VECC-1

Reference: E1/T1/S1/pg.1

a) What is the purpose/reason for the indirect relationship (i.e. Development Corporation and Utilities Inc.) as between EPCOR Natural Gas and EPCOR Utilities Inc.?

b) Does the proposed corporate relationship change in any significant way the responsibilities or liabilities related to customers of the utility as compared to those existing under the current ownership of Natural Resource Gas Limited ("NRG")?

<u>Response:</u>

(a) EUI is a holding company which conducts its active businesses through subsidiary corporations or other legal entities, as is common business practice. Use of subsidiaries facilitates compliance with legal and regulatory requirements and purposes, such as maintaining separate businesses, books and records and financial reporting, and also protects each business from the liabilities of others. For example, EPCOR, as owner of the NRG assets, would be separated from the liabilities of EUI's Edmonton-based businesses.

(b) No. EPCOR will be subject to the same responsibilities and liabilities to utility customers as NRG currently is.

VECC-2

Reference: E1/T1/S1 & S2/pgs2 & S4

a) What is the anticipated change in long-term debt costs of EPCOR-NRG?

b) EPCOR states that the Asset Purchase Agreement contemplates payment of $21 million which is in excess of NRG's net book value (NBV). How is this premium to be recorded under the Board's USoA for regulated utilities?

<u>Response:</u>

(a) EPCOR's cost of debt will be reflective of market rates at the time that debt is issued, and will require Board approval in any refiling of EB-2016-0236. Therefore a comparison of long-term debt cost to NRG's debt cost in the EB-2016-0236 application cannot be determined until debt from EPCOR has been issued to EUI. The long-term debt costs of EPCOR, reflective of EPCOR's creditworthiness, may be modestly lower than NRG's cost of debt.

It is EUI's practice that terms of a note payable from a subsidiary are comparable to what financial institutions would charge the subsidiary on a stand-alone basis. EUI follows a standard three step methodology when pricing its subsidiary notes. First, EUI obtains the underlying spot yield on a Government of Canada bond with a matching duration. Second, a credit risk premium, based on the stand alone credit of the subsidiary, is added to reflect the risk above the Government of Canada Bond. Finally, a 5bp allowance for financing costs is added to arrive at the costs of new long-term debt.

(b) EUI's current practice is to not record any such premiums in the regulatory books for its regulated utilities, as the premium does not form part of rate base. If EPCOR is required to record the premium in its regulatory books, it will be recorded as an acquisition adjustment in account 104 Utility Plant Acquisition Adjustments, listed in the Uniform System of Accounts for Class A Gas Utilities Part 1 dated April 1, 1996; however, none of the premium paid will flow through to rate base and, as such, the premium will have no impact on rates.

VECC-3

Reference: E1/T1/S1/pg.2

Preamble: EPCOR states that it will assume responsibility for the current NRG application EB-2016-0236 (of which VECC is an intervenor). It further states that it will file an amended application with six months of closing.

a) For what reasons, other than legal title changes, does EPCOR believe it needs to amend the current application?

b) Does EPCOR intend to proceed with a five year incentive rate application but updated for more current estimates or it proposing to revise the rate plan already submitted?

c) In its application EB-2016-0236 filed August 9, 2016 NRG reported a revenue deficiency of $968,725. Is the completion of the Asset Purchase Agreement in any manner contingent upon recovery of this or any other proposed rate revenue deficiency? Does the Agreement in any manner include reference to the recovery of any such deficiency?

d) What is the estimated monthly amount of unrecovered rate revenue for each month since the Board issued its interim rate decision?

<u>**Response:**</u>

(a) EPCOR believes it needs to amend the current application to reflect all aspects of EPCOR's ownership such as revising organizational charts, providing details related to EPCOR's affiliate transactions and adjusting the revenue requirement as described in 1-Staff-1 and 1-Staff-2.

(b) EPCOR intends to proceed with a five year incentive rate application.

(c) The completion of the Asset Purchase Agreement is not contingent upon the recovery of any rate revenue deficiency.

(d) The interim rate decision was effective October 1, 2016. The estimated monthly amount of unrecovered rate revenue for each month is $80,727 (based on the revenue deficiency number noted in question (c) above). NRG does not have a better estimate of monthly unrecovered rate revenue at this point in the fiscal year.

VECC-4

Reference: E1/T1/S1/pg.4 & E1/T1/S4/pg.7

a) Will any senior management position be filled by existing EPCOR employee(s) or is EPCOR's proposal to maintain the existing NRG senior management unchanged in the immediate term?

b) Section 6.1.11 of the Employment Agreements anticipates resolution by or before March 31, 2017. Has EPCOR completed its agreements with existing employees?

c) Will any senior management positons or critical distribution service employees not are renewing employment with EPCOR if this transaction proceeds? If any key positions are to being vacated please explain how EPCOR intends to ensure continuation of safe and reliable service.

<u>**Response:**</u>

(a) EPCOR intends on maintaining existing NRG management unchanged up to and including the general manager level. NRG's current President, Anthony Graat, will not be employed by EPCOR, nor will the two Co-Chairs. After the closing of the proposed sale transaction, the general manager will report to EUI's Senior Vice President, Commercial Services, Steve Stanley who has over ten years of experience running regulated utilities.

NRG's administrative employees who report to the general manager through the operations manager currently receive some oversight from the Vice President Administration of Ayerswood Development Corp. on matters related to finance and accounting, tax, and regulatory. After the closing of the proposed sale transaction, the Vice President Administration of Ayerswood Development Corp. will not be employed or otherwise retained by EPCOR and this oversight and support will be provided by EPCOR affiliates as described in the response to Union Gas-2 a).

(b) Yes, the existing employees of NRG have accepted employment with EPCOR.

(c) All critical management and distribution service employees have accepted employment with EPCOR effective upon completion of the transaction. As described in (a) above the President of NRG, the two Co-Chairs of NRG, and the Vice President-Administration of Ayerswood Development Corp., as per the terms of the Asset Purchase Agreement, are not being employed by EPCOR.

VECC-5

Reference: E1/T1/S4/pg.3

Preamble: EPCOR notes that the Asset Purchase Agreement requires NRG Corp to negotiate in good faith a Gas Purchase Agreement. Also noted is that the determination of the quantity required for system integrity purposes was indeterminate. In past rate cases the cost and quantity of NRG Corp gas purchases has been of interest to parties. The study filed in EB-2016-0236 also contains a number of recommendations for facility projects to alleviate system integrity issues.

a) How does EPCOR intend to minimize the risk of long-term and potentially higher costs gas contracted with NRG Corp and potential future facility projects that reduce (or eliminate) the need for system integrity gas provided by NRG Corp?

b) Has EPCOR approached other local gas suppliers to replace or reduce NRG Corp sourced gas?

c) Is the Asset Purchase Agreement in any way contingent upon purchase of gas from NRG Corp?

<u>Response:</u>

(a) See the response to 1-Staff-4 f).

(b) EPCOR has relied on the findings of the competitive market study completed by Dr. Philip Walsh, P. Geo, of SmithWalsh & Associates as commissioned by NRG and the associated evidence filed by NRG as part of application EB-2016-0236. The study concluded that while sufficient natural gas supply exists within NRG's franchise area from local natural gas producers other than NRG Corp. that could meet NRG's system integrity needs, the supplies are owned by two producers who were not incented to enter into an arrangement to supply natural gas to NRG. Further, the evidence filed by NRG indicated that one of those producers (Tribute Resources) failed to respond when approached by NRG regarding such an arrangement. As such, EPCOR feels it is prudent to preserve the status quo arrangement and enter into the gas purchase agreement with NRG Corp. as EPCOR's interest is in ensuring continuity of supply as required for system integrity.

EPCOR's plans for the longer term supply of natural gas from NRG Corp. are dependent on the outcome of further review of the system to determine the best approach to addressing the system integrity issues. After assuming ownership of the NRG system, EPCOR plans to further review the findings and recommendations from the system integrity study completed by SNC-Lavalin for NRG and, if appropriate, perform additional analysis or studies as required to develop a comprehensive system integrity plan.

(c) Yes. Pursuant to sections 6.1.2(vi) and 6.2.2(v) of the Asset Purchase Agreement, as a condition to closing, NRG and EPCOR must enter into a gas purchase agreement.

VECC-6

Reference: E1/T1/Attachment 4

a) If available, please file EPCOR Utilities Inc. year ending 2016 financial statements.

b) Please file EPCOR Utilities Inc. most recent Annual Report.

<u>Response:</u>

(a) EPCOR Utilities Inc. (EUI) financial statements for the year ending December 31, 2016 are included as Attachment 1.

(b) EUI does not prepare or file a document referred to as an Annual Report. As a reporting issuer under the securities laws of Canada, EUI prepares and files Annual Financial Statements, an Annual Management Discussion and Analysis and an Annual Information Form. The latter two documents for the year ending December 31, 2016 are included as Attachments 2 and 3, respectively.

ATTACHMENT 1 to VECC-6

EUI Financial Statements (year ending December 31, 2016)

Consolidated Financial Statements of

EPCOR UTILITIES INC.

Years ended December 31, 2016 and 2015

Management's responsibility for financial reporting

The preparation and presentation of the accompanying consolidated financial statements of EPCOR Utilities Inc. are the responsibility of management and the consolidated financial statements have been approved by the Board of Directors. In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily requires judgment and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgment where estimates were required, and these consolidated financial statements reflect all information available to March 2, 2017. Financial information presented elsewhere is consistent with that in the consolidated financial statements.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that relevant financial information is reliable, accurate and available on a timely basis. The internal control systems are monitored by management, and evaluated by an internal audit function that regularly reports its findings to management and the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, the Company's external auditors. The external auditors are responsible for auditing the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditors' report outlines the scope of their audit and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, which is composed of independent directors, meets regularly with management, the internal auditors and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and management's discussion and analysis and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee is also responsible for reviewing and recommending the annual appointment of the external auditors and approving the annual external audit plan.

On behalf of management,

Stuart Lee
President and Chief Executive Officer

Guy Bridgeman
Senior Vice President and Chief Financial Officer

March 2, 2017

EPCOR UTILITIES INC.

Consolidated Financial Statements

Years ended December 31, 2016 and 2015

KPMG LLP
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Edmonton AB T5J 0H3
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www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder of EPCOR Utilities Inc.

We have audited the accompanying consolidated financial statements of EPCOR Utilities Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EPCOR Utilities Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
March 2, 2017
Edmonton, Canada

EPCOR UTILITIES INC.

Consolidated Statements of Comprehensive Income
(In millions of Canadian dollars)

Years ended December 31, 2016 and 2015

	2016	2015
Revenues and other income:		
Revenues (note 5)	$ 1,932	$ 1,996
Other income (note 5)	14	22
	1,946	2,018
Operating expenses:		
Energy purchases and system access fees	722	792
Other raw materials and operating charges	201	242
Staff costs and employee benefits expenses (note 6)	275	275
Depreciation and amortization (note 6)	189	178
Franchise fees and property taxes	99	97
Other administrative expenses (note 6)	81	69
	1,567	1,653
Operating income	379	365
Finance expenses (note 7)	(112)	(117)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income on sale of portion of investment (note 11)	42	-
Gains on equity accounted investment in Capital Power L.P. (note 11)	-	60
Impairment of available-for-sale investment in Capital Power (note 11)	-	(60)
Dividend income from available-for-sale investment in Capital Power	9	10
Equity share of income of Capital Power L.P.	-	5
Income before income taxes	318	263
Income tax expense (note 8)	(9)	(3)
Net income for the year – all attributable to the Owner of the Company	309	260
Other comprehensive income (loss):		
Item that will not be reclassified to net income:		
Re-measurements of net defined benefit plans	(1)	2
Items that have been or may subsequently be reclassified to net income:		
Equity share of other comprehensive income of Capital Power L.P.	-	2
Equity share of other comprehensive income of Capital Power L.P. realized in net income[1] (note 11)	-	(9)
Fair value gain (loss) on available-for-sale investment in Capital Power (note 11)	43	(60)
Fair value gain on available-for-sale investment in Capital Power reclassified to net income on sale of portion of investment (note 11)	(42)	-
Impairment of available-for-sale investment in Capital Power reclassified to net income (note 11)	-	60
Unrealized gain (loss) on foreign currency translation	(11)	61
	(10)	54
	(11)	56
Comprehensive income for the year - all attributable to the Owner of the Company	$ 298	$ 316

1 For the years ended December 31, 2016 and 2015, net of reclassification of income tax expense of nil and $2 million, respectively.

The accompanying notes are an integral part of these consolidated financial statements

EPCOR UTILITIES INC.

Consolidated Statements of Financial Position
(In millions of Canadian dollars)

December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents (note 9)	$ 191	$ 36
Trade and other receivables (note 10)	325	620
Available-for-sale investment in Capital Power (note 11)	6	-
Inventories (note 12)	14	15
	536	671
Non-current assets:		
Other financial assets (note 13)	265	317
Deferred tax assets (note 14)	84	77
Available-for-sale investment in Capital Power (note 11)	-	167
Property, plant and equipment (note 15)	4,983	4,568
Intangible assets and goodwill (note 16)	293	288
	5,625	5,417
TOTAL ASSETS	$ 6,161	$ 6,088
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables (note 17)	$ 299	$ 259
Loans and borrowings (note 18)	15	242
Deferred revenue (note 19)	25	32
Provisions (note 20)	25	37
Derivatives (note 21)	-	2
Other liabilities (note 22)	26	27
	390	599
Non-current liabilities:		
Loans and borrowings (note 18)	1,905	1,875
Deferred revenue (note 19)	1,016	959
Deferred tax liabilities (note 14)	46	35
Provisions (note 20)	86	84
Derivatives (note 21)	-	10
Other liabilities (note 22)	46	11
	3,099	2,974
Total liabilities	3,489	3,573
Equity attributable to the Owner of the Company:		
Share capital (note 23)	24	24
Accumulated other comprehensive income (note 24)	86	97
Retained earnings	2,562	2,394
Total equity	2,672	2,515
TOTAL LIABILITIES AND EQUITY	$ 6,161	$ 6,088

Approved on behalf of the Board,

Hugh J. Bolton
Director and Chairman of the Board

Vito Culmone
Director and Chairman of the Audit Committee

EPCOR UTILITIES INC.

Consolidated Statements of Changes in Equity
(In millions of Canadian dollars)

December 31, 2016 and 2015

		Accumulated other comprehensive income (loss)						
	Share capital (note 23)	Cash flow hedges (note 24)	Investment in Capital Power (note 24)	Available-for-sale financial assets (note 24)	Cumulative translation account (note 24)	Employee benefits account (note 24)	Retained earnings	Equity attributable to the Owner of the Company
Equity at December 31, 2014	$ 24	$ (5)	$ 12	$ 1	$ 44	$ (11)	$ 2,275	$ 2,340
Net income for the year	-	-	-	-	-	-	260	260
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	-	2	-	2
Equity share of other comprehensive income of Capital Power L.P.	-	-	2	-	-	-	-	2
Equity share of other comprehensive income of Capital Power L.P. realized in net income	-	5	(14)	-	-	-	-	(9)
Fair value loss on available-for-sale investment in Capital Power	-	-	-	(60)	-	-	-	(60)
Impairment of available-for-sale investment in Capital Power reclassified to net income	-	-	-	60	-	-	-	60
Unrealized gain on foreign currency translation	-	-	-	-	61	-	-	61
Total comprehensive income (loss)	-	5	(12)	-	61	2	260	316
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2015	24	-	-	1	105	(9)	2,394	2,515
Net income for the year	-	-	-	-	-	-	309	309
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	-	(1)	-	(1)
Fair value gain on available-for-sale investment in Capital Power	-	-	-	43	-	-	-	43
Fair value gain on available-for-sale investment in Capital Power reclassified to net income on sale of portion of investment	-	-	-	(42)	-	-	-	(42)
Unrealized loss on foreign currency translation	-	-	-	-	(11)	-	-	(11)
Total comprehensive income (loss)	-	-	-	1	(11)	(1)	309	298
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2016	$ 24	$ -	$ -	$ 2	$ 94	$ (10)	$ 2,562	$ 2,672

The accompanying notes are an integral part of these consolidated financial statements

EPCOR UTILITIES INC.

Consolidated Statements of Cash Flows
(In millions of Canadian dollars)

Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from (used in) operating activities:		
Net income for the year	$ 309	$ 260
Reconciliation of net income for the year to cash from (used in) operating activities:		
Interest paid	(128)	(116)
Finance expenses (note 7)	112	117
Income taxes recovered	1	1
Income tax expense (note 8)	9	3
Depreciation and amortization (note 6)	189	178
Change in employee benefits provisions	(8)	(3)
Contributions received (note 19)	21	30
Deferred revenue recognized (note 19)	(37)	(24)
Fair value change on derivative instruments (note 21)	(2)	(1)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income on sale of portion of investment (note 11)	(42)	-
Gains on equity accounted investment in Capital Power L.P. (note 11)	-	(60)
Impairment of available-for-sale investment in Capital Power (note 11)	-	60
Equity share of income from Capital Power L.P.	-	(5)
Dividend income from available-for-sale investment in Capital Power	(9)	(10)
Other	(3)	5
Funds from operations	412	435
Change in non-cash operating working capital (note 26)	63	(19)
Net cash flows from operating activities	475	416
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and intangible assets[1]	(502)	(463)
Business acquisitions (note 25)	(51)	-
Proceeds on disposal of property, plant and equipment	19	24
Change in non-cash investing working capital (note 26)	5	3
Net payments received (advances) on other financial assets (note 13)	314	(55)
Payment of Gold Bar transfer fees	-	(1)
Net proceeds on sale of a portion of available-for-sale investment in Capital Power	204	-
Net proceeds on sale of a portion of equity accounted investment in Capital Power L.P.	-	216
Distributions received from Capital Power	12	19
Net cash flows from (used) in investing activities	1	(257)
Cash flows from (used in) financing activities:		
Net repayment of short-term loans and borrowings	(98)	(5)
Proceeds from issuance of long-term loans and borrowings	52	-
Repayment of long-term loans and borrowings	(141)	(10)
Provisions	7	(4)
Dividends paid	(141)	(141)
Net cash flows used in financing activities	(321)	(160)
Increase (decrease) in cash and cash equivalents	155	(1)
Cash and cash equivalents, beginning of year	36	37
Cash and cash equivalents, end of year	$ 191	$ 36

1 Interest payment of $5 million (2015 – $6 million) is included in acquisition or construction of property, plant and equipment and intangible assets.

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure, and provides electricity, water and natural gas products and services to residential and commercial customers.

The Company operates in Canada and the United States (U.S.) with its registered head office located at 2000, 10423 - 101 Street NW, Edmonton, Alberta, Canada, T5H 0E8.

The common shares of EPCOR are owned by The City of Edmonton (the City). The Company was established by Edmonton City Council under City Bylaw 11071.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 2, 2017.

(b) Basis of measurement

The Company's consolidated financial statements are prepared on the historical cost basis, except for its beneficial interest in the sinking fund held with the City, available-for-sale investment in Capital Power, derivative financial instruments and contingent consideration, which are measured at fair value.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements unless otherwise indicated.

(a) Basis of consolidation

These consolidated financial statements include the accounts of EPCOR and its wholly owned subsidiaries at December 31, 2016. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from the performance of the entity and has the ability to affect those returns through its control over the entity. Subsidiaries are fully consolidated from the date on which EPCOR obtains control, and continue to be consolidated until the date that such control ceases to exist. All intercompany balances and transactions have been eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. The financial statements of the subsidiaries are prepared for the same reporting period as EPCOR, using consistent accounting policies.

(b) Changes in significant accounting policies

The Company adopted amendments to various accounting standards effective January 1, 2016 and the amendments did not have a significant impact on these consolidated financial statements.

(c) Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The determination of whether or not an acquisition meets the definition of business combination under IFRS requires judgment and is assessed on a case by case basis. The consideration for an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in net income. Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not re-measured and settlement is accounted for within equity. Subsequent changes in the fair value of contingent consideration that is not classified as equity are recognized in net income.

Goodwill is measured as the excess of the fair value of the consideration transferred less the fair value of the identifiable assets acquired and liabilities assumed. Subsequently, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognized.

(d) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company for the provision of goods or services and where the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or to be received, excluding discounts, rebates and sales taxes or duty.

Certain water services contracts contain multiple-deliverables arrangements. Each deliverable that is considered to be a separate unit of account is accounted for individually. Significant judgment is required to determine an appropriate allocation of the total contract value to each unit of account based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered units of account. The primary identifiable deliverables under such contracts are plant construction and project upgrades and expansions, financing or leasing of upgrades, and facilities operations and maintenance.

The Company's principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

Sale of goods

Revenues from sales of electricity and water are recognized upon delivery. These revenues include an estimate of the value of electricity and water consumed by customers and billed subsequent to the reporting period.

Revenues from the sale of other goods are recognized when the products have been delivered and collectability is probable.

Provision of services

Revenues from the provision of electricity distribution and transmission services and wastewater treatment services are recognized over the period in which the service is performed and collectability is reasonably assured. Revenues from the provision of other services are recognized when the services have been rendered and collectability is probable.

Construction contracts

Contract revenue from the construction of water and wastewater treatment plants and other project upgrades and expansions provided to customers is recognized in profit or loss on the percentage of completion basis when the projected final cost of a construction contract can be reliably estimated. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be reliably measured. Percentage of completion is estimated based on an assessment of progress towards the completion of contract tasks. These estimates may result in the recognition of unbilled receivables when the revenues are earned prior to billing customers. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred revenue in the statement of financial position. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Provisions for estimated losses on uncompleted contracts are made for the full amount of the projected loss in the period in which the losses are identified. Revenues and costs related to variations are included in the total estimated contract revenue and expenses when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured.

Revenues earned under finance leases

Finance income earned from arrangements where the Company leases water and wastewater assets to customers are accounted for as finance leases, as described in note 3(h).

Interest income

Revenue from the financing of project upgrades and expansions is recognized over the term of each contract using the effective interest method based on the fair value of the loan calculated at inception for each contract.

Interest income related to the loans receivable from Capital Power are recognized over the terms of the loans based on the interest rate applicable to each loan.

(e) Income taxes

Under the Income Tax Act (Canada) (ITA), a municipally owned corporation is subject to income tax on its taxable income if the income from activities for any relevant period that was earned outside the geographical boundaries of the municipality exceeds 10% of the corporation’s total income for that period. As a result of these and other provisions, certain Canadian subsidiaries of the Company are taxable under the ITA and provincial income tax acts. The U.S. subsidiaries are subject to income taxes pursuant to U.S. federal and state income tax laws.

Current income taxes for the current or prior periods are measured at the amount expected to be recovered from or payable to the taxation authorities based on the tax rates that are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted rates of tax expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the date of enactment or substantive enactment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries are only recognized to the extent that the temporary difference will reverse in the foreseeable future and the Company judges that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill arising from a business combination or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting income.

Current and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

(f) Cash and cash equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Inventories

Small parts and other consumables, the majority of which are consumed by the Company in the provision of its goods and services, are valued at the lower of cost and net realizable value. Cost includes the purchase price, transportation costs and other costs to bring the inventories to their present location and condition. The costs of inventory items that are interchangeable are determined on an average cost basis. For inventory items that are not interchangeable, cost is assigned using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Previous write downs of inventories from cost to net realizable value can be fully or partially reversed if supported by economic circumstances. The Company estimates the value of inventory that is expected to be used in the construction of property, plant and equipment (PP&E) and reports this value as construction work in progress under PP&E.

(h) Lease arrangements

At the inception of an arrangement entered into for the use of an asset, the Company determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of the specific asset and the arrangement conveys a right to use the asset. An arrangement conveys the right to use the asset if the right to control the use of the underlying asset is transferred. Where it is determined that the arrangement contains a lease, the Company classifies the lease as either a finance or operating lease dependent on whether substantially all the risks or rewards of ownership of the asset have been transferred.

Where the Company is the lessor, finance income related to leases or arrangements accounted for as finance leases is recognized in a manner that produces a constant rate of return on the net investment in the lease. The net investment in the lease is the aggregate of net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net income over the lease term.

Where the Company is the lessee, leases or other arrangements that transfer substantially all of the benefits and risks of ownership of property to the Company are classified as finance leases. All other arrangements that are determined to contain a lease are classified as operating leases. Rental payments under arrangements classified as operating leases are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(i) Property, plant and equipment

PP&E are recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Cost includes contracted services, materials, direct labor, directly attributable overhead costs, borrowing costs on qualifying assets and decommissioning costs. Where parts of an item of PP&E have different estimated economic useful lives, they are accounted for as separate items (major components) of PP&E.

The cost of major inspections and maintenance is recognized in the carrying amount of the item if the asset recognition criteria are satisfied. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing are expensed as incurred.

Depreciation of cost less residual value is charged on a straight-line basis over the estimated economic useful lives of items of each depreciable component of PP&E, from the date they are available for use, as this most closely reflects the expected usage of the assets. Land and construction work in progress are not depreciated. Estimating the appropriate economic useful lives of assets requires significant judgment and is generally based on estimates of life characteristics of similar assets. The estimated economic useful lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

The ranges of estimated economic useful lives for PP&E assets used are as follows:

Water and wastewater treatment and distribution	3 – 95 years
Electricity transmission and distribution	3 – 65 years
Retail systems and equipment	3 – 8 years
Corporate information systems and equipment	2 – 15 years
Leasehold improvements	5 – 25 years

Gains and losses on the disposal of PP&E are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

(j) Capitalized borrowing costs

The Company capitalizes interest during construction of a qualifying asset using the weighted average cost of debt incurred on the Company's external borrowings or specific borrowings used to finance qualifying assets. Qualifying assets are considered to be those that take a substantial period of time to construct.

(k) Intangible assets

Intangible assets with finite lives are stated at cost, net of accumulated amortization and impairment losses, if any. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair value.

Customer rights represent the costs to acquire the rights to provide electricity services to particular customer groups for a finite period of time. Other rights represent the costs to acquire the rights, for finite periods of time, to access electricity delivery corridors, to the supply of water, to provide sewage treatment and transportation services, to withdraw groundwater and to the supply of potable water for emergency and peak purposes. Customer and other rights are recorded at cost at the date of acquisition. A subsequent expenditure is capitalized only when it increases the future economic benefit in the specific asset to which it relates.

The cost of intangible software includes the cost of license acquisitions, contracted services, materials, direct labor, along with directly attributable overhead costs and borrowing costs on qualifying assets.

Amortization of the cost of finite life intangible assets is recognized on a straight-line basis over the estimated economic useful lives of the assets, from the date they are available for use, as this most closely reflects the expected usage of the asset. Work in progress is not amortized. The estimated economic useful lives and methods of amortization are reviewed annually with any changes adopted on a prospective basis.

The estimated economic useful lives for intangible assets with finite lives are as follows:

Customer rights	20 years
Software	2 – 20 years
Other rights	12 – 50 years
Water rights	100 years

Certificates of convenience and necessity (CCN) represent the costs to acquire the exclusive rights for the Company to serve within its specified geographic areas in the U.S. for an indefinite period of time. CCN are not amortized but are subject to review for impairment at the end of each reporting period.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

(l) Service concession arrangements

Service concession arrangements are contracts between the Company and government entities and can involve the design, build, finance, operation and maintenance of public infrastructure in which the government entity controls (i) the services provided by the Company and (ii) significant residual interest in the infrastructure. Service concession arrangements are classified in one of the following categories:

(i) financial asset
The Company recognizes a financial asset arising from service concession arrangement when it has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement. The financial asset is measured at the fair value of consideration received or receivable. When the Company delivers more than one category of activities in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair value of the activity, when amounts are separately identifiable.

(ii) intangible asset
The Company recognizes an intangible asset arising from service concession arrangement when it has a right to charge for usage of the public infrastructure. The intangible asset, recognized as consideration for providing construction or upgrade services under a service concession arrangement, is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortization and impairment losses, if any.

Revenue under the service concession arrangements is recognized as per the revenue recognition policy of the Company described in note 3(d) by reference to each activity when the amount of revenue is separately identifiable.

The accounting for investment in contracts with government entities requires the application of judgment in determining if they fall within the scope of IFRIC 12 – Service Concession Arrangements (IFRIC 12). Additional judgment also needs to be exercised when determining, among other things, the classification to be applied to the service concession asset (i.e. financial asset or intangible asset), allocation of consideration between revenue generating activities, classification of cost incurred on such concessions and the effective interest rate to be applied to the service concession asset. Contracts falling under IFRIC 12 require use of estimates over the term of the arrangement, and therefore any change in the long term estimates could result in significant variation in the amounts recognized under service concession arrangements.

(m) Deferred revenue

Certain assets may be acquired or constructed using non-repayable government grants or contributions from developers or customers. Non-refundable contributions received towards construction or acquisition of an item of PP&E which are used to provide ongoing service to a customer are recorded as deferred revenue and are amortized on a straight line basis over the estimated economic useful lives of the assets to which they relate.

(n) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as a financing expense over the estimated time period until settlement of the obligation. Significant judgment is required to determine whether a past event results in a liability that is recognized in the statement of financial position. In addition, quantifying such provision also involves a certain amount of estimation in respect of the amount and timing of outflows of economic benefits and therefore it is possible that the assumptions used in measuring the provision may differ from future outcomes and the impact of such variations could be material.

The Company recognizes a decommissioning provision in the period in which a legal or constructive obligation is incurred. A corresponding asset for the decommissioning cost is added to the carrying amount of the associated PP&E, and is depreciated over the estimated useful life of the asset.

The Company may receive contributions from customers, homebuilders, real estate developers, and others to fund construction necessary to extend service to new areas. Certain of these contributions may be refunded over a limited period of time as new customers begin to receive service or other contractual obligations are fulfilled. The portion of contributions which are estimated to be refunded in the future are recorded as provisions. The remaining contributions are classified as deferred revenue.

(o) Employee benefits

The employees of the Company are either members of the Local Authorities Pension Plan (LAPP) or other defined benefit or defined contribution pension plans.

The LAPP is a multi-employer defined benefit pension plan. The trustee of the plan is the Alberta President of Treasury Board and Minister of Finance and the plan is administered by a Board of Trustees. The Company and its employees make contributions to the plan at rates prescribed by the Board of Trustees to cover costs and an unfunded liability under the plan. The rates are based on a percentage of the pensionable salary. The most recent actuarial report of the plan discloses an unfunded liability. It is accounted for as a defined contribution plan as the LAPP is not able to provide information which reflects EPCOR's specific share of the defined benefit obligation or plan assets that would enable the Company to account for the plan as a defined benefit plan. Accordingly, the Company does not recognize its share of any plan surplus or deficit.

The Company maintains additional defined contribution and defined benefit pension plans to provide pension benefits to certain management employees and employees who are not otherwise served by the LAPP, including employees of new or acquired operations. Employees not otherwise served by LAPP comprise less than 17% of total employees (2015 – 17%).

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability for short-term employee benefits is recognized for the amount expected to be paid if the Company has a legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company recognizes the contribution payable to a defined contribution plan as an expense and a liability in the period during which the service is rendered.

(p) Derivative financial instruments

The Company uses various risk management techniques to reduce its exposure to movements in electricity prices, interest rates and foreign currency exchange rates. These include the use of derivative financial instruments such as forward contracts or contracts-for-differences and interest rate swaps. Such instruments may be used to establish a fixed price for electricity, fixed interest rates for borrowings or anticipated transactions denominated in a foreign currency. Embedded derivatives are separated from the host contract and accounted for as a derivative if certain criteria are met.

The Company sells electricity to customers under a Regulated Rate Tariff (RRT). As part of the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by a regulatory approved Energy Price Setting Plan (EPSP). Under the EPSP, the Company manages its exposure to fluctuating wholesale electricity spot prices and consumption volume by entering into financial electricity purchase contracts up to 120 days in advance of the month of consumption in order to economically hedge the price of electricity under a well-defined risk management process set out in the EPSP. Under these instruments, the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the Alberta Electric System Operator (AESO) market price and the fixed contract price for a specified volume of electricity for the forward months, all in accordance with the EPSP. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

Interest rates swaps are used by the Company to manage interest rate risks associated with long-term loans and borrowings and result in securing fixed interest rates over the term of the loans and borrowings against the floating interest rate.

