EPCOR Utilities Inc.
Interim Management's Discussion and Analysis
September 30, 2018

This management's discussion and analysis (MD&A) dated November 8, 2018, should be read in conjunction with the condensed consolidated interim financial statements of EPCOR Utilities Inc. for the nine months ended September 30, 2018 and 2017, including significant accounting policies (note 3), revenues (note 4), financial instruments (note 5), subsequent event (note 7), the consolidated financial statements for the years ended December 31, 2017 and 2016, including significant accounting policies (note 3), business transfer and acquisitions (note 5), changes in liabilities arising from financing activities (note 27), related party balances and transactions (note 28) and financial instruments (note 29), the MD&A for the year ended December 31, 2017 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 November 8, 2018.

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 and commercial consumers under contracts through its Encor brand. In addition, EPCOR provides design, build, finance, operating 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 $55 million and $188 million for the three and nine months ended September 30, 2018, respectively, compared with net income of $75 million and $169 million for the comparative periods in 2017, respectively. The decrease of $20 million for the three months ended September 30, 2018, was primarily due to lower transmission system access service charge net collections, higher depreciation expense, as well as, higher unfavorable fair value adjustments related to financial electricity purchase contracts, partially offset by higher Adjusted EBITDA, as described below. The increase of $19 million for the nine months ended September 30, 2018, was primarily due to higher Adjusted EBITDA, as described below, partially offset by lower transmission system access service charge net collections, as well as, higher finance and depreciation expense.

Adjusted EBITDA was $176 million and $518 million for the three and nine months ended September 30, 2018, respectively, compared with $164 million and $418 million for the comparative periods in 2017, respectively. The increase of $12 million and $100 million for the three and nine months ended September 30, 2018, respectively, was primarily due to three and nine months of Adjusted EBITDA from drainage utility services (Drainage) in 2018 compared to one month of Adjusted EBITDA in 2017 as the operations were transferred to the Company in September 2017, higher water and wastewater revenues and higher electricity distribution customer rates, partially offset by lower Energy Price Setting Plan (EPSP) margins. Adjusted EBITDA is a non-IFRS financial measure and is defined and described in the Adjusted EBITDA and Net Income section on page 4 of this MD&A.

SIGNIFICANT SUBSEQUENT EVENT

Acquisition of Collingwood PowerStream Utility Services Corp.

On October 1, 2018, the Company acquired 100% of the issued and outstanding common shares of Collingwood PowerStream Utility Corp. (Collus), an electricity distribution and services holding company with operations in three major communities in Simcoe County, Ontario, for cash consideration of $28 million and the assumption of $16 million in third party debt.

Collus is primarily involved in the distribution of electricity through its wholly owned subsidiary to over 17,000 service connections within the area of Collingwood, Stayner and Creemore (Clearview Township) plus the Town of the Blue Mountains (Grey County). These operations are regulated by the Ontario Energy Board (OEB) under a price cap incentive cost-of-service rate setting framework.

For further information on the acquisition, refer to the unaudited condensed consolidated interim financial statements of EPCOR Utilities Inc. for the nine months ended September 30, 2018.

SIGNIFICANT ACCOUNTING POLICY CHANGES

Effective January 1, 2018, the Company implemented IFRS 15 – *Revenue from Customer Contracts (IFRS 15)* and IFRS 9 – *Financial Instruments (IFRS 9).* The implementation of the new IFRS standards resulted in changes in the accounting policies for revenue recognition and financial instruments. For a detailed discussion of the impacts of these new standards on EPCOR's accounting policies refer to note 3 of the condensed consolidated interim financial statements for the nine months ended September 30, 2018. The implementation of the new IFRS standards did not result in any significant impact on revenue recognition or net income; however, there have been significant changes in the presentation of revenue for the Distribution and Transmission and Energy Services segments as described below.

Prior to implementation of IFRS 15, the Distribution and Transmission segment presented provincial transmission system access service charge collections as revenue with all related costs being presented as expense under energy purchases and system access fees. On implementation of IFRS 15, the Company determined that it is acting as an agent for the collection of provincial transmission system access service charge on behalf of the Alberta Energy System Operator (AESO). Effective January 1, 2018, the transmission system access service charge collections are being presented net of related costs paid to the AESO. The change has resulted in lower revenues and lower operating expenses being presented for the Distribution and Transmission segment.

