

EPCOR Utilities Inc.

Interim Management's Discussion and Analysis

June 30, 2019

This management's discussion and analysis (MD&A) dated June 30, 2019, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the six months ended June 30, 2019, and 2018, including significant accounting policies (note 3), business acquisition (note 4), revenues (note 5), income tax expenses (note 6), other financial assets (note 7), property, plant and equipment (note 8), other liabilities (note 9), financial instruments (note 10), commitments (note 12), the consolidated financial statements and MD&A for the years ended December 31, 2018 and 2017, including significant accounting policies (note 3), business transfer and acquisitions (note 5), revenues (note 6), other financial assets (note 13), changes in liabilities arising from financing activities (note 24), related party balances and transactions (note 25), financial instruments (note 26), 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", "Corporation", "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 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 July 25, 2019.

OVERVIEW

The Corporation, through 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, operation and maintenance services for electrical, water and wastewater infrastructure for municipal and industrial customers in Canada and the U.S. EPCOR operates its business under the Water Services, Distribution and Transmission, Energy Services and U.S. Operations reporting segments. The Company operates in Canada and the Southwestern U.S.

Net income was \$40 million and \$96 million for the three and six months ended June 30, 2019, respectively, compared with net income of \$68 million and \$133 million for the comparative periods in 2018, respectively. The decrease of \$28 million for the three months ended June 30, 2019, was primarily due to higher income tax and depreciation expenses, and unfavorable fair value adjustments related to financial electricity purchase contracts, partially offset by higher transmission system access service charge net collections. The decrease of \$37 million for the six months ended June 30, 2019, was primarily due to lower Adjusted EBITDA, as described below, and higher income tax and depreciation expenses, partially offset by favorable fair value adjustments related to financial electricity purchase contracts and higher transmission system access service charge net collections.

Adjusted EBITDA was \$178 million and \$335 million for the three and six months ended June 30, 2019, respectively, compared with \$178 million and \$342 million for the comparative periods in 2018, respectively. Adjusted EBITDA for the three months ended June 30, 2019, had no change compared to comparative period in 2018, primarily due to lower water consumption per customer resulting from lower temperature and higher precipitation, lower water revenues in Arizona due to a tax reform adjustment credit on customer bills and lower Adjusted EBITDA related to street lighting, traffic signals and light rail transit electrical services for the City of Edmonton (the City), which were fully offset by higher water and wastewater rates and higher electricity distribution and transmission rates. The

decrease of \$7 million for the six months ended June 30, 2019, was primarily due to lower water consumption per customer resulting from lower temperatures and higher precipitation, lower water revenues in Arizona due to a tax reform adjustment credit on customer bills, higher water treatment costs due to poor water quality conditions of the North Saskatchewan River, and lower Adjusted EBITDA related to street lighting, traffic signals and light rail transit electrical services for the City, partially offset by higher electricity distribution and transmission rates, higher Energy Price Setting Plan (EPSP) margins and Encor customer growth. Adjusted EBITDA is a non-IFRS financial measure as described in Adjusted EBITDA and Net Income section on pages 4 of this MD&A.

SIGNIFICANT EVENTS

Changes to the Board of Directors

On April 30, 2019, Sheila Weatherill, retired as Vice Chair of the Board of Directors after serving as Director since 2002 and serving as non-executive Vice Chair since 2007, and Margaret Bateman was appointed as Director and Richard Cruickshank was appointed as non-executive Vice Chair.

Acquisition of Rio Verde Utilities Inc.

On February 28, 2019, EPCOR acquired 100% of the stock of Rio Verde Utilities Inc. (Rio Verde) in Arizona, U.S. for cash consideration of \$31 million (US\$24 million).

Rio Verde is located northeast of Scottsdale and the Greater Phoenix metropolitan area and 10 miles north of the Company's Chaparral service area in Fountain Hills. Rio Verde's regulated operations include 2,220 water and 1,876 wastewater service connections along with irrigation water service for five golf courses.

For further information on the acquisition, refer to the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the six months ended June 30, 2019, and 2018.