Foreign exchange forward contracts may be used by the Company to manage foreign exchange exposures, consisting mainly of U.S. dollar exposures, resulting from anticipated transactions denominated in foreign currencies.

All derivative financial instruments are recorded at fair value as derivative assets or derivative liabilities on the statement of financial position, to the extent they have not been settled, with all changes in the fair value of derivatives recorded in net income. At initial recognition, transaction costs attributable to the derivative financial instruments are recognized in net income.

The fair value of derivative financial instruments reflects changes in the electricity prices, interest rates and foreign exchange rates. Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as forward prices, interest rates, foreign exchange rates and discount rates for time value. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

(q) Non-derivative financial instruments

Financial assets are identified and classified as one of the following: measured at fair value through profit or loss, loans and receivables, or available-for-sale financial assets. Financial assets are measured at fair value through profit or loss if classified as held for trading or designated as such upon initial recognition. Financial liabilities are classified as measured at fair value through profit or loss or as other financial liabilities.

Financial assets and financial liabilities are presented on a net basis when the Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial instruments at fair value through profit or loss

The Company may designate financial instruments as measured at fair value through profit or loss when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on them on a different basis.

Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Changes in fair value of financial instruments measured at fair value through profit or loss are recognized in net income.

Loans and receivables

Cash and cash equivalents, trade and other receivables, and other financial assets are classified as loans and receivables.

The Company's loans and receivables are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost using the effective interest method less any impairment as described in note 3(r). The effective interest method calculates the amortized cost of a financial asset or liability and allocates the finance income or expense over the term of the financial asset or liability using an effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period when appropriate, to the net carrying amount of the financial asset or financial liability.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in other categories. These assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value with unrealized gains and losses, other than impairment losses, recognized in other comprehensive income and presented within equity in the fair value reserve. On derecognition of an available-for-sale financial asset, the cumulative gain or loss that was previously held in equity is transferred to net income.

The Company's beneficial interest in the sinking fund with the City and available-for-sale investment in Capital Power do not meet the criteria for classification in any of the previous categories and are classified as available-for-sale financial assets and measured at fair value with changes in fair value reported in other comprehensive income until it is disposed of or becomes impaired, as described in note 3(r).

Other financial liabilities

The Company’s trade and other payables, debentures and borrowings, contributions from customers and developers and other liabilities are classified as other financial liabilities and recognized on the date at which the Company becomes a party to the contractual arrangement. Other financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

Other financial liabilities are initially recognized at fair value including debenture discounts and premiums, plus directly attributable transaction costs, such as issue expenses, if any. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

(r) Impairment of financial assets

The Company's financial assets held as loans and receivables or available-for-sale assets are assessed for indicators of impairment at each reporting date. An impairment loss for financial assets is recorded when it is identified that there is objective evidence that one or more events has occurred, after the initial recognition of the asset, that has had a negative impact on the estimated future cash flows of the asset and that can be reliably estimated. The objective evidence for these types of assets is as follows:

(i) For listed and unlisted investments in equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment. Impairment losses recognized are not reversed in subsequent periods.

(ii) For all other financial assets, including finance lease receivables, objective evidence of impairment includes significant financial difficulty of the counterparty or default or delinquency in interest or principal payments.

(iii) Trade receivables and other assets that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the Company's past experience of collecting payments as well as observable changes in national or local economic conditions.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted within net income.

(s) Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Non-financial assets include PP&E, intangible assets and goodwill. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a fundamental change, since the date of impairment, which may improve the financial performance of the non-financial asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(t) Foreign currency transactions and translation

Foreign currency transactions

Transactions denominated in currencies other than the Canadian dollar are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the end of the reporting period. Other non-monetary assets and liabilities are not retranslated unless they are carried at fair value. The resulting foreign exchange gains and losses are included in net income.

Foreign operations translation

On consolidation, the assets and liabilities of foreign operations that have a functional currency other than Canadian dollars are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period. Revenues and expenses are translated at the average monthly exchange rates prevailing during the period. The resulting translation gains and losses are deferred and included in the cumulative translation account in accumulated other comprehensive income. The functional currency of the Company's U.S. operations is the U.S. dollar.

(u) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Transactions between segments are made under terms that approximate market value. The accounting policies of the segments are the same as those described in note 3 and other relevant notes and are measured in a manner consistent with that of the consolidated financial statements. The results for all operating segments, for which discrete financial information is available, are reviewed regularly by the Company's management to assess its performance and make decisions about resources to be allocated to the segment.

Segment results that are reported to management include items directly attributable to the segment as well as those that can be allocated on a reasonable and consistent basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire or construct PP&E and intangible assets other than goodwill.

The Company uses significant judgment in identification and aggregation of business segments. In particular, the Canadian and U.S. water operating segments are aggregated as one reportable segment since both operating segments offer similar water and wastewater services, the processes to treat water and wastewater are similar in both operating segments, the customer bases for each operating segment are similar, and both segments operate under similar rate-regulations.

(v) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committee the application of which is effective for periods beginning on or after January 1, 2017. 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. The extent of the impact of adoption of the standards has not yet been determined.

IFRS 9 – Financial Instruments (IFRS 9), which replaces IAS 39 – Financial Instruments: Recognition and Measurement, eliminates the existing classification of financial assets and requires financial assets to be measured based on the business model in which they are held and the characteristics of their contractual cash flows. Gains and losses on re-measurement of financial assets at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. Changes in fair value attributable to changes in credit risk of financial liabilities measured under the fair value option will be recognized in other comprehensive income with the remainder of the change recognized in profit or loss unless an accounting mismatch in profit or loss occurs at which time the entire change in fair value will be recognized in profit or loss. Derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument must be measured at fair value. The impairment model has also been amended by introducing a new 'expected credit loss' model for calculating impairment, and new general hedge accounting requirements. The effective date for implementation of IFRS 9 has been set for annual periods beginning on or after January 1, 2018.

IFRS 15 - Revenue from Contracts with Customers (IFRS 15), which replaces IAS 11 - Construction Contracts and IAS 18 - Revenue and related interpretations, is effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and / or timing of revenue recognized. The requirements of the standard also apply to the recognition and measurement of gains and losses on sale of some non-financial assets that are not part of the entity's ordinary activities.

IFRS 16 – Leases (IFRS 16), which replaces IAS 17 – Leases (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases in IAS 17 into a single lessee model. Under the new single lessee model, a lessee will recognize lease 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. Leases for duration of twelve months or less and leases of low value assets are exempted from recognition on the statement of financial position. 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.

4. Use of judgments and estimates

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments in the application of accounting policies, and estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

(a) Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in notes:

Note 3(c) – Business acquisitions
Note 3(d) – Revenue recognition
Note 3(l) – Service concession arrangements
Note 3(n) – Provisions
Note 3(u) – Segment reporting

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

(b) Estimates

The Company reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgment in making these estimates and assumptions. Adjustments to previous estimates, which may be material, are recorded in the period in which they become known. Actual results may differ from these estimates.

Assumptions and uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include:

Revenues

By regulation, electricity wire service providers in Alberta have four months to submit the final electricity load settlement data after the month in which such electricity was consumed. The data and associated processes and systems used by the Company to estimate electricity revenues and costs, including unbilled consumption, are complex. The Company's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents.

Fair value measurement

For accounting measures such as determining asset impairments, purchase price allocations for business combinations, recording financial assets and liabilities, and the recording and disclosure of certain non-financial assets, the Company is required to estimate the fair value of certain assets or obligations. Estimates of fair value may be based on readily determinable market values or on depreciable replacement cost or discounted cash flow techniques employing estimated future cash flows based on a number of assumptions and using an appropriate discount rate. Financial instruments, other than those classified as loans and receivables and other financial liabilities, are recorded at fair value which may require the use of estimated future prices.

Deferred taxes

Significant estimation and judgment is required in determining the provision for income taxes. Recognition of deferred tax assets in respect of deductible temporary differences and unused tax losses and credits is based on management's estimation of future taxable profit against which the deductible temporary differences and unused tax losses and credits can be utilized. The actual utilization of these deductible temporary differences and unused tax losses and credits may vary materially from the amounts estimated.

5. Revenues and other income

	2016	2015
Revenue		
Energy and water sales	$ 1,268	$ 1,314
Provision of services	600	566
Construction revenues	50	102
Finance lease income	14	14
	1,932	1,996
Other income		
Interest income on long-term receivable from Capital Power	14	21
Other	-	1
	14	22
	$ 1,946	$ 2,018

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

6. Expense analysis

		2016		2015
Included in staff costs and employee benefits expenses				
Post-employment defined contribution plan expense	$	36	$	36
Post-employment defined benefit plan expense		6		5
Included in depreciation and amortization				
Depreciation of property, plant and equipment		168		152
Amortization of intangible assets		19		18
Loss on disposal of assets		2		8
		189		178
Included in other administrative expenses				
Operating lease expenses		16		15
Lease recoveries through sub-lease		(6)		(5)

7. Finance expenses

		2016		2015
Interest on loans and borrowings	$	(117)	$	(123)
Capitalized interest (note 15)		5		6
	$	(112)	$	(117)

8. Income tax expense

		2016		2015
Current income tax recovery (expense)	$	(4)	$	1
Deferred income tax recovery (expense)				
Relating to origination and reversal of temporary differences		(11)		(25)
Change in tax rates		-		13
Recognition of previously unrecognized deferred tax assets		6		8
		(5)		(4)
Total income tax expense	$	(9)	$	(3)

Income taxes differ from the amounts that would be computed by applying the federal and provincial income tax rates as follows:

		2016		2015
Income before taxation	$	318	$	263
Income tax at the statutory rate of 27% (2015 – 26%)		(86)		(68)
(Increase) decrease resulting from:				
Income exempt from income taxes at statutory rates		59		53
Non-taxable amounts		2		2
Change in recognition of deferred tax assets		18		(1)
Change in tax rates on deferred taxes		-		13
Effect of higher tax rate in the U.S.		(3)		(1)
Other		1		(1)
Total income tax expense	$	(9)	$	(3)

During the year ended December 31, 2015, the Government of Alberta increased the provincial corporate tax rate from 10% to 12% effective July 1, 2015. Accordingly, the change in provincial corporate tax rate increased the Company's tax rate for the year ended December 31, 2015, to 26% and for the years 2016 onward to 27%.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

9. Cash and cash equivalents

		2016		2015
Cash on deposit	$	137	$	36
Cash equivalents		54		-
	$	191	$	36

Restricted balances

Under certain agreements between the Company and the Natural Gas Exchange (NGX) for the purchase of electricity derivative financial instruments, the Company established separate bank accounts through which the settlement of the electricity derivative financial contracts are processed in conjunction with letters of credit and cash as collateral. As security for the payment and performance of its obligations, the Company assigned a first ranking security interest on the balance of these accounts to the NGX. The Company's use of this cash is restricted to these purposes. At December 31, 2016, $2 million (2015 – $3 million) was held in these bank accounts.

10. Trade and other receivables

		2016		2015
Trade receivables	$	179	$	216
Accrued revenues		125		120
Gross accounts receivable		304		336
Allowance for doubtful accounts		(5)		(3)
Net accounts receivable		299		333
Income tax recoverable		2		2
Prepaid expenses		6		5
		307		340
Current portion of long-term receivables (note 13)		18		280
	$	325	$	620

Details of the aging of accounts receivable and analysis of the changes in the allowance for doubtful accounts are provided in note 29.

11. Investment in Capital Power

In these consolidated financial statements, Capital Power refers to Capital Power Corporation and its subsidiaries, including Capital Power L.P., except where otherwise noted or the context indicates otherwise. Capital Power builds, owns and operates power plants in North America and manages its related electricity and natural gas portfolios by undertaking trading and marketing activity.

At December 31, 2015 the Company owned 9,391,000 common shares of Capital Power Corporation representing approximately 9% of the issued and outstanding common shares of Capital Power Corporation. During the year ended December 31, 2016, the Company sold 9,141,636 common shares of Capital Power Corporation for net proceeds of $204 million. The Company also reclassified fair value gains of $42 million to net income, representing the realized portion of fair value gains on available-for-sale investment in Capital Power Corporation previously recognized in other comprehensive income. At December 31, 2016, the Company owned 249,364 common shares of Capital Power Corporation.

In January 2017 the Company sold the remaining 249,364 common shares of Capital Power Corporation for net proceeds of $6 million.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The change in available-for-sale investment in Capital Power is detailed as follows:

	2016	2015
Balance, beginning of the year	$ 167	$ -
Transfer on reclassification from investment in Capital Power L.P.	-	197
Net gain on initial recognition as available-for-sale asset	-	30
Fair value gain (loss) recorded in other comprehensive income	43	(60)
Sale of portion of investment	(204)	-
Balance, end of year	$ 6	$ 167

The common shares of Capital Power Corporation are listed on the Toronto Stock Exchange under the symbol CPX. At December 31, 2016, the quoted market price of the common shares of Capital Power Corporation was $23.23 per share (2015 – $17.77 per share).

Prior to April 2, 2015, the Company owned 18,841,000 equity accounted limited partnership units of Capital Power L.P. which were exchanged on April 2, 2015 for an equal number of common shares of Capital Power Corporation. On the same date, the Company sold 9,450,000 shares and reclassified the remaining 9,391,000 shares as an available-for-sale investment. Details of gains on equity accounted investment in Capital Power L.P. realized in net income during the year ended December 31, 2015 are as follows:

	2015
Gain on sale of a portion of investment	$ 24
Gain on reclassification of investment as available-for-sale asset	36
	$ 60

Details of equity share of other comprehensive income of Capital Power L.P., reclassified in net income during the year ended December 31, 2015 are as follows:

	2015
Amount realized on sale of portion of investment[1]	$ (4)
Amount realized on reclassification of investment as available-for-sale asset[2]	(5)
	$ (9)

1 Net of reclassification of income tax expense of $1 million.
2 Net of reclassification of income tax expense of $1 million.

Subsequent to reclassification of the investment as available-for-sale, the Company determined that the fair value of the investment in Capital Power Corporation had declined significantly since it was initially reclassified as an available-for-sale asset. Accordingly, it was concluded that the available-for-sale investment in Capital Power was impaired and as a result, the Company recognized an impairment and reclassified the accumulated loss of $60 million before tax from other comprehensive income to net income during the year ended December 31, 2015.

12. Inventories

During the year ended December 31, 2016, $25 million (2015 – $23 million) was expensed to other raw materials and operating charges.

No significant inventory write-downs were recognized in the years ended December 31, 2016 or 2015. No significant reversals of previous write-downs were recorded in the years ended December 31, 2016 or 2015.

At December 31, 2016 or 2015, no inventories were pledged as security for liabilities.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

13. Other financial assets

	2016	2015
Long-term loans receivable from Capital Power	$ 184	$ 323
Long-term receivables from service concession arrangements	82	135
Finance lease receivables	1	104
Loans and other long-term receivables	15	34
Other	1	1
	283	597
Less: current portion (included in trade and other receivables) (note 10)	18	280
	$ 265	$ 317

Long-term loans receivable from Capital Power

On July 9, 2009, EPCOR received $896 million in long-term loans receivable from Capital Power as part of the consideration on the sale of the power generation business. These loans effectively mirror certain long-term debt obligations of EPCOR. The interest rates on the long-term loans receivable range from 5.8% to 9.0%.

Service concession arrangements

The Company has executed service concession arrangements to design, build, upgrade, finance, operate and maintain, under public private partnerships, wastewater treatment facilities with the City of Regina and water and wastewater treatment facilities with Her Majesty the Queen in Right of Alberta for Kananaskis Village. The consideration under the service concession arrangements constitute rights to financial assets and have been classified as financial assets and recorded as a long-term receivable under other financial assets. The significant terms of the arrangement are summarized below:

(a) **City of Regina**

In July 2014, EPCOR entered into an agreement with the City of Regina to operate and maintain an existing facility and design, build, finance, operate and maintain a new wastewater treatment facility under a public private partnership, for which the contract was signed in July 2014. In August 2014, EPCOR took over the operations of the existing wastewater treatment plant in Regina. Construction of the new plant reached substantial completion in December 2016 with the 30 day performance test to be completed in early 2017. The contract includes operation of both facilities for a term of 30 years. Contracted undiscounted cash flows from this project are estimated to be $444 million. As of December 31, 2016, an amount of $76 million (2015 – $129 million) has been recorded as a financial asset which will be recovered along with financing cost at the interest rate established in the arrangement over the life of the arrangement.

(b) **Kananaskis Village**

The Company won a bid to design, build, finance, upgrade, operate and maintain the water and wastewater treatment facilities in Kananaskis Village in October 2012. The arrangement includes operation of the facilities for a term of 10 years after completion of construction. The construction of the new facility was completed in August 2014 following which the Company started operating and maintaining the facility. At December 31, 2016, an amount of $5 million (2015 – $6 million) recognized as a financial asset pertaining to Kananaskis Village will be recovered along with financing cost at the interest rate established in the arrangement over the life of the arrangement.

The aggregate amount of revenues and operating income relating to construction services for financial assets under service concession arrangements for the year ended December 31, 2016, is $31 million (2015 – $89 million) and nil (2015 – $2 million), respectively.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Finance lease receivables

Approximate future payments to the Company are as follows:

	Minimum lease receivable 2016	Minimum lease receivable 2015	Present value of minimum lease receivable 2016	Present value of minimum lease receivable 2015
Within one year	$ -	$ 110	$ -	$ 103
After one year but not more than five years	1	-	1	-
More than five years	-	1	-	1
Less: unearned finance income	-	(7)	-	-
	$ 1	$ 104	$ 1	$ 104

In 2009, the Company acquired potable water and wastewater treatment plant assets for approximately $100 million and agreed to lease the assets back to Suncor for a 20-year term after which Suncor had the option to purchase the assets from the Company for a specified price. As part of the arrangement, the Company also agreed to construct additional water and wastewater treatment plant assets for Suncor and to operate and maintain the original assets acquired and leased back to Suncor and the additional constructed assets over the 20-year lease term.

In February 2015, Suncor gave notice to the Company that it would exercise its contractual rights to buy back the leased assets and terminate the related financing and operating agreements. In accordance with the terms of the notice, the transfer of assets and operations back to Suncor was completed by August 2016.

14. Deferred tax assets / liabilities

Deferred tax assets are attributable to the following:

	2016	2015
Losses carried forward	$ 83	$ 78
Investment in partnerships	6	5
Canadian resource expenditures	8	8
Provisions	8	8
Deferred revenue	108	106
Other items	16	-
Tax assets	229	205
Set off by tax liabilities	(145)	(128)
Net tax assets	$ 84	$ 77

Deferred tax liabilities are attributable to the following:

	2016	2015
Other financial assets	$ 1	$ 3
Intangible assets and goodwill	18	17
Property, plant and equipment	172	142
Other items	-	1
Tax liabilities	191	163
Set off by tax assets	(145)	(128)
Net tax liabilities	$ 46	$ 35

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The changes in temporary differences during the years ended December 31, 2016 and 2015 were as follows:

	Balance, beginning of 2016	Recognized in net income	Recognized on business acquisitions	Foreign currency valuation adjustment and other	Balance, end of 2016
Losses carried forward	$ 78	$ 5	$ -	$ -	$ 83
Investment in partnerships	5	1	-	-	6
Canadian resource expenditures	8	-	-	-	8
Provisions	8	-	-	-	8
Deferred revenue	106	4	1	(3)	108
Other financial assets	(3)	2	-	-	(1)
Intangible assets and goodwill	(17)	(4)	3	-	(18)
Property, plant and equipment	(142)	(11)	(22)	3	(172)
Other items	(1)	(2)	18	1	16
	$ 42	$ (5)	$ -	$ 1	$ 38

	Balance, beginning of 2015	Recognized in net income	Recognized in other comprehensive income, net of re-classes to net income	Foreign currency valuation adjustment and other	Balance, end of 2015
Losses carried forward	$ 78	$ (2)	$ -	$ 2	$ 78
Investment in partnerships	(4)	7	2	-	5
Canadian resource expenditures	7	1	-	-	8
Provisions	-	1	-	7	8
Deferred revenue	78	12	-	16	106
Other financial assets	-	-	-	(3)	(3)
Intangible assets and goodwill	(11)	(3)	-	(3)	(17)
Property, plant and equipment	(103)	(18)	-	(21)	(142)
Other items	5	(2)	-	(4)	(1)
	$ 50	$ (4)	$ 2	$ (6)	$ 42

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	2016	2015
Non-capital losses	$ 106	$ 125
Capital losses	280	265
Other deductible temporary differences	46	115

The Company also has taxable temporary differences of $174 million (2015 - $155 million), associated with investments in subsidiaries, for which no deferred tax liability has been recognized. In addition, no deferred tax liability has been recognized in respect of unremitted earnings of subsidiaries as the Company is in a position to control the timing of the reversal of temporary difference and it is probable that such differences will not be reversed in the foreseeable future.

The non-capital losses expire between the years 2028 and 2036.

Deferred tax assets have been recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. The Company has recognized deferred tax assets in the amount of $84 million (2015 – $77 million), the utilization of which is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The recognition of these deferred tax assets is based on taxable income forecasts that incorporate existing circumstances that will result in positive taxable income against which non-capital loss carry-forwards can be utilized as well as management's intention to implement specific income tax planning strategies that will allow for the offset of remaining deductible temporary differences against future earnings of taxable entities within the consolidated group.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

15. Property, plant and equipment

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2016	$ 139	$ 55	$ 3,456	$ 2,235	$ 3	$ 55	$5,943
Additions[1]	472	1	74	3	-	4	554
Additions through business acquisitions	-	-	71	-	-	-	71
Disposals and retirements	-	(8)	(14)	(22)	(1)	(4)	(49)
Transfers into service	(453)	-	202	249	-	2	-
Transfers	-	-	-	1	-	-	1
Foreign currency valuation adjustments	(1)	-	(24)	-	-	-	(25)
Balance, end of 2016	157	48	3,765	2,466	2	57	6,495
Accumulated depreciation							
Balance, beginning of 2016	-	-	770	580	2	23	1,375
Depreciation	-	-	92	70	-	6	168
Disposals and retirements	-	-	(10)	(13)	(1)	(4)	(28)
Foreign currency valuation adjustments	-	-	(3)	-	-	-	(3)
Balance, end of 2016	-	-	849	637	1	25	1,512
Net book value, end of 2016	$ 157	$ 48	$ 2,916	$ 1,829	$ 1	$ 32	$4,983

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2015	$ 146	$ 55	$ 3,064	$ 2,023	$ 3	$ 82	$5,373
Additions[1]	439	-	52	7	-	4	502
Disposals and retirements	-	(1)	(14)	(14)	-	(32)	(61)
Disposals through divesture[2]	(6)	-	(20)	-	-	-	(26)
Transfers into service	(447)	-	229	217	-	1	-
Transfers	-	-	-	2	-	-	2
Foreign currency valuation adjustments	7	1	145	-	-	-	153
Balance, end of 2015	139	55	3,456	2,235	3	55	5,943
Accumulated depreciation							
Balance, beginning of 2015	-	-	686	526	1	48	1,261
Depreciation	-	-	82	62	1	7	152
Disposals and retirements	-	-	(10)	(8)	-	(32)	(50)
Disposals through divesture[2]	-	-	(7)	-	-	-	(7)
Foreign currency valuation adjustments	-	-	19	-	-	-	19
Balance, end of 2015	-	-	770	580	2	23	1,375
Net book value, end of 2015	$ 139	$ 55	$ 2,686	$ 1,655	$ 1	$ 32	$4,568

1 Additions include non-cash contributed assets of $65 million (2015 – $62 million).

2 As per the terms of an agreement with the City of White Rock, the Company sold the White Rock utility operations to the City of White Rock.

Borrowing costs capitalized during the year ended December 31, 2016, were $5 million (2015 – $6 million) (note 7). The weighted average rates used to determine the borrowing costs eligible for capitalization ranged from 4.21% to 5.84% (2015 – 3.91% to 5.78%).

There are no security charges over the Company's property, plant and equipment.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

16. Intangible assets and goodwill

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2016	$ 50	$ 51	$ 66	$ 92	$ 167	$ 426
Additions through acquisition	-	-	-	-	6	6
Additions through business acquisitions	3	-	13	-	-	16
Internally generated additions	-	-	-	-	1	1
Disposals and retirements	-	-	-	-	(6)	(6)
Change in construction work in progress	-	-	-	-	7	7
Transfers	-	-	-	-	(1)	(1)
Foreign currency translation adjustments	(1)	-	(1)	(3)	-	(5)
Balance, end of 2016	52	51	78	89	174	444
Accumulated amortization						
Balance, beginning of 2016	-	38	6	-	94	138
Amortization	-	3	2	-	14	19
Disposals and retirements	-	-	-	-	(6)	(6)
Balance, end of 2016	-	41	8	-	102	151
Net book value, end of 2016	$ 52	$ 10	$ 70	$ 89	$ 72	$ 293

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2015	$ 42	$ 51	$ 54	$ 75	$ 183	$ 405
Additions through acquisition	-	-	7	3	25	35
Internally generated additions	-	-	-	-	1	1
Disposals and retirements	-	-	-	-	(34)	(34)
Change in construction work in progress	-	-	(3)	-	(6)	(9)
Transfers	-	-	-	-	(2)	(2)
Foreign currency translation adjustments	8	-	8	14	-	30
Balance, end of 2015	50	51	66	92	167	426
Accumulated amortization						
Balance, beginning of 2015	-	36	4	-	111	151
Amortization	-	2	1	-	15	18
Disposals and retirements	-	-	-	-	(32)	(32)
Foreign currency translation adjustments	-	-	1	-	-	1
Balance, end of 2015	-	38	6	-	94	138
Net book value, end of 2015	$ 50	$ 13	$ 60	$ 92	$ 73	$ 288

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

There are no security charges over the Company's intangible assets. Included in customer rights are the Company's customer rights to operate in the FortisAlberta service territory which expire on December 31, 2020.

For purposes of impairment testing, CCN has been allocated to cash-generating units as follows:

	2016	2015
Cash generating unit:		
Water segment – Water Arizona	$ 86	$ 88
Water segment – Others	3	4
	$ 89	$ 92

For purposes of impairment testing, goodwill acquired through business combinations has been allocated to cash-generating units as follows:

	2016	2015
Cash generating unit:		
Water segment – Chaparral	$ 12	$ 12
Water segment – Water Arizona	31	31
Water segment – Others	9	7
	$ 52	$ 50

The most recent reviews of goodwill were performed in the fourth quarter for each cash generating unit. Management reviewed conditions since the last review was performed and determined that no circumstances occurred since then to require a revision to the assumptions used in the value in use calculations.

The recoverable amount of the regulated cash generating units was determined based on a value in use calculation using cash flow projections from financial budgets prepared by senior management covering a twenty year period. The recoverable amount for the non-regulated cash generating unit was calculated using the projected cash flows for the life of the project. The projections were based on cash flow projections for the most recent long-term plan, which covered periods up to five years, with the projections for the balance of the period extrapolated using growth rates between 1.90% and 4.43% (2015 – between 1.80% and 2.63%) that are in line with the long-term average growth rate for the industry. The pre-tax discount rates applied to cash flow projections are as follows:

	2016	2015
Cash generating unit:		
Water segment – Chaparral	8.96%	8.46%
Water segment – Water Arizona	6.39%	6.23%
Water segment – Others	7.06%	6.34%

Key assumptions used in value-in-use calculations

The future cash flows of the underlying businesses are relatively stable since they relate primarily to ongoing water supply in a rate-regulated environment. In the case of cash generating units operating under a rate-regulated environment, revenues are set by the regulators to cover operating costs and to earn a return on the rate base, which is set at the regulator's approved weighted average cost of capital for the underlying utility. For non-regulated cash generating units, revenues are estimated based on long-term water supply contracts executed with the customers, which include escalation in rates and volumes over the term of the contracts.

The calculation of value in use for the cash generating units is most sensitive to the following assumptions:

Discount rates

The discount rates used were estimated based on the weighted average cost of capital for the cash generating unit, which, in the case of rate-regulated businesses, are the approved rate of return on capital allowed by the regulators. These rates were further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash flows have not been adjusted.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Timing of future rate increases

Revenue growth is forecast to continue at the same rate as operating costs. In the case of rate-regulated businesses, if future rate filings are delayed then rate increases and increased cash flows from revenues would be affected.

Sensitivity to changes in assumptions

Assumptions have been tested using reasonably possible alternative scenarios. For all scenarios considered, the recoverable value remained above the carrying amount of the cash generating unit.

17. Trade and other payables

		2016		2015
Trade payables	$	186	$	160
Accrued liabilities		65		54
Accrued interest		24		27
Due to related parties		6		6
Due to employees		13		12
Income tax payable		5		-
	$	299	$	259

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

18. Loans and borrowings

	Effective interest rate	2016	2015
Long-term loans and borrowings			
Obligation to the City, net of sinking fund			
Due in 1-5 years at 8.50% (2015 – 8.50%)	11.04%	$ 13	$ 19
Due in 6-10 years at 7.01% (2015 – 7.01%)	7.01%	14	16
Due in 16-25 years at 5.20% (2015 – 5.20%)	5.36%	64	70
		91	105
Public debentures			
At 6.75%, due in 2016	6.94%	-	130
At 5.80%, due in 2018	6.02%	400	400
At 6.80%, due in 2029	7.05%	150	150
At 5.65%, due in 2035	5.88%	200	200
At 6.65%, due in 2038	6.83%	200	200
At 5.75%, due in 2039	5.88%	200	200
At 4.55%, due in 2042	4.65%	300	300
		1,450	1,580
Private debt notes			
Bonds at 3.74%, due in 2021	3.80%	185	191
Bonds at 5.00%, due in 2041	5.08%	150	155
Bonds at 3.94% due in 2029	4.01%	1	-
Bonds at 3.63% due in 2041	3.70%	54	-
		390	346
		1,931	2,031
Other borrowings			
Deferred debt issue costs		(11)	(12)
Total long-term loans and borrowings		1,920	2,019
Short-term loans – commercial paper		-	98
Total Loans and borrowings		1,920	2,117
Less: current portion		15	242
		$ 1,905	$ 1,875

Obligation to the City

Debentures were issued, on behalf of the Company, pursuant to the City Bylaw authorization. The outstanding debentures are a direct, unconditional obligation of the City. The Company's obligation to the City matches the City's obligation pursuant to the debentures. The 8.50% debentures, maturing in the year 2018 and totaling $13 million (2015 - $19 million) rank as subordinated debt. In the event of default on other interest obligations, the coupon and sinking fund payments on the subordinated debt may be deferred for a period of up to five years, not exceeding the maturity date. If still in default at the end of five years, all unpaid payments plus accrued interest thereon may be repaid by issuing common shares to the City. Except for the subordinated debt, the obligation to the City will rank at least equal to all future debt that may be issued by the Company.

The Company makes annual contributions into the sinking fund of the City pertaining to certain debenture issues. These payments constitute effective settlement of the respective debt as the sinking fund accumulates to satisfy the underlying debenture maturity. For any specific City debenture sinking fund requirements, the payment obligation ceases on maturity of the debenture. The sinking fund is measured at fair value and presented net of its related debenture.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Public debentures

The public debentures are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The debentures are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the debenture.

Private debt notes

During the year, the Company issued US$40 million private debt notes maturing in 2041 at an interest rate of 3.63%. The private debt notes were issued in U.S. dollars, are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The private debt notes are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the private debt notes.

Commercial paper and bankers' acceptances

In the normal course of business, the Company provides financial support and performance assurances including guarantees, letters of credit and surety bonds to third parties in respect of its subsidiaries. Bank lines of credit are unsecured and are available to the Company up to an amount of $575 million (2015 – $575 million), comprised of committed amounts of $550 million (2015 – $550 million) and uncommitted amounts of $25 million (2015 – $25 million) as described in note 29. Letters of credit totaling $73 million (2015 – $48 million) have been issued under these facilities to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements. Amounts borrowed and letters of credit issued, if any, under these facilities which are not payable within one year are classified as non-current loans and borrowings.