Prior to implementation of IFRS 15, the Energy Services segment presented distribution and transmission charges charged by distribution companies, as revenue with all related cost being presented as expense under energy purchases and system access fees. On implementation of IFRS 15, the Company determined that it is acting as an agent for the collection of distribution and transmission charges on behalf of the distribution companies. Effective January 1, 2018, the distribution and transmission charges are being presented net of related cost paid to the distribution companies. The change has resulted in lower revenues and lower operating expenses being presented for the Energy Services segment.

The Company used the modified retrospective approach to implement IFRS 15 and IFRS 9, and as a result, comparative information has not been restated and continues to be reported under previous accounting standards. In the Consolidated Results of Operations section below, the impact of any changes in the presentation of revenue for the three and nine months ended September 30, 2018 due to the implementation of IFRS 15, as compared to the corresponding period in 2017, have been presented and discussed.

CONSOLIDATED RESULTS OF OPERATIONS

Revenues

(Unaudited, $ millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Water Services segment revenues	$ 164	$ 124	$ 480	$ 313
Distribution and Transmission segment revenues	116	184	324	520
Energy Services segment revenues	122	218	313	619
U.S. Operations segment revenues	67	63	184	168
Other revenues	4	-	11	-
Intersegment eliminations	(8)	(55)	(20)	(157)
Revenues	**$ 465**	**$ 534**	**$ 1,292**	**$ 1,463**

Consolidated revenues were lower by $69 million and $171 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017 primarily due to the net impact of the following:

- Water Services' segment revenues increased by $40 million and $167 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017, primarily due to three and nine month of revenues from the Drainage operations in 2018 compared to one month revenues in 2017 as the operations were transferred to the Company in September 2017, as well as, higher water and wastewater revenues due to customer growth and higher customer rates. In addition, water sales volumes for the three months ended September 30, 2018 were lower while water sales volumes for the nine months ended September 30, 2018 were higher, compared to the corresponding periods in 2017.
- Distribution and Transmission segment revenues decreased by $68 million and $196 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017, primarily due to presenting transmission system access service charge collections net of related costs due to the implementation of IFRS 15 which resulted in lower presented revenues of $77 million and $224 million for the three and nine months ended September 30, 2018, respectively, partially offset by higher electricity distribution customer rates.
- Energy Services' segment revenues decreased by $96 million and $306 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017, primarily due to presenting distribution and transmission revenues net of related costs due to the implementation of IFRS 15 which resulted in lower presented revenues of $158 million and $467 million for the three and nine months ended September 30, 2018, respectively, partially offset by customer growth, higher electricity prices charged to customers and higher electricity volumes.
- U.S. Operations' segment revenues increased by $4 million and $16 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017 primarily due to higher wastewater rates and water sales volumes. In addition, natural gas revenues for the nine months ended September 30, 2018 were also higher from Hughes Gas Resources Inc. (Hughes) which was acquired in June 2017.
- Inter-segment revenue eliminations decreased by $47 million and $137 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017 primarily due to no longer requiring certain elimination entries related to distribution and transmission revenue and expenses as a result of the presentation differences arising upon implementation of IFRS 15 ($53 million and $155 million for three and nine months ended September 30, 2018, respectively).

Adjusted EBITDA and Net Income

During the first quarter, we changed our non-IFRS financial measure from “income from core operations”, which was defined as operating results before the impact of our previous investment in Capital Power and changes in the fair value of derivative financial instruments, to “Adjusted EBITDA”.

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 (Adjusted EBITDA) to discuss operating results for the Company’s lines of business. 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 September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Adjusted EBITDA by Segment				
Water Services segment	$ 74	$ 60	$ 231	$ 136
Distribution and Transmission segment	56	53	154	145
Energy Services segment	6	9	23	29
U.S. Operations segment	40	37	102	91
Other	-	5	8	17
Adjusted EBITDA	**176**	**164**	**518**	**418**
Finance expenses	(29)	(28)	(91)	(82)
Income tax expense	(2)	(3)	(2)	(3)
Depreciation and amortization	(76)	(58)	(217)	(158)
Change in fair value of financial electricity purchase contracts	(8)	(4)	(1)	(1)
Transmission system access service charge net collections	(6)	4	(19)	(5)
Net income	**$ 55**	**$ 75**	**$ 188**	**$ 169**

Changes in each business segment’s Adjusted EBITDA, compared with the corresponding periods in 2017, are described in Segment Results below. Explanations of the remaining variances in net income for the three and nine months ended September 30, 2018, are as follows:

- Higher financing expenses of $1 million and $9 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017, was primarily due to three and nine months of interest expense in 2018 on debt assumed on transfer of Drainage, compared to one month of interest expense in 2017. This increase was partially offset by lower interest expense resulting from refinancing $400 million of public debentures at lower interest rates.