SIGNIFICANT ACCOUNTING POLICY CHANGES

Effective January 1, 2019, the Company adopted IFRS 16 - Leases (IFRS 16), which replaces International Accounting Standard (IAS) 17 - Leases (IAS 17) and related interpretations. Adoption of the new accounting standard has resulted in amendments to the accounting policy related to leases. For a detailed discussion of the impacts of this new standard on EPCOR's accounting policies refer to note 3 of the condensed consolidated interim financial statements for the six months ended June 30, 2019 and 2018.

Prior to January 1, 2019, when the Company was the lessee under a contract, a lease was classified either as a finance or operating lease depending on whether substantially all the risks or rewards of ownership of the asset were transferred. Leases or other arrangements that transferred substantially all of the benefits and risks of ownership of property were classified as finance leases. All other arrangements that were determined to contain a lease were classified as operating leases. Rental income under arrangements classified as operating leases was recognized as lease revenue within other commercial revenue, whereas rental payments under arrangements classified as operating leases were expensed on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

On implementation of IFRS 16, the Company reassessed all outstanding contracts to determine whether they meet the criteria for recognition as lease contracts under IFRS 16.

As a lessor, all contracts which met the criteria for recognition as leases under IFRS 16, required no change in accounting and they continue to be recorded as finance or operating leases consistent with their respective classification under IAS 17.

As a lessee, all contracts which were classified as finance leases under IAS 17 and met the criteria for recognition as leases under IFRS 16, required no change in accounting. However, for all contracts which were classified as operating leases under IAS 17 and met the criteria for recognition as leases under IFRS 16, the Company has

recognized right-of-use (ROU) assets and lease liabilities on the statement of financial position initially measured at the present value of unavoidable future lease payments.

The implementation of IFRS 16 on January 1, 2019, did not result in any adjustment to the opening balance of retained earnings. However, it had an impact on the statement of financial position as a result of the recognition of ROU assets and lease liabilities with respect to leases for land and buildings (including office spaces), as well as recording finance lease receivable related to sub-lease under the Company's lease contract. On the initial application of IFRS 16, the Company recognized ROU assets of \$84 million within property, plant and equipment, finance lease receivable of \$41 million within other financial assets and lease liabilities of \$136 million within other liabilities. The \$11 million difference between the assets and liabilities recognized on initial application of IFRS 16 is due to adjusting ROU assets for leasehold inducement and other liabilities under lease contracts, which resulted in a reduction to the opening ROU assets recognized.

The ongoing impact of the application of IFRS 16, related to the Company's lease contracts on the consolidated statements of comprehensive income is not anticipated to be material as the depreciation expense related to ROU assets and finance expenses on lease liabilities recognized under IFRS 16 will largely be offset by reduction in operating lease expense, which were recognized in net income before applying the new standard.

The Company used the modified retrospective approach to implement IFRS 16, and as a result, comparative information has not been restated and continues to be reported under the previous accounting standard.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, \$ millions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Water Services segment	\$ 166	\$ 167	\$ 317	\$ 316
Distribution and Transmission segment	102	100	215	208
Energy Services segment	103	100	230	191
U.S. Operations segment	61	63	114	117
Other	14	2	35	7
Intersegment eliminations	(7)	(6)	(14)	(12)
Revenues	\$ 439	\$ 426	\$ 897	\$ 827

Consolidated revenues were higher by \$13 million and \$70 million for the three and six months ended June 30, 2019, respectively, compared with the corresponding periods in 2018 primarily due to the net impact of the following:

- Water Services' segment revenues decreased by \$1 million for the three month ended June 30, 2019, compared with the corresponding period in 2018, primarily due to lower water consumption per customer as a result of higher precipitation and lower temperatures, as well as a declining consumption trend, partially offset by higher commercial revenues, higher water and wastewater customer growth and higher customer rates.

Water Services' segment revenues increased by \$1 million for the six months ended June 30, 2019, compared with the corresponding period in 2018, primarily due to higher water and wastewater customer rates and customer growth, and higher commercial revenues, partially offset by lower water consumption per customer as a result of higher precipitation and lower temperatures.

- Distribution and Transmission segment revenues increased by \$2 million and \$7 million for the three and six months ended June 30, 2019, respectively, compared with the corresponding periods in 2018, primarily due to higher electricity distribution and transmission rates, partially offset by lower revenues related to lighting, traffic signals and light rail transit electrical services for the City.