The Company's commercial paper program has an authorized capacity of $350 million (2015 – $350 million). At December 31, 2016 commercial paper totaling nil (2015 – $98 million) was outstanding.

19. Deferred revenue

	2016	2015
Balance, beginning of year	$ 991	$ 870
Contributions received	83	74
Revenue recognized	(37)	(24)
Transfers from provisions	10	39
Recognized on business acquisition	1	-
Transfer on sale of business	-	(5)
Foreign currency valuation adjustments	(7)	38
Other	-	(1)
	1,041	991
Less: current portion	25	32
Balance, end of year	$ 1,016	$ 959

Contributions received include non-cash contributions of $62 million (2015 – $39 million).

The deferred revenue balance as of December 31, 2015 has been recast by $39 million (note 20).

20. Provisions

	2016	2015
Contributions from customers and developers	$ 21	$ 23
Employee benefits	89	98
Other	1	-
	111	121
Less: current portion	25	37
	$ 86	$ 84

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Contributions from customers and developers

		2016		2015
Balance, beginning of year	$	23	$	35
Contributions received		13		22
Transfers to deferred revenue		(10)		(39)
Contributions refunded		(3)		(3)
Foreign currency valuation adjustment		(2)		8
Balance, end of year	$	21	$	23

Contributions received include non-cash contributions of $3 million (2015 – $23 million).

During the fourth quarter of 2016, the Company determined that certain contributions received from customers and developers, which had previously been recognized as provisions throughout each quarter in 2016 and at December 31, 2015, were no longer refundable at the respective reporting dates. Accordingly, the Company has reclassified $10 million (2015 recast $39 million) from provisions to deferred revenue in the consolidated statements of financial position.

Employee benefits

		2016		2015
Other short-term employee benefit obligation	$	18	$	29
Post-employment benefit obligation		51		48
Other long-term employee benefit obligation		20		21
	$	89	$	98

Post-employment benefits

Total cash payments for pension benefits for the year ended December 31, 2016, consisting of cash contributed by the Company to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan, were $39 million (2015 – $39 million). Total contributions expected to be paid in 2017 to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan are $39 million.

Other long-term employee benefits

Other long-term employee benefits consist mainly of obligations for benefits provided to employees on long-term disability leaves.

21. Derivatives

Derivative financial instruments are held for the purpose of electricity price risk management and interest rate risk management.

The derivative financial instruments used for risk management purposes as described in note 29 consist of the following assets and liabilities:

Derivative financial liabilities

		2016		2015
Electricity price forward contracts	$	-	$	2
Interest rate swaps (note 29)		-		10
	$	-	$	12
Current	$	-	$	2
Non-current		-		10
	$	-	$	12

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Electricity price forward contracts

The forward contracts used to mitigate electricity price risk management consist of the following:

	2016	2015
Derivative instruments liabilities		
Fair value	$ 1	$ 9
Cash paid to counterparty	(1)	(7)
Net fair value	$ -	$ 2
Net notional buys		
Terawatt hours of electricity	1.1	1.2
Range of contract terms (in years)	0.1 to 0.3	0.1 to 0.3

The fair value of electricity derivative financial instruments reflects changes in the forward electricity prices, net of cash payments to or from the counterparty. During the course of the contract, daily payments are made to or received from the counterparty to settle the fair value of the contracts.

Fair value is determined based on quoted exchange index prices by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Changes in fair value on electricity derivative financial instruments are recorded in energy purchases and system access fees.

22. Other liabilities

	2016	2015
Customer deposits	$ 26	$ 27
Contingent consideration	36	-
Leasehold inducements	10	11
	72	38
Less: current portion	26	27
	$ 46	$ 11

Contingent consideration

The contingent consideration is the present value of the Company's commitment to pay Blue Water Project 130 L.P. (Blue Water) approximately US$34 million on occurrence of future events (note 25). The Company is reasonably certain that it will be required to settle this commitment by way of cash payments and has accordingly recognized the liability for contingent consideration in the consolidated statements of financial position. The change in the liability for contingent consideration is as follows:

	2016
Contingent consideration recognized on business acquisition	$ 34
Foreign currency valuation adjustments	2
	$ 36

23. Share capital

Authorized shares

Unlimited number of voting common shares without nominal or par value.

Issued shares

Three common shares to the City.

24. Accumulated other comprehensive income

Cash flow hedges

This comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred prior to the disposal of the power generation business in 2009. Consequent to the partial sell down of the equity accounted investment in Capital Power L.P. and reclassification of the remaining investment as available-for-sale asset in the year ended December 31, 2015, the Company reclassified and realized the remaining portion of cash flow hedging instruments in net income.

Investment in Capital Power

The investment in Capital Power was comprised of the Company's equity share in other comprehensive income and loss of Capital Power L.P. Consequent to the partial sell down of the equity accounted investment in Capital Power L.P. and reclassification of remaining investment as available-for-sale asset in the year ended December 31, 2015, the Company reclassified and realized the remaining portion of its share of other comprehensive income from Capital Power L.P. in net income.

Available-for-sale financial assets

This comprises the cumulative net change in the fair value of the Company's beneficial interest in the sinking fund and investment in Capital Power Corporation, until the investments are derecognized or impaired.

Cumulative translation account

The cumulative translation account represents the cumulative portion of gains and losses on retranslation of foreign operations that have a functional currency other than Canadian dollars. The cumulative deferred gain or loss on the foreign operation is reclassified to net income only on disposal of the foreign operation.

Employee benefits account

The employee benefits account represents the cumulative impact of actuarial gains and losses, and return on plan assets excluding interest income from the Company's defined benefit pension plans.

25. Business acquisitions

Blue Water 130 Pipeline

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

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

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition, in Canadian dollars as follows:

		2016
Fair value of net assets acquired:		
Intangible assets	$	13
Goodwill		2
Property, plant and equipment		68
Deferred revenue		(1)
Net assets acquired at fair value	$	82
Consideration:		
Cash	$	48
Contingent consideration		34
Total consideration	$	82

To fund the acquisition, the Company issued US$40 million private debt notes (note 18).

The intangible assets of $13 million consist of the right to receive groundwater up to the maximum capacity of the pipeline for a period of at least 99 years.

The goodwill recognized at fair value of $2 million includes the value of the expected benefits to the Company by providing a commercial platform to develop other similar projects and future cost synergies which may result from the Company's expanded operations in the State of Texas, U.S. The goodwill will be deductible for income tax purposes.

Contingent consideration with a fair value of $34 million was recognized at the date of acquisition. The contingent consideration consists of the Company's commitment to pay Blue Water (i) a fee of up to US$32 million based on securing newly executed long term contracts for the supply of water and (ii) US$2 million upon execution of certain pending agreements with third parties, being facilitated by Blue Water. There is no time limit related to the contingent consideration. These amounts are included within other liabilities on the consolidated statements of financial position.

The transaction has been accounted for using the acquisition method in conformity with IFRS 3 Business Combinations with the results of operations included in the consolidated financial statements from the date of acquisition. Total revenue and net income included in the consolidated statements of comprehensive income since the date of acquisition to December 31, 2016 was $1 million and nil respectively. The consolidated statements of comprehensive income up to December 31, 2016 would have included estimated revenue and net income of $4 million and nil respectively had the acquisition of assets occurred on January 1, 2016.

Management used assumptions and estimates about future events in the determination of fair values. The assumptions and estimates with respect to the determination of the fair value of PPE, intangible assets and contingent consideration required the most judgment. Based on those assumptions and estimates the purchase price was allocated to the identified assets and liabilities including goodwill and contingent consideration. The fair value was estimated by applying standard valuation techniques. The fair value measurement is based on significant inputs which are not observable in the market. The key assumptions in determination of fair value included the discount rate, future growth rates and expected execution of new contracts for the supply of water. The allocation of the purchase price was internally determined based on the relative fair values of the assets and liabilities. Goodwill was estimated based on the applicable incremental benefits of the acquisition. The fair value of contingent consideration was based on management's expectation of execution of new long-term water supply contracts with customers and the execution of pending agreements, discounted to their present value.

Willow Valley Water Company

On May 9, 2016, the Company completed the acquisition of the regulated water utility assets of Willow Valley Water Company, providing water services in the Bullhead City area of Arizona, U.S., for cash consideration of $3 million (US$2 million).

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Natural Resource Gas Limited

On November 7, 2016, the Company entered into a definitive asset purchase agreement to acquire substantially all of the assets of Natural Resource Gas Limited (NRGL) for consideration of $21 million, subject to certain adjustments. NRGL is a natural gas distributor in southwestern Ontario near London, providing services to approximately 8,000 residential, commercial and industrial customers in the counties of Elgin, Middlesex, Oxford and Norfolk. The arrangement requires regulatory approval from the Ontario Energy Board, for which an application has been filed. The Company expects to complete the transaction in mid-2017.

26. Change in non-cash working capital

		2016		2015
Trade receivables (note 10)	$	34	$	(22)
Prepaid expenses (note 10)		(1)		(1)
Inventories		1		(1)
Trade and other payables (note 17)		40		11
	$	74	$	(13)

		2016		2015
Included in specific items on consolidated statements of cash flows:				
Interest paid	$	(2)	$	-
Income taxes recovered		5		-
Distributions received from Capital Power		3		3
		6		3
Operating activities		63		(19)
Investing activities		5		3
	$	74	$	(13)

27. Related party balances and transactions

Compensation of key management personnel

		2016		2015
Short-term employee benefits	$	5	$	5
Post-employment benefits		1		2
Other long-term benefits		2		3
	$	8	$	10

The Company provides utility services to key management personnel as it is the sole provider of certain services. Such services are provided in the normal course of operations and are based on normal commercial rates, as approved by regulation.

Other related party transactions

The Company is 100% owned by the City. The Company provides maintenance, repair and construction services, and customer billing services to the City, and purchases printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements. Sales between the Company and the City are in the normal course of operations, and are generally based on normal commercial rates, or as agreed to by the parties.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The following summarizes the Company's related party transactions with the City:

	2016	2015
Consolidated Statements of Comprehensive Income		
Revenues (a)	$ 94	$ 87
Other raw materials and operating charges (b)	9	9
Franchise fees and property taxes (c)	92	90
Finance expense (d)	9	10

(a) Included within revenues are electricity and water sales of $4 million (2015 – $4 million), service revenue including the provision of maintenance, repair and construction services of $82 million (2015 – $75 million) and customer billing services of $8 million (2015 – $8 million).

(b) Includes certain costs of printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements.

(c) Composed of franchise fees of $57 million at 0.39 cents per kilowatt hour of electric distribution sales volume for direct connect customers and 0.76 cents per kilowatt hour for all other customers (2015– $55 million at 0.72 cents per kilowatt hour for all customers), franchise fees of $20 million at 8% (2015 – $20 million at 8%) of qualifying revenues of water services and waste water services, and property taxes of $15 million (2015 – $15 million) on properties owned within the City municipal boundaries.

(d) Composed of interest expense on the obligation to the City at interest rates ranging from 5.20% to 8.50% (2015 – 5.20% to 8.50%).

The following summarizes the Company's related party balances with the City:

	2016	2015
Consolidated Statements of Financial Position		
Trade and other receivables	$ 34	$ 50
Property, plant and equipment (e)	5	4
Trade and other payables (f)	8	7
Loans and borrowings (note 19)	90	105
Deferred revenue (g)	2	1

(e) Costs of capital construction for electric and water distribution infrastructure.

(f) Includes nil (2015 – $1 million) for drainage and construction services provided by the City.

(g) Contributions received for capital projects.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

28. Financial instruments

Classification

The classification of the Company's financial instruments at December 31, 2016 and 2015 is summarized as follows:

	Classification				
	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Available-for-sale	Fair value hierarchy
Measured at fair value					
Available-for-sale investment in Capital Power (note 11)				X	Level 1
Beneficial interest in sinking fund (note 18)				X	Level 1
Derivatives (note 21)					
Financial electricity purchase contracts – designated	X				Level 1
Interest rate swaps – designated	X				Level 2
Other liabilities (note 22)					
Contingent consideration – designated	X				Level 3
Measured at amortized cost					
Cash and cash equivalents (note 9)		X			Level 1
Trade and other receivables (note 10)		X			Level 3
Other financial assets (note 13)		X			Level 2
Trade and other payables (note 17)			X		Level 3
Debentures and borrowings (note 18)			X		Level 2
Other liabilities (note 22)					
Customer deposits			X		Level 3

Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables, current portion of other financial assets, trade and other payables and certain other liabilities (including customer deposits) approximate their fair values due to the short-term nature of these financial instruments.

The carrying amounts and fair values of the Company's remaining financial assets and liabilities are as follows:

	2016		2015	
	Carrying amount	Fair value	Carrying Amount	Fair value
Available-for-sale investment in Capital Power (note 11)	$ 6	$ 6	$ 167	$ 167
Non-current portion of other financial assets (note 13)[1]	264	275	316	330
Loans and borrowings (note 18)				
Debentures and borrowings	2,007	2,328	2,198	2,527
Beneficial interest in sinking fund	(87)	(87)	(81)	(81)
Derivatives (note 21)	-	-	12	12
Other liabilities (note 22)				
Contingent consideration	36	36	-	-

1 Excluding finance lease receivables $1 million (2015 – $1 million).

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities. A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

Available-for-sale investment in Capital Power

The available-for-sale investment in Capital Power represents an investment in common shares of Capital Power Corporation. The fair value of the investment is based on the quoted price of common shares of Capital Power Corporation (CPX) on the Toronto Stock Exchange at December 31, 2016 and 2015.

Other financial assets

The fair value of the Company's unsecured long-term receivable from Capital Power is based on a current yield for the Company's receivable at December 31, 2016 and 2015. This yield is based on an estimated credit spread for Capital Power over the yields of long-term Government of Canada bonds that have similar maturities to the Company's receivable. The estimated credit spread is based on Capital Power's indicative spread as published by independent financial institutions.

The fair values of the Company's other long-term loans and receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at December 31, 2016 and 2015.

Loans and borrowings

The fair value of the Company's long-term public debt is based on the pricing sourced from market data as of December 31, 2016 and 2015. The fair value of the Company's remaining long-term loans and borrowings is based on determining a current yield for the Company's debt at December 31, 2016 and 2015. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds for Canadian dollar loans and U.S. Treasury bonds for U.S. dollar loans that have similar maturities to the Company's debt. The estimated credit spread is based on the Company's indicative spread as published by independent financial institutions. The Company's long-term loans and borrowings (including the current portion) include City debentures which are offset by payments made by the Company into the sinking fund. The Company's beneficial interest in the sinking fund is a related party balance and has been recorded at fair value as it has been classified as an available-for-sale financial asset. The fair value of the beneficial interest in the sinking fund is based on quoted market values as determined by the City at or near the reporting date.

Short-term loans and borrowings are measured at amortized cost and their carrying value approximate their fair value due to the short-term nature of these financial instruments.

Contingent consideration

The payment of contingent consideration is mainly dependent on securing newly executed long term contracts for the supply of water, the timing of which is uncertain. The fair value of the Company's contingent consideration is determined based on the expected timing of execution of such new contracts and the resulting cash flows are then discounted at risk adjusted discount rates. Any change in the timing of execution of new contracts, discount rate or foreign exchange rate can have material impact on the fair value of contingent consideration.

Timing of execution of new contracts

If the timing of execution of new contracts is advanced by 2 years then the fair value of the contingent consideration will increase by $4 million. Alternatively, if the timing of execution of new contracts is delayed by 2 years then the fair value of the contingent consideration will decrease by $5 million.

Discount rate

A 50 basis point change in discount rate will change the fair value of the contingent consideration by $1 million.

Foreign exchange rate

A 10% change in the foreign exchange rate will change the fair value of the contingent consideration by $4 million.

Derivatives

The fair value of the Company's financial electricity purchase contracts is determined based on exchange index prices in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices.

The fair value of the Company's interest rate swaps is based on valuations obtained from the counterparty. The fair value is determined by the counterparty using a discounted cash flow model. The inputs used include notional amounts, the quoted forward Canadian Dealer Offering Rate (CDOR) curve, the contractual fixed settlement rate and an applicable discount factor.

It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

29. Financial risk management

Overview

The Company is exposed to a number of different financial risks arising from business activities and its use of financial instruments, including market risk, credit risk, and liquidity risk. The Company's overall risk management process is designed to identify, assess, measure, manage, mitigate and report on business risk which includes financial risk. Enterprise risk management is overseen by the Board of Directors and senior management is responsible for fulfilling objectives, targets, and policies approved by the Board of Directors. EPCOR's Corporate Treasurer in conjunction with the Company's Internal Audit function provides the Board of Directors with an enterprise risk assessment quarterly. Risk management strategies, policies and limits are designed to help ensure the risk exposures are managed within the Company's business objectives and risk tolerance. The Company's financial risk management objective is to protect and minimize volatility in earnings and cash flow.

Financial risk management including foreign exchange risk, interest rate risk, liquidity risk and the associated credit risk management is carried out by the centralized Treasury function in accordance with applicable policies. The Audit Committee of the Board of Directors, in its oversight role, performs regular and ad-hoc reviews of risk management controls and procedures to help ensure compliance.

Risks related to Capital Power

Significant reliance is placed on the capacity of Capital Power to honor its back-to-back debt obligations with EPCOR. Should Capital Power fail to satisfy these obligations, EPCOR's capacity to satisfy its debt obligations would be reduced and EPCOR would need to satisfy its own debt obligations by other means. As per agreement, the back-to-back debt obligations may be called by EPCOR for repayment. Repayment must occur within 180 days of notice.

Capital Power has indemnified EPCOR for any losses arising from its inability to discharge its liabilities, including any amounts owing to EPCOR in relation to the long-term loans receivable.

Market risk

Market risk is the risk of loss that results from changes in market factors such as electricity prices, foreign currency exchange rates, interest rates and equity prices. The level of market risk to which the Company is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Company's financial assets and liabilities held, non-trading physical asset and contract portfolios, and trading portfolios. The Company's financial exposure management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the foreign exchange risk and interest rate risk throughout the Company.

To manage the exposure related to changes in market risk, the Company may use various risk management techniques including derivative financial instruments such as forward contracts, contracts-for-differences or interest rate swaps. Such instruments may be used for an anticipated transaction to establish a fixed price denominated in a foreign currency or electricity or to secure fixed interest rates.

The sensitivities provided in each of the following risk discussions disclose the effect of reasonable changes in relevant prices and rates on net income at the reporting date. The sensitivities are hypothetical and should not be considered to be predictive of future performance or indicative of earnings on these instruments. The Company's actual exposure to market risks is constantly changing as the Company's portfolio of debt, equity instruments, foreign currency and commodity contracts changes. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

Electricity price and volume risk

EPCOR sells electricity to regulated rate option (RRO) customers under a RRT. All electricity for the RRO customers is purchased in real time from the AESO in the spot market. Under the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by the EPSP. Under the EPSP, the Company uses financial contracts to economically hedge the RRO requirements and incorporate the price into customer rates for the applicable month. Fixed volumes of electricity are economically hedged using financial contracts-for-differences up to 120 days in advance of the month in which the electricity (load) is consumed by the RRO customers. The volume of electricity economically hedged in advance is based on load (usage) forecasts for the consumption month. When consumption varies from forecast consumption patterns, EPCOR is exposed to prevailing market prices when the volume of electricity economically hedged is short of actual load requirements or greater than the actual load requirements (long). Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and unusual weather patterns.

Under contracts-for-differences the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the AESO electricity spot market price and the fixed contract price for a specified volume of electricity up to 120 days in advance of the consumption date, all in accordance with the EPSP. The contracts-for-differences are referenced to the AESO electricity spot price and any movement in the AESO price results in changes in the contract settlement amount. If the risks of the EPSP were to become untenable, EPCOR could test the market and potentially re-contract the procurement risk under an outsourcing arrangement at a certain cost that would likely increase procurement costs and reduce margins. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

At December 31, 2016, holding all other variables constant, a $5 per megawatt hour increase / decrease in the forward electricity spot price would increase / decrease net income by approximately $5 million (2015 – $6 million). In preparing the sensitivity analysis, the Company compared average AESO electricity spot prices to the forward index price for the past 24 months. Based on historical fluctuations, the Company estimates that the fair value of the contracts could increase or decrease by up to $22 million (2015 – $35 million) with a corresponding change to net income.

Foreign exchange risk

The Company is exposed to foreign exchange risk on foreign currency denominated future transactions and firm commitments, and monetary assets and liabilities denominated in a foreign currency and on its net investments in foreign subsidiaries.

The Company's financial exposure management policy attempts to minimize material exposures arising from movements in the Canadian dollar relative to the U.S. dollar or other foreign currencies. The Company's direct exposure to foreign exchange risk arises on commitments denominated in U.S. dollars. The Company coordinates and manages foreign exchange risk centrally by identifying opportunities for naturally occurring opposite movements and then dealing with any material residual foreign exchange risks.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The Company may use foreign currency forward contracts to fix the functional currency of its non-functional currency cash flows thereby reducing its anticipated foreign currency denominated transactional exposure. The Company looks to limit foreign currency exposures as a percentage of estimated future cash flows.

At December 31, 2016, holding all other variables constant, a 10% change in exchange rate would change the private debt balance by $39 million (2015 – $35 million).

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents, and floating-rate short-term loans and obligations. The Company is also exposed to interest rate risk from the possibility that changes in the interest rates will affect future cash flows or the fair values of its financial instruments. Interest rate risk associated with short-term loans and borrowings is immaterial due to its short-term maturity. At December 31, 2016 and 2015, all long-term debt was fixed rate.

The Company entered into the following interest rate swaps to manage its interest rate risk in the Regina Wastewater project as described below:

Type	Term	Notional amount	Fixed rate	Floating rate index
Pay fixed, receive floating	August 1, 2014 – January 3, 2017	Range of $18 – $136	1.55%	1-month CDOR
Pay fixed, receive floating	January 3, 2017 – June 1, 2044	$67	3.51%	1-month CDOR

The counterparty to the swap arrangements is a major Canadian financial institution. During their respective terms, the swaps are being net cash settled on a monthly basis. The Company does not anticipate any material adverse effect on its financial covenants resulting from its involvement in this type of swap arrangement, nor does it anticipate non-performance by the counterparty.

During the year, the Company terminated the long term “pay fixed, receive floating” interest rate swap by settlement of the outstanding liability of $14 million to the counterparty. Subsequent to the year ended December 31, 2016, the remaining short term interest rate swap was also settled on January 3, 2017.

Equity Price Risk

Equity price risk refers to the risk that the fair value of an investment will fluctuate as a result of changes in equity markets. The Company is exposed to equity price risk arising from its available-for-sale investment in the common shares of Capital Power Corporation which are listed on TSX. At December 31, 2016, an increase or decrease of $1.00 in market price of common shares of Capital Power Corporation will result in an increase or decrease of nil (2015 - $9 million) in the fair value of Company’s available-for-sale investment in Capital Power, respectively.

Credit risk

Credit risk is the possible financial loss associated with the inability of counterparties to satisfy their contractual obligations to the Company, including payment and performance. The Company’s counterparty credit risk management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the credit risks associated with the various business activities throughout the Company. Credit and counterparty risk management procedures and practices generally include assessment of individual counterparty creditworthiness and establishment of exposure limits prior to entering into a transaction with the counterparty. Exposures and concentrations are subsequently monitored and are regularly reported to senior management. Creditworthiness continues to be evaluated after transactions have been initiated, at a minimum, on an annual basis. Credit risk includes the Capital Power back-to-back debt obligations with EPCOR as described above. To manage and mitigate credit risk, the Company employs various credit mitigation practices such as master netting agreements, pre-payment arrangements from retail customers, credit derivatives and other forms of credit enhancements including cash deposits, parent company guarantees, and bank letters of credit.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Maximum credit risk exposure

The Company's maximum credit exposure is represented by the carrying amount of the following financial assets:

	2016	2015
Cash and cash equivalents[1] (note 9)	$ 191	$ 36
Trade and other receivables[2] (note 10)	299	333
Other financial assets (note 13)	283	597
	$ 773	$ 966

1 This table does not take into account collateral held. At December 31, 2016, the Company held cash deposits of $26 million (2015 – $27 million) as security for certain counterparty accounts receivable and derivative contracts. The Company is not permitted to sell or re-pledge this collateral in the absence of default of the counterparties providing the collateral.

2 The Company's maximum exposures related to trade and other receivables by major credit concentration is composed of $212 million (2015 – $209 million) related to rate-regulated customer balances. At December 31, 2016, the Company held credit enhancements to mitigate credit risk on trade and other receivables in the form of letters of credit of $1 million (2015 – $1 million), performance bonds of $1 million (2015 – nil) and parental guarantees of $263 million (2015 – $252 million).

Credit quality and concentrations

The Company is exposed to credit risk on outstanding trade receivables associated with its energy and water sales activities and agreements with the AESO and on electricity supply agreements with wholesale and retail customers. The Company is also exposed to credit risk from its cash and cash equivalents, derivative instruments and long-term financing arrangements receivable.

The credit quality of the Company's trade and other receivables, by major credit concentrations, finance lease receivables, and other financial assets at December 31, 2016 and 2015, was as follows:

	2016		2015	
	Investment grade or secured[1,2] %	Unrated %	Investment grade or secured[1,2] %	Unrated %
Trade and other receivables				
Rate-regulated customers[3]	-	24	-	34
Non rate-regulated customers	65	11	62	4
Total trade and other receivables	65	35	62	38
Cash and cash equivalents	100	-	100	-
Loans and other long-term receivables	100	-	100	-

1 Credit ratings are based on the Company's internal criteria and analyses, which take into account, among other factors, the investment grade ratings of external credit rating agencies when available.

2 Certain trade receivables and other financial assets are considered to have low credit risk as they are either secured by the underlying assets, secured by other forms of credit enhancements, or the counterparties are local or provincial governments.

3 Rate-regulated customer trade receivables include distribution and transmission, water sales, rate-regulated and default electricity supply receivables. Under the Electric Utilities Act (Alberta), the Company provides electricity supply in its service area to residential, agricultural and small commercial customers at regulated rates and to those commercial and industrial customers who have not chosen a competitive offer and consume electricity under default supply arrangements.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Rate-regulated customer credit risk

Credit risk exposure for residential and commercial customers under regulated electricity and water supply rates is generally limited to amounts due from customers for electricity and water consumed but not yet paid for. The Company mitigates credit risk from counterparties by performing credit checks and on higher risk customers, by taking pre-payments or cash deposits. The Company monitors credit risk for this portfolio at the gross exposure level.

Trade and other receivables and allowance for doubtful accounts

Trade and other receivables consist primarily of amounts due from retail customers including commercial customers, other retailers, government-owned or sponsored entities, regulated public utility distributors, and other counterparties. Commercial customer contracts provide performance assurances through letters of credit, irrevocable guarantees and bonds. For other retail customers, represented by a diversified customer base, credit losses are generally low and the Company provides for an allowance for doubtful accounts on estimated credit losses.

The aging of accounts receivables was as follows:

December 31, 2016	Gross accounts receivables	Allowance for doubtful accounts	Net accounts receivables
Current[1]	$ 279	$ -	$ 279
Outstanding 31 to 60 days	11	-	11
Outstanding 61 to 90 days	5	2	3
Outstanding more than 90 days	9	3	6
	$ 304	$ 5	$ 299

December 31, 2015	Gross accounts receivables	Allowance for doubtful accounts	Net accounts receivables
Current[1]	$ 293	$ -	$ 293
Outstanding 31 to 60 days	20	-	20
Outstanding 61 to 90 days	5	1	4
Outstanding more than 90 days	18	2	16
	$ 336	$ 3	$ 333

1 Current amount represents trade and other receivables outstanding up to 30 days. Amounts outstanding for more than 30 days are considered past due.

Bad debt expense of $9 million (2015 – $5 million) recognized in the year relates to customer amounts that the Company determined may not be fully collectable. Allowances for doubtful accounts are determined by each business unit considering the unique factors of the business unit's trade and other receivables. Allowances and write-offs are determined either by applying specific risk factors to customer groups' aged balances in trade and other receivables or by reviewing material accounts on a case-by-case basis. Reductions in trade and other accounts receivable and the related allowance for doubtful accounts are recorded when the Company has determined that recovery is not possible.

The change in the allowance for doubtful accounts was as follows:

	2016	2015
Balance, beginning of year	$ 3	$ 3
Additional allowances created	9	5
Recovery of receivables	2	1
Receivables written off	(9)	(6)
Balance, end of year	$ 5	$ 3

At December 31, 2016, the Company held $24 million (2015 – $27 million) of customer deposits for the purpose of mitigating the credit risk associated with trade and other receivables from residential and business customers.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's liquidity is managed centrally by the Company's Treasury function. The Company manages liquidity risk through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and by matching the maturity profiles of financial assets and liabilities to identify financing requirements. The financing requirements are addressed through a combination of committed and demand revolving credit facilities and financings in public or private debt capital markets.

The Company has revolving extendible credit facilities, which are used principally for the purpose of backing the Company's commercial paper program and providing letters of credit, as outlined below:

December 31, 2016	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2019	$ 200	$ -	$ 73	$ 127
Syndicated bank credit facility	November 2020	350	-	-	350
Total committed		550	-	73	477
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
		$ 575	$ -	$ 73	$ 502

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

1 Restricted to letters of credit.

The Company's $350 million committed syndicated bank credit facility is available and primarily used for short-term borrowing and backstopping EPCOR's $350 million commercial paper program. The committed syndicated bank credit facilities cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's committed syndicated bank credit facilities give the Company the option each year to re-price and extend the terms of the facilities by one or more years subject to agreement with the lending syndicate. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates.

The Company has credit ratings of A- and A (low), assigned by Standard and Poor's and DBRS Limited, respectively.

The Company has a Canadian base shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At December 31, 2016, the available amount remaining under this Canadian base shelf prospectus was $1 billion. The Canadian base shelf prospectus expires in December 2017.

The undiscounted cash flow requirements and contractual maturities of the Company's non-derivative financial liabilities, including interest payments, are as follows:

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

At December 31, 2016:

	2017	2018	2019	2020	2021	2022 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 275	$ -	$ -	$ -	$ -	$ -	$ 275
Loans and borrowings[2]	15	413	7	7	192	1,297	1,931
Interest payments on loans and borrowings	112	100	80	79	79	1,141	1,591
Other liabilities	26	3	1	1	34	7	72
	$ 428	$ 516	$ 88	$ 87	$ 305	$ 2,445	$ 3,869

At December 31, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 232	$ -	$ -	$ -	$ -	$ -	$ 232
Loans and borrowings[2]	242	15	413	7	7	1,445	2,129
Interest payments on loans and borrowings	115	111	99	78	78	1,184	1,665
Other liabilities	27	1	1	1	1	7	38
	$ 616	$ 127	$ 513	$ 86	$ 86	$ 2,636	$ 4,064

1 Excluding accrued interest on loans and borrowings of $24 million (2015 – $27 million).

2 Excluding deferred debt issue costs of $11 million (2015 – $12 million).

The Company's undiscounted cash flow requirements and contractual maturities in the next twelve months of $428 million (2015 – $616 million) are expected to be funded from operating cash flows, interest and principal payments related to the unsecured long-term receivable from Capital Power, proceeds from the sale of a portion of available-for-sale investment in Capital Power, commercial paper issuance and the Company's credit facilities. In addition, the Company may issue medium-term notes or other instruments to fund its obligations or investments. The key factors in determining whether to issue medium-term notes are the expected interest rates for medium-term notes, the estimated demand by investors for EPCOR debt and the general state of debt capital markets.

The Company has long-term loans receivable from Capital Power which effectively match certain of the long-term loans and borrowings above. The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power:

At December 31, 2016:

	2017	2018	Total
Long-term loans receivable from Capital Power (note 13)	$ 10	$ 174	$ 184
Interest payments on loans receivable from Capital Power	10	6	16
	$ 20	$ 180	$ 200

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

At December 31, 2015:

	2016	2017	2018	Total
Long-term loans receivable from Capital Power (note 13)	$ 139	$ 10	$ 174	$ 323
Interest payments on loans receivable from Capital Power	16	11	6	33
	$ 155	$ 21	$ 180	$ 356

The payments from Capital Power fund a portion of the Company's contractual debt obligations. Should Capital Power be unable to make its scheduled payments to EPCOR, then the Company will rely more heavily on its credit facilities and its ability to issue medium-term notes to fund its obligations.

30. Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, pay dividends to its shareholder in accordance with the Company's dividend policy, maintain a suitable credit rating, and to facilitate the acquisition or development of projects in Canada and the U.S. consistent with the Company's growth strategy. The Company manages its capital structure in a manner consistent with the risk characteristics of the underlying assets. This overall objective and policy for managing capital remained unchanged in the current year from the prior year.

The Company manages capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing monthly financial results. The Company matches the maturity profiles of financial assets and liabilities to identify financing requirements to help ensure an adequate amount of liquidity.

The Company considers its capital structure to consist of long-term and short-term debt net of cash and cash equivalents and shareholder's equity. The following table represents the Company's total capital:

	2016	2015
Long-term Loans and borrowing (including current portion) (note 18)[1]	$ 1,931	$ 2,031
Short-term loans (note 18)	-	98
Cash and cash equivalents (note 9)	(191)	(36)
Net debt	1,740	2,093
Total equity	2,672	2,515
Total capital	$ 4,412	$ 4,608

1 Excluding deferred debt issue costs of $11 million (2015 – $12 million).

EPCOR has the following externally imposed financial covenants on its capital as a result of its credit facilities and outstanding debt:

- Maintenance of modified consolidated net tangible assets to consolidated net tangible assets ratio, as defined in the debt agreements, of not less than 80% (2015 – 85%);
- Maintenance of consolidated senior debt to consolidated capitalization ratio, as defined in the debt agreements, of not more than 75% (2015 – 70%) ;
- Maintenance of interest coverage ratio, as defined in the debt agreements, of not less than 1.75 to 1.00 if the Company's credit rating falls below investment grade; and
- Limitation on external debt issued by subsidiaries.

These capital restrictions are defined in accordance with the respective agreements. For the years ended December 31, 2016 and 2015, the Company complied with all externally imposed capital restrictions.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

31. Commitments, contingencies and guarantees

Commitments

The following represent the Company's commitments not otherwise disclosed in these consolidated financial statements:

At December 31, 2016:

	2017	2018	2019	2020	2021	2022 and thereafter	Total
Distribution and Transmission segment projects[1]	$ 24	$ 40	$ 13	$ 7	$ 7	$ -	$ 91
Water Services segment projects[2]	13	-	-	-	-	-	13
Water Services power contracts[3]	9	6	3	3	3	-	24
Water purchase and transportation of water agreements[4]	9	2	-	-	-	4	15
Billing and customer care services agreement[5]	4	4	4	3	3	-	18
Operating leases payable[6]	15	15	14	13	12	119	188
	$ 74	$ 67	$ 34	$ 26	$ 25	$ 123	$ 349

At December 31, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total
Water Services segment projects[2]	$ 33	$ 21	$ -	$ -	$ -	$ -	$ 54
Water Services power contracts[3]	8	9	2	-	-	-	19
Water purchase and transportation of water agreements[4]	8	1	-	-	-	3	12
Billing and customer care services agreement[5]	6	4	4	4	3	3	24
Operating leases payable[6]	14	14	14	13	12	131	198
	$ 69	$ 49	$ 20	$ 17	$ 15	$ 137	$ 307

1 The Company has commitments for several Distribution and Transmission projects as directed by the AESO.

2 The Company has commitments for several Water Services projects in Canada through contract agreements.

3 The Company has commitments to purchase power for its Edmonton wastewater treatment plant, water treatment plants and distribution sites. The agreements expire on or before December 31, 2021. Under the terms of the agreements, the Company is committed to purchase minimum contracted quantities at a fixed price. There are no early termination or cancellation clauses in these agreements.

4 Water Arizona maintains agreements with the Central Arizona Water Conservation District for the purchase and transportation of water. These agreements are for terms of 100 years expiring at the end of 2107. Under the terms of these agreements, the Company is committed for the amount of water ordered in the fall of each year to be purchased and transported the following year.

Water New Mexico maintains agreements with the various well owners for the purchase of water. These agreements are generally for terms of ten years. Under the terms of these agreements, certain minimum purchases are due each year in order to maintain the agreements until they expire.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

5 The Company has entered into an agreement for billing and customer care services for Water Arizona and Water New Mexico. The contract term is ten years, expiring on August 31, 2021.

6 Represents the Company's gross future operating leases payable for its head office and other premises.

In 2007, the Company entered into a long-term agreement to lease commercial space in a new office tower in Edmonton, Canada, primarily for its head office (head office lease). The agreement, which became effective in the fourth quarter of 2011, has an initial lease term of approximately 20 years, expiring on December 31, 2031, and provides for three successive five-year renewal options. Under the terms of the lease, the Company's annual lease commitments, net of annual payments to be paid to the Company by Capital Power and another company under the sub-leases receivable discussed below, are as follows:

	Minimum lease payable
January 1, 2017 through December 31, 2022	$ 6
January 1, 2023 through December 31, 2023	7
January 1, 2024 through December 31, 2031	8

The Company has sub-leased a portion of the space under its head office lease to Capital Power under the same terms and conditions as the Company's lease with its landlord.

Effective November 1, 2013, the Company also sub-leased a portion of the space under its head office lease to a third party. The term of the sub-lease to the third party expires on October 31, 2023 with two renewal options of four years each.

Approximate future payments to the Company under the sub-leases receivable are as follows:

	Minimum lease receivable	
	2016	2015
Within one year	$ 5	$ 5
After one year but not more than five years	20	20
More than five years	43	48
	$ 68	$ 73

Contingencies

The Company and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate contingent liability of the Company arising from these claims is immaterial and therefore no provision has been made.

Guarantees

The Company in the normal course of business issues payment guarantees on behalf of its subsidiaries to meet the conditions of the agreements with third parties. At December 31, 2016, guarantees totaling $429 million (2015 – $408 million) have been issued to various third parties.

32. Segment disclosures

The Company operates in the following reportable business segments, which follow the organization, management and reporting structure within the Company.

Water Services

Water Services is primarily involved in the treatment, distribution and sale of water and the treatment of wastewater within Edmonton and other communities throughout Western Canada and the Southwestern U.S. This segment also provides commercial services including construction, operation and maintenance of water and wastewater treatment plants.

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 maintenance and repair of the City-owned street lighting and transportation support facilities.

Energy Services

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to residential, small commercial and agricultural customers in Alberta. Energy Services also provides competitive electricity and natural gas products through Encor.

Corporate

Corporate reflects the costs of the Company's net unallocated corporate office expenses and financing revenues on the long-term receivable from Capital Power. Corporate also holds the available-for-sale investment in Capital Power.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Lines of business information

Year ended December 31, 2016	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 663	$ 457	$ 812	$ 14	$ -	$ 1,946
Inter-segment revenue	-	177	11	-	(188)	-
Total revenues and other income	663	634	823	14	(188)	1,946
Energy purchases and system access fees	-	182	707	-	(167)	722
Other raw materials and operating charges	159	49	-	1	(8)	201
Staff costs and employee benefits expenses	128	85	28	37	(3)	275
Depreciation and amortization	91	80	6	12	-	189
Franchise fees and property taxes	28	71	-	-	-	99
Other administrative expenses	33	16	27	15	(10)	81
Operating expenses	439	483	768	65	(188)	1,567
Operating income (loss) before corporate charges	224	151	55	(51)	-	379
Corporate income (charges)	(30)	(29)	(10)	69	-	-
Operating income	194	122	45	18	-	379
Finance recoveries (expenses)	(95)	(51)	(3)	37	-	(112)
Fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income on sale of portion of investment	-	-	-	42	-	42
Dividend income from available-for-sale investment in Capital Power	-	-	-	9	-	9
Income tax recovery (expense)	(14)	-	-	5	-	(9)
Net income	$ 85	$ 71	$ 42	$ 111	$ -	$ 309
Capital additions	$ 206	$ 281	$ 4	$ 11	$ -	$ 502

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Year ended December 31, 2015	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 688	$ 436	$ 872	$ 22	$ -	$ 2,018
Inter-segment revenue	-	164	11	-	(175)	-
Total revenues and other income	688	600	883	22	(175)	2,018
Energy purchases and system access fees	-	175	770	-	(153)	792
Other raw materials and operating charges	203	48	-	1	(10)	242
Staff costs and employee benefits expenses	127	86	27	36	(1)	275
Depreciation and amortization	89	69	6	14	-	178
Franchise fees and property taxes	28	69	-	-	-	97
Other administrative expenses	32	16	24	8	(11)	69
Operating expenses	479	463	827	59	(175)	1,653
Operating income (loss) before corporate charges	209	137	56	(37)	-	365
Corporate income (charges)	(28)	(26)	(9)	63	-	-
Operating income	181	111	47	26	-	365
Finance recoveries (expenses)	(91)	(48)	(3)	25	-	(117)
Gains on equity accounted investment in Capital Power L.P.	-	-	-	60	-	60
Impairment of available-for-sale investment in Capital Power	-	-	-	(60)	-	(60)
Dividend income from available-for-sale investment in Capital Power	-	-	-	10	-	10
Equity share of income of Capital Power L.P.	-	-	-	5	-	5
Income tax recovery (expense)	(10)	-	-	7	-	(3)
Net income	$ 80	$ 63	$ 44	$ 73	$ -	$ 260
Capital additions	$ 214	$ 235	$ 1	$ 13	$ -	$ 463

The Company’s assets and liabilities by lines of business at December 31, 2016 and 2015 are summarized as follows:

December 31, 2016	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
Total assets	$ 3,520	$ 2,080	$ 163	$ 3,272	$ (2,874)	$ 6,161
Total liabilities	2,769	1,407	150	2,037	(2,874)	3,489

December 31, 2015	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
Total assets	$ 3,375	$ 1,907	$ 175	$ 3,270	$ (2,639)	$ 6,088
Total liabilities	2,682	1,273	160	2,097	(2,639)	3,573

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Geographic information

	Year ended December 31, 2016				Year ended December 31, 2015			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	$ 1,732	$ 214	$ -	$ 1,946	$ 1,825	$ 193	$ -	$2,018
Inter-segment revenues	188	-	(188)	-	175	-	(175)	-
Total revenues and other income	$ 1,920	$ 214	$ (188)	$ 1,946	$ 2,000	$ 193	$ (175)	$2,018

Non-current assets

	2016	2015
Canada	$ 4,469	$ 4,362
U.S.	1,156	1,055
	$ 5,625	$ 5,417

33. Comparative information

The comparative information in these consolidated financial statements have been reclassified, where applicable, to conform to current year presentation.

1 **ATTACHMENT 2 to VECC-6**

2 **Annual MD&A (year ending December 31, 2016)**

EPCOR Utilities Inc.

Management's Discussion and Analysis December 31, 2016

This management's discussion and analysis (MD&A), dated March 2, 2017, should be read in conjunction with the audited consolidated financial statements of EPCOR Utilities Inc. for the years ended December 31, 2016 and 2015, including related party transactions (note 27) and financial instruments (note 28), and the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "EPCOR", "it", "its", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. In this MD&A, Capital Power refers to Capital Power Corporation and its directly and indirectly owned subsidiaries including Capital Power L.P., except where otherwise noted or the context otherwise indicates. Financial information in this MD&A is based on the audited consolidated 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 March 2, 2017.

OVERVIEW

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

Net income was $88 million and $309 million for the three and twelve months ended December 31, 2016, respectively, compared with net income of $65 million and $260 million, for the comparative periods in 2015, respectively. The increase of $23 million in the quarter is primarily due to the recognition of the fair value gain resulting from the sale of Capital Power shares (also referred to as the "available-for-sale investment in Capital Power") and greater favorable fair value adjustments related to financial electricity purchase contracts and interest rate swaps, partially offset by lower income from core operations, as described below. The increase of $49 million for the twelve months ended December 31, 2016 was primarily due to 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 higher income form core operations as described below.

Net income from core operations was $51 million and $255 million for the three and twelve months ended December 31, 2016, respectively, compared with $74 million and $251 million for the comparative periods in 2015, respectively. The decrease of $23 million in the quarter is primarily due to lower transmission customer rates, lower billing charge rates, higher depreciation, and lower income related to industrial services contracts, partially offset by higher approved distribution and water customer rates. The increase of $4 million for the twelve months ended December 31, 2016 was primarily due to higher approved distribution, transmission and water customer rates, gains on sale of surplus land, and water customer growth, partially offset by higher depreciation, lower billing charge rates and lower water volumes in Canada due to higher precipitation.

STRATEGY

EPCOR's vision is to be a premier essential services utility company in North America, trusted by our customers and valued by our shareholder. To achieve this vision, EPCOR must excel at its utility operations and be successful in its pursuit of new business growth opportunities. EPCOR's electricity strategy includes maintaining and developing new distribution and transmission infrastructure in its franchise service area as well as the development and / or acquisition of new rate-regulated or contracted assets and operations outside of its service area.

EPCOR's water strategy includes maintaining and developing new water and wastewater infrastructure within its municipal franchise service areas and the development and / or acquisition of new rate-regulated or contracted assets and operations outside of its service areas. This includes design, build, finance and operate services for municipal water and wastewater treatment infrastructure and the provision of water and wastewater treatment services and potable and process water for industrial customers.

We believe the long-term outlook for the North American electricity and water and wastewater treatment businesses remains strong. The demand for electricity and water and wastewater infrastructure in North America is expected to increase due to population growth, aging infrastructure, water scarcity and increased consumer expectations for reliable power, safe, high quality water and environmentally responsible wastewater treatment.

Over the next five years we plan to invest in electricity and water and wastewater treatment assets where appropriate returns are expected, operational excellence can be delivered and the environmental impact is acceptable. We will seek growth opportunities within our existing utility footprint, in addition to the new geographies in which we have made recent acquisitions. This includes exploring opportunities in natural gas distribution through acquisitions and greenfield development. EPCOR also intends to invest in the area of renewable energy generation, including solar and bio gas facilities to enhance our environmental performance.

Maintaining our investment grade credit rating to ensure access to capital through existing and new credit facilities and public or private debt financing offerings remains a priority. We recognize that we are not immune to recessionary trends and will remain vigilant to maintain a prudent balance of rate-regulated and contracted operations within our financial capacity.

KEY PERFORMANCE INDICATORS

Operational and financial performance is measured through financial and non-financial measures that are approved by the Board of Directors. The measures fall under four broad categories composed of: health, safety and environment; people; growth (financial); and operational excellence, and are applied across the Company.

There are specific measures established for each business unit and the corporate shared service group in alignment with the Company's strategy. For example, under the health, safety and environment category, safety performance is based on total recordable injury frequency. Business unit measures under the operational excellence category are focused on customer related measures relevant to the particular business unit, such as customer satisfaction survey results and service reliability.

Recordable injury frequency rates for EPCOR overall were better (lower) in 2016 as compared to 2015. We remain committed to building a culture that supports a workplace free of occupational injury and illness with minimized harm to the environment. Segment performance measures are discussed under Segment Results of this MD&A.

SIGNIFICANT EVENTS

Sale of Investment in Capital Power

The Company sold 5,901,850 and 9,141,636 common shares of Capital Power, respectively, for net proceeds of $135 million and $204 million for the three and twelve months ended December 31, 2016, respectively. As a result of the sale of Capital Power shares, for the three months and twelve months ended December 31, 2016, the Company reclassified fair value gains of $30 million and $42 million, respectively, from other comprehensive income to net income. These sales were consistent with the Company's intention to sell the shares over time as market conditions permit.

At December 31, 2016, the Company owned 249,364 common shares of Capital Power which were subsequently sold for net proceeds of $6 million in January 2017.

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

On August 19, 2016, the Company completed the acquisition of the assets of Blue Water Project 130 L.P. (Blue Water) and Cross County Water Supply Corporation (CCWSC) through EPCOR 130 Project Inc., a wholly owned U.S. subsidiary, and 130 Regional Water Supply Corporation, a Texas Water Supply Corporation of which EPCOR 130 Project Inc. is the sole member. The total consideration was $82 million (US$64 million).

The Blue Water and CCWSC assets include an 85 kilometer water supply pipeline, near Austin, Texas, U.S., with designed capacity of nearly 68 million liters per day, along with groundwater well production systems and long term wholesale water supply agreements (collectively the EPCOR 130 Pipeline).

$48 million (US$37 million) of the total consideration was paid at closing with the balance to be paid in the future, the majority of which is contingent on securing new long term contracts for the supply of water. The Company has recorded the full amount of this contingent consideration at fair value based on expected growth in the region. The Company funded the closing payment by issuing US$40 million of private debt notes with a 25-year term.

The allocation of the purchase price was determined based on the relative fair values of the acquired assets and liabilities. For further information on the fair value estimates, refer to the audited consolidated financial statements of EPCOR Utilities Inc. for the years ended December 31, 2016 and 2015.

Substantial Completion of Regina Wastewater Treatment Facility

During 2016, Water Services reached substantial completion of the wastewater treatment facility for the City of Regina under a public-private partnership. The construction was completed on time and on budget and the Company continued to operate the existing wastewater treatment facility during the construction period. The upgraded facility meets higher effluent standards as established by the Saskatchewan Water Security Agency, in response to the Federal Wastewater Systems Effluent Regulations, in addition to meeting the needs of a growing population. Water Services will continue to operate the wastewater treatment facility for the City of Regina for a total term of 30 years.

Termination of Suncor Financing and Operating Agreements

In February 2015, Suncor gave the Company notice that it would exercise its contractual rights to buy back the leased assets and terminate the related financing and operating agreements including the transfer of assets and operations back to Suncor over an 18-month period. The transfer of assets and operations back to Suncor was completed in August 2016 in accordance with the terms of the notice. This event did not have a material impact on the Company or its operations.

CONSOLIDATED FINANCIAL INFORMATION

($ million) Years ended December 31,	2016	2015	2014
Revenues	$ 1,932	$ 1,996	$ 1,904
Net income	309	260	191
Total assets	6,161	6,088	5,738
Loans and borrowings (non-current)	1,905	1,875	1,963
Other financial liabilities (non-current)	37	1	1
Common share dividends	141	141	141

Revenues

(unaudited, $millions)	Three months	Twelve Months
Revenues for the periods ended December 31, 2015	**$ 523**	**$ 1,996**
Lower Water Services segment revenues	(11)	(25)
Higher (lower) electricity Distribution and Transmission segment revenues	(20)	34
Lower Energy Services segment revenues	(21)	(60)
Other	3	(13)
Decrease in revenues from core operations	(49)	(64)
Revenues for the periods ended December 31, 2016	**$ 474**	**$ 1,932**

Consolidated revenues were lower by $49 million and $64 million for the three and twelve months ended December 31, 2016, respectively, compared with the corresponding periods in 2015 primarily due to the net impact of the following:

- Water Services segment revenues were lower for the three months ended December 31, 2016, compared with the corresponding period in 2015 primarily due to lower construction revenues from the Regina wastewater treatment plant project and lower industrial service contracts revenues, partially offset by higher customer rates and growth, and the EPCOR 130 Pipeline commercial revenue.

  Water Services segment revenues were lower for the twelve months ended December 31, 2016, compared with the corresponding period in 2015 primarily due to lower construction revenues from the Regina wastewater treatment plant project and lower water volumes in Canada due to higher precipitation, partially offset by higher customer rates and growth, higher industrial service contracts revenues, foreign exchange translation gains and the EPCOR 130 Pipeline commercial revenue.

- Electricity Distribution and Transmission segment revenues were lower for the three months ended December 31, 2016, compared with the corresponding period in 2015 primarily due to lower system access revenue and the collection of interim to final rate true-ups in 2015 with no corresponding collection in 2016.

  Electricity Distribution and Transmission segment revenues were higher for the twelve months ended December 31, 2016, compared with the corresponding period in 2015, primarily due to higher system access revenue and higher electricity customer rates.

- Energy Services segment revenues were lower for the three and twelve months ended December 31, 2016, compared with the corresponding periods in 2015 primarily due to lower electricity prices and lower billing charge rates, partially offset by customer growth. In addition, electricity volumes were lower for the twelve months ended December 31, 2016, compared with the corresponding period in 2015.

Net Income

We use income from core operations to distinguish operating results from the Company's water and electricity businesses from results with respect to its investment in Capital Power and changes in the fair value of financial instruments. In the first quarter of 2016, the definition of income from core operations was revised to exclude changes in the fair value of financial instruments. The change in the fair value of financial instruments is the difference between the opening fair value of the derivative instruments for the period and the closing fair value of the derivative instrument. Income from core operations is a non-IFRS financial measure which does not have any standardized meaning prescribed by IFRS and is unlikely to be comparable to similar measures published by other entities. However, it is presented below as it provides a useful income performance measure of the Company's core operations and may be referred to by debt holders and other interested parties in evaluating the Company's financial performance and in assessing its creditworthiness.

(Unaudited, $ millions)		**Three months**		**Twelve Months**
Net income for the period ended December 31, 2015	**$**	**65**	**$**	**260**
2015 change in the fair value of contracts-for-difference		3		(1)
2015 change in the fair value of interest rate swaps		-		5
2015 equity share of income (loss) from Capital Power L.P. (net of income tax expense)		9		(5)
2015 dividend income from available-for-sale investment in Capital Power		(4)		(10)
2015 gain on sale of a portion of investment in Capital Power L.P. (net of income tax)		(4)		(23)
2015 gain on reclassification of investment in Capital Power L.P. as available-for-sale investment (net of income tax)		(5)		(35)
2015 impairment of available-for-sale investment in Capital Power L.P.		10		60
2015 income from core operations		**74**		**251**
Higher (lower) Water Services segment operating income		(4)		13
Higher (lower) electricity Distribution and Transmission segment operating income		(13)		11
Lower Energy Services segment operating income excluding change in the fair value of contracts-for-differences		(9)		(8)
Lower (higher) income tax expense		1		(4)
Lower deferred income tax recovery		(2)		(4)
Higher net financing expense		-		(4)
Other		4		-
Increase (decrease) in income from core operations		(23)		4
2016 income from core operations		**51**		**255**
2016 change in the fair value of contracts-for-difference		2		7
2016 change in the fair value of interest rate swaps		5		(4)
2016 dividend income from available-for-sale investment in Capital Power		-		9
2016 fair value gain on available-for-sale investment in Capital Power reclassified from other comprehensive income		30		42
Net income for the period ended December 31, 2016	**$**	**88**	**$**	**309**

Changes in each business segment's operating results compared with the corresponding periods in 2015 are described in Segment Results below. Explanations of the remaining variances in net income for the three and twelve months ended December 31, 2016 are as follows:

- Greater favorable changes in the fair value of contracts-for-differences.
- Greater favorable fair value adjustments related to interest rate swaps which were realized upon settlement.

- EPCOR's equity share of income of Capital Power L.P. was lower for the three and twelve months ended December 31, 2016, compared with the corresponding period in 2015. This was due to the Company transitioning from equity accounting to accounting for its investment in Capital Power as an available-for-sale asset following the sale of Capital Power shares in April 2015, when the Company's ownership interest was reduced to below 10%.
- EPCOR's dividend income from the Capital Power shares was lower for the three months ended December 31, 2016, compared with the corresponding period in 2015 due to sell down of shares in the current quarter. EPCOR's dividend income from the Capital Power shares was lower for the twelve months ended December 31, 2016, compared with the corresponding periods in 2015. This was due to sell down of shares in the second half of 2016, partially offset by accounting for the investment in Capital Power as an available-for-sale asset commencing in the second quarter of 2015 as described above and an increase in the dividend rate.
- EPCOR recognized a gain on sale of a portion of its investment in Capital Power L.P. in 2015 with no corresponding transaction in 2016.
- EPCOR recognized a gain on the initial recognition of the investment in Capital Power as an available-for-sale investment with no corresponding gain in 2016.
- EPCOR recognized an impairment charge on the Capital Power shares in 2015 with no corresponding transaction in 2016.
- As a result of the sale of Capital Power shares, the Company reclassified fair value gains of $30 million and $42 million, for the three and twelve months ended December 31, 2016, respectively, from other comprehensive income to net income, with no corresponding reclassification in 2015.
- Income tax expense was lower for the three months ended December 31, 2016, compared with the corresponding period in 2015, primarily due to decreased tax expense in the Water Services segment resulting from decreased income in Canada. Income tax expense was higher for the twelve months ended December 31, 2016, compared with the corresponding period in 2015, primarily due to increased tax expense in the Water Services segment resulting from increased income in the U.S.
- Deferred income tax recovery was lower for the three months ended December 31, 2016, compared with the corresponding periods in 2015, primarily due to a lower projected increase in future taxable income. Deferred income tax recovery was lower for the twelve months ended December 31, 2016, compared with the corresponding period in 2015, primarily due to an increase in future tax rates in 2015 with no corresponding increase for 2016.
- Net financing expense was higher in the twelve months ended December 31, 2016, compared with the corresponding periods in 2015, primarily due to lower capitalized interest, higher foreign exchange on the interest expense for U.S. dollar denominated debt and new private debt notes issued in the year.

SEGMENT RESULTS

Water Services

EPCOR's Water business segment's primary objective is to provide safe and reliable water and wastewater services while meeting or exceeding all environmental requirements and delivering value to customers and the shareholder. Water Services operates in Canada and the U.S. The majority of Water Services' income in Canada is earned through a performance based rate tariff charged to its Edmonton customers. The performance based rate (PBR) tariff is intended to allow Water Services the opportunity to recover its costs and earn a fair rate of return while providing an incentive to manage costs below inflation and other prescribed adjustments built into the tariff. In October 2016, EPCOR's Water Services segment received the decision related to its 2017 – 2021

Edmonton water and wastewater PBR application. The decision reduced the return on equity (ROE) from 10.875% to 10.175%. The decision is not expected to have a material impact on the Company's results. Water Services also operates in the U.S. states of Arizona, New Mexico and Texas. Customer rates in Arizona and New Mexico are subject to approval by the Arizona Corporation Commission and the New Mexico Public Regulation Commission respectively. Customer rates are intended to allow EPCOR the opportunity to recover costs and earn a reasonable rate of return under a historical cost-of-service framework.

At December 31, 2016, Water Services owned three and operated 14 other water treatment and / or distribution facilities in Alberta and British Columbia. Additionally, Water Services owned one wastewater treatment facility and operated 18 other wastewater treatment and / or collection facilities in Alberta, British Columbia and Saskatchewan. In Arizona and New Mexico, EPCOR owned operations in 14 water utility districts, each containing one or more water treatment and / or distribution facilities, and six wastewater utility districts, each containing one or more wastewater treatment and / or collection facilities. The EPCOR 130 Pipeline delivers water through a 30 inch pipeline to four municipal customers near Austin, Texas under long-term contracts. While these wholesale water contracts are technically subject to Texas Public Utilities Commission appellate review, they are considered to be effectively unregulated.

Water Services' core market is stable as Water Services is the supplier of water and provider of wastewater services within its various operating districts. Operationally, the facilities owned or managed by Water Services generally performed according to plan in 2016. In the third quarter of 2016, persistent rainfall throughout the North Saskatchewan River watershed significantly impacted the river's water quality. Edmonton and region residents were asked to reduce water consumption for a short period of time. EPCOR was able to maintain the required quality of Edmonton's drinking water throughout the period.

In addition, Water Services provides competitive contract-based water and wastewater services, including financing, in certain arrangements, to municipal and industrial customers. In August 2016, several agreements with Suncor were terminated and all financing arrangements and leases were settled and repaid to the Company.

Work on several significant projects within Edmonton progressed in 2016. These projects include the annual water main renewal program to improve Edmonton's water distribution system, water distribution line relocation as a result of the City's light rail transit expansion, construction of a hydrovac sanitary grit treatment facility at Gold Bar and upgrades to pre-treatment and other infrastructure at the Gold Bar wastewater treatment facility.

Water Services Operating Income

($ millions, including intersegment transactions)		Three months ended December 31,		Twelve months ended December 31,	
		2016	**2015**	**2016**	**2015**
Revenues	Water sales	$ 119	$ 115	$ 485	$ 462
	Provision of services	25	28	114	110
	Construction revenues	14	24	50	102
	Finance lease income	1	3	14	14
		159	170	663	688
Expenses	Other raw materials and operating charges	44	49	159	203
	Staff costs and employee benefits expenses	31	36	128	127
	Depreciation and amortization	29	27	91	89
	Franchise fees and property taxes	7	8	28	28
	Other administrative expenses	9	6	33	32
		120	126	439	479
Operating income before corporate charges		39	44	224	209
Corporate charges		9	10	30	28
Operating income		**$ 30**	**$ 34**	**$ 194**	**$ 181**

	Three months ended December 31,	Twelve months ended December 31,
Operating income for the year end ended December 31, 2015	**$ 34**	**$ 181**
Higher approved customer rates and consumption	5	19
Higher (lower) industrial services margin	(7)	2
Foreign exchange	-	2
Higher operating costs excluding industrial and municipal services	(4)	(4)
Lower municipal services margin	-	(2)
Higher depreciation	(2)	(1)
Other	4	(3)
Increase (decrease) in operating income	(4)	13
Operating income for the year ended December 31, 2016	**$ 30**	**$ 194**

Water Services' operating income decreased by $4 million for the three months ended December 31, 2016, compared with the corresponding period in 2015 primarily due to lower income related to industrial services contracts, higher chemical and power costs, and higher depreciation, partially offset by higher approved customer rates and growth.

Water Services' operating income increased by $13 million for the twelve months ended December 31, 2016, compared with the corresponding period in 2015 primarily due to higher approved customer rates and growth, gains on sale of surplus land, higher income related to industrial services contracts and foreign exchange translation gains, partially offset by higher chemical and power costs, lower municipal service margin, lower water volumes in Canada due to higher precipitation and higher depreciation.

Year ended December 31,	2016	2015
Water volumes (megalitres)		
Water sales for Edmonton and surrounding region	126,364	129,993
Water sales for Arizona, New Mexico and Texas	85,894	79,528

Edmonton water sales decreased in 2016 compared with 2015 mainly due to higher precipitation, partially offset by customer growth. Arizona and New Mexico water sales increased in 2016 compared with 2015 primarily due to higher average temperatures and lower precipitation during the summer months. In addition, water sales were higher due to the acquisition of the EPCOR 130 Pipeline which delivers wholesale water to customers in Texas.

Distribution and Transmission

Distribution and Transmission's priority is to be a trusted provider of safe and reliable electricity, known for operational excellence through innovative and practical solutions. Distribution and Transmission earns income principally by transmitting high-voltage electricity through its facilities that form part of the Alberta Interconnected Electrical System to points of distribution, and from there, distributing lower voltage electricity to end-use customers. The transmission services are provided to the Alberta Electric System Operator (AESO). The distribution services are provided to electricity retailers such as Energy Services and other competitive retailers. Distribution and Transmission's assets are located in and around Edmonton and are rate-regulated by the Alberta Utilities Commission (AUC). Transmission charges a rate-regulated tariff intended to allow recovery of prudent costs and earn a fair rate of return on invested capital. Distribution earns income through a performance based rate tariff charged to its customers. The PBR tariff is intended to allow Distribution the opportunity to recover its costs and earn a fair return on capital while providing an incentive to manage costs below inflation and other prescribed adjustments built into the tariff. This segment also provides competitive contract-based commercial services related to installation, maintenance and repair of street lighting, traffic signals and light rail transit, primarily to the City.

The AUC issued its 2016 Generic Cost of Capital decision in October 2016. The AUC directed that the ROE for 2016 remain at 8.3% and increase to 8.5% in 2017 for all Alberta natural gas and electricity distribution and transmission utilities. The AUC also set a deemed equity ratio of 37% for both distribution and transmission utilities targeting the utilities' maintenance of a credit rating in the A category. This decision results in a 3% decrease and a 1% increase in the deemed equity ratios for the EPCOR distribution and transmission utilities, respectively. The various true-ups related to the decision will occur over the next several years. The decision will not have a material impact on the financial results of the Company.