- Higher depreciation and amortization of $18 million and $59 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017, was primarily due to three and nine months of depreciation expense in 2018 resulting from the Drainage operations compared to one month of depreciation expense in 2017 and capital additions in 2017 and 2018, partially offset by losses on sale of surplus land in 2017.

- Higher unfavorable changes in the fair value of financial electricity purchase contracts of $4 million for the three months ended September 30, 2018 compared with the corresponding period in 2017, was primarily due to electricity market forward prices being lower than contracted prices.

- Lower transmission system access service charge net collections of $10 million and $14 million for the three months and nine months ended September 30, 2018, respectively, compared to the corresponding period in 2017, primarily due to higher payments to the AESO for system access, partially offset by higher collections from customers. Transmission system access service charge net collections are timing differences, which will be collected from or returned to customers as the transmission service charges and customer billing determinants are finalized.

SEGMENT RESULTS

Water Services

Water Services is primarily involved in the treatment, transmission, distribution and sale of water, the collection and conveyance of wastewater 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 September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenues	$ 164	$ 124	$ 480	$ 313
Expenses	126	86	352	228
Operating income	**38**	**38**	**128**	**85**
Exclude depreciation and amortization	36	22	103	51
Adjusted EBITDA	**$ 74**	**$ 60**	**$ 231**	**$ 136**

Water Services' Adjusted EBITDA increased by $14 million and $95 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017. The increase in Adjusted EBITDA of $14 million, for the three months ended September 30, 2018, compared to corresponding period in 2017 was primarily due to three months of Adjusted EBITDA from the Drainage operations in 2018 compared to one month of Adjusted EBITDA in 2017, higher water and wastewater revenues due to customer growth and higher customer rates, partially offset by lower water volumes.

The increase in Adjusted EBITDA of $95 million, for the nine months ended September 30, 2018, compared to corresponding period in 2017 was primarily due to nine months of Adjusted EBITDA from the Drainage operations in 2018 compared to one month of Adjusted EBITDA in 2017, higher water and wastewater revenues due to customer growth, higher customer rates and higher water volumes and lower water treatment costs due to favorable river water quality for operations in the city of Edmonton in 2018.

Distribution and Transmission

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

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues	$ 116	$ 184	$ 324	$ 520
Expenses	89	148	254	442
Operating income	**27**	**36**	**70**	**78**
Exclude depreciation and amortization	23	21	65	62
Exclude transmission system access service charge net collections	6	(4)	19	5
Adjusted EBITDA	**$ 56**	**$ 53**	**$ 154**	**$ 145**

As a result of the implementation of IFRS 15, the Distribution and Transmission segment presents transmission system access service charge collections net of related costs, as noted in the Significant Accounting Policy Changes section above. The change resulted in a reduction of $77 million and $224 million for the three months and nine months ended September 30, 2018, respectively, in the 2018 Revenues and Expenses presented in the table above.

Distribution and Transmission's Adjusted EBITDA increased by $3 million and $9 million for the three and nine months ended September 30, 2018, compared with the corresponding periods in 2017, primarily due to higher electricity distribution customer rates.

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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues	$ 122	$ 218	$ 313	$ 619
Expenses	126	214	296	595
Operating income	**(4)**	**4**	**17**	**24**
Exclude depreciation and amortization	2	1	5	4
Exclude change in fair value of financial electricity purchase contracts	8	4	1	1
Adjusted EBITDA	**$ 6**	**$ 9**	**$ 23**	**$ 29**

As a result of the implementation of IFRS 15, the Energy Services segment presents distribution and transmission charge collections net of related costs, as noted in the Significant Accounting Policy Changes section above. The change resulted in a reduction of $158 million and $467 million for the three months and nine months ended September 30, 2018, respectively, in the 2018 Revenues and Expenses presented in the table above.

Energy Services' Adjusted EBITDA decreased by $3 million and $6 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017, primarily due to lower EPSP margins.

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.