- Energy Services' segment revenues increased by \$3 million and \$39 million for the three and six months ended June 30, 2019, respectively, compared with the corresponding periods in 2018, primarily due to higher electricity prices, higher commercial services revenue and Encor customer growth.
- U.S. Operations' segment revenues decreased by \$2 million and \$3 million for the three and six months ended June 30, 2019, respectively, compared with the corresponding periods in 2018, primarily due to lower water consumption per customer resulting from higher precipitation and lower temperatures in Arizona and lower water revenues resulting from a tax reform adjustment credit on customer bills, partially offset by higher water and wastewater customer rates, revenues from Rio Verde Utilities, which was acquired in February 2019 and higher foreign exchange rates.
- Other revenues increased by \$12 million and \$28 million for the three and six months ended June 30, 2019, respectively, compared with the corresponding periods in 2018, primarily due to revenues from EPCOR's Collingwood electricity distribution operations, which was acquired in October 2018, and higher construction revenue.

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 and transmission system access service charge net collections (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 Alberta Electric System Operator (AESO) 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.

We believe that Adjusted EBITDA provides an indicator of the Company's ongoing ability to fund capital expenditures and to incur and service debt, which 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 June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Adjusted EBITDA by Segment				
Water Services segment	\$ 78	\$ 84	\$ 149	\$ 157
Distribution and Transmission segment	52	52	102	98
Energy Services segment	12	4	23	17
U.S. Operations segment	33	35	57	62
Other	3	3	4	8
Adjusted EBITDA	178	178	335	342
Finance expenses	(32)	(30)	(64)	(62)
Income tax expense	(20)	(2)	(25)	-
Depreciation and amortization	(79)	(70)	(157)	(141)
Change in fair value of financial electricity purchase contracts	(1)	7	10	7
Transmission system access service charge net collections	(6)	(15)	(3)	(13)
Net income	\$ 40	\$ 68	\$ 96	\$ 133

Changes in each business segment's Adjusted EBITDA, compared with the corresponding periods in 2018, are described in Segment Results below. Explanations of the remaining variances in net income for the three and six months ended June 30, 2019, compared with the corresponding periods in 2018 are as follows:

- Higher financing expenses of \$2 million each for the three and six months ended June 30, 2019, respectively, were primarily due to finance expense on leases recognized on implementation of IFRS 16 and higher interest on short-term debt.
- Higher income tax expense of \$18 million and \$25 million for three and six months ended June 30, 2019, respectively, primarily due to deferred income tax expense resulting from a decrease in the Alberta corporate income tax rate and higher income tax expense due to higher income subject to income tax in 2019.
- Higher depreciation and amortization of \$9 million and \$16 million for the three and six months ended June 30, 2019, respectively, was primarily due to depreciation expense on 2018 asset additions, as well as, depreciation expense on ROU assets recognized on implementation of IFRS 16.
- Unfavorable changes in the fair value of financial electricity purchase contracts of \$8 million for the three months ended June 30, 2019, primarily due to electricity contracted prices being higher than the market forward prices.
Favorable changes in the fair value of financial electricity purchase contracts of \$3 million for the six months ended June 30, 2019, primarily due to electricity market forward prices being higher than contracted prices.
- Higher transmission system access service charge net collections of \$9 million and \$10 million for the three months and six months ended June 30, 2019, respectively, primarily due to higher collections from customers and lower payments to the AESO for system access.

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.

(Unaudited, \$ millions, including intersegment transactions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenues	\$ 166	\$ 167	\$ 317	\$ 316
Expenses	123	117	239	226
Operating income	43	50	78	90
Exclude depreciation and amortization	35	34	71	67
Adjusted EBITDA	\$ 78	\$ 84	\$ 149	\$ 157

Water Services' Adjusted EBITDA decreased by \$6 million and \$8 million for the three and six months ended June 30, 2019, respectively, compared with the corresponding periods in 2018, primarily due to lower water consumption per customer due to higher precipitation and lower temperatures as well as a declining consumption trend and higher operating costs primarily due to higher staff costs, partially offset by higher water and wastewater customer rates and customer growth. In addition, for the six months ended June 30, 2019, higher water treatment costs due to poor water quality conditions of the North Saskatchewan River in 2019.