Distribution and Transmission Operating Income

($ millions, including, intersegment transactions)		Three months ended December 31,		Twelve months ended December 31,	
		2016	**2015**	**2016**	**2015**
Revenues	Distribution	$ 96	$ 104	$ 436	$ 408
	Transmission	25	35	97	94
	Commercial and other	26	28	101	98
		147	167	634	600
Expenses	Energy purchases and system access fees	26	38	182	175
	Other raw materials and operating charges	14	15	49	48
	Staff costs and employee benefits expenses	21	21	85	86
	Depreciation and amortization	24	20	80	69
	Franchise fees and property taxes	18	17	71	69
	Other administrative expenses	4	3	16	16
		107	114	483	463
Operating income before corporate charges		40	53	151	137
Corporate charges		7	7	29	26
Operating income		**$ 33**	**$ 46**	**$ 122**	**$ 111**

	Three months ended December 31,	Twelve months ended December 31,
Operating income for the year end ended December 31, 2015	**$ 46**	**$ 111**
Higher distribution approved customer rates and net system access collections	4	19
Higher (lower) transmission customer rates	(10)	3
Higher depreciation expense	(4)	(11)
Other	(3)	-
Increase (decrease) in operating income	(13)	11
Operating income for the year ended December 31, 2016	**$ 33**	**$ 122**

Distribution and Transmission's operating income decreased by $13 million for the three months ended December 31, 2016, compared with the corresponding period in 2015 primarily due to lower transmission customer rates resulting from an interim to final rate true-up in 2015 and higher depreciation in 2016. This was partially offset by higher distribution approved customer rates and higher net system access collections.

Distribution and Transmission's operating income increased by $11 million for the twelve months ended December 31, 2016, compared with the corresponding period in 2015, primarily due to higher distribution approved customer rates, higher net system access collections and higher transmission customer rates. This was partially offset by higher depreciation.

Year ended December 31,	2016	2015
Distribution reliability volumes		
Reliability (system average interruption duration index in hours)	0.92	0.91
Electricity distribution (gigawatt-hours)	7,609	7,669

Distribution and Transmission's primary measure of distribution system reliability is the System Average Interruption Duration Index (SAIDI), which it focuses on minimizing. This measure captures the annual average number of hours of interruption experienced by Distribution and Transmission's customers, including scheduled and unscheduled interruptions to its primary distribution circuits. In 2016, the SAIDI was 0.92 hours which is comparable to 0.91 in 2015. Distribution and Transmission will continue with its reliability improvement programs to further address controllable factors and help maintain and improve overall system reliability. Electricity distribution volumes in 2016 were relatively flat year over year.

Energy Services

The Energy Services' business focuses on providing cost effective retail electricity service and efficient customer care through a highly skilled, knowledgeable, caring and engaged customer service team. Energy Services earns income from selling electricity to customers under a regulated rate tariff (RRT) and default rate (customers with higher electricity volumes that are not under a competitive contract) in the EPCOR Distribution and Transmission Inc. and FortisAlberta Inc. service areas and several Rural Electrification Association service territories. The RRT is intended to allow Energy Services to recover its prudent costs and earn a return margin. Customers under the RRT are residential, farm and small commercial customers who are not under a competitive contract and receive their electricity under the RRO. Energy Services also provides billing, collection, and contact center services to other EPCOR operations and the City Waste and Drainage Services departments. Energy Services focuses on providing excellent service experiences for its customers and measures call answer performance, billing performance, and customer satisfaction. These results are reported to the AUC on a quarterly basis.

Energy Services' allowed electricity revenue is determined in accordance with an energy price setting plan (EPSP) approved by the AUC. Under the EPSP, Energy Services manages its exposure to customer load and fluctuating wholesale electricity spot prices by entering into financial electricity purchase contracts up to 120 days in advance of the month of consumption under a well-defined risk management process. Energy Services received approval of their 2016 – 2018 EPSP in the first quarter of 2016 and the Company implemented the new plan in the third quarter of 2016. The plan will adapt more quickly to changes in wholesale market conditions thereby reducing EPCOR's risk with commensurately lower risk compensation. Energy Services filed the next iteration of the EPSP applicable for 2018 – 2021 in January 2017.

In May 2014, Energy Services entered the competitive retail market by offering electricity and natural gas contracts to Alberta consumers under the Encor brand in order to mitigate the impact of RRO customer attrition. The expanded service offering, including green energy options, provides customers wishing to move from the RRO to a competitive contract with an EPCOR offering.

Energy Services Operating Income

($ millions, including, intersegment transactions)		Three months ended December 31, 2016	2015	Twelve months ended December 31, 2016	2015
Revenues	Electricity sales	$ 200	$ 221	$ 782	$ 844
	Provision of services	12	12	41	39
		212	233	823	883
Expenses	Energy purchases and system access fees	184	204	707	770
	Staff costs and employee benefits expenses	7	7	28	27
	Depreciation and amortization	1	1	6	6
	Other administrative expenses	8	6	27	24
		200	218	768	827
Operating income before corporate charges		12	15	55	56
Corporate charges		3	2	10	9
Operating income		**9**	**13**	**45**	**47**
Exclude change in the fair value of contracts-for-difference		(2)	3	(7)	(1)
Operating income excluding change in the fair value of contracts-for-difference		**$ 7**	**$ 16**	**$ 38**	**$ 46**

	Three months ended December 31,	Twelve months ended December 31,
Operating income excluding change in the fair value of contracts-for-difference for the year end ended December 31, 2015	**$ 16**	**$ 46**
Higher (lower) EPSP margins	(1)	8
Lower billing charge rates	(6)	(15)
Other	(2)	(1)
Decrease in operating income	(9)	(8)
Operating income excluding change in the fair value of contracts-for-difference for the year end ended December 31, 2016	**$ 7**	**$ 38**

Energy Services' operating income, excluding change in the fair value of contracts-for-differences, decreased by $9 million for the three months ended December 31, 2016, compared with the corresponding period in 2015 primarily due to lower billing charge rates and lower EPSP margins.

Energy Services' operating income excluding change in the fair value of contracts-for-differences decreased by $8 million for the twelve months ended December 31, 2016, compared with the corresponding period in 2015 primarily due lower billing charge rates, partially offset by higher EPSP margins and growth in competitive business.

Energy Services' retail sales volumes were as follows:

Year ended December 31,	2016	2015
Electricity (gigawatt hours)		
RRT	4,919	4,947
Default and competitive supply	772	761
Total Electricity	5,691	**5,708**

Energy Services' RRT sales volume decreased in 2016 compared with 2015 primarily due to a decrease in the average consumption per site. The increased default and competitive supply sales volume was primarily due to an increase in the number of competitive supply sites served, partially offset by a decrease in the number of default sites served.

Capital Spending and Investment

($ million) **Years ended December 31,**	**2016**	**2015**	**2014**
Water Services segment	206	214	175
Electricity Distribution and Transmission segment	281	235	200
Energy Services segment	4	1	2
Corporate segment	11	13	8
	502	463	385
Business acquisition	51	-	-
Total capital spending and investment	**$ 553**	**$ 463**	**$ 385**

In 2016, we continued to invest in our infrastructure assets to improve reliability and meet increasing electricity and treated water and wastewater demands. Total capital spending and investment was higher in 2016 compared with 2015 primarily due to the acquisition of the assets of Blue Water and CCWSC, increased spending in the Distribution and Transmission segment on the installation of advance meter infrastructure for customers in Edmonton and renovations to its major work centre, and increased spending in the Water Services segment on lifecycle projects. This was partially offset by decreased spending in the Distribution and Transmission segment on growth projects and decreased spending in the Water Services segment primarily due to the completion of construction of the new laboratory and office building at the Rossdale location in 2015 as well as decreased spending at Gold Bar and at the Walker and Big Lake booster stations in Edmonton.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - ASSETS

($ millions)	December 31, 2016	December 31, 2015	Increase (decrease)	Explanation of material changes
Cash and cash equivalents	$ 191	$ 36	$ 155	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	325	620	(295)	Decrease primarily due to payment of the current portion of the Capital Power receivable related to the back-to-back debt, the Suncor receivable payment, the Regina milestone and substantial completion payments and lower electricity billings and accruals resulting from lower electricity price and volumes, partially offset by an increase in the current portion of the Regina long-term receivable (see below).
Available-for-sale investment in Capital Power	6	167	(161)	Decrease due to sale of a substantial portion of the Capital Power shares, partially offset by fair value adjustments. The investment has been reclassified from non-current to current.
Inventories	14	15	(1)	
Other financial assets	265	317	(52)	Decrease primarily due to portions of the Regina long-term receivable reclassified to trade and other receivables and receipt of the Chestermere long-term receivable payment, net of construction financing.
Deferred tax assets	84	77	7	Increase due to recognition of tax loss carry forward balances.
Property, plant and equipment	4,983	4,568	415	Increase primarily due to capital expenditures and the acquisition of the assets of Blue Water and CCWSC, partially offset by depreciation, unfavorable foreign currency valuation adjustments, sales of surplus land, and asset retirements.
Intangible assets and goodwill	293	288	5	Increase primarily due to the acquisition of the assets of Blue Water and CCWSC and capital expenditures, partially offset by amortization of assets with finite lives and unfavorable foreign currency valuation adjustments.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – LIABILITIES AND EQUITY

($ millions)	December 31, 2016	December 31, 2015	Increase (decrease)	Explanation of material changes
Trade and other payables	299	259	40	Increase primarily due to higher capital accruals and higher gas purchases and other payables, partially offset by lower electricity accruals resulting from lower electricity volumes.
Loans and borrowings (including current portion)	1,920	2,117	(197)	Decrease primarily due to repayment of short-term and long-term debt, including the Capital Power back-to-back debt, and favorable foreign currency valuation adjustments on U.S. dollar denominated debt, partially offset by proceeds from long-term debt issuance.
Deferred revenue (including current portion)	1,041	991	50	Increase primarily due to contributions received and transfer of non-refundable contributions from customers and developers from provisions (see below), partially offset by deferred revenue recognized and favorable foreign currency valuation adjustments.
Provisions (including current portion)	111	121	(10)	Decrease primarily due to payout of employee benefits, transfer of non-refundable contributions from customers and developers to deferred revenue (see above) and favorable foreign currency valuation adjustments, partially offset by employee benefits accrual and net receipts of contributions.
Derivative liabilities (including current portion)	-	12	(12)	Decrease primarily due to settlement of interest rate swap.
Other liabilities (including current portion)	72	38	34	Increase primarily due to the contingent consideration recorded on the acquisition of the Blue Water and CCWSC assets.
Deferred tax liabilities	46	35	11	Increase primarily due to tax depreciation in excess of accounting depreciation.
Equity attributable to the Owner of the Company	2,672	2,515	157	Increase due to increase in comprehensive income partially offset by dividends paid.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ millions) **Cash inflows (outflows)** **Three months ended December 31,**	**2016**	**2015**	**Increase (decrease)**	**Explanation**
Operating	$ 109	$ 112	$ (3)	Decrease reflects lower funds from operations as a result of reduced income from core operations, offset by changes in non-cash operating working capital resulting primarily from an increase in accounts payables.
Investing	24	(154)	178	Increase primarily due to proceeds from the partial sale of the Capital Power shares and payments received on other financial assets including Chestermere and the Regina substantial completion payment, partially offset by higher capital expenditures and lower proceeds from disposal of assets.
Financing	(27)	44	(71)	Decrease primarily due to higher issuance of short-term loans and borrowings in 2015, partially offset by higher receipt of contributions from developers and customers.
Opening cash and cash equivalents	85	34	51	
Closing cash and cash equivalents	$ 191	$ 36	$ 155	

($ millions) **Cash inflows (outflows)** **Twelve months ended December 31,**	**2016**	**2015**	**Increase (decrease)**	**Explanation**
Operating	$ 475	$ 416	$ 59	Increase primarily reflects higher funds from changes in non-cash operating working capital, partially offset by lower funds from operations. The higher funds from non-cash operating working capital resulted from a decrease in trade and other receivables and a higher increase in accounts payable. The lower funds from operations are primarily a result of higher interest paid and lower contributions received.
Investing	1	(257)	258	Increase primarily due to higher payments received on other financial assets including the payment received from Capital Power related to the back-to-back debt, the Suncor lease receivable payment, the Chestermere payment, and the Regina milestone and substantial completion payments, partially offset by lower proceeds on the partial sale of Capital Power shares, the acquisitions of the Blue Water and CCWSC assets, and higher capital expenditures.
Financing	(321)	(160)	(161)	Decrease primarily due to higher repayments of long-term and short-term loans and borrowings, net of proceeds from debt issuance and higher receipt of contributions from developers and customers.
Opening cash and cash equivalents	36	37	(1)	
Closing cash and cash equivalents	$ 191	$ 36	$ 155	

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 in 2017 with a combination of cash on hand, cash flow from operating activities, interest and principal payments related to long-term loans receivable from Capital Power, the issuance of commercial paper, public or private debt offerings and draws upon existing credit facilities described below under Financing. Cash flows from operating activities would be impaired by events that cause severe damage to our facilities and would require unplanned cash outlays for system restoration repairs. Under those circumstances, more reliance would be placed on our credit facilities for working capital requirements until a regulatory approved recovery mechanism or insurance proceeds were in place.

Capital Requirements and Contractual Obligations

EPCOR's projected capital requirements for 2017 include $500 million to $650 million for investment in existing businesses and new business development.

The following table represents the Company's contractual obligations by year:

($ millions)	2017	2018	2019	2020	2021	2022 and thereafter	Total
Distribution and Transmission segment projects[1]	$ 24	$ 40	$ 13	$ 7	$ 7	$ -	$ 91
Water Services segment projects[2]	13	-	-	-	-	-	13
Water Services power contracts[3]	9	6	3	3	3	-	24
Water purchase and transportation of water agreements[4]	9	2	-	-	-	4	15
Billing and customer care services agreement[5]	4	4	4	3	3	-	18
Loans and borrowings net of sinking fund payments received[6]	10	409	7	7	193	1,297	1,923
Interest payments on loans and borrowings	112	100	80	79	79	1,141	1,591
Operating leases, net[7]	10	10	9	8	7	77	121
Total contractual obligations	$ 191	$ 571	$ 116	$ 107	$ 292	$ 2,519	$ 3,796

1 The Company has commitments for several Distribution and Transmission projects as directed by the AESO.

2 The Company has commitments for several Water Services projects in Canada through contract agreements.

3 The Company has commitments to purchase power for its Edmonton wastewater treatment plant, water treatment plants and distribution sites. The agreements expire on or before December 31, 2021. Under the terms of the agreement, the Company is committed to purchase minimum contracted quantities at a fixed price. There are no early termination or cancellation clauses in this agreement.

4 Water Arizona maintains agreements with the Central Arizona Water Conservation District for the purchase and transportation of water. These agreements are for terms of 100 years expiring at the end of 2107. Under the terms of these agreements, the Company is committed for the amount of water ordered in the fall of each year to be purchased and transported the following year.

Water New Mexico maintains agreements with the various well owners for the purchase of water. These agreements are generally for terms of ten years. Under the terms of these agreements, certain minimum purchases are due each year in order to maintain the agreements until they expire.

5 The Company has entered into an agreement for billing and customer care services for Water Arizona and Water New Mexico. The contract term is for ten years, expiring on August 31, 2021.

6 A portion of the $409 million repayment in 2018 will be funded by collection of $174 million on the long-term loans receivable from Capital Power.

7 In 2007, the Company entered into a long-term agreement to lease commercial space in a new office tower in Edmonton, Canada, primarily for its head office (head office lease). The agreement, which became effective in the fourth quarter of 2011, has an initial lease term of approximately 20 years, expiring on December 31, 2031, and provides for three successive five-year renewal options.

Under the terms of the lease, the Company’s annual lease commitments, net of annual payments to be paid to the Company by Capital Power and another company under the sub-leases receivable are as follows:

($ millions)	Minimum lease payable
January 1, 2017 through December 31, 2022	$ 6
January 1, 2023 through December 31, 2023	7
January 1, 2024 through December 31, 2031	8

All of the Company’s operating lease obligations for premises, net of subleases receivable, are included in the contractual obligations table above.

If Drainage is transferred to EPCOR under the current proposal, as described in more detail in the Outlook section, EPCOR will assume assets and liabilities of approximately $3.3 billion and $0.7 billion, respectively. As well, EPCOR has proposed an increase in the dividend of $20 million subject to Board and Shareholder approval. For the first year of operations, capital spending is expected to be approximately $120 million to $200 million.

As a result of the acquisition of the Blue Water and CCWSC assets, the Company is committed to pay Blue Water a fee which is contingent on securing new long term contracts for the supply of water. This fee is capped at US$32 million with no time limit for payment of the fee. The Company is reasonably certain that it will be required to settle this commitment by way of cash payment and has accordingly recognized the liability for contingent consideration in the consolidated statement of financial position.

During the year, the Company terminated the long term “pay fixed, receive floating” interest rate swap, related to Regina, by settlement of the outstanding liability of $14 million to the counterparty. Subsequent to the year ended December 31, 2016, the remaining short term interest rate swap was also settled.

As at March 3, 2016, there were three common shares of the Company outstanding, all of which are owned by the City. In 2016, the annual dividend was set at $141 million (2015 - $141 million). As a result of EPCOR’s consistent and sustainable performance, EPCOR’s Board of Directors proposed to EPCOR’s shareholder that the EPCOR annual dividend paid to the City be increased by $5 million to $146 million commencing in 2017. EPCOR’s Shareholder approved this recommendation, and in accordance with the EPCOR Dividend Policy, this amount will remain in effect until such time as the EPCOR Board recommends that it be changed.

In the normal course of business, EPCOR provides financial support and performance assurances, including guarantees, letters of credit and surety bonds, to third parties in respect of its subsidiaries.

Financing

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

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

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

($ millions) **December 31, 2016**	**Expiry**	**Total facilities**	**Banking commercial paper issued**	**Letters of credit and other facility draws**	**Net amounts available**
Committed					
Syndicated bank credit facility[1]	November 2019	$ 200	$ -	$ 73	$ 127
Syndicated bank credit facility	November 2020	350	-	-	350
Total committed		550	-	73	477
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Total credit facilities		**$ 575**	**$ -**	**$ 73**	**$ 502**

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

1 Restricted to letters of credit.

Letters of credit are issued to meet the credit requirements of energy market participants and conditions of certain service agreements. Letters of credit totaling $73 million (2015 - $48 million) were issued and outstanding at December 31, 2016.

The committed syndicated bank credit facilities cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's committed syndicated bank credit facilities gives the Company the option each year to re-price and extend the terms of the facilities by one or more years subject to agreement with the lending syndicate. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates. In November 2016, the $200 million committed syndicated bank credit facility was extended by one year to November 2019. At this time, the covenants attached to both credit facilities were renegotiated.

The Company has a Canadian base shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At December 31, 2016, the available amount remaining under this base shelf prospectus was $1 billion (December 31, 2015 - $1 billion). The base shelf prospectus expires in December 2017.

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

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

Credit Ratings

Years ended December 31,	2016	2015	2014
Credit ratings			
Standard & Poor's Rating Services:			
Long-term debt	A-	A-	A-
DBRS Limited:			
Short-term debt	R-1 (low)	R-1 (low)	R-1 (low)
Long-term debt	A (low)	A (low)	A (low)

In August 2016, DBRS confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt ratings for EPCOR and Standard & Poor's Ratings Services confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR.

These credit ratings reflect the Company's ability to meet its financial obligations given the stable cash flows generated from the rate-regulated water and electricity businesses. The Company's continued sell-down of its interest in Capital Power in addition to the initial sale of the power generation assets in 2009 served to improve certain creditworthiness measures. The Company will continue to be indirectly exposed to power generation related risks primarily through its remaining long-term loans receivable from Capital Power until they are entirely repaid to EPCOR in 2018. Once the long-term loans receivable are repaid, the Company's creditworthiness is expected to improve even further. Improvement in the Company's creditworthiness may not result in further credit rating upgrades. A credit rating downgrade for EPCOR could result in higher interest costs on new borrowings and reduce the availability of sources and tenor of investment capital.

Financial Covenants

EPCOR is currently in compliance with all of its financial covenants in relation to its 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 result 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.

The key financial covenants and their thresholds, as defined in the respective agreements, and EPCOR's actual measures at December 31, 2016 and December 31, 2015 were as follows:

	Actual 2016	Financial Covenant 2016	Actual 2015	Financial Covenant 2015
Modified consolidated net tangible assets to consolidated net tangible assets[1]	100%	> or = 80%	100%	> or = 85%
Consolidated senior debt to consolidated capitalization ratio[2]	42%	< or = 75%	45%	< or = 70%
Interest coverage ratio[3]	5.35	> or = 1.75:1.00	6.21	> or = 1.75:1.00
Debt issued by subsidiaries to consolidated net tangible assets[4]	0%	< or = 12.5%	0%	< or = 12.5%

1 Modified consolidated net tangible assets to consolidated net tangible assets refers to the total assets of the material subsidiaries of the Company on a consolidated basis, less intangible assets, the Capital Power investment adjusted for cash distributions, and the back-to-back debt expressed as a percentage of the total assets of the Company on a consolidated basis, less intangible assets, the Capital Power investment adjusted for cash distributions and the back-to-back debt.

2 Consolidated senior debt to consolidated capitalization refers the Company's total unsubordinated long-term debt expressed as a percentage of total unsubordinated long-term debt plus and shareholder's equity. This excludes subordinated debt which has a lower ranking for repayment.

3 Interest coverage ratio refers to the Company's ability to pay the interest that arises on outstanding debt. It is calculated by dividing the Company's operating income before interest income and depreciation and amortization expense plus cash distributions and dividends received from Capital Power by the Company's interest expense on loans and borrowings less interest income. The interest coverage ratio is not applicable if the Company has an investment grade credit rating.

4 Limitation of debt issued by subsidiaries refers to the total debt held by the Company's subsidiaries that is not guaranteed by the Company plus total debt held by material subsidiaries which is secured by the subsidiaries' assets, expressed as a percentage of the Company's total assets less any intangible assets.

OUTLOOK

In 2017, we will continue to focus on growth in rate-regulated water and electricity infrastructure. We expect this investment to come from new infrastructure to accommodate customer growth and lifecycle replacement of existing infrastructure primarily related to the Edmonton and U.S. based operations. EPCOR intends to expand our water and electricity commercial services activities and to invest in the area of renewable energy generation, including solar and bio gas facilities to enhance our environmental performance.

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

In January 2017, Edmonton City Council asked its administration to prepare a Letter of Intent (LOI) for the potential transfer of its Drainage Utility Services (Drainage) to EPCOR. The LOI is intended to outline the terms of a possible transfer, and is to include assurances from EPCOR on matters such as transparency into operations, public consultation, audit rights and the requirement for a public hearing should a divestiture occur in the future. It will be brought back to Council in April 2017 for further consideration. EPCOR currently operates three of the four components of the City's water utility cycle – water treatment, water distribution and wastewater treatment. The City's Drainage department operates the fourth component of the water system, the wastewater and storm water collection system.

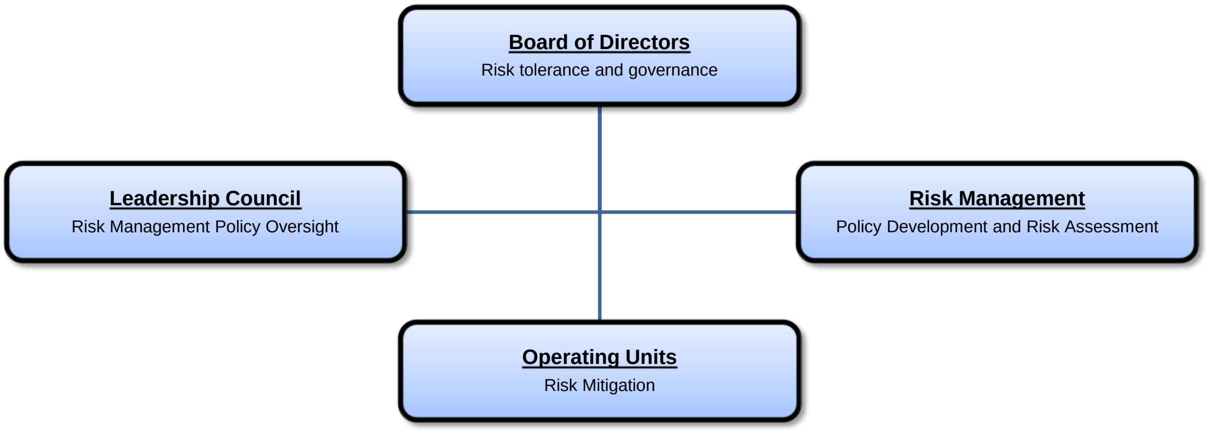
In November 2016, the Alberta government released several announcements impacting the electricity industry including the details of its Climate Change Plan. Among other things, these announcements included a cap on the RRO, a ban on door-to-door sales, and a shift to a capacity market framework from the existing energy-only market regime. These initiatives may lower the risk of RRO customer attrition in the long term. EPCOR's preliminary view is that these changes will not have a material impact. Energy Services will continue to evaluate these changes and determine any further course of action after consultations with the government and the AUC.

Also in November 2016, the Company entered into a definitive asset purchase agreement to acquire substantially all of the assets of Natural Resource Gas Limited (NRGL) for consideration of $21 million, subject to certain adjustments. NRGL is a natural gas distributor in southwestern Ontario near London, providing services to approximately 8,000 residential, commercial and industrial customers in the counties of Elgin, Middlesex, Oxford and Norfolk. The arrangement requires regulatory approval from the Ontario Energy Board, for which an application has been filed. The Company expects to complete the transaction by mid-2017.

EPCOR has been awarded franchises by three municipalities in the Southern Bruce region of Ontario near Kincardine to build and operate a natural gas distribution system. In March 2016, EPCOR applied to the Ontario Energy Board (OEB) for the approval of these franchise agreements. In January 2017 the OEB requested indications of interest from any parties interested in servicing these areas. A single company did indicate an interest and the OEB is now developing a process for hearing competing applications.

RISK FACTORS AND RISK MANAGEMENT

Approach to risk management



Our approach to Enterprise Risk Management (ERM) is to manage the key controllable risks facing the Company and consider appropriate actions to respond to uncontrollable risks. ERM includes the controls and procedures implemented to reduce controllable risks to acceptable levels and the identification of the appropriate management actions in the case of events occurring outside of management's control. Acceptable levels of risk and risk appetite for EPCOR are established by the Board of Directors, representing the shareholder, and are embodied in the decisions and corporate policies associated with risk management. EPCOR's framework for ERM is aligned with the Committee of Sponsoring Organizations 2004 Integrated ERM Framework and the ERM process follows CAN / CSA ISO 31000-10 Risk Management – Principles and Guidelines. EPCOR's ERM program and the risk management framework and process it supports is designed to identify, assess, measure, manage, mitigate and report on EPCOR's significant risks. The goal is to create and sustain business value by helping the Company reach its business objectives and strategies through better management of risk. The program promotes a common framework and language for managing risk across EPCOR. General ERM framework oversight, reviews and recommendations of risk compliance are provided by management and are based upon the objectives, targets and policies approved by the Board of Directors.

The Corporate Treasurer is responsible for developing the framework and assessing risk at an enterprise level and in conjunction with the Company's internal audit function, monitoring compliance with risk management policies. The Corporate Treasurer provides the Board of Directors with an enterprise risk assessment quarterly. The business units and shared service units are responsible for carrying out the risk management and mitigation activities associated with the risks in their respective operations. These risk management activities are integral aspects of the business units' and shared service units' operations. 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.

Large scale emergencies resulting from various events discussed below may have a significant impact on the Company's ability to provide services that are considered essential services to the public. Maintaining essential services is critical to EPCOR's customers and EPCOR's reputation. The Company manages its ability to continually deliver services with emergency response protocols and business continuity plans which are periodically tested through various exercises and scenarios. These procedures provide assurance that the

Company has the coordination, capacity and competence to respond appropriately to emergency situations arising from various forms of risk.

The Company's Ethics Policy includes procedures which provide for confidential disclosure of any wrong-doing relating to accounting, reporting and auditing matters. The policy prohibits any retaliation against any person making a complaint. During 2016, no significant substantiated complaints with respect to accounting, financial reporting and auditing matters were received under the Ethics Policy.

Strategy Execution Risk

Our growth strategy is dependent on the development, acquisition and operation of linear infrastructure for municipal, commercial and industrial customers in Canada and the U.S. Opportunities in Canada may be impacted by depressed oil prices and the weak Canadian economy for the foreseeable future. This could slow or delay the Company's growth plans.

Such growth is dependent on opportunities in the marketplace which will be impacted by the willingness of parties to sell such assets, political and public sentiment regarding third party ownership and EPCOR's cost competitiveness. These risks could result in delays or curtailment of EPCOR's growth plans.

Business development projects, including acquisitions, can take a relatively long period of time to execute, exposing such projects to event and external factor risks that may emerge and thereby alter project economics or completion.

For each new business development project, EPCOR seeks to ensure project success by addressing project risks, including events and external factors, as part of its due diligence process and project execution.

Political and Legislative Risk

EPCOR is subject to risks associated with changing political conditions and changes in federal, provincial, state, local or common law, regulations and permitting requirements in Canada and the U.S. It is not always possible to predict changes in laws or regulations that could impact the Company's operations, income tax status or ability to renew permits as required.

In December 2016, the Government of Alberta enacted Bill 21: the Modernized Municipal Government Act which could impose restrictions on the ability of a municipally controlled corporation (MCC) to conduct its business. EPCOR, which is a MCC of the City of Edmonton, was previously exempted from the MGA and a similar exemption is not present in the new MGA. EPCOR is working to ensure the previous exemption is re-instated as the related regulations are developed. The risk could materially impact EPCOR's ability to execute on its Long Term Plan.

Regulatory Risk

EPCOR is subject to risks associated with the rate regulation of the majority of its operations. Such processes can result in significant lags between the time when customer rates or tariffs are applied for and the time that regulatory decisions are received. Furthermore, the regulator may deny or alter the applied for customer rates or tariffs.

EPCOR's water treatment and distribution services to customers within Edmonton are rate regulated by Edmonton City Council pursuant to the 2012 – 2016 PBR Bylaw. In October 2016, EPCOR's Water Services segment received the decision related to its 2017 – 2021 Edmonton water and wastewater performance-based rate application for the five year period commencing April 1, 2017. The renewal also incorporated the costs associated with the provision of wastewater treatment services supplied from the Gold Bar wastewater treatment plant. Our ability to fully recover operating and capital costs and to earn a fair return is dependent upon achieving the performance targets prescribed in the bylaw, maintaining cost increases below inflation, managing operational risks and not exceeding approved capital additions. Rates for water sales to regional water commissions surrounding Edmonton are regulated by the AUC on a complaints-only basis. EPCOR sets the rates it charges to the regional water commissions to recover actual operating and capital costs including a fair rate of return.

Water and wastewater services provided by EPCOR’s U.S. subsidiaries are subject to state laws and regulation by the state regulatory commissions within Arizona, New Mexico and Texas. Our ability to fully recover operating and capital costs and earn a fair return is dependent upon achieving our capital and operating cost targets built into the rates, and meeting the customer growth and water usage targets built into the rates. Since rates are established on a historical cost basis, any new capital additions for water or wastewater infrastructure must be carefully planned and evaluated before commencement since the addition of such costs to the regulatory rate base for subsequent recovery will only take place after the new infrastructure is built and the regulator approves the rate base additions through the rate application process.

The AUC utilizes a PBR structure for electricity and natural gas distribution utilities in Alberta. Under PBR, EPCOR’s annual electricity distribution rates are set by a formula that is generally equal to last year’s rate plus an inflation factor less a productivity factor plus a provision for additional approved capital additions. Capital projects may be applied for annually in a separate capital application (capital tracker). Our ability to recover the actual costs of providing service and to earn a fair return is dependent upon maintaining cost increases at or below inflation, achieving the productivity factor and not exceeding the approved capital additions, all as defined by the PBR formula or approved in a capital tracker application. The current performance based framework will set rates to December 31, 2017.