(Unaudited, $ millions, including intersegment transactions)	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenues	$ 67	$ 63	$ 184	$ 168
Expenses	39	36	116	108
Operating income	**28**	**27**	**68**	**60**
Exclude depreciation and amortization	12	10	34	31
Adjusted EBITDA	**$ 40**	**$ 37**	**$ 102**	**$ 91**

U.S. Operations' Adjusted EBITDA increased by $3 million and $11 million for the three and nine months ended September 30, 2018, respectively, compared with the corresponding periods in 2017, primarily due to higher wastewater customer rates and higher water sales volumes in the higher tiered rate blocks. In addition, this segment includes nine months of Adjusted EBITDA from Hughes in 2018, compared to four months of Adjusted EBITDA in 2017.

Capital Spending and Investment

(Unaudited, $ millions) **Nine months ended September 30,**	**2018**	**2017**
Water Services segment	$ 188	$ 112
Distribution and Transmission segment	121	172
Energy Services segment	1	3
U.S. Operations segment	64	59
Other	10	6
	384	352
Hughes acquisition	-	46
Total capital spending and investment	**$ 384**	**$ 398**

Total capital spending and investment decreased for the nine months ended September 30, 2018, compared with the corresponding period in 2017, primarily due to lower spending in the Distribution and Transmission segment on the Advanced Meter Infrastructure project and the Work Centre Redevelopment project, both of which were substantially completed in 2017, and on various lifecycle projects. This was partially offset by higher spending on the New Underground and Aerial Line Reconfigurations project and on various growth projects. For the Water Services segment, capital spending was higher due to nine months of capital spending for Drainage on various projects in 2018 compared to one month of capital spend in 2017, the Rossdale Clarifier Upgrade project, Water Main Renewals in the city of Edmonton and various Gold Bar Wastewater Treatment Facility projects. This was partially offset by lower spending for the Hydrovac Sanitary Grit Treatment Facility and the Light Rail Transit relocation project in the city of Edmonton as the majority of the work for both of these projects was completed in 2017. In addition, capital spending and investment was lower in 2018 due to the acquisition of Hughes in June 2017 with no corresponding acquisition in 2018.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – ASSETS

(Unaudited, $ millions)	September 30, 2018	December 31, 2017	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	$ 22	$ 338	$ (316)	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	436	552	(116)	Decrease primarily due to payments received on long-term loan receivable from Capital Power ($174 million), partially offset by increase in contributions receivables from the City for various capital projects, higher electricity receivables due to higher prices and volumes, and higher prepaid amounts primarily due to the payment of a deposit for the Collus acquisition.
Inventories	19	17	2	
Other financial assets	88	91	(3)	Decrease primarily due to payments received on various long-term financing arrangements.
Deferred tax assets	93	90	3	Increase due to recognition of tax loss carry-forward balances.
Property, plant and equipment	9,279	8,963	316	Increase primarily due to capital expenditures and favorable foreign currency valuation adjustments, partially offset by depreciation expense, asset disposals and retirements.
Intangible assets and goodwill	294	293	1	Increase primarily due to capital expenditures and favorable foreign currency valuation adjustments, partially offset by amortization.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

(Unaudited, $ millions)	September 30, 2018	December 31, 2017	Increase (decrease)	Explanation of material changes
Trade and other payables	$ 403	$ 384	$ 19	Increase is primarily due to higher accrued electricity costs primarily due to higher prices, higher accrued interest, higher transmission system access service charges payable and higher capital accruals, partially offset by payment of Drainage related liabilities to the City, lower holdback payables and lower accruals for gas purchases.
Loans and borrowings (including current portion)	2,537	2,866	(329)	Decrease primarily due to repayment of long-term debt ($421 million), partially offset by issuance of short-term debt ($86 million) and unfavorable foreign currency valuation adjustments on U.S. dollar denominated debt.
Deferred revenue (including current portion)	3,410	3,281	129	Increase primarily due to customer and developer contributions received and unfavorable foreign currency valuation adjustments, partially offset by deferred revenue recognized.
Provisions (including current portion)	115	116	(1)	Decrease primarily due to payment of employee benefits in excess of current period accruals, partially offset by unfavorable foreign currency valuation adjustments.
Other liabilities (including current portion)	128	146	(18)	Decrease primarily due to Drainage transition cost compensation payment, partially offset by unfavorable foreign currency valuation adjustments.
Deferred tax liabilities	46	39	7	Increase due to utilization of net operating loss carryforwards against current period net income.
Equity attributable to the Owner of the Company	3,592	3,512	80	Increase due to comprehensive income for the period, partially offset by dividends paid.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions)
Cash inflows (outflows)