Distribution and Transmission

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

In the first quarter of 2019, an agreement was executed with the City to provide electrical services related to installation, maintenance, and repair of street lighting, traffic signals and light rail transit, which was effective from April 1, 2019 and replaces the previous Transportation System Electricity Services agreement with the City. The new agreement is a master service agreement with an initial term of two years and is renewable at the City's option for an additional two years.

(Unaudited, \$ millions, including intersegment transactions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenues	\$ 102	\$ 100	\$ 215	\$ 208
Expenses	79	83	161	165
Operating income	23	17	54	43
Exclude depreciation and amortization	23	20	45	42
Exclude transmission system access service charge net collections	6	15	3	13
Adjusted EBITDA	\$ 52	\$ 52	\$ 102	\$ 98

Distribution and Transmission's Adjusted EBITDA, had no change for three months and increased by \$4 million for the six months, ended June 30, 2019, compared with the corresponding periods in 2018, primarily due to higher electricity distribution and transmission customer rates, partially offset by lower Adjusted EBITDA related to street lighting, traffic signals and light rail transit electrical services provided to 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.

(Unaudited, \$ millions, including intersegment transactions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenues	\$ 103	\$ 100	\$ 230	\$ 191
Expenses	94	90	201	170
Operating income	9	10	29	21
Exclude depreciation and amortization	2	1	4	3
Exclude change in fair value of financial electricity purchase contracts	1	(7)	(10)	(7)
Adjusted EBITDA	\$ 12	\$ 4	\$ 23	\$ 17

Energy Services' Adjusted EBITDA increased by \$8 million and \$6 million for the three and six months ended June 30, 2019, respectively, compared with the corresponding periods in 2018, primarily due to higher EPSP margins, higher commercial services revenues and Encor customer growth, partially offset by higher bad debt expenses.

U.S. Operations

U.S. Operations is primarily involved in the treatment, transmission, distribution and sale of water, and the collection and treatment of wastewater 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 the first quarter of 2019, Arizona Corporation Commission (ACC) considered U.S. Operation's rate application for consolidation of all Arizona water districts, which resulted in a tie vote with no decision being rendered. The Company filed for interim rates for all 11 water utility districts of Arizona, which was approved by the ACC in March 2019. The ACC has ordered the Company to file a new rate application for all 11 water utility districts that may include regional consolidation options. The application is due to be filed by May 1, 2020. In late March, the ACC approved the Company's request to provide a US\$4 million bill credit related to tax reform savings previously collected from the Company's residential and commercial water customers. The amount was credited to the customer bills during the second quarter of 2019.

(Unaudited, \$ millions, including intersegment transactions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenues	\$ 61	\$ 63	\$ 114	\$ 117
Expenses	42	39	83	77
Operating income	19	24	31	40
Exclude depreciation and amortization	14	11	26	22
Adjusted EBITDA	\$ 33	\$ 35	\$ 57	\$ 62

U.S. Operations' Adjusted EBITDA decreased by \$2 million and \$5 million for the three and six months ended June 30, 2019, respectively, compared with the corresponding periods in 2018, primarily due to lower water consumption per customer as a result of higher precipitation and lower temperatures and lower water revenues due to a tax reform adjustment credit on customer bills partially offset by various lower operating expenses and higher foreign exchange rates.

Capital Spending

(Unaudited, \$ millions)		
Six months ended June 30,	2019	2018
Water Services segment	\$ 114	\$ 113
Distribution and Transmission segment	94	79
Energy Services segment	1	-
U.S. Operations segment	35	37
Other	15	5
Total capital spending	259	234
Rio Verde acquisition	31	-
Total capital spending and investment	\$ 290	\$ 234

Total capital spending and investment increased by \$56 million for the six months ended June 30, 2019, compared with the corresponding period in 2018, primarily due to the acquisition of Rio Verde in Arizona with no corresponding acquisition in 2018. The Distribution and Transmission segment had higher spending including a new substation in Southwest Edmonton and various lifecycle projects, partially offset by lower spending on new underground and aerial distribution lines. The U.S. Operations segment had lower spending on various growth projects, partially offset by higher spending on lifecycle replacement projects and higher foreign exchange on capital spending. In Other, there was higher spending due to Customer Information System Replacement project which is a new customer billing system for customers served by Energy Services.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – ASSETS