In December 2016, the AUC issued its 2018-2022 PBR decision (Next Generation PBR) continuing the use of a performance based framework to December 31, 2022. EPCOR's electricity distribution rates for 2018 will be based on approved capital additions to the end of 2017 and actual operating and capital expenditures incurred during the 2013-2017 PBR term. The productivity factor in the Next Generation PBR term will be 0.3%, down from 1.16% currently. In addition, the Next Generation PBR decision also revised the criteria for capital tracker applications which will limit the volume of eligible capital projects.

In November 2013, the AUC issued a decision in the Utility Asset Disposition Review proceeding directing that certain gains or losses due to extraordinary retirement of assets be borne by shareholders and not to be reflected in customer rates. In September 2015, the Alberta Court of Appeal (the Court) upheld the AUC’s decision.

Health and Safety Risk

The Company is responsible for ensuring that the potable water it sells to customers is safe to drink. Water Services performs continuous and rigorous quality control testing of water purification consistent with government and industry standards to prevent public health issues due to inadequately treated, stored or distributed drinking water. The ability of the water treatment plants to meet potable water quality standards is dependent on continuous water testing in order that the prescribed requirements under regulation or conventional industry standards are met. Failure to properly maintain fully functioning treatment and measurement systems could result in regulatory fines or the occurrence of public health issues.

In Alberta, water quality for EPCOR’s operations is regulated under the provincial *Environmental Protection and Enhancement Act* (EPEA). Regulation under the EPEA takes the form of an “Approval to Operate” which, among other things, specifies the quality of the treated water, the number, frequency and form of water quality testing, as well as mandatory standards for the water treatment process. The drinking water quality requirements in Alberta meet or exceed the National Guidelines for Canadian Drinking Water Quality recommended by Health Canada.

Raw water quality is an important factor in the treatment of potable water. In Edmonton, we obtain surface water from the North Saskatchewan River to treat and sell to customers in the greater Edmonton area. The North Saskatchewan Watershed Alliance, among other things, aims to protect and improve North Saskatchewan River water quality by developing and sharing knowledge and facilitating workshops with members and interested parties.

Drinking water quality and wastewater standards for EPCOR’s U.S. operations are regulated by the U.S. Environmental Protection Agency (U.S. EPA) under the Safe Drinking Water Act and Clean Water Act, respectively. Among other things, the U.S. Environmental Protection Agency sets drinking water standards specifying the treatment, source water protection, operator training and funding for water system improvement and relies on the states and localities to carry out the standards. Oversight of water and wastewater systems is conducted by state and county authorities to the degree that they establish standards at least as stringent as the U.S. EPA.

In Arizona, we obtain surface water primarily from the Central Arizona Project canal to treat and sell to customers. The Central Arizona Project conducts water quality testing upstream of the take-off points and has a formal notification process in place to notify our Arizona operations of any water quality issues that may arise. Process and compliance sampling results are stringently analyzed and trended for all groundwater and surface water systems in Arizona and New Mexico to ensure systems continue to meet all regulatory standards. Each system in Arizona and New Mexico has an Emergency Operations Plan which addresses water quality issues and provides further risk mitigation.

There are no formal watershed protection groups in the Arizona and New Mexico service areas. The Arizona Department of Environmental Quality and New Mexico Environment Department oversee the water systems in their states, respectively. Water wells in Arizona, New Mexico and Texas are protected from contamination by proper well construction and system operation and management.

Our operations have hazardous elements, such as high voltage electricity and hazardous chemicals that could have adverse health and safety consequences to our employees, on-site suppliers and customers.

We manage health, safety and environment (HSE) risks through a management system and measure HSE performance against recognized industry and internal performance measures. We conduct external and internal compliance and conformance audits to verify that we meet or exceed all regulatory requirements. We are committed to working with industry partners to share and improve health, safety and environment practices within the industry. In 2016, all of our Edmonton water and wastewater treatment facilities, and electricity distribution and transmission operations remain OHSAS 18001 registered.

Information Technology Related Security Risks

We use several key information technology systems to support our core operations such as electricity and water distribution network control systems, electricity and water plant control systems and electricity settlement and utility billing systems. These systems and the associated hardware are vulnerable to malfunction and unauthorized access including cyber-attacks, which could lead to loss or unauthorized disclosure of sensitive customer or EPCOR information or extortion or otherwise disrupt operations. We take measures to reduce the risk of malicious corruption or failure of these systems, data and the hardware and network infrastructure on which they operate. EPCOR’s security program is based on the ISO 27002 control framework. In applying this framework, EPCOR has implemented a series of complementary defense mechanisms, starting from the external IT perimeter down to the end user. Each layer is designed to prevent, detect and report on malicious activity.

We regularly monitor our information technology protection systems and periodically employ third-party security providers to test the effectiveness and to strengthen the system as new cyber threats arise.

Financial exposures associated with cyber-attacks are partly mitigated through our insurance programs.

Risk of Reputational Damage

EPCOR has controls and strategies in place to mitigate the exposure to the various risks that could result in damage to EPCOR's reputation should an event occur. The company proactively maintains positive and transparent interactions with stakeholders. In addition, EPCOR communicates with stakeholders and the media when issues first arise and actively monitors social media in order to address reputational matters before they escalate.

Environment Risk

There are a variety of environmental risks associated with EPCOR's water and wastewater operations and its electricity distribution and transmission businesses. EPCOR's power and water operations are subject to laws, regulations, and operating approvals which are designed to reduce the impacts on the environment. An environmental event could materially and adversely impact EPCOR's business, prospects, reputation, financial condition, operations or cash flow. Furthermore, such incidents could result in spills or emissions in excess of those permitted by law, regulations or operating approvals.

Environmental risks associated with water and wastewater operations include wastewater discharge, biogas release, and residuals management. EPCOR's wastewater operations are regulated with stringent wastewater treatment standards and controls covering quality of treated wastewater effluent as well as mandatory improvements to the wastewater treatment processes. Water and wastewater technologies and supporting processes are continuing to evolve and are influenced by more stringent regulation and environmental challenges. Failure to identify and deploy viable new technologies to meet these regulations and challenges could undermine the competitiveness of EPCOR's market position and exclude it from some market opportunities.

Risks associated with electricity distribution and transmission operations include the unintended environmental release of substances such as oil from its oil-filled pipe-type cable, hydraulic oil and polychlorinated biphenyl transformer fluid.

To the best of our knowledge we comply, in all material respects, with the laws, regulations and operating approvals affecting our facilities, and minimize the potential for incidents by incorporating environmental management practices in our strategy, policies, processes and procedures. To achieve this, we require each facility to have an environmental management system (EMS) which is based on the ISO 14001 standard. These systems encompass the identification of the scope, objectives, training and stewardship of our environmental responsibility. Each plant and facility is also subject to third party environmental audits to help ensure conformance with the EMS and compliance with all regulations. The Edmonton waterworks system (including the Rossdale and E.L. Smith water treatment plants) achieved EnviroVista Champion status as of June 2011. In 2016, all of our Edmonton water treatment facilities and reservoirs, the Gold Bar wastewater treatment plan, the Evan-Thomas water and wastewater treatment facility in Kananaskis, Alberta, our electricity distribution and transmission operations and our street lighting, traffic signal, light rail transit, hydrovac and cathodic protection operations remain ISO 14001 registered. The Company is also in the process of obtaining ISO 14001 registration for its Canadian water distribution and transmission operations.

Compliance with future environmental legislation may require material capital and operating expenditures. Failure to comply could result in fines and penalties or the regulator could force the curtailment of operations. There can be no assurances that compliance with or changes to environmental legislation will not materially and adversely impact EPCOR's business, prospects, financial conditions, operations or cash flow.

Business Interruption Risks

A variety of intentional, accidental or natural occurrences could cause interruption of EPCOR's operations and result in lost revenues or additional costs to resume operations including repair costs.

Business interruption due to operational failure in Water Services and Distribution and Transmission is managed through inherent redundancy and sound maintenance practices.

The quality of raw source water can be affected by such things as hydrocarbons and other inorganic or organic contaminants entering water ways and aquifers. Depending on the type and concentration of the contaminant, their removal may be beyond the capabilities of water treatment plant processes. This could result in the water treatment plants being shut down until the contaminants become diluted to the point where they can be treated within the water treatment plant capabilities.

The ability of the water treatment plants to meet potable water quality standards is dependent on continuous water testing in order that the prescribed requirements under regulation or conventional industry standards are met. Failure to properly maintain fully functioning treatment and measurement systems could result in regulatory fines, lost revenue or the occurrence of public health issues. Our maintenance practices are augmented by an inventory of strategic spare parts, which can reduce down-time considerably in the event of power or water system interruptions.

Maintenance and capital plans are determined annually based on rigorous assessment of its equipment and by continually monitoring the condition of assets.

Although water and power facilities have operated in accordance with expectations, there can be no assurance that they will continue to do so. To the extent we experience insufficient raw water supply or extreme raw water conditions, delivery of water and associated revenues may be negatively affected. To the extent our electricity facilities experience outages due to equipment failure, blackouts or constraints on the transmission system, delivery of power and associated revenues may be negatively affected.

The Company's business continuity plans aim to enable EPCOR to continue providing critical services to customers in the event a crisis. The Company's emergency response protocols are designed to ensure EPCOR can expeditiously resume operations following a business interruption. Financial exposures associated with business interruption are partly mitigated through our insurance programs.

Failure to Attract, Retain or Develop Top Talent

Our ability to continuously operate and grow the business is dependent upon attracting, retaining and developing sufficient labor and management resources. As with most organizations, the Company is facing the demographic shift where a large number of employees are expected to retire over the next few years. Failure to secure sufficient qualified technical and leadership talent may impact EPCOR's operations or increase expenses.

We believe that we employ good human resource practices and in 2016, we were named a top 70 employer in Alberta, by Mediacorp Canada Inc. We continue to monitor developments and review our human resource strategies so that we have an adequate supply of labor and management.

New Business Integration Risk

EPCOR plans to diversify its utility infrastructure investments across investment types and North American geographies to reduce investment risk. The Company is planning to accomplish this through expansion into natural gas distribution and its pursuit of the Drainage transfer from the City to EPCOR.

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

EPCOR develops comprehensive integration plans and ensures that personnel with appropriate skills are in place to manage all of the various risks when integrating any new businesses into the Company.

Water Scarcity Risk

Water scarcity is the risk of inadequate raw water supply, particularly in the desert region of the Southwestern U.S. This is primarily related to drought conditions which could potentially impact EPCOR's water operations in Arizona, New Mexico and Texas.

In Arizona in particular, a number of water management and supply augmentation strategies are employed to mitigate this risk including enacting some very progressive policies to protect groundwater supplies. While EPCOR is not obligated to demonstrate long term water adequacy for new customer growth, EPCOR actively manages its sources of water including replenishing reserves by injecting water into its wells when opportunity arises and working with regulators on rate rebalancing to mitigate the effects of declining consumption should it occur.

Despite these efforts, continued drought in the Southwestern U.S. could result in legislated measures to further reduce customer water consumption, potentially impacting financial performance in Arizona and New Mexico.

Electricity Price and Volume Risk

EPCOR sells electricity to RRO customers under a RRT. All electricity for the RRO customers is purchased in real time from the AESO in the spot market. Under the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by the EPSP. Under the EPSP, the Company uses financial contracts to economically hedge the RRO requirements and incorporate the price into customer rates for the applicable month. Fixed volumes of electricity are economically hedged using financial contracts-for-differences up to 120 days in advance of the month in which the electricity (load) is consumed by the RRO customers. The volume of electricity economically hedged in advance is based on load (usage) forecasts for the consumption month. When consumption varies from forecast consumption patterns, EPCOR is exposed to prevailing market prices when the volume of electricity economically hedged is short of actual load requirements or greater than the actual load requirements (long). Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and unusual weather patterns.

Under contracts-for-differences the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the AESO electricity spot market price and the fixed contract price for a specified volume of electricity up to 120 days in advance of the consumption date, all in accordance with the EPSP. The contracts-for-differences are referenced to the AESO electricity spot price and any movement in the AESO price results in changes in the contract settlement amount. If the risks of the EPSP were to become untenable, EPCOR could test the market and potentially re-contract the procurement risk under an outsourcing arrangement at a certain cost that would likely increase procurement costs and reduce margins. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

Project Risk

Our construction and development of water and wastewater treatment facilities and electricity transmission and distribution infrastructure and acquisition activities are subject to various engineering, construction, stakeholder, government and environmental risks. These risks can translate into performance issues, delays and cost overruns. Project delays may defer expected revenues and project cost overruns could make projects uneconomic. Many of the water and wastewater growth projects currently pursued by the Company require design and construction capabilities that are provided by third parties. In order to pursue these projects, strategic partnerships have been established with reputable firms that have an established track record of infrastructure design and construction. Should these partnerships dissolve or are not recognized by the market as a viable approach, the Company's growth plans could potentially be curtailed.

We attempt to mitigate project risks by performing detailed project analysis and due diligence prior to and during construction or acquisition, and by entering into appropriate contracts for various services to be provided as required. Our ability to complete projects successfully depends upon numerous factors such as weather, civil disobedience, availability of skilled labor, strikes and regulatory matters.

Weather Risk

Weather can have a significant impact on our operations. Melting snow, freeze / thaw cycles and seasonal precipitation in the North Saskatchewan River watershed affect the quality of water entering our Edmonton water treatment plants and the resulting cost of purification. Weather variability and seasonality also impact the demand and supply of water and electricity in our respective businesses in Canada and the U.S.

Extreme weather can cause damage to electricity distribution and transmission equipment and wires, temporarily disrupting the reliable supply of power to customers and can cause unpredictability in the demand for power. Unseasonal temperature changes can cause water main breaks temporarily disrupting the reliable supply of water to customers.

Weather that varies significantly from historical norms can result in changes in the quantity of provincial power consumption. EPCOR procures power to service its RRO customers in advance of the consumption month and the quantity procured is based on historical weather and usage patterns. Unseasonal temperatures can cause a mismatch between the power procured in advance of the consumption month and actual customer usage, resulting in unexpected variances in income from the RRO business.

Financial exposures associated with extreme weather are partly mitigated through our insurance programs.

Financial Liquidity Risk

EPCOR's internally generated cash flows from operating activities do not provide sufficient capital to undertake or complete ongoing or future development, enhancement opportunities or acquisition plans and accordingly, the Company requires additional financing from time to time. The ability of the Company to arrange such financing will depend in part upon prevailing market conditions at the time and the Company's business performance. If the Company's revenues or cash flows decline, it may not have the capital necessary to undertake or complete all the initiatives. There can be no assurance that debt or equity financing will be available or sufficient to meet these requirements or for other corporate purposes. Furthermore, if financing is available, there can be no assurance that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business, prospects and financial condition. Further discussion is included in Liquidity and Capital Resources in this MD&A.

The Company manages liquidity risk through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and also by matching the maturity profiles of financial assets and liabilities to identify financing requirements. EPCOR's financial risks are governed by a Board-approved financial exposure management policy, which is administered by EPCOR's Treasurer.

Counterparty and Credit Risk

Counterparty and credit risk is the possible financial loss associated with the ability of counterparties to satisfy their contractual obligations to EPCOR, including payment and performance including the long-term loans receivable from Capital Power.

We manage credit risk and limit exposures through our credit policies and procedures. These include an established credit review, rating and monitoring process, specific terms and limits, appropriate allowance provisioning and use of credit mitigation strategies, including collateral arrangements.

EPCOR's credit risks are governed by a Board-approved counterparty credit risk management policy, which is administered by EPCOR's treasury function.

Significant reliance is placed on the capacity of Capital Power to honor its remaining back-to-back debt obligations with EPCOR. Should Capital Power fail to satisfy these obligations, EPCOR's capacity to satisfy its debt obligations would be reduced and would need to be satisfied by other means. The back-to-back debt obligations may be called for repayment by EPCOR at any time now that the principal outstanding is less than $200 million and the repayment must occur within 180 days of notice. Capital Power has indemnified EPCOR for any losses arising from its inability to discharge its liabilities, including any amounts owing to EPCOR in relation to the long-term loans receivable.

Exposure to credit risk for residential RRO customers and commercial customers under default electricity supply rates are generally limited to amounts due from the customers for electricity consumed but not yet paid for. This portfolio is reasonably well diversified with no significant credit concentrations. Historically, credit losses in these customer segments have not been significant and depend in large part on the strength of the economy and the ability of the customers to effectively manage their financial affairs through economic cycles and competitive pressures. While electricity is considered an essential service, EPCOR may experience credit losses in the future should economic conditions deteriorate.

EPCOR's exposure to RRO and default customer credit risk, which is primarily the risk of non-payment for electricity consumed by these end-use customers, is summarized below. Exposures represent the accounts receivable value for this portfolio.

($ millions) **December 31,**	**2016**	**2015**
RRO and default supply customers[1]	$ 116	$ 134

1 EPCOR monitors credit risk for this portfolio at the gross exposure level rather than by individual customer account.

The year-over-year decrease in exposure relates to lower customer rates and consumption.

Exposures to credit risk in our rate-regulated and non-rated-regulated water businesses are generally limited to amounts due from the customers for water consumed and wastewater discharged but not yet paid for, as well as amounts for water management services provided under contracts to municipal and industrial customers.

This portfolio is reasonably well diversified with no significant credit concentrations. While water is considered an essential service, EPCOR may experience credit losses in the future should economic conditions deteriorate. EPCOR's exposure to rate-regulated and non-rate-regulated customer credit risk, which is primarily the risk of non-payment for water consumed by these end-use customers, is summarized below. Exposures represent a 60-day potential accounts receivable value for this portfolio.

($ millions) **December 31,**	**2016**	**2015**
Unrated customers	$ 61	$ 61
Rated customers[1]	22	157

1 Rated customers have investment grade credit ratings which are based on the Company's internal criteria and analyses, which take into account, among other factors, the investment grade ratings of external credit rating agencies when available.

Billing Error Risk

The customer consumption data used to bill utility customers is voluminous plus the sources and types of customer billing data are varied, requiring large, complex systems to process customer billings. In addition, the Company relies on third parties to provide customer meter data in certain circumstances and to produce bills for its U.S. customers. All of this contributes to the potential for billing errors caused by poor customer consumption data quality, billing system computational errors, incorrect customer rates being used or transactions and adjustments being applied incorrectly to customer accounts. The Company applies numerous manual and automated controls to ensure the quality of customer billings including a routine to identify various exceptions in the electricity meter data used to produce bills.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk on foreign currency denominated transactions, firm commitments, monetary assets and liabilities denominated in a foreign currency and on its net investments in foreign entities.

The Company's financial exposure management policy attempts to minimize economic and material transactional exposures arising from movements in the Canadian dollar relative to the U.S. dollar or other foreign currencies. The Company's direct exposure to foreign exchange risk arises on capital expenditure commitments denominated in U.S. dollars or other foreign currencies and U.S. operations. The Company coordinates and manages foreign exchange risk centrally, by identifying opportunities for naturally occurring opposite movements and then dealing with any material residual foreign exchange risks. The Company's exposure to foreign exchange risk on its investment in foreign entities is partially mitigated by foreign-denominated financing.

The Company may use foreign currency forward contracts to fix the functional currency of its non-functional currency cash flows thereby reducing its anticipated U.S. dollar denominated transactional exposure. The Company looks to limit foreign currency exposures as a percentage of estimated future cash flows.

Conflicts of Interest

Certain conflicts of interest could arise as a result of EPCOR's relationship with the City, EPCOR's sole common shareholder and regulator for water and wastewater utility rates in Edmonton.

General Economic Conditions, Business Environment and Other Risks

The following factors could materially adversely impact EPCOR's business, prospects, financial condition, results of operations or cash flows: fluctuations in interest rates, product supply and demand, market competition, risks associated with technology, general economic and business conditions, EPCOR's ability to make capital investments and the amounts of capital investments, risks associated with existing and potential future lawsuits and other regulations, assessments and audits (including income tax) against EPCOR and its subsidiaries, political and economic conditions in the geographic regions in which EPCOR and its subsidiaries operate, difficulty in obtaining necessary regulatory approvals, a significant decline in EPCOR's reputation and such other risks and uncertainties described from time to time in EPCOR's reports and filings with the Canadian Securities authorities.

The following table outlines our estimated sensitivity to specific risk factors as at December 31, 2016. Each sensitivity factor provides a range of outcomes assuming all other factors are held constant and current risk management strategies are in place. Under normal circumstances, such sensitivity factors will not be held constant but rather, will change at the same time as other factors are changing. In addition, the degree of sensitivity to each factor will change as the Company's mix of assets and operations subject to these factors changes.

($ millions, except as otherwise noted) **Factor**	**Change**	**Annual cash flow**	**Annual net income**
Increase in RRO customers	+2.0%	+0.9	+0.9
Decrease in RRO customers	-2.0%	-0.9	-0.9
Increase in water consumption	+5.0%	+12.8	+12.8
Decrease in water consumption	-5.0%	-12.8	-12.8

Litigation Update

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

CONTROLS AND PROCEDURES

For purposes of certain Canadian securities regulations, EPCOR is a venture issuer. As such, it is exempt from certain of the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The Chief Executive Officer and Chief Financial Officer have reviewed the annual information form, annual financial statements and annual MD&A, for the year ended December 31, 2016. Based on their knowledge and exercise of reasonable diligence, they have concluded that these materials fairly present in all material respects the financial condition, results of operations and cash flows of the Company for the periods presented.

FUTURE ACCOUNTING STANDARD CHANGES

A number of new standards, amendments to standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committee the application of which is effective for periods beginning on or after January 1, 2017. 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. The extent of the impact of adoption of the standards has not yet been determined.

IFRS 9 – Financial Instruments (IFRS 9), which replaces IAS 39 – Financial Instruments: Recognition and Measurement, eliminates the existing classification of financial assets and requires financial assets to be measured based on the business model in which they are held and the characteristics of their contractual cash flows. Gains and losses on re-measurement of financial assets at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. Changes in fair value attributable to changes in credit risk of financial liabilities measured under the fair value option will be recognized in other comprehensive income with the remainder of the change recognized in profit or loss unless an accounting mismatch in profit or loss occurs at which time the entire change in fair value will be recognized in profit or loss. Derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument must be measured at fair value. The impairment model has also been amended by introducing a new 'expected credit loss' model for calculating impairment, and new general hedge accounting requirements. The effective date for implementation of IFRS 9 has been set for annual periods beginning on or after January 1, 2018.

IFRS 15 - Revenue from Contracts with Customers (IFRS 15), which replaces IAS 11 - Construction Contracts and IAS 18 - Revenue and related interpretations, is effective for annual periods commencing on or after January 1, 2018. IFRS 15 introduces a new single revenue recognition model for contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and / or timing of revenue recognized. The requirements of the standard also apply to the recognition and measurement of gains and losses on sale of some non-financial assets that are not part of the entity's ordinary activities.

IFRS 16 – Leases (IFRS 16), which replaces IAS 17 – Leases (IAS 17), is effective for annual periods commencing on or after January 1, 2019. IFRS 16 combines the existing dual model of operating and finance leases in IAS 17 into a single lessee model. Under the new single lessee model, a lessee will recognize lease 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. Leases for duration of twelve months or less and leases of low value assets are exempted from recognition on the statement of financial position. 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.

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated 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 financial statements.

Electricity Revenues, Costs and Unbilled Consumption

Due to the lag time between customer electricity consumption and receipt of final billing consumption information from the load settlement agents, the Company must use estimates for determining the amount of electricity consumed but not yet billed. These estimates affect accrued revenues and accrued electricity costs of the Energy Services segment. There are a number of variables and judgments required in the computation of these significant estimates, and the underlying electricity settlement processes within EPCOR and the Alberta electric systems are complex. Such variables and judgments include the number of unbilled sites, and the amount of and rate classification of the unbilled electricity consumed. Owing to the factors above and the statutory delays in final load settlement determinations and information, adjustments to previous estimates could be material. Estimates for unbilled consumption averaged approximately $51 million at the end of each month in 2016 (2015 - $53 million). These estimates varied from $35 million to $68 million (2015 - $42 million to $67 million). Adjustments of estimated revenues to actual billings were not higher than $5 million per month in 2016 (2015 - $6 million).

Fair Values

We are required to estimate the fair value of certain assets or obligations for determining the valuation of certain financial instruments, asset impairments, asset retirement obligations and purchase price allocations for business combinations, and for determining certain disclosures. Significant judgment is applied in the determination of fair values including the choice of discount rates, estimating future cash flows, and determining goodwill. Following are the descriptions of the key fair value methodologies relevant for 2016.

Fair values of financial instruments are based on quoted market prices when these instruments are traded in active markets. In illiquid or inactive markets, the Company uses appropriate price modeling to estimate fair value. Fair values determined using valuation models require the use of assumptions concerning the amounts and timing of future cash flows and discount rates.

The Company reviews the valuation of long-lived assets subject to amortization when events or changes in circumstances may indicate or cause a long-lived asset's carrying amount to exceed the total undiscounted future cash flows expected from its use and eventual disposition. An impairment loss, if any, will be recorded as the excess of the carrying amount of the asset over its fair value, measured by either market value, if available, or estimated by calculating the present value of expected future cash flows related to the asset.

Estimates of fair value for long-lived asset impairments are mainly based on depreciable replacement cost or discounted cash flow techniques employing estimated future cash flows based on a number of assumptions, including the selection of an appropriate discount rate. The cash flow estimates will vary with the circumstances of the particular assets or reporting unit and will primarily be based on the lives of the assets, revenues and expenses, including inflation, and required capital expenditures.

Income Taxes

EPCOR follows the asset and liability method of accounting for income taxes. Income taxes are determined based on estimates of our current taxes and estimates of deferred taxes resulting from temporary differences between the carrying values of assets and liabilities in the financial statements and their tax values. Deferred tax assets are assessed and significant judgment is applied to determine the probability that they will be recovered from future taxable income. For example, in estimating future taxable income, judgment is applied in determining the Company's most likely course of action and the associated revenues and expenses. To the extent recovery is not probable a deferred tax asset is not recognized. Estimates of the provision for income taxes and deferred tax assets and liabilities might vary from actual amounts incurred.

Estimated fair values and useful lives are used in determining potential impairments for each long-lived asset, which will vary with each asset and market conditions at the particular time. Similarly, income taxes will vary with taxable income and, under certain conditions, with fair values of assets and liabilities. Accordingly, it is not possible to provide a reasonable quantification of the range of these estimates that would be meaningful to readers.

Impact of Current Market Conditions on Estimates

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. Future cash flow estimates for assessing long-lived assets (cash generating units or CGUs) for impairment were updated to reflect any increased uncertainties of recoverability. The assessments did not result in any impairment losses because a large portion of the Company's long-lived assets are subject to rate-regulation. Similarly, the assessment of the useful lives of our long-lived assets did not change since many of our distribution and transmission assets and water assets are amortized based on rates approved by the applicable regulator. Our valuation models for estimating the fair value of long-lived asset impairments depend partly on discount rates which were updated to reflect changes in credit spreads and market volatility. Our methods for determining the allowance for doubtful accounts are based on historical rates of bad debts in relation to the aged accounts receivable balances by customer group for RRO and default customer bases. These analyses did not reveal any significant changes in our assessment of the recoverability of accounts receivable at December 31, 2016.

OTHER COMPREHENSIVE INCOME

For the three and twelve months ended December 31, 2016, the Company's transactions in other comprehensive income included the following:

($ millions)	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	2016	2015
Re-measurement of net defined benefit plans	(1)	2	(1)	2
Equity share of other comprehensive income of Capital Power L.P.	-	(5)	-	2
Equity share of other comprehensive income of Capital Power L.P. realized in net income	-	5	-	(9)
Fair value gain (loss) on available-for-sale investment in Capital Power	14	(10)	43	(60)
Impairment of on available-for-sale investment in Capital Power reclassified to net income	-	10	-	60
Fair value gain on available-for-sale investment in Capital Power reclassified to net income on sale of portion of investment	(30)	-	(42)	-
Unrealized gain (loss) on foreign currency translation	10	14	(11)	61
Other comprehensive income (loss)	**$ (7)**	**$ 16**	**$ (11)**	$ **56**

FOURTH QUARTER REVIEW AND QUARTERLY RESULTS

(Unaudited, $ millions) **Quarters ended**	**Revenues**	**Net income**
December 31, 2016	$ 474	$ 88
September 30, 2016	504	76
June 30, 2016	479	67
March 31, 2016	475	78
December 31, 2015	523	65
September 30, 2015	511	(13)
June 30, 2015	489	139
March 31, 2015	473	69

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

- December 31, 2016, fourth quarter results included the recognition of the fair value gain resulting from the sale of Capital Power shares, greater favorable fair value adjustments related to financial electricity purchase contracts and interest rate swaps and higher approved distribution and water customer rates, partially offset by lower transmission customer rates, lower billing charge rates, higher depreciation and lower income related to industrial services contracts.
- September 30, 2016 third quarter results included greater favorable fair value adjustments related to financial electricity purchase contracts, the recognition of the fair value gain resulting from the sale of the Capital Power shares, and higher approved electricity and water customer rates, partially offset by lower billing charge rates and higher depreciation. In addition, 2015 included an impairment of the Capital Power shares.

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

Fourth Quarter Lines of Business Information

The comparative information in the line of business information have been reclassified, where applicable, to conform to current year presentation.

Three months ended December 31, 2016	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 159	$ 106	$ 209	$ 3	$ -	$ 477
Inter-segment revenue	-	41	3	-	(44)	-
Total revenues and other income	159	147	212	3	(44)	477
Energy purchases and system access fees	-	26	184	-	(39)	171
Other raw materials and operating charges	44	14	-	-	(2)	56
Staff costs and employee benefits expenses	31	21	7	9	(1)	67
Depreciation and amortization	29	24	1	3	-	57
Franchise fees and property taxes	7	18	-	-	-	25
Other administrative expenses	9	4	8	7	(2)	26
Operating expenses	120	107	200	19	(44)	402
Operating income (loss) before corporate charges	39	40	12	(16)	-	75
Corporate income (charges)	(9)	(7)	(3)	19	-	-
Operating income	30	33	9	3	-	75
Finance recoveries (expenses)	(24)	(13)	(1)	16	-	(22)
Fair value gain on available-for-sale investment in Capital Power reclassified to net income on sale of portion of investment	-	-	-	30	-	30
Income tax recovery	1	-	-	4	-	5
Net income	$ 7	$ 20	$ 8	$ 53	$ -	$ 88
Capital additions	$ 70	$ 84	$ 2	$ 5	$ -	$ 161

Three months ended December 31, 2015	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 170	$ 123	$ 230	$ 5	$ -	$ 528
Inter-segment revenue	-	44	3	-	(47)	-
Total revenues and other income	170	167	233	5	(47)	528
Energy purchases and system access fees	-	38	204	-	(41)	201
Other raw materials and operating charges	49	15	-	-	(3)	61
Staff costs and employee benefits expenses	36	21	7	10	-	74
Depreciation and amortization	27	20	1	4	-	52
Franchise fees and property taxes	8	17	-	-	-	25
Other administrative expenses	6	3	6	9	(3)	21
Operating expenses	126	114	218	23	(47)	434
Operating income (loss) before corporate charges	44	53	15	(18)	-	94
Corporate income (charges)	(10)	(7)	(2)	19	-	-
Operating income	34	46	13	1	-	94
Finance recoveries (expenses)	(24)	(13)	(1)	9	-	(29)
Dividend income from available-for-sale investment in Capital Power	-	-	-	4	-	4
Equity share of income of Capital Power L.P.	-	-	-	(7)	-	(7)
Gains on investment in Capital Power L.P., net of impairment	-	-	-	(3)	-	(3)
Income tax recovery	-	-	-	6	-	6
Net income	$ 10	$ 33	$ 12	$ 10	$ -	$ 65
Capital additions	$ 61	$ 70	$ -	$ 6	$ -	$ 137

FORWARD - LOOKING INFORMATION

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

The purpose of forward-looking information is to provide investors with management’s assessment of future plans and possible outcomes and may not be appropriate for other purposes.