Three months ended September 30,	2018	2017	Increase (decrease)	Explanation
Operating	$ 191	$ 131	$ 60	Increase primarily due to higher funds from operations, including three months of funds from Drainage operations in 2018 compared to one month in 2017 and higher funds from the change in non-cash operating working capital.
Investing	(118)	(124)	6	Increase primarily due to higher payment received on long-term loans receivable from Capital Power and no payment for Drainage transition cost compensation in the current quarter, partially offset by lower funds from the change in non-cash investing working capital and higher capital expenditures.
Financing	(74)	30	(104)	Decrease primarily due to lower proceeds from issuance of short-term debt and higher dividend payments to the City in the current quarter, partially offset by lower repayment of long-term debt.
Opening cash and cash equivalents	23	14	9	
Closing cash and cash equivalents	$ 22	$ 51	$ (29)	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, $ millions) **Cash inflows (outflows)**							
Nine months ended September 30,		**2018**		**2017**		**Increase (decrease)**	**Explanation**
Operating	$	360	$	263	$	97	Increase primarily due to higher funds from operations, including nine month of funds from Drainage operations in 2018 compared to one month in 2017 and higher funds from the change in non-cash operating working capital.
Investing		(215)		(355)		140	Increase primarily due to payments received on long-term loans receivable from Capital Power and no business acquisitions in 2018, partially offset by higher capital expenditures, higher payment of Drainage transition cost compensation, no proceeds from the sale of Capital Power shares in 2018 and lower funds from the change in non-cash investing working capital.
Financing		(461)		(48)		(413)	Decrease primarily due to higher repayment of long-term debt and higher dividend payments to the City in 2018.
Opening cash and cash equivalents		338		191		147	
Closing cash and cash equivalents	$	22	$	51	$	(29)	

Operating Activities and Liquidity

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

The Company expects to have sufficient liquidity to finance its plans and fund its obligations for the remainder of 2018 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 the 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 nine months ended September 30, 2018, there were no material changes to the Company’s contractual obligations, including payments for the next five years and thereafter, from those previously disclosed in the 2017 annual MD&A.

As a result of lower than anticipated spending on capital projects in our Distribution and Transmission and Water Services segments, EPCOR is expecting cash requirements for investment in existing business and new business development for 2018 to be $625 million to $725 million.

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 under committed syndicated bank credit facilities, bank loans under un-committed bank credit facilities, debentures payable to the City related to utility assets transferred from the City, 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) **September 30, 2018**	**Expiry**	**Total facilities**	**Letters of credit issued**	**Banking Commercial paper issued**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2022	$ 600	$ -	$ 86	$ 514
Uncommitted					
Bank credit facilities[2]	No expiry	200	73	-	127
Bank credit facility	No expiry	25	-	-	25
Bank credit facility[3]	April, 2019	13	-	-	13
Total uncommitted		238	73	-	165
Total credit facilities		**$ 838**	**$ 73**	**$ 86**	**$ 679**

(Unaudited, $ millions) **December 31, 2017**	**Expiry**	**Total facilities**	**Letters of credit and other facility draws**	**Net amounts available**
Committed				
Syndicated bank credit facility[1]	November 2022	$ 600	$ -	$ 600
Uncommitted				
Bank credit facilities[2]	No expiry	200	66	134
Bank credit facility	No expiry	25	-	25
Total uncommitted		225	66	159
Total credit facilities		**$ 825**	**$ 66**	**$ 759**

1 The Company's $600 million committed syndicated bank credit facility is entirely available and primarily used for short-term borrowing and 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 September 30, 2018, commercial paper totaling $86 million was issued and outstanding (December 31, 2017 - nil).

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 September 30, 2018, letters of credit totaling $73 million have been issued and outstanding (December 31, 2017 - $66 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

[3] The Company's $13 million uncommitted bank credit facility represents US$10 million facility that is used to meet the U.S. dollar operational requirements. At September 30, 2018, no bank loans were issued and outstanding.

Amounts borrowed, if any, under these credit facilities which are not payable within one year are classified as non-current loans and borrowings.

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, 2018, the available amount remaining under this base shelf prospectus was $2 billion (December 31, 2017 - $2 billion). The Canadian base shelf prospectus expires in December 2019.