(Unaudited, \$ millions)	June 30, 2019	December 31, 2018	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	\$ 31	\$ 32	\$ (1)	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	435	431	4	
Inventories	22	19	3	
Other financial assets	130	94	36	Increase primarily due to the recognition of finance lease receivables on the implementation of IFRS 16 (\$41 million), partially offset by payments received on long-term receivables and finance lease receivables.
Deferred tax assets	107	130	(23)	Decrease primarily due to a reduction in the carrying value of deferred tax assets as a result of a decrease in the Alberta corporate tax rate and deferred tax expense on income subject to tax.
Property, plant and equipment	9,811	9,582	229	Increase primarily due to capital expenditures, the recognition of ROU assets on the implementation of IFRS 16 (\$84 million) and acquisition of Rio Verde, partially offset by depreciation expense and unfavorable foreign currency valuation adjustments.
Intangible assets and goodwill	387	368	19	Increase primarily due to capital expenditures and the acquisition of Rio Verde, partially offset by amortization and unfavorable foreign currency valuation adjustments.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, \$ millions)	June 30, 2019	December 31, 2018	Increase (decrease)	Explanation of material changes
Trade and other payables	\$ 340	\$ 417	\$ (77)	Decrease primarily due to lower accrued electricity costs due to timing of payments, as well as lower capital accruals, holdbacks payable and other trade payables, partially offset by higher accrued interest on long-term debt.
Loans and borrowings (including current portion)	2,894	2,700	194	Increase primarily due to issuance of short-term debt (\$225 million), partially offset by principal repayments of long-term debt and favorable foreign currency valuation adjustments on U.S. dollar denominated debt.
Deferred revenue (including current portion)	3,610	3,532	78	Increase primarily due to customer and developer contributions received, and the acquisition of Rio Verde, partially offset by deferred revenue recognized and favorable foreign currency valuation adjustments.
Provisions (including current portion)	105	119	(14)	Decrease primarily due to payments of employee benefits, partially offset by provisions assumed on acquisition of Rio Verde.
Other liabilities (including current portion)	249	144	105	Increase primarily due to recognition of lease liabilities on the implementation of IFRS 16 (\$136 million), partially offset by Drainage transition cost compensation payment, payments against lease liabilities and favorable foreign currency valuation adjustments.
Deferred tax liabilities	56	53	3	
Equity attributable to the Owner of the Company	3,669	3,691	(22)	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, \$ millions)

Cash inflows (outflows)

Three months ended June 30,	2019	2018	Increase (decrease)	Explanation
Operating	\$ 66	\$ 60	\$ 6	Increase primarily due to higher funds from changes in non-cash operating working capital, partially offset by lower funds from operations.
Investing	(145)	(125)	(20)	Decrease primarily due to higher capital expenditures and lower payments received on long-term receivables.
Financing	86	60	26	Increase primarily due to higher proceeds from issuance of short-term debt and lower repayments for long-term debt, partially offset by higher payments of lease liabilities and higher dividend payments to the City.
Opening cash and cash equivalents	24	28	(4)	
Closing cash and cash equivalents	\$ 31	\$ 23	\$ 8	

(Unaudited, \$ millions)

Cash inflows (outflows)

Six months ended June 30,	2019	2018	Increase (decrease)	Explanation
Operating	\$ 199	\$ 169	\$ 30	Increase primarily due to higher net cash flows from operations and higher funds from the changes in non-cash operating working capital.
Investing	(319)	(97)	(222)	Decrease primarily due to no payments received on long-term loans receivable from Capital Power (2018 - \$163 million), acquisition of Rio Verde in 2019 (\$31 million), higher capital expenditures and lower funds from the changes in non-cash investing working capital, partially offset by lower payment of Drainage transition cost compensation.
Financing	119	(387)	506	Increase primarily due to lower repayment of long-term debt and higher proceeds from issuance of short-term debt, partially offset by higher payments for lease liabilities and higher dividend payments to the City.
Opening cash and cash equivalents	32	338	(306)	
Closing cash and cash equivalents	\$ 31	\$ 23	\$ 8	

Operating Activities and Liquidity

The Company maintains its financial position through rate-regulated utility and long-term 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 remainder of 2019 with a combination of cash on hand, cash flow from operating activities, the issuance of commercial paper, public or private debt offerings and availability of committed credit facility 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

During the six months ended June 30, 2019, 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 2018 annual MD&A except for the item noted below and the Company's long-term debt issuance as described in the Financing section.