Material forward-looking information within this MD&A, including related material factors or assumptions and risk factors, are noted in the table below:

Forward-looking Information	Material Factors or Assumptions	Risk Factors
The Company expects to have sufficient liquidity to finance its plans and fund its obligations in 2017.	EPCOR is able to generate the expected cash flow from operations and various means of funding remain available to the Company.	EPCOR’s operations do not generate the expected level of cash flow and / or circumstances arise limiting or restricting the Company’s ability to access funds through the various means otherwise available.
EPCOR’s projected cash requirements for 2017 includes \$500 million to \$650 million for investment in existing businesses and new business development.	EPCOR is able to complete its 2017 capital expenditure program on time and on budget and no material unplanned business or asset acquisitions are closed in the year.	EPCOR is successful in closing an unplanned acquisition or unforeseen circumstances result in construction delays.
If Drainage is transferred then: • EPCOR will assume assets and liabilities of approximately \$3.3 billion and \$0.7 billion, respectively. • EPCOR has proposed an increase in the dividend of \$20 million. • For the first year of operations, capital spending is expected to be approximately \$120 million to \$200 million.	Transfer takes place under the currently proposed terms.	Transfer or terms are varied. Actuals vary from estimated amounts.
EPCOR’s projected cash requirements for 2017 include \$146 million for common share dividends.	EPCOR is able to generate the expected cash flow from operations and various means of funding remain available to the Company. The EPCOR Board of Directors does not revise the dividend to the City.	EPCOR is not able to generate the expected cash flow from operations and various means of funding are not available to the Company. The Board of Directors approves a revised dividend to the City.

The following table provides a comparison between actual results and future-oriented-financial information previously disclosed:

Material 2016 Objectives Previously Disclosed		**Actual Result**	**Explanation of Material Differences from Objectives**
2016 Capital expenditures and acquisitions	$400 million to $550 million	$553 million	$3 million variance not significant
Dividends	$141 million	$141 million	No difference
2016 Interest payments	$115 million	$128 million	Higher interest payments of $13 million primarily due to the settlement of interest rate swap
Repayments of loan and borrowings net of sinking fund payments received	$239 million	Net repayment of short-term loans and borrowing $98 million Repayment of long-terms loans and borrowings $141 million	No difference

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.

ADDITIONAL INFORMATION

Additional information relating to EPCOR, including the Company's 2016 Annual Information Form, is available on SEDAR at www.sedar.com.

ATTACHMENT 3 to VECC-6

Annual Information Form (year ending December 31, 2016)

EPCOR PROVIDING MORE

EPCOR UTILITIES INC.

2016
ANNUAL
INFORMATION
FORM

March 2, 2017

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PRESENTATION OF INFORMATION

This Annual Information Form (AIF) provides material information about the business and operations of EPCOR Utilities Inc. (EUI, EPCOR or the Corporation). Any reference to EPCOR or the Corporation in this AIF means EPCOR Utilities Inc. and its subsidiaries on a consolidated basis, except where otherwise noted or the context otherwise indicates. In this document, Capital Power refers to Capital Power Corporation and its directly and indirectly owned subsidiaries including Capital Power L.P., except where otherwise noted or the context otherwise indicates.

Unless otherwise noted, the information contained in this AIF is given at or for the year ended December 31, 2016. Amounts are expressed in Canadian dollars unless otherwise indicated. Financial information for the year ended December 31, 2016 is presented in accordance with the International Financial Reporting Standards that were adopted by EPCOR as Canadian generally accepted accounting principles (GAAP) on January 1, 2011, except where otherwise noted.

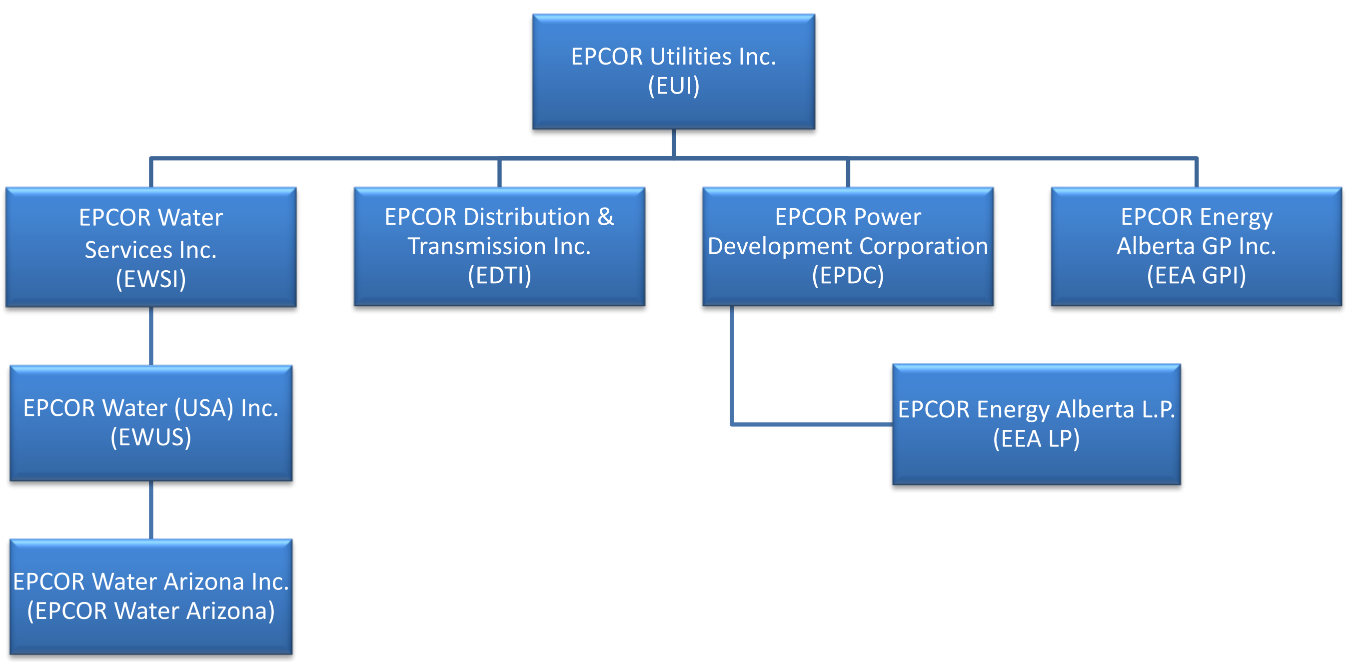
The Corporation's Management Discussion and Analysis (MD&A) dated March 2, 2017 for the year ended December 31, 2016 and the Corporation's Audited Consolidated Financial Statements for the year ended December 31, 2016 provide additional information. Copies of these documents are available on SEDAR at www.sedar.com or through the Corporation's website, www.epcor.com.

CORPORATE STRUCTURE

EPCOR Utilities Inc. was incorporated as Edmonton Power Corporation pursuant to the *Business Corporations Act* (Alberta) on August 28, 1995. On May 8, 1996, Edmonton Power Corporation changed its name to EPCOR Utilities Inc. and, on May 26, 1999, the Corporation amended its Articles of Incorporation to delete the provision restricting the Corporation from offering its securities to the public. The City of Edmonton (the City or the Shareholder) is the sole common shareholder of the Corporation.

The principal business office and registered office of the Corporation is located at 2000, 10423 – 101 Street NW, Edmonton, Alberta, Canada, T5H 0E8.

The following organization chart indicates the inter-corporate relationships of the Corporation and its material subsidiaries as of the date of this AIF:



All common voting shares of all material subsidiaries of the Corporation shown above are owned by EPCOR, either directly or indirectly. All material wholly-owned subsidiaries are incorporated or formed in Alberta, except for EWUS, which is incorporated in Delaware and is qualified to carry on business in the states of Arizona, New

Mexico and Texas, and EPCOR Water Arizona, which is incorporated in Arizona and is qualified to carry on business in the state of Arizona.

GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History

In May 2014, the Corporation began offering consumer electricity and natural gas contracts in Alberta under the "Encor" brand.

Also in May 2014, an EPCOR led consortium won a public-private partnership bid to design, build and finance significant additions to an existing wastewater treatment plant in the city of Regina, Saskatchewan and to operate and maintain the plant for a term of 30 years. In August 2014, EPCOR took over operations of the existing wastewater treatment plant. Substantial completion of the newly constructed additions was reached in December 2016, with final completion expected in the second quarter of 2017.

In June 2014, the Alberta Utilities Commission (AUC) approved the application to partition the assets of the Heartland Transmission Project, a double-circuit 500 kilovolt (kV) transmission line enhancing the transmission system between the south Edmonton area and the Industrial Heartland region near Fort Saskatchewan, which was, until that time, jointly owned by EPCOR, through its subsidiary EDTI, and AltaLink L.P. The partition, according to the service territories of the respective owners, was completed on September 30, 2014.

In April 2015, EPCOR exchanged 9,450,000 limited partnership units for an equal number of common shares of Capital Power which were immediately sold at an offering price of $23.85 per share for aggregate gross proceeds of $225 million. In addition, EPCOR exchanged all of its remaining 9,391,000 exchangeable limited partnership units for common shares of Capital Power. The sale reduced the Corporation's remaining interest in Capital Power to below 10%. In 2016 and early 2017, the Corporation sold its remaining shares in Capital Power.

In September 2015, David Stevens retired as President and Chief Executive Officer of EPCOR. In September 2015, Stuart Lee returned to EPCOR and assumed the responsibilities of President and Chief Executive Officer. Mr. Lee was Vice President and Corporate Controller of EPCOR prior to moving to Capital Power in 2009.

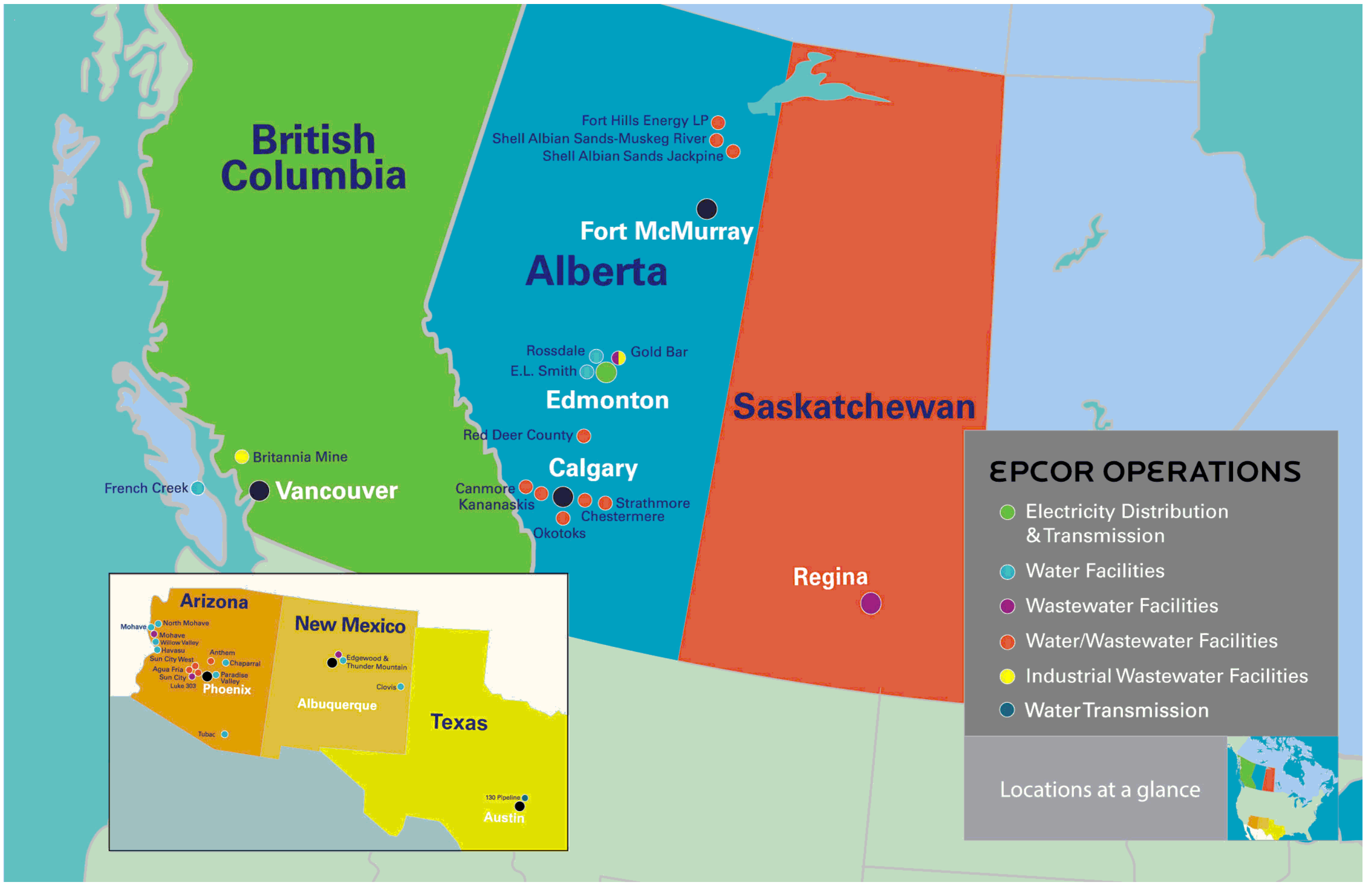
Commencing in 2009, EPCOR owned and operated potable water and domestic wastewater facilities under certain leasing, financing and operating agreements with Suncor Energy Oilsands Limited Partnership (Suncor). This included facilities at the Steepbank, Firebag, Borealis and Voyageur sites north of Fort McMurray, Alberta. On February 18, 2015, Suncor gave the Corporation notice that it was exercising its contractual rights to buy back the leased assets and terminate the related financing and operating agreements. Several operated facilities were transferred back to Suncor during 2015 and the transfer of the remaining owned and operated facilities and operations was completed in August 2016. The transfers did not have a material impact on the Corporation or its operations.

In August 2016, a United States (U.S.) subsidiary of EPCOR acquired a water transmission pipeline, groundwater well production assets, long-term wholesale water supply contracts and other related agreements (collectively the EPCOR 130 Pipeline) for approximately USD $71 million, including future payments on contingent on growth. Untreated groundwater is sold and distributed to four municipalities in Travis County, Texas under long-term wholesale supply contracts with terms ranging from 25 years to 50 years. Under the four existing contracts, approximately 40% of the pipeline's design capacity is utilized. The unutilized design capacity will support growth with the addition of new wholesale water supply customers, over time.

BUSINESS OF EPCOR

The Corporation, through wholly-owned subsidiaries, builds, owns and operates electrical transmission and distribution networks, water and wastewater facilities and infrastructure in Canada and the U.S. and provides Rate Regulated Option (RRO) and default supply electricity related services and also sells electricity and natural gas to Alberta residential consumers under contracts through its Encor brand. EPCOR operates its business under the Water Services, Distribution and Transmission, Energy Services and Corporate business segments. The Corporation operates in Canada and the Southwestern U.S.

The map below shows the geographies in which the Corporation has material operations.



WATER SERVICES

EPCOR's Water Services business segment which is conducted through EWSI and its various subsidiaries including EWUS in the U.S., provides water purification and distribution and wastewater treatment services within Edmonton as well as water and wastewater collection and treatment services including design, build, finance, operate and maintain services to municipal and industrial customers in several other communities in Western Canada. In addition, EPCOR provides water purification, distribution, transmission and wastewater collection and treatment services in the Southwestern U.S.

EPCOR's Water Services business segment's primary objective is to reliably supply sufficient drinking water, industrial process water and untreated ground water, and to collect and treat wastewater while ensuring that the quality exceeds public health, environmental and industrial requirements.

Facilities

EPCOR owns three and operates 14 other water treatment and / or distribution facilities in Alberta and British Columbia. Additionally, EPCOR owns one wastewater treatment facility and operates 18 other wastewater treatment and / or collection facilities in Alberta, British Columbia and Saskatchewan.

Through its wholly-owned subsidiaries, EPCOR Water Arizona, Chaparral City Water Company (Chaparral), EPCOR Water New Mexico, Inc. (EPCOR Water New Mexico), and EPCOR 130 Project Inc. and 130 Regional Water Supply Corporation (together EPCOR 130), EWUS operates in 14 water utility districts containing one or more water treatment and / or distribution facilities, and six wastewater utility districts containing one or more wastewater treatment and / or collection facilities. The water and wastewater utility districts consist of developer-built communities within a number of municipalities in Arizona and New Mexico.

In Texas, the EPCOR 130 Pipeline distributes water to contracted wholesale customers in central Texas through an 85 kilometre, 30-inch pipeline that carries water from the well field to a termination point near the City of Manor and includes pump stations and storage tanks. EPCOR 130 provides water under four existing water supply contracts with municipal customers. These wholesale water contracts are subject to Texas Public Utilities Commission appellate review, however, to date they have not been reviewed.

Facilities Owned and Operated by EPCOR

EPCOR's facilities in Edmonton encompass two water treatment plants, a wastewater treatment plant and a potable water distribution network with approximately 4,000 kilometres of distribution and transmission mains and approximately 20,200 hydrants and 64,800 valves. Its 12 reservoir sites have an aggregate capacity of approximately 800 million litres.

The Rossdale water treatment plant, located in central Edmonton, was first commissioned in 1947. The E.L. Smith water treatment plant, located in southwest Edmonton, upstream of the Edmonton downtown core, was commissioned in 1976. Through improvements and optimization of treatment processes at E.L. Smith and Rossdale (including coagulation optimization and ultraviolet (UV)), water production capabilities at these plants have increased to keep pace with growing demand.

The following table provides volume details of the two owned water treatment plants in Edmonton:

Plant	**Plant Production Capacity** (1) (millions of litres per day)
Rossdale	280
E.L. Smith	400
Total	680

(1) Plant production capacity represents the amount of treated water that can be produced under maximum warm conditions with no plant shutdowns or detrimental raw water quality conditions such as run-off. Actual production varies with seasonality, raw water conditions and customer demand.

The water source for EPCOR owned water treatment plants in Edmonton is the North Saskatchewan River. EPCOR has withdrawal licenses to remove up to 558 million litres of water per day or about 3% to 4% of the daily average flow along the North Saskatchewan River.

EPCOR uses a number of advanced technologies in its operations, including remote water plant operations and the use of geospatial information technology to operate and maintain its water distribution system in Edmonton. EPCOR utilizes UV treatment at its E.L. Smith and Rossdale plants in Edmonton and at its White Tanks water treatment plant in Arizona. UV treatment provides an additional barrier against protozoa contaminating drinking water and enhances the drinking water quality within these regions. EPCOR has made proactive process and procedural changes to remove chlorine from controllable waste streams that are returned to the North Saskatchewan River from EPCOR water treatment plants. When winter conditions are stable, the two water treatment plants in Edmonton have, since 2009, been practicing direct filtration, which reduces the amount of chemicals and solids that are returned to the North Saskatchewan River.

EPCOR continues to improve the underground water distribution infrastructure within Edmonton through the annual water main replacement program, which was started in 1986 and originally targeted cast iron water main replacement. In 2016, approximately 16 kilometres of water mains, including 11 kilometres of cast iron water mains, were replaced at a total cost of $36 million. Of the 1,220 kilometres of cast iron water mains originally installed, 591 kilometres remain in service. EPCOR's efforts have been instrumental in reducing future water infrastructure replacement costs within Edmonton as well as reducing the total number of annual water main breaks. In 1986, prior to EPCOR's replacement programs, the annual number of water main breaks peaked at 1,600. In 2016, there were 242 breaks, well below the annual performance target of 574.

Prior to 1950, lead, which is a contaminant, was one of the materials used to make water service lines. While responsibility for water service lines is shared between the homeowner and the Corporation, the Corporation proactively manages the issue of lead contamination in drinking water obtained through lead water service lines in its Edmonton service area through its Lead Service Replacement Program. This program includes sending annual notifications to residents of homes with lead water service lines, offering complimentary tap-water testing for lead, offering a free point-of-use lead reduction filter and assisting the customer with the replacement of their lead water service line by prioritizing replacement of the line once the customer has decided to replace it. As a result of this program, the number of lead water service lines decreases each year as they are replaced. Presently, there are fewer than 3,400 lead water service lines in Edmonton (approximately 1.2% of the total water service lines in Edmonton), almost all of which have point-of-use lead reduction filters. The risk of contamination caused by lead water services lines in EPCOR's other service areas, including the U.S., is lower because the drinking water systems were constructed after 1950.

EWSI provides wastewater treatment services in Edmonton through operation of the Gold Bar wastewater treatment plant (Gold Bar). Gold Bar, which began operating in 1956 as a City owned facility, was transferred to EPCOR in 2009. Gold Bar is an advanced wastewater treatment plant with a focus on three areas of treatment: full treatment (biological nutrient removal and pathogen reduction) during normal weather conditions, enhanced primary treatment during wet weather conditions (heavy rain or snow melt) and membrane filtration for reclaiming water for re-use in industrial applications. Full treatment capacity of the plant is 310 million litres per day under normal weather conditions. During wet weather conditions, the plant processes increased wastewater flows from Edmonton's combined sanitary / storm sewer system. Under these conditions, the plant can remove floatable objects up to a capacity of 2,200 million litres per day and perform primary treatment processes up to 1,200 million litres per day, which includes up to 600 million litres per day that receives enhanced primary treatment for additional pollutant removal prior to discharge into the North Saskatchewan River. Using membrane filtration technology, up to 15 million litres per day of wastewater is reclaimed for industrial use.

EPCOR Water Arizona provides service through ten water utility districts, six wastewater utility districts, and various distribution and collection systems. EPCOR Water Arizona obtains water from three sources: (i) surface water mainly from the Central Arizona Project, a canal system built to bring water from the Colorado River to various areas in Arizona; (ii) groundwater wells; and (iii) treated effluent (mainly for commercial and / or irrigation use). Surface water is treated at three facilities, as shown in the table below:

Plant	**District**	**Production Capacity** [(1)] (millions of litres per day)
White Tanks	Agua Fria	62.09
Anthem	Anthem	26.50
Shea	Chaparral	62.79
Total		151.38

(1) Production capacity represents the amount of treated water that can be produced under maximum warm conditions with no plant shutdowns or detrimental raw water quality conditions. Actual production varies with seasonality, raw water conditions and customer demand.

EPCOR Water New Mexico provides water services to the city of Clovis, New Mexico and in the greater Edgewood area near Albuquerque, New Mexico through three water utility districts. Water in New Mexico is sourced entirely from groundwater wells.

EPCOR 130 sells and transports raw water to four municipalities in Travis County, Texas through an 85 kilometre, 30-inch pipeline that carries groundwater from a well field in Burleson County, Texas to a single termination point near the city of Manor, Texas. The design capacity of the pipeline is approximately 68 million litres per day of which only approximately 27 million litres per day is presently utilized under the four existing contracts. The EPCOR 130 Pipeline is operated and maintained under contract by one of the off-takers that purchases water from EPCOR 130. EPCOR regularly inspects the equipment and reviews the maintenance program to ensure the EPCOR 130 Pipeline is operated and maintained within regulatory requirements.

<u>Non-owned Facilities Operated by EPCOR</u>

In October 2012, EPCOR signed an agreement with Alberta Infrastructure to design, build, finance and operate the expansion and upgrade of the Evan-Thomas Water and Wastewater Facility in the Kananaskis Village area of Alberta. EPCOR commenced operation of the existing water and wastewater facility on December 2, 2012. Construction on the expansion and upgrade was substantially completed in August 2014. Since then, EPCOR has been operating the new facility and will continue to operate the system through 2024. In 2014, the Award of Merit was awarded for the Evan-Thomas Water & Wastewater Treatment Facility Upgrade Project by the Canadian Council for Public-Private Partnerships (CCPPP) to recognize outstanding achievement in the municipal sector.

In August 2014, EPCOR assumed operations of the existing wastewater treatment plant in the city of Regina and began construction of significant additions to the plant under a public-private partnership agreement. Substantial completion of the new construction was reached in December 2016, with final completion expected in the second quarter of 2017. This public-private partnership agreement includes transition of the City of Regina wastewater treatment plant staff to EPCOR, partially financing the newly constructed additions to the plant over a 30-year term and operation of plant also for a term of 30 years. The Regina Wastewater Project was awarded the C.W. Chuck Wills Award by the CCPPP in 2014 for innovation and excellence in public-private partnerships.

In February 2016, EPCOR signed an agreement to continue operating a selenium active water treatment facility at West Line Creek in Sparwood, British Columbia. The facility treats West Line Creek flow throughout the year and removes selenium and nitrates from the creek on a daily basis. EPCOR completed commissioning of the facility in late 2015 pursuant to an earlier agreement.

EPCOR also operates other water and wastewater facilities under contracts with various commercial, municipal and industrial customers in Alberta and British Columbia.

Competitive Conditions and Rate Regulation

EPCOR's subsidiaries have the exclusive right to provide water and wastewater services in Edmonton under franchise agreements with the City and in Arizona and New Mexico under certificates of convenience and necessity (CC&N). As a result, the majority of the Water Services business segment is rate regulated under either performance based or cost-of-service based frameworks by different regulators depending on the region. The Water Services business segment also earns income through competitive contract-based services.

<u>Water Canada</u>

EWSI has an exclusive franchise within the city of Edmonton for the provision of water to its population base. The franchise agreement for the provision of water services, between EWSI and the City, was extended for a 15-year term commencing January 1, 2004 with a right to renew for an agreed upon term. On March 31, 2009, the City and EWSI entered into another franchise agreement whereby EWSI was granted the exclusive right to provide wastewater treatment services within Edmonton. The wastewater franchise agreement will expire on May 31, 2029, but may be extended for an additional 10-year period and for as many such successive renewals as the City and EWSI may agree.

The City regulates the customer rates of EPCOR's water and wastewater operations within the city of Edmonton franchise under a performance based framework. Under the performance based framework, customer rates are adjusted for inflation and expected efficiency improvements over a five-year term. In October 2016, the City approved a new EPCOR Water Services and Wastewater Treatment Bylaw to cover the period from April 1, 2017 to March 31, 2021 (the 2017-2021 Performance Based Regulation (PBR) Bylaw). Through the 2017-2021 PBR Bylaw, EPCOR has the opportunity to recover its costs and earn a fair return on its investment. The 2017-2021 PBR Bylaw is designed to ensure customers receive stable and predictable rates over a five-year period while requiring EPCOR to meet performance measures in the areas of customer service, the environment, water quality, system reliability and employee safety.

Wholesale water services are provided by EPCOR to nine regional water service commissions surrounding Edmonton under long-term supply contracts. The Regional Water Customers Group (RWCG) represents seven of these regional customers. The water rates charged to the RWCG are calculated annually on a cost-of-service basis, which allows EPCOR to recover its actual costs and earn a fair return on its investment. These rates are subject to appeal to the AUC by way of a complaint application.

The Corporation's Water Services business segment also provides commercial water and wastewater operations and maintenance services to commercial, industrial and municipal customers in Alberta, British Columbia and Saskatchewan and earns margins on these contracts by satisfying the terms of the contracts while controlling operating costs. In its commercial water business, EPCOR faces competition from other water developers, including Canadian and international water companies. To grow the business, EPCOR must remain cost competitive and continue to demonstrate its technical water expertise and strong customer service focus.

Water U.S.A.

EPCOR Water Arizona, Chaparral and EPCOR Water New Mexico have water and wastewater operations provided under CC&N's approved by the regulatory body in each state. Each CC&N establishes the right and obligation to provide water or wastewater service for an indefinite period of time within a defined geographic area that may be expanded at the utility's request if approved by the state regulatory body governing that area.
In addition to regulating specific aspects of service, the Arizona Corporation Commission (ACC) regulates customer rates of EPCOR's Arizona water and wastewater customers under a cost-of-service based framework that allows utilities to recover operating costs and earn a fair return on invested capital. Both EPCOR Water Arizona and Chaparral are required to apply to the ACC for changes in the rates charged for service. A rate increase request is primarily based on the sufficiency of revenues to cover, operating expenses and capital costs at the end of the test year, which is the year that immediately precedes the rate application.

EPCOR Water New Mexico is subject to the rules and rate regulations of the New Mexico Public Regulation Commission under a similar framework to EPCOR Water Arizona and Chaparral.

Water rates for EPCOR 130 are set pursuant to long-term wholesale water supply contracts which are subject to appeal to the Texas Public Utilities Commission.

Environmental Regulation and Initiatives

EPCOR is subject to federal, provincial, state and municipal environmental laws, regulations and guidelines concerning its businesses. EPCOR is committed to complying with or surpassing environmental regulatory requirements and minimizing the environmental impact of its operations. EPCOR is also committed to working with stakeholders with a view of protecting the environment and, at the same time, encouraging and sustaining economic development. EPCOR incorporates environmental management practices in its strategy, policies, processes and procedures. To achieve this, EPCOR has implemented an environmental management system (EMS) based on the International Organization for Standardization (ISO) environmental management standard, ISO 14001, in its facilities. These systems encompass identification of the scope, objectives, training and stewardship of EPCOR's environmental responsibility. Each facility is also subject to environmental audits to help ensure compliance with its EMS and all applicable compliance obligations. As at December 31, 2016, operations at the Gold Bar, Evan-Thomas Water and Wastewater Treatment Facility, and Edmonton water treatment plants and reservoirs were ISO 14001 registered.

In Alberta, drinking water quality and wastewater effluent quality for EPCOR's water and wastewater treatment operations, respectively, are regulated under the provincial *Environmental Protection and Enhancement Act* (EPEA). Regulation under the EPEA takes the form of an "Approval-to-Operate" which, specifies, among other things, requirements for the quality of treated water, the number, frequency and type of water quality testing, as well as mandatory standards for the water and wastewater treatment processes. The drinking water quality requirements in Alberta meet or exceed the national Guidelines for Canadian Drinking Water Quality recommended by Health Canada. EPCOR ensured these prescribed requirements were met in 2016 by collecting data from more than 130,000 tests during the year on approximately 190 physical, chemical and microbiological parameters in its accredited laboratory. More than 4,100 additional tests for approximately 206 parameters were sent to external accredited laboratories for analysis. Plant operations staff performed more than 25,000 additional lab tests for process control and used approximately 210 continuous online water quality analyzers. Similar testing for water, wastewater and industrial operations is also performed at other EPCOR operating sites in Alberta, British Columbia and Saskatchewan.

The Edmonton waterworks system, including the E.L. Smith and Rossdale water treatment plants, and the reservoirs and water distribution system, has an innovative Approval, issued in 2011, by the Alberta Environment and Parks department of the Alberta government under the EnviroVista "Champion" program. EnviroVista is a voluntary program, for Alberta industrial, manufacturing and municipal water operations, that applies to facilities which have approvals under the EPEA. As part of the EnviroVista commitments, EPCOR has constructed and commissioned facilities to dechlorinate all chlorinated water discharges from its Edmonton water treatment plants and operate in direct filtration mode for up to seven months per year in order to reduce solids returned to the North Saskatchewan River.

EPCOR is an active member of the North Saskatchewan Watershed Alliance, the watershed planning and advisory council for the North Saskatchewan River basin, and is actively involved with the Alberta Water Council to promote watershed management programs. These programs serve to better manage watersheds and protect the North Saskatchewan River from impurities such as soil particles, excess nutrients, fertilizers, microbiological contaminants and organic pollutants. Watershed protection planning and implementation activities are also underway for other areas of Alberta.

In 2016, $21 million was spent on facility and treatment process improvements targeted at environmental compliance and performance improvement in Canada. This included upgrades to Gold Bar grit tank numbers 4 and 5 to improve the capture and removal of grit from wastewater. The improvements also included progress on the construction of a hydrovac sanitary grit treatment facility to remove and clean grit from vacuum truck slurry and eliminate the need to transport and dispose of sanitary grit at the Clover Bar lagoons. Additional improvements at Gold Bar that will continue in 2017 include the rehabilitation and upgrade of digester number 3, odour control system improvements, and biogas risk mitigation, upgrades and utilization.