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

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its syndicated bank credit facilities, Canadian public medium-term notes and U.S. private debt notes. Based on current financial covenant calculations, the Company has sufficient borrowing capacity to fund current and long-term requirements. Although the risk is low, breaching these covenants could potentially result in a revocation of EPCOR's credit facilities causing a significant loss of access to liquidity or resulting in the Company's publicly issued medium-term notes and private debt notes becoming immediately due and payable 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 2017 annual MD&A.

RISK FACTORS AND RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the 2017 annual MD&A. EPCOR believes that risk management is a key component of the Company's culture and we have put into place cost-effective risk management practices. 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 2017 annual MD&A that have affected the condensed consolidated interim financial statements for the nine months ended September 30, 2018, with the exception of the item noted below in the Political and Legislative Risk section.

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, risk of reputational damage, environment risk, business interruption risks, failure to attract, retain or develop top talent, water scarcity risk, electricity price and volume risk, project risk, weather and climate-related risk, financial liquidity risk, counterparty and credit risk, billing error risk, foreign exchange risk, conflicts of interest, and general economic conditions, business environment and other risks.

Political and Legislative Risk

In December 2016, the Government of Alberta enacted *Bill 21: the Modernized Municipal Government Act* (MGA) which could impose restrictions on the ability of a municipally controlled corporation (MCC) to conduct its business. EPCOR, which is a MCC of the City, was previously exempted from the MGA and a similar exemption is not present in the new MGA. However, on June 21, 2018, the Alberta Government published the Municipally Controlled Corporations Regulation (MCC Regulation), which confirms that EPCOR will remain exempt from the provisions of the MGA that impose these restrictions. The MCC Regulation containing the exemption and the relevant sections of the MGA are in force as of July 1, 2018 and will expire on June 30, 2021. EPCOR will continue to work to ensure that the exemption will be extended past June 30, 2021, or that a permanent exemption under the new MGA is granted, as failing to have the exemption could materially impact EPCOR's ability to execute its Long Term Plan.

EPCOR previously received notification from two U.S. municipalities, where we own water utility systems, indicating they were considering the possibility of acquiring their respective water utility systems from EPCOR, either through a sale of the assets or through expropriation of the assets. During the current quarter, one municipality decided not to pursue the possibility of acquiring the utility operations any further. To date there has been no formal action from the other municipality. Should EPCOR be required to sell the assets back to the municipality, the Company would be entitled to proceeds equivalent to the fair market value of the water utility assets. The financial impact of the water utility system operations is not considered material to EPCOR's operations.

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, 2019. Those which may be relevant to the Company and may impact the accounting policies of the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 16 **-** *Leases* (IFRS 16), which replaces IAS 17 – *Leases* (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases under IAS 17 into a single lessee model. Under the new single lessee model, a lessee will recognize right of use assets and lease liabilities on the statement of financial position initially measured at the present value of unavoidable lease payments. IFRS 16 will also cause expenses to be higher at the beginning and lower towards the end of a lease, even when payments are consistent throughout the term. Lessors will continue with a dual lease classification model and the classification will determine how and when a lessor will recognize lease revenue and what assets will be recorded.

There are two methods by which the new standard may be adopted: (1) a full retrospective approach with a restatement of all prior periods presented, or (2) a modified retrospective approach with a cumulative-effect adjustment recognized in the opening retained earnings as of the date of adoption. The Company plans to adopt IFRS 16 using the modified retrospective approach with the cumulative effect of the adjustment, if any, recognized in opening retained earnings as of January 1, 2019, subject to allowable and elected practical expedients. The Company is currently reviewing the practical expedients available under the standard, however on initial adoption the Company intends to use the following practical expedients, where applicable: (1) not applying the requirements of the standard to short-term leases, (2) treating operating leases with a remaining term of less than 12 months at January 1, 2019 as short-term leases, and (3) not applying the requirements of the standard to low value leases.

The Company has substantially completed its review of the contracts that are currently classified as leases under existing standard, or that could be classified as leases under IFRS 16, in order to identify the contracts that will be impacted by the new standard so that further analysis can be performed to quantify the impact of the adoption of IFRS 16 on the consolidated financial statements. Based on our preliminary assessment, the Company expects that there will be a material impact on its statements of consolidated financial position as a result of the recognition of right of use assets and lease liabilities with respect to its leases for land and buildings (including office space) as well as certain contracts for lease of vehicles and equipment. The Company's analysis of these contracts is ongoing and presently the Company is working to calculate the transitional adjustments required with respect to the contracts that have been identified as potential leases. The Company expects to report more detailed information, including the quantitative impact, in future periods.