On May 14, 2019, the Company entered into an arrangement with FortisAlberta Inc. whereby, the Company will continue with exclusive rights to serve as a RRO and Default Supplier of electricity in the Fortis service area for a term of eight years following termination of the existing agreement in December 2020. The arrangement is subject to Alberta Utilities Commission approval. The new Customer Rights Agreement will be effective from January 2021, with automatic renewal for subsequent periods of three years each until terminated by either party. The consideration for the initial eight year term is payable in December 2020 and will be determined based on site count and customer load calculations as determined under the agreement.

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:

(Unaudited, \$ millions) June 30, 2019	Expiry	Total facilities	Letters of credit issued	Banking Commercial paper Issued	Net amounts available
Committed					
Syndicated bank credit facility ¹	November 2023	\$ 600	\$ -	\$ 263	\$ 337
Uncommitted					
Bank credit facilities ²	No expiry	200	93	-	107
Bank credit facility	No expiry	25	-	-	25
Bank credit facility	November 2019	13	-	-	13
Total uncommitted		238	93	-	145
Total credit facilities		\$ 838	\$ 93	\$ 263	\$ 482

(Unaudited, \$ millions) December 31, 2018	Expiry	Total facilities	Letters of credit issued	Banking Commercial paper issued	Net amounts available
Committed					
Syndicated bank credit facility ¹	November 2023	\$ 600	\$ -	\$ 38	\$ 562
Uncommitted					
Bank credit facilities ²	No expiry	200	80	-	120
Bank credit facility	No expiry	25	-	-	25
Bank credit facility	April 2019	14	-	-	14
Total uncommitted		239	80	-	159
Total credit facilities		\$ 839	\$ 80	\$ 38	\$ 721

¹ The Company's \$600 million committed syndicated bank credit facility is available and primarily used for backstopping EPCOR's commercial paper program. The committed syndicated bank credit facility 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 facility gives the Company the option each year to re-price and extend the terms of the facility 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. At June 30, 2019, commercial paper totaling \$263 million was issued and outstanding (December 31, 2018 - \$38 million).

² The Company's uncommitted bank credit facility consists of five bilateral credit facilities (totaling \$200 million) which are restricted to letters of credit. At June 30, 2019, letters of credit totaling \$93 million have been issued and outstanding (December 31, 2018 - \$80 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 June 30, 2019, the available amount remaining under this base shelf prospectus was \$1.35 billion after adjusting for the long-term debt commitment of \$450 million (December 31, 2018 - \$1.80 billion). The Canadian base shelf prospectus expires in December 2019.

On June 25, 2019, the Company entered into agreements for \$450 million dual-tranche long-term notes, consisting of a \$100 million 3 year note at an interest rate of 1.949% and a \$350 million 30 year note at an interest rate of 3.106%, both issued on July 8, 2019. Subsequent to the period ended June 30, 2019, the Company closed the transaction and received the funds on July 8, 2019.

In the first quarter of 2019, the Company entered into bond forward contracts, the hedging instruments, to manage its interest rate risk associated with movements in long-term Government of Canada bond rates related to a planned future long-term debt issuance, which is the hedged item. The Company entered into following bond forward contracts:

Type	Contract maturity	Notional value	Forward yield
Bond Forward Transaction	December 27, 2019	\$ 50	2.147%
Bond Forward Transaction	November 28, 2019	\$ 50	2.047%

These financial instruments have been classified as cash flow hedges. In the cash flow hedging relationship, the effective portion of the change in the fair value of the hedging instrument is recognized in other comprehensive income (OCI), while the ineffective portion is recognized in net income within finance expenses. At June 30, 2019, unrealized loss on cash flow hedges of \$9 million has been recognized in OCI. Subsequent to period ended June 30, 2019, the Company closed both bond forward contracts on July 8, 2019, on issuance of long-term debt and paid the outstanding balance of \$10 million to the counterparties.

For further information on the cash flow hedges, refer to the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the six months ended June 30, 2019, and 2018.

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 September 2018, Standard & Poor's Ratings Services confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings and DBRS confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt ratings for EPCOR.

