility within the footprint of its existing Gold Bar wastewater treatment facility. The proposed facility would reduce flaring and greenhouse gas emissions while creating a green energy product for re-sale. The proposed facility would be expected to produce approximately 185,000 gigajoules of renewable natural gas per year of operation.

EPCOR was awarded franchises by two municipalities and one township in the Southern Bruce region of Ontario near Kincardine to use municipal rights-of-way to build, own and operate a natural gas distribution system. EPCOR received all requisite approvals and started construction of the gas distribution system in July 2019, through a design build contractor. EPCOR's Southern Bruce natural gas distribution system started connections to industrial, agricultural and residential customers in second half of 2020. At September 30, 2021, 220km out of total 296km length of the pipeline has been installed. The remaining portion of the system is expected to be substantially complete by the end of 2021 with construction in several smaller communities to be completed in 2022.

On June 9, 2021, the Province of Ontario announced that EPCOR was selected for $20 million funding from the Ontario Natural Gas Expansion Program for a proposed EPCOR project to extend natural gas service to customers in the Municipality of Brockton. The Company is in the process of obtaining necessary approvals for this project.

The Company is developing a solar farm on EPCOR owned land near its existing E.L. Smith WTP. The solar farm, which is expected to have a rated generation capacity of 12 megawatts, will generate "green" energy to help power the E.L. Smith WTP. The project has received all requisite approvals including approval on the re-zoning application from the City Council after public hearing and a development permit from the City. In December 2020, an opponent of the project, Edmonton River Valley Conservation Coalition, filed a judicial review of City Council's re-zoning approval alleging that the City erred in failing to apply the deemed essential test as set out in the North Saskatchewan River Valley Area Redevelopment Plan Bylaw. The judicial review application is expected to be heard in the fourth quarter of 2021. EPCOR commenced construction on the project in the second quarter of 2021.

QUARTERLY RESULTS

($ millions)	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Revenues	$ 595	$ 522	$ 519	$ 512
Expenses	459	393	429	408
Operating income	**136**	**129**	**90**	**104**
Gain on expropriation of the BHC water utility systems	69	-	-	-
Finance expenses	(39)	(38)	(36)	(35)
Income tax recovery (expense)	(20)	(5)	1	(5)
Net income[1, 2]	**$ 146**	**$ 86**	**$ 55**	**$ 64**

($ millions)	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Revenues	$ 518	$ 471	$ 487	$ 474
Expenses	383	365	403	385
Operating income	**135**	**106**	**84**	**89**
Finance expenses	(35)	(33)	(34)	(27)
Income tax expense	(8)	(3)	-	(3)
Net income[1]	**$ 92**	**$ 70**	**$ 50**	**$ 59**

1 Quarterly results may fluctuate due to the seasonal demands for energy, water, related impact on sanitary system, changes in energy prices, and the timing and recognition of regulatory decisions.

2 Higher net income during the quarter ended September 30, 2021, was primarily due to the gain on expropriation of the BHC water utility systems.

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.

There have been no changes in the material forward-looking information previously disclosed in the 2020 annual MD&A, including related material factors or assumptions and risk factors. Material forward-looking information within this MD&A, including related material factors or assumptions and risk factors, is 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, including current liabilities in excess of current assets, for next twelve months.	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, including the COVID-19 outbreak, limiting or restricting the Company’s ability to access funds through the various means otherwise available.

For further information on the Company's forward looking information, refer to the 2020 annual MD&A.

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 discussed in the Risk Factors and Risk Management section of the 2020 Annual MD&A.

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.

GLOSSARY

Adjusted EBITDA earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments, transmission system access service charge net collections and net collections of U.S. natural gas procurement costs and other unusual items	**GCOC parameters** means capital structure for 2021 and 2022
AESO means Alberta Electric System Operator	**IFRS** means International Financial Reporting Standard(s)
AUC means the Alberta Utilities Commission	**JU** means Johnson Utilities LLC
BHC means Bullhead City	**JU Operations** mean water treatment and distribution and wastewater collection and treatment assets acquired from JU
CCIRS means cross-currency interest rate swap	**PBR** means Performance Based Regulation
COVID-19 means novel coronavirus	**RCT** means Railroad Commission of Texas
DBOMT means design, build, own, maintain and transfer	**ROE** means return on equity
Drainage means drainage utility services within the city of Edmonton	**RRO** means Regulated Rate Option
E.L. Smith WTP means E.L. Smith Water Treatment Plant	**the City** means The City of Edmonton
EPSP means Energy Price Setting Plan	**UCA** means Utilities Consumer Advocate
ESG means Environment, Social and Governance	**water utility systems** means the Mohave and North Mohave water utility systems
GCOC means Generic Cost of Capital	**Winter storm** means winter storm Uri in Texas

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2020 Annual Information Form is available on SEDAR at www.sedar.com.