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

CRITICAL ACCOUNTING ESTIMATES

In preparing the condensed consolidated interim financial statements, management necessarily made estimates in determining transaction amounts and financial statement balances. The following are the items for which significant estimates were made in the condensed consolidated interim financial statements: electricity revenues and costs, unbilled consumption of electricity and water, fair values and income taxes. Although the current condition of the economy has not impacted our methods of estimating accounting values, it has impacted the inputs in those determinations and the resulting values. Interim results will fluctuate due to the seasonal demands for 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 2017 annual consolidated financial statements and 2017 annual MD&A.

OUTLOOK

For the remainder of 2018, EPCOR will focus on the ongoing integration of Drainage, Collus, as well as other operations which have recently been acquired by the Company. 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.

In August 2018, EPCOR agreed to acquire 100 percent of the stock in Rio Verde Utilities (Rio Verde) in Arizona, U.S., subject to regulatory approval by the Arizona Corporation Commission (ACC). Rio Verde is located northeast of Scottsdale and the Greater Phoenix metropolitan area and just 10 miles north of our Chaparral service area in Fountain Hills. Rio Verde regulated operations include around 2,200 water and 1,900 wastewater service connections and irrigated water service for five golf courses. A decision from the ACC is anticipated in early 2019.

EPCOR was previously awarded franchises by two municipalities and one township in the Southern Bruce region of Ontario near Kincardine to build, own and operate a natural gas distribution system. On April 12, 2018, EPCOR received an OEB decision awarding certificates of public convenience and necessity related to these franchise areas. EPCOR has filed a leave to construct application with the OEB. In a separate application, EPCOR has also filed with the OEB for approval of the franchise agreements and rate filings. Subject to obtaining OEB approvals, timely interconnection of the natural gas transmission system and confirmation of the availability of funding for natural gas expansion projects and details of the program to provide such funds from the Province of Ontario, the initial phase of the natural gas distribution system is expected to be operational by late 2019, with system completion 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 approximately 12 megawatts. All significant government approvals are currently expected to be received in the first quarter of 2019, which will allow construction to be completed by the end of 2019.

QUARTERLY RESULTS

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

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

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

FORWARD - LOOKING INFORMATION

Certain information in this MD&A is forward-looking within the meaning of Canadian securities laws as it relates to anticipated financial performance, events or strategies. When used in this context, words such as “will”, “anticipate”, “believe”, “plan”, “intend”, “target”, and “expect” or similar words suggest future outcomes.

The purpose of forward-looking information is to provide investors with management’s assessment of future plans and possible outcomes and may not be appropriate for other purposes. Material forward-looking information within this MD&A, including related material factors or assumptions and risk factors, are noted in the table below:

Forward-looking Information	Material Factors or Assumptions	Risk Factors
The Company expects to have sufficient liquidity to finance its plans and fund its obligations in 2018.	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.

2018 Forward-looking Information Previously Disclosed	Expected Results	Explanation of Differences From Previously Disclosed Information
EPCOR's projected cash requirements for capital projects for 2018 includes $725 million to $825 million for investment in existing businesses and new business development.	EPCOR's expected cash requirement for investment in existing businesses and new business development for 2018 is $625 million to $725 million.	Lower expenditures are expected in the Distribution and Transmission and Water Services segments due to delays in regulatory approvals and changes in timing and scope of various capital projects.

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 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	**Hughes** means Hughes Gas Resources, Inc.
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	**IFRS** means International Financial Reporting Standards
AESO means Alberta Electric System Operator	**MCC** means Municipally Controlled Corporation
AUC means Alberta Utilities Commission	**MCC Regulations means** Municipally Controlled Corporations Regulation
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	**MGA** means *Bill 21: the Modernized Municipal Government Act*
Collus means Collingwood Powerstream Utility Services Corp.	**OEB** means Ontario Energy Board

Drainage means drainage utility services within the city of Edmonton	**Rio Verde** means Rio Verde Utilities
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

ADDITIONAL INFORMATION

Additional information relating to EPCOR including the Company's 2017 Annual Information Form is available on SEDAR at www.sedar.com.