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its syndicated bank credit facility, 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.

For further information on the Company's contractual obligations, refer to the 2018 annual MD&A.

RISK FACTORS AND RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2018 annual MD&A. EPCOR believes that risk management is a key component of the Company's culture and that we have cost-effective risk management practices in 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. There have been no material changes to the risk profile or risk

management practices of EPCOR as described in the 2018 annual MD&A that have affected the condensed consolidated interim financial statements for the six months ended June 30, 2019.

Currently, EPCOR's risks include new business integration risk, health and safety risk, political and legislative risk, regulatory risk, strategy execution risk, information technology related security risks, reputational damage and stakeholder activism, actual performance compared to approved revenue requirement, business interruption risks, weather and climate-change risk, failure to attract, retain or develop top talent, electricity price and volume risk, project risk, environment risk, credit risk, financial liquidity risk, billing error risk, foreign exchange risk, conflicts of interest, and general economic conditions, business environment and other risks.

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, 2020. The Company does not expect to have any significant impact on its accounting policies on the implementation of these new accounting pronouncements.

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 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 energy, water, related impacts on sanitary and stormwater systems, 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 years ended December 31, 2018 and 2017.

OUTLOOK

For the remainder of 2019, EPCOR will focus on completing the integrations of Rio Verde. In addition, we will continue 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 be ancillary to our existing operations and will enhance our environmental performance.

EPCOR was previously awarded franchises by two municipalities and one township in the Southern Bruce region of Ontario near Kincardine to use municipal rights-of-ways to build, own and operate a natural gas distribution system. On April 12, 2018, EPCOR received an Ontario Energy Board (OEB) decision awarding conditional certificates of public convenience and necessity related to these franchise areas. On July 11, 2019, EPCOR received OEB approvals of its leave-to-construct application and the franchise agreements. EPCOR has also filed an application with the OEB for approval of the rates to be applicable in the distribution system area. The decision for the rates application is expected by the end of 2019. Subject to obtaining OEB approval of rates, and timely

interconnection to Enbridge’s natural gas transmission system, it is expected that EPCOR’s Southern Bruce natural gas distribution system will be connected to the Municipality of Kincardine in the second half of 2020, with the remaining portion of the system substantially complete in 2021.

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 its greenhouse gas emissions. The solar farm is expected to have a peak generation capacity of between (approximately) 10 and 12 megawatts. EPCOR anticipates to receive all significant government approvals by late 2019 or early 2020, which will allow the solar farm implementation to start in 2020 and be operational by late 2020 or early 2021. Prior to rendering a decision on a required rezoning application, Edmonton City Council has asked for further engagement to be conducted with the Enoch Cree Nation, and for additional reporting on whether the river valley location should be deemed essential by Edmonton City Council.

QUARTERLY RESULTS

(Unaudited, \$ millions)		
Quarters ended	Revenues	Net income
June 30, 2019	\$ 439	\$ 40
March 31, 2019	458	56
December 31, 2018	466	107
September 30, 2018	465	55
June 30, 2018	426	68
March 31, 2018	401	65
December 31, 2017	572	87
September 30, 2017	534	75

Events for the past eight quarters compared to the same quarters of the prior years that have significantly impacted net income included:

- June 30, 2019, second quarter results included lower water consumption per customer due to low temperatures and high precipitation, lower Arizona water revenues due a tax reform adjustment credit on customer bills, lower Adjusted EBITDA related to street lighting, traffic signals and light rail transit electrical services for the City, higher depreciation expense due to 2018 asset additions and ROU asset additions in 2019, higher deferred income tax expense due to a decrease in the Alberta corporate income tax rate and unfavorable fair value adjustments related to financial electricity purchase contracts. Partially offsetting these decreases were higher EPSP margins, higher electricity distribution and transmission revenues due to higher rates, higher Encor customer growth and higher transmission system access service charge net collections.
- March 31, 2019, first quarter results included lower EPSP margins, lower water consumption per customer due to low temperatures and high precipitation, higher water treatment costs due to an early spring run-off in 2019, higher depreciation expense due to 2018 additions and ROU asset additions, and higher income tax expense. Partially offsetting these decreases were higher electricity distribution customer revenues due to higher rates, favorable fair value adjustments related to financial electricity purchase contracts, higher Encor customer growth and higher transmission system access service charge net collections.
- December 31, 2018, fourth quarter results included higher income tax recovery due to recognition of non-capital loss carry-forward balances, higher distribution revenues due to higher customer rates, higher EPSP margins, higher transmission system access service charge net collections, lower finance expense due to lower average debt outstanding and lower interest rates, and no losses on sale of surplus land. Partially offsetting these

increases were lower water and wastewater revenues, unfavorable fair value adjustments related to financial electricity purchase contracts and higher depreciation expense due to asset additions for 2018.

- September 30, 2018, third quarter results included lower EPSP margins, higher unfavorable fair value adjustments related to financial electricity purchase contracts, lower transmission system access service charge net collections, higher finance expense due to the additional debt assumed upon the transfer of Drainage, as well as, higher depreciation expense due to the transfer of Drainage and asset additions for 2017 and 2018. Partially offsetting these decreases were three months of income from Drainage in 2018 compared to one month in 2017, higher water and wastewater revenues, higher electricity distribution customer rates and no losses on sale of surplus land in 2018.
- June 30, 2018, second quarter results included income from Drainage and Hughes, higher water and wastewater revenues, lower water treatment costs for operations in the city of Edmonton, higher electricity distribution customer rates, higher favorable fair value adjustments related to financial electricity purchase contracts. Partially offsetting these increases were lower EPSP margins, lower transmission system access service charge net collections, higher interest expense due to the additional debt assumed upon the transfer of Drainage, as well as, higher depreciation expense due to the transfer of Drainage and asset additions for 2017 and 2018.
- March 31, 2018, first quarter results included income from Drainage and Hughes, higher water and wastewater revenues, lower water treatment costs for operations in the city of Edmonton, Encor customer growth, unfavorable fair value adjustments related to financial electricity purchase contracts in 2017 and higher transmission system access service charge net collections. Partially offsetting these increases were lower EPSP margins, higher interest expense due to the additional debt assumed upon the transfer of Drainage, as well as, higher depreciation expense due to the transfer of Drainage and 2017 asset additions.
- December 31, 2017, fourth quarter results included lower transmission system access service charge net collections, lower EPSP margins, higher depreciation expense due to asset additions, no fair value gain on sale of investment in Capital Power, no favorable fair value adjustments related to interest rate swaps in 2017 and higher financing expenses. Partially offsetting these decreases were higher water, wastewater and electricity distribution customer rates, income from the Drainage operations, higher income related to industrial services contracts, higher water volumes in U.S. due to above average temperatures, lower income taxes and higher favorable changes in the fair value of financial electricity purchase contracts.
- September 30, 2017, third quarter results included lower EPSP margins, higher depreciation expense due to asset additions, lower income from industrial services contracts primarily due to the termination of the Suncor financing and operating agreements in 2016, no fair value gain on sale of investment in Capital Power, no dividend income due to the sale of Capital Power shares and lower favorable fair value adjustments related to financial electricity purchase contracts. Partially offsetting these decreases were higher water, wastewater and electricity distribution customer rates, higher transmission system access service charge net collections and no unfavorable fair value adjustments related to interest rate swaps.

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, including current liabilities in excess of current assets, for the remainder of 2019.	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.

There have been no changes in the material forward-looking information previously disclosed in the 2018 annual MD&A, including related material factors or assumptions and risk factors.

For further information on the Company's forward looking information, refer to the 2018 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 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.

GLOSSARY

ACC means Arizona Corporation Commission	IAS means International Accounting Standard(s)
Adjusted EBITDA earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments and transmission system access service charge net collections	OCI means other comprehensive income
AESO means Alberta Electric System Operator	OEB means Ontario Energy Board
Capital Power means Capital Power Corporation and its directly and indirectly owned subsidiaries including Capital Power L.P., except otherwise noted or the context otherwise indicates	ROU means right-out-use
Drainage means drainage utility services within the city of Edmonton	Rio Verde means Rio Verde Utilities Inc.
E.L. Smith WTP means E.L. Smith Water Treatment Plant	RRO means Regulated Rate Option
EPSP means Energy Price Setting Plan	the City means The City of Edmonton
IFRS means International Financial Reporting Standard(s)	

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2018 Annual Information Form is available on SEDAR at www.sedar.com.