EPCOR was the successful proponent in a bid to upgrade and operate the wastewater treatment plant in Regina, Saskatchewan. The existing facility required wastewater treatment process upgrades including biological nutrient removal (BNR). The upgraded BNR plant will be fully operational in 2017 and will substantially reduce the loading of nutrients, such as nitrogen and phosphorous, into Wascana Creek and the Qu'appelle River. EPCOR expects that the reduction in nutrient loading from wastewater effluent will provide a significant environmental benefit by improving the aquatic health of Wascana Creek and the Qu'appelle River.

Drinking water quality and wastewater standards for EPCOR's U.S. operations are regulated by the U.S. Environmental Protection Agency (U.S. EPA) under the *Safe Drinking Water Act* and *Clean Water Act*, respectively. Among other things, the U.S. Environmental Protection Agency sets drinking water standards specifying the treatment, source water protection, operator training and funding for water system improvement and relies on the states and localities to carry out the standards. Oversight of water and wastewater systems is conducted by state and county authorities to the degree that they establish standards at least as stringent as the U.S. EPA. This oversight takes the form of annual operating permits, approval of construction permits and / or approval to discharge permits. Wastewater discharge that may adversely impact aquifers or ground water is exclusively regulated at state levels. The associated aquifer water quality rules vary by state, but generally take the form of aquifer protection-type permits. In 2016, EPCOR's U.S operations worked to meet drinking water standards by conducting over 20,000 water quality tests on over 100 regulated physical, chemical and microbiological parameters.

Although there are no formal watershed protection groups in the Arizona and New Mexico service areas, all water systems in these states underwent source-water assessments to determine whether, and to what degree, the sources were vulnerable to contamination from adjacent land uses. EPCOR Water Arizona's and EPCOR Water New Mexico's wells are protected from contamination by proper well construction, system operation and management. EPCOR Water Arizona acts as the lead agent in the West Valley Central Arizona Project Subcontractors, a regional partnership focused on full utilization and augmentation of surface water supplies in the western portion of the greater Phoenix area.

Revenues and Sales Volumes

The Water Services business segment, including EWUS and its subsidiaries, represented approximately 31% of EPCOR's total revenues in 2016 and 32% in 2015. EWUS represented approximately 32% of the Water Services business segment revenues in 2016 and 28% in 2015.

EPCOR's core water market is stable as it has the exclusive franchise to provide water and wastewater treatment within Edmonton. Twenty-year water supply agreements have been signed with the seven RWCG members which in turn supply water to over 65 surrounding communities and counties. Six of these agreements expire in 2018 and one is set to expire in 2023.

The following tables show a three year history of EPCOR's annual Canadian water sales volumes for Edmonton and surrounding regions and U.S. water sales volumes for EPCOR Water Arizona, EPCOR Water New Mexico, Chaparral for the past three years and EPCOR 130 for a partial year in 2016:

Greater Edmonton Water Sales Volumes			
(millions of litres)	**2016**	**2015**	**2014**
Residential	45,421	46,920	44,876
Multi-Residential	17,987	18,071	17,696
Commercial and Industrial	28,131	29,016	28.572
Wholesale (to RWCG)	34,825	35,986	35,416
Total	126,364	129,993	126,560

U.S. Water Sales Volumes			
(millions of litres)	**2016**	**2015**	**2014**
Residential	62,610	58,571	59,366
Multi-Residential	-	-	-
Commercial and Industrial	22,634	20,957	22,456
Wholesale (by EPCOR 130)	650	-	-
Total	85,894	79,528	81,822

Seasonality

EPCOR's Water Services business as a whole, experiences seasonal consumption-based sales volume variability, with higher water sales occurring in summer months, particularly when precipitation levels are low and temperatures are high. These higher sales volumes also cause higher consumption based expenditures.

Water Canada's water treatment costs can vary due to seasonality and in particular during spring run-off, depending on raw water quality.

DISTRIBUTION AND TRANSMISSION

EPCOR's Distribution and Transmission business segment owns and operates high voltage substations, transmission lines and cables that are situated within and around Edmonton and form part of the Alberta Interconnected Electric System (AIES) power grid. Through these facilities, EDTI provides transmission services to the Alberta Electric System Operator (AESO), an independent not-for-profit entity which operates the AIES. EDTI also owns and operates aerial and underground distribution lines and related facilities for the distribution of power to customers within its distribution service area in Edmonton.

EPCOR Technologies Inc. (Technologies), a wholly-owned non-material subsidiary of the Corporation accounted for as part of the Distribution and Transmission business segment, provides design, construction and maintenance services to the City. Technologies works primarily with transportation electrical infrastructure, such as street lighting, traffic signals, light rail transit and cathodic protection services, primarily within the city of Edmonton.

Facilities

EDTI transmits electrical energy with 72 kV, 138 kV, 240 kV and 500 kV lines and cables routed through 30 substations that are situated within Edmonton. The substations feed distribution delivery points within Edmonton. EDTI operates approximately 257 circuit kilometres of aerial and underground transmission lines and cables, which are interconnected with the AIES and are largely situated on lands held under easements, utility rights-of-way and licenses or permits for rights-of-way.

EDTI distributes electrical energy to customers in Edmonton through five distribution substations, 288 distribution feeders and 5,543 circuit kilometres of primary distribution lines at 15 kV and 25 kV. In 2016, EPCOR distributed approximately 13.31% of provincial energy consumption to 352,853 residential and 36,935 commercial consumers in Edmonton.

Competitive Conditions and Rate Regulation

EDTI has the exclusive right to provide electricity distribution services in Edmonton under a 20-year franchise agreement between EDTI and the City. The franchise agreement expires on January 1, 2024 and may be extended for any term agreed upon between EDTI and the City. EDTI provides electricity transmission services within its service area pursuant to Section 9 of the AESO Rules. As a result, all of the Corporation's Distribution and Transmission business segment is provincially rate regulated by the AUC.

EDTI’s distribution function is regulated under the AUC’s performance based framework. Under the framework, rates are set based on an inflation factor less a productivity factor plus, a growth factor and an incremental capital additions factor. In addition, EDTI can apply for additional funds to fund capital expenditures based on “capital tracker” rules. The current performance based framework will be used to set rates to December 31, 2017. In December 2016, the AUC issued its 2018-2022 Performance Based Regulation Decision, which sets out how the PBR framework will be modified for the 2018 – 2022 time frame.

EPCOR’s transmission function is regulated pursuant to the *Electric Utilities Act* (EU Act) under a cost-of-service framework that allows utilities to recover forecast operating costs, including depreciation and amortization, and to earn a fair return on invested capital.

In October 2016, the AUC issued its 2016 Generic Cost of Capital decision for all Alberta natural gas and electricity distribution and transmission utilities setting the generic return on equity at 8.30% retroactively to January 1, 2016 for 2016 and 8.50% for 2017. The generic rate of return was previously 8.30%. The AUC also adjusted the debt / equity ratio to 63% / 37%. Previously the debt / equity ratio applicable to EPCOR’s distribution function was 60% / 40% and applicable to EPCOR’s transmission function was 64% / 36%.

In November 2013, the AUC issued a decision in the Utility Asset Disposition Review proceeding directing that certain gains or losses due to extraordinary retirement of assets, be borne by shareholders and not to be reflected in customer rates. In September 2015, the Alberta Court of Appeal upheld the AUC’s decision.

The *Code of Conduct Regulation* under the EU Act regulates the sharing of information and services between regulated and non-regulated affiliated electric utility entities and results in reporting and compliance obligations for the Corporation’s regulated entities. EPCOR is also subject to an Inter-Affiliate Code of Conduct separately approved by the AUC for EPCOR in February 2004 (the EPCOR Code), as amended. The EPCOR Code defines a framework for the management, staffing, information disclosure and commercial relationships among the EPCOR subsidiaries providing utility services. The reporting and audit obligations arising from the EPCOR Code reside with the affected EPCOR utility subsidiaries.

The Technologies division of the Corporation’s Distribution and Transmission business segment competes with other companies that provide similar electrical transportation infrastructure support services.

Environmental Regulation and Initiatives

The Distribution and Transmission business segment assets include aerial and underground distribution and transmission facilities, substations, switchyards, service centres and a de-watering site. As at December 31, 2016, the operations at all of related facilities, including Technologies’ street lighting, traffic signal and light rail transit and cathodic protection operations, were ISO 14001 registered. The substations and switchyards do not require environmental approvals to operate but they are subject to regulations governing spills, noise and the release of sulfur hexafluoride contained in gas-insulated switchgear equipment. These requirements and the associated risks are well known and are appropriately managed. Other environmental activities include the management and proper disposal of polychlorinated biphenyls (PCB) remaining in the electrical system and wooden poles impregnated with pentachlorophenol or copper chromate. These activities are governed by federal, provincial and municipal levels of government, often concurrently, through regulations and bylaws.

EDTI has twelve 72 kV and two 240 kV Oil Filled Pipe Type (OFPT) underground transmission cables which cross underneath the North Saskatchewan River at various locations throughout the Edmonton river valley. The OFPT cables contain PCB-free oil which provides electrical insulation and a means for transmitting heat generated by the cable conductors to the exterior of the pipe. A breach of the OFPT cable underneath or on the bank of the North Saskatchewan River could result in the release of cable oil into the river. To reduce potential environmental damage associated with an oil release, EDTI has installed barrier splices in the OFPT cables at river crossings and continuous monitoring devices and alarms in its control center.

Capital expenditures related to distribution and transmission environmental initiatives were approximately $1 million in 2016 primarily for PCB transformer replacements. EDTI is currently in compliance with Environment Canada PCB regulations and is on track to meet the deadline to remove all PCBs by 2025.

All Distribution and Transmission environmental activities are supported and managed through its ISO 14001 certified EMS.

Revenues and Sales Volumes

The Distribution and Transmission business segment represented approximately 30% of EPCOR's total revenues in 2016 and 28% in 2015.

Revenues from EDTI consist of a regulator-approved revenue requirement to cover operation, maintenance and administrative costs plus a fair return on invested capital. This business segment also includes unregulated commercial service revenues related to Technologies' transportation electrical infrastructure services.

The following table outlines electricity distribution volumes, net of line losses (electricity lost as it is transmitted across distances):

Power Distribution Volumes

(000's of megawatt hours)	2016	2015	2014
Residential	2,118	2,080	2,073
Commercial	5,491	5,589	5,684
Total	7,609	7,669	7,757

Seasonality

EDTI's normal business experiences some seasonality with respect to construction and associated expenditures. As work scheduling permits, EDTI shifts projects requiring significant excavation work to the summer / autumn timeframes to avoid incurring higher costs associated with performing such work in the winter.

ENERGY SERVICES

EPCOR's Energy Services business segment operates through EEA LP and provides RRO electricity service to residential, farm and small commercial consumers within Edmonton, several Rural Electrification Association service territories and the FortisAlberta Inc. service territory. Energy Services also provides default supply electricity services to customers that consume more than 250-megawatt hours of electricity (the amount of electricity generated by one megawatt operating for one hour) per year in these service areas. The Energy Services business segment also sells electricity and natural gas to Alberta consumers under contracts through its Encor brand. In addition, Energy Services provides billing, collection and contact centre services to its RRO and Encor customers, the City's Waste and Drainage departments and to EWSI.

EPCOR's Energy Services business is subject to the *Code of Conduct Regulation* under the EU Act and Inter-Affiliate Code of Conduct as described above.

Competitive Conditions and Rate Regulation

The Corporation has the exclusive right to provide RRO electricity services to customers in the EDTI electricity distribution service area. The Corporation also has the exclusive right to provide RRO electricity services to customers in FortisAlberta Inc.'s electricity distribution service area under a contract through the year 2020 with a five-year to extension option. Prior to that, the Corporation plans to negotiate a new contract with Fortis Alberta Inc. As a result, the RRO business, which comprises the majority of the Corporation's Energy Services business segment, has its rates regulated by the AUC under a cost-of-service based framework. The cost-of-service based framework allows the Corporation to recover forecast operating costs, including depreciation and amortization, and earn a fair margin.

All retail electricity customers in Alberta have a choice of retailers from whom they may purchase electricity. The RRO is the default option for these customers if they have not entered into contracts with a competitive electricity retailer. The RRO is a regulated electricity pricing option available to all eligible residential, commercial and farm / irrigation customers who consume less than 250-megawatt hours of electricity per year. Approximately 39% of total electricity consumption in Alberta, excluding self-retailers, is RRO eligible. Approximately 55% of residential and 43% of small commercial RRO eligible customers have chosen to stay with the RRO (i.e. they have not signed a contract with a competitive electricity retailer)[1]. Municipal, industrial and large commercial customers are not eligible for the RRO.

The *RRO Regulation* of the EU Act (RRO Regulation) has been extended to April 30, 2020. The RRO Regulation requires all RRO providers to provide a hedged rate to eligible customers. A hedged rate means EPCOR enters into financial transactions, under an AUC regulated energy price setting plan (EPSP), to lock in fixed prices for each month, which are used to set the RRO rate in advance of customers consuming the energy.

Under its current approved EPSP, EEA LP bears price and volume risks and is compensated through the margins in customer rates for incurring such risks. In March 2015, the AUC increased the return margin allowed to be earned for the provision of RRO electricity services and reduced the risk margin allowed to be earned for bearing the commodity risk in providing RRO electricity services. The increased return margin part of this decision was implemented on an expedited basis and came into effect in August 2015. The remainder of the current EPSP, including the decreased commodity risk margins, came into effect in August 2016.

In the deregulated electricity marketplace, increased competition combined with new service offerings and different pricing strategies from competitors may result in loss of EPCOR RRO customers. Competition has, and is expected to continue to come from Alberta's non-regulated retailers.

In November 2016, the Alberta government announced a 6.8 cent per kilowatt hour cap on RRO rates. The cap will be implemented by June 2017 and run until 2021. While the rate cap is in effect, RRO customers will pay the lower of the cap or the market based RRO rate. The government has assured RRO providers that they will be kept whole for rates that exceed the RRO cap. Also in November, the Alberta government announced a ban on door-to-door energy sales. The cap on RRO rates and the ban on door-to-door energy sales have the potential to reduce RRO customer attrition and may result in growth of EPCOR RRO customers.

In May 2014, the Corporation entered the competitive retail market by offering electricity and natural gas contracts to Alberta consumers under the Encor brand in order to mitigate the impact of RRO customer attrition. The expanded service offering, including green energy options, provides customers wishing to move from the RRO to a competitive contract with an EPCOR offering. The 6.8 cent per kilowatt hour price cap announced by the Alberta government has the potential to slow down Encor's electricity contract customer growth or lead to Encor customer attrition with customers moving to the EPCOR or other electricity retailer RRO.

Revenues and Sales Volumes

The Energy Services business segment represented approximately 39% of EPCOR's total revenues in 2016 and 40% in 2015.

The following table outlines EPCOR's retail power sales volumes for the periods indicated:

Retail Power Sales

(gigawatt hours)	**2016**	**2015**	**2014**
RRO	4,919	4,947	5,085
Default & Competitive Supply	772	761	704
Total Power Sales	5,691	5,708	5,789

Seasonality

EEA LP experiences seasonal consumption-based sales volume variability, with higher consumption months being those with fewer daylight hours and those with hotter weather, leading to high air conditioning electricity load.

These higher sales volumes also cause higher consumption based expenditures.

[1] As of March 2016, based on MSA Retail Statistics (2016-08-08 version) http://albertamsa.ca/uploads/pdf/Retail%20Statistics/2016-08-08-Retail-statistics.xlsx

CORPORATE

The Corporate business segment includes Corporate Services and EPCOR's financial interest in Capital Power.

Corporate Services

EPCOR's Corporate Services provides certain centralized support services to the Corporation's other business segments. Corporate services provided are based on specialized knowledge, experience, technology and cost effectiveness of providing services centrally. These services include governance, finance, treasury, internal audit, information services, supply chain management, human resources, public and government affairs, legal, and health, safety and environment services.

Capital Power

As a result of the sale of EPCOR's power generation business in 2009, EPCOR owned exchangeable partnership units of Capital Power L.P. which were exchangeable for voting common shares of Capital Power Corporation. EPCOR also holds loans receivable in the form of a back-to-back debt obligation from Capital Power that generally matches the payment provisions of certain EPCOR debt obligations.

Since 2009, through a number of secondary market prospectus distributions, EPCOR reduced its interest in Capital Power, including in April 2015 when EPCOR exchanged 9,450,000 limited partnership units for an equal number of common shares of Capital Power which were immediately sold at an offering price of $23.85 per share for aggregate gross proceeds of $225 million. At the same time, EPCOR exchanged all of its remaining 9,391,000 exchangeable limited partnership units for common shares of Capital Power. Following the completion of the exchange, EPCOR no longer exerted significant influence over Capital Power. Accordingly, the Corporation accounted for its investment in Capital Power up to December 31, 2016 as available for sale. In 2016, the Corporation sold 9,141,636 of the 9,391,000 remaining shares in Capital Power for aggregate gross proceeds of $204 million and sold the remaining 249,364 shares on January 3, 2017. The Corporation plans to reinvest the proceeds in EPCOR's infrastructure and Energy Services businesses.

A Back-to-Back Credit Agreement governs the loans receivable from Capital Power (see Material Contracts section). This agreement was amended and restated in 2016, primarily to transfer the obligations of Capital Power L.P. to Capital Power Corporation. Approximately $712 million of the loans were contractually retired on or before December 31, 2016, with the remainder maturing on or before June 30, 2018. As part of the Amended and Restated Back-to-Back Credit Agreement, EPCOR has the right to call the remaining debt owed by Capital Power in certain situations.

The following table outlines EPCOR's financial interest in Capital Power**:**

	As at December 31		
($ in millions)	**2016**	**2015**	**2014**
Economic interest in Capital Power	0.3%	9.6%	18.4%
Investment in Capital Power	$6	$167	$386
Loans receivable from Capital Power	$184	$323	$332

PERSONNEL

As at December 31, 2016, EPCOR employed 2,771 full-time, part-time, temporary and casual employees.

	As at December 31		
	2016	**2015**	**2014**
Water	1,150	1,174	1,140
Distribution and Transmission	1,077	1,097	1,067
Energy Services	275	256	233
Corporate	269	268	270
Total	2,771	2,795	2,710

EPCOR has a strong working relationship with its five labour unions; four based in Alberta and one in Saskatchewan. As of December 31, 2016, the five labour unions represented 1,772 employees.

EPCOR has not experienced any labour disruptions since 1978.

SPECIALIZED SKILLS AND KNOWLEDGE

Technical, professional and trades skills are key to the Corporation's ability to continue delivering services to customers in a safe and reliable manner. Water Services hires and trains experienced and certified water plant, water distribution system, wastewater treatment, wastewater collection system and laboratory operators and technicians. Distribution and Transmission hires and trains system control operators, signal technicians, and powerline and power system electricians. Furthermore, the Corporation also hires and trains engineers and other technical and financial professionals across the entire business. The Corporation also develops various trades people through its apprenticeship programs and ongoing skills certification and technical training.

RISK FACTORS

A discussion of the risk factors relating to EPCOR and its business and operations can be found in the section entitled "Risk Factors and Risk Management" in the Corporation's MD&A dated March 2, 2017 for the year ended December 31, 2016.

DIVIDEND POLICY

Annual dividends declared and paid during 2014 to 2016 were $141 million per year. Under EPCOR's dividend policy, the annual dividend commencing in 2017 is set at $146 million per year, until a further change is recommended by the Board of Directors (the Board) and approved by EPCOR's Shareholder. Dividends for each year will be reviewed annually by the Board and the Shareholder and are subject to amendment in the event of significant change in EPCOR's business or financial condition.

Certain debentures of the Corporation contain restrictions on the payment of non-cumulative dividends, including dividends on the Corporation's common shares if the consolidated funded obligations exceed 75% of total consolidated capitalization.

CAPITAL STRUCTURE

The Corporation is authorized to issue an unlimited number of common shares. As of December 31, 2016, there were three common shares of the Corporation issued and outstanding, all of which are owned by the City. Under its Articles of Incorporation, the Corporation cannot issue equity securities, including common shares, other than to the City, unless the City approves such issuance. None of the common shares issued by the Corporation are quoted or traded on a public exchange. As of December 31, 2016, common shares are the only class of equity security that the Corporation is authorized to issue.

CREDIT RATINGS

The following information relating to EPCOR's credit ratings is provided as it relates to EPCOR's financing costs and liquidity. Specifically, credit ratings affect EPCOR's ability to obtain short-term and long-term financing and the cost of such financing. A reduction in the current ratings on the Corporation's debt by its rating agencies, particularly a downgrade below investment grade ratings, or a negative change in the ratings outlook, could adversely affect the Corporation's cost of new or renewal financing and its access to sources of liquidity and capital. In addition, changes in credit ratings may affect the Corporation's ability to, and the associated costs of, enter into normal course derivative or hedging transactions or its ability to maintain ordinary course contracts with customers and suppliers on acceptable terms.

Credit ratings are intended to provide investors with an independent assessment of the credit quality of an issue or an issuer of securities and such ratings do not address the suitability of a particular security for a particular investor. The ratings assigned to a security may not reflect the potential impact of all risks on the value of the security. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision and withdrawal at any time by the credit rating organization. The Corporation pays the applicable rating agency fees to have its debt rated by the rating agency.

Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P)

A-: Senior Unsecured Debt and Issuer Rating – The A- rating assigned to the Corporation's Senior Unsecured Debt is within the A rating category, which is the third highest rating of S&P's ten rating categories, which range from AAA to D. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. S&P's ratings outlook of EPCOR is stable, which reflects their expectation that the rating is not likely to be changed over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and / or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future S&P credit action.

S&P Rating Description: An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

DBRS Limited (DBRS)

A (low): Senior Unsecured Debentures and Issuer Rating – The A (low) rating assigned to the Corporation's Senior Unsecured Debentures and Issuer Rating is within the A rating category which is the third highest rating of DBRS' ten rating categories, which range from AAA to D. DBRS also uses "high" and "low" subcategories on ratings from AA to C to indicate the relative standing of the securities being rated within a particular rating category. DBRS' trend outlook for EPCOR is stable, reflecting DBRS' expectation of no changes in rating if present circumstances continue. DBRS assigns rating trends based primarily on an evaluation of the issuing entity, but may also include consideration of the outlook for the industry in which the issuing entity operates giving consideration to developments that could positively or negatively impact the sector or the issuer's debt position within the sector.

DBRS Rating Description: Good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable.

R-1 (low): Commercial Paper – The R-1 (low) rating assigned to the Corporation's short-term debt is within the R-1 rating category which is the highest rating of DBRS' six rating categories for short-term debt obligations, which range from R-1 to D. DBRS also uses "high", "middle" and "low" subcategories on short-term ratings from R-1 to R-5 to indicate the relative standing of the securities being rated within a particular rating category. The outlook trend for this rating is stable reflecting DBRS's expectation of no likely changes if present circumstances continue.

DBRS Rating Description: Good credit quality. The capacity for the payment of short-term financial obligations as they fall due is substantial. Overall strength is not as favorable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.

Credit Ratings Related Fees

The Corporation pays rating agency fees to have its debt rated by S&P and DBRS. In the past two years, EPCOR paid S&P and DBRS fees for annual ratings maintenance. In addition, DBRS was compensated for the renewal of EPCOR's Base Shelf Prospectus and for providing indicative stand-alone ratings on select EPCOR subsidiaries.

TRANSFER AGENT AND REGISTRAR

BNY Trust Company of Canada, at its office located at Toronto, Ontario, is the trustee (Trustee) under the Corporation's indenture. Registers for the registration and transfer of the Senior Unsecured Debentures are kept at the offices of the Trustee in Toronto, Ontario. The Trustee is also the paying agent for the Senior Unsecured Debentures.

MATERIAL CONTRACTS

Apart from contracts entered into in the ordinary course of business, EPCOR has entered into one material contract, being an Amended and Restated Back-to-Back Credit Agreement dated January 28, 2016 between EPCOR, as lender and Capital Power, as borrower, that governs the back-to-back debt obligation in the aggregate amount of approximately $896 million. The material contract can be found on SEDAR at www.sedar.com.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no directors or executive officers or other insiders of the Corporation, or any associates or affiliates of the foregoing, who had material interests in any transaction or proposed transaction involving the Corporation in the financial year ended December 31, 2016, which has materially affected or would materially affect the Corporation.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As of the date of this AIF, none of the directors or executive officers of the Corporation, and no associate of any of them, is or was in the most recently completed financial year indebted to the Corporation, except for routine indebtedness.

INTERESTS OF EXPERTS

KPMG LLP are the auditors of the Corporation and have confirmed that they are independent with respect to the Corporation within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

OFFICERS OF THE CORPORATION

Following are the names, province / state and country of residence of EPCOR's executive officers as at December 31, 2016, and their positions and offices within EPCOR and principal occupations during the preceding five years:

Name, Province/State, Country of Residence and Office	Principal Occupation During Past Five Years
Guy Bridgeman Alberta, Canada Senior Vice President and Chief Financial Officer	Senior Vice President and Chief Financial Officer from May 2013; prior thereto, Senior Vice President, Finance, Planning and Development from February 2013; prior thereto, Senior Vice President, Strategic Planning and Development from July 2009.
Hanan Campbell Alberta, Canada Associate General Counsel	Associate General Counsel from March 2014; prior thereto, Senior Legal Counsel from July 2009.
John Elford Alberta, Canada Senior Vice President, Water Canada	Senior Vice President, Water Canada from January 2015; prior thereto, Divisional Vice President, EPCOR Distribution and Transmission from February 2013; prior thereto, Director, Regulatory Affairs, EPCOR Distribution and Transmission from March 2011; prior thereto, Director Planning and Project Management, EPCOR Distribution and Transmission from December 2009.
Joseph Gysel Arizona, United States Senior Vice President, EPCOR Water USA (President, EWUS)	Senior Vice President, EPCOR Water USA (President, EWUS) from December 2011; prior thereto, Senior Vice President, New Business Enterprises from September 2011; prior thereto, Senior Vice President, Water Development, EPCOR Water Services Inc. from July 2009.
Stuart Lee Alberta, Canada President and Chief Executive Officer	President and Chief Executive Officer from September 2015; prior thereto Senior Vice President, Corporate Development and Commercial Services, Capital Power Corporation from April 2015 to August 2015; prior thereto Senior Vice President Finance and Chief Financial Officer, Capital Power Corporation from July 2009 to March 2015 and President, CPI Income Services Ltd. from July 2009 to November 2011.
Francesco (Frank) Mannarino Alberta, Canada Senior Vice President, Electricity Operations	Senior Vice President, Electricity Operations from May 2013; prior thereto, Divisional Vice President, EPCOR Water Canada from September 2010; prior thereto, Production Manager, Shell Canada from November 2006.
Jamie Pytel [(1)] Alberta, Canada General Counsel and Corporate Secretary	General Counsel and Corporate Secretary from March 2014; prior thereto, Associate General Counsel, Corporate Secretary and Ethics Officer from August 2012; prior thereto, Acting Associate General Counsel, Acting Corporate Secretary and Ethics Officer from March 2012; prior thereto, Acting Associate General Counsel, Acting Assistant Corporate Secretary and Ethics Officer from March 2011; prior thereto, Senior Legal Counsel, Litigation and Ethics Officer from July 2009.

Susan (Amanda) Rosychuk Alberta, Canada Senior Vice President, Corporate Services	Senior Vice President, Corporate Services from March 2014; prior thereto, Senior Vice President, Human Resources and Information Services from May 2013; prior thereto, Divisional Vice President, Municipal Water and Wastewater Operations from September 2010; prior thereto, Senior Vice President, Field Services from July 2009; prior thereto, Divisional Vice President, EPCOR Distribution & Transmission Inc. from March 2009.
Duane Sommerfeld Alberta, Canada Treasurer	Treasurer from January 2015; prior thereto, Treasurer and Divisional Vice President, Technologies from January 2014 to December 2014; prior thereto, Treasurer and Corporate Controller from November 2013; prior thereto, Corporate Controller from July 2009.
Stephen Stanley Alberta, Canada Senior Vice President, Commercial Services	Senior Vice President, Commercial Services from January 2015; prior thereto, Senior Vice President Water Canada and Technologies from January 2014 to December 2014; prior thereto, Senior Vice President, Water Services Canada from December 2011; prior thereto, Senior Vice President, Water Services from November 2004.
Pamela Zrobek Alberta, Canada Corporate Controller	Corporate Controller from January 2014; prior thereto, Controller, EPCOR Distribution & Transmission Inc. from June 2006.

(1) Resigned January 31, 2017.

While EPCOR considers gender diversity when appointing executive officers, it does not currently have a written policy regarding this and does not currently set targets regarding representation of women in executive officer positions. At December 31, 2016, 36% of the Corporation's executive officers were women.

CORPORATE GOVERNANCE

Board Mandate

The Board operates under the Charter of Expectations for the Board, attached to this AIF as Appendix II.

Position Descriptions

The Board, except as limited by the Unanimous Shareholder Agreement, has the power to manage the business and affairs of the Corporation, and, by proxy through the Chief Executive Officer, sets out clear expectations for management. The Board has adopted Chair of the Board Terms of Reference as well as Terms of Reference for an Individual Director and each of the Board committees. Each Board committee's Terms of Reference specifies the duties and responsibilities delineated to the committee by the Board.

The Board has developed a written position description for the Chief Executive Officer and annually determines the Chief Executive Officer's objectives and conducts an evaluation of the Chief Executive Officer's performance against the established objectives.

Directors of the Corporation

Following are the names, province / state and country of residence of the directors as of the date of this AIF, their date of birth, year appointed, expiry of term, principal occupations during the preceding five years and their relevant skills and experience:

Hugh J. Bolton, FCA Alberta, Canada Date of Birth: May 1938 Year appointed: 2000 Term expires: 2018	**Principal Occupation During Past Five Years:** Corporate Director.

Skills and Experience:
Mr. Bolton is a Chartered Accountant and Fellow of the Chartered Professional Accountants of Alberta. He holds a Bachelor of Arts degree in Economics and an Honorary Doctor of Laws degree, both from the University of Alberta. He is former Chairman, Chief Executive Officer and partner of Coopers & Lybrand and presently serves as a director of WestJet Airlines Ltd. and is a former board member Capital Power Corporation, Teck Resources Limited, TD Bank Financial Group, Canadian National Railway and Matrikon Inc. In 2006, Mr. Bolton received a fellowship from the Institute of Corporate Directors (Canada). In 2010 he received a Lifetime of Achievement Award from the Alberta Institute of Chartered Accountants and in 2015 received an Honorary Doctor of Laws from the University of Alberta.

Vito Culmone
Alberta, Canada
Date of Birth: November 1964
Year appointed: 2013
Term expires: 2017

Principal Occupation During Past Five Years:
Executive Vice President and Chief Financial Officer, Shaw Communications Inc. from June 2015; prior thereto Executive Vice-President, Finance and Chief Financial Officer, WestJet Airlines Ltd March 2007 to June 2015.

Skills and Experience:
Mr. Culmone obtained his Chartered Accountant designation in 1989 and holds a Bachelor of Commerce degree from the University of Toronto. He serves as the Executive Vice President, Finance and Chief Financial Officer of Shaw Communications Inc. In this position he is responsible for the overall financial management of Shaw Communications Inc. and its financial reporting. Prior to joining Shaw Communications Inc. in June 2015, Mr. Culmone served as Executive Vice President, Finance and Chief Financial Officer of WestJet Airlines Ltd. from March 2007 to May 2015 and had oversight of multiple corporate functions. Prior to joining WestJet Airlines Ltd., Mr. Culmone had a 12-year career at Molson Inc. where his previous roles included Vice President, Controller and Corporate Finance, Molson Inc. (pre-merger with Coors); Vice President and Chief Financial Officer of Molson U.S.A; and Vice President, Commercial Finance at Molson Canada.

Robert G. Foster
California, United States
Date of Birth: January 1947
Year appointed: 2014
Term expires: 2018

Principal Occupation During Past Five Years:
Consultant, Prometheus Advisors, and Corporate Director; prior thereto Mayor of Long Beach, California from July 2006 to July 2014.

Skills and Experience:
Mr. Foster holds a Bachelor of Administration degree in Public Administration from San Jose State University. He currently serves as a director for sPower and Total Transportation Services, Inc. and on the Advisory Board of Gridco Systems. He recently served as Chairman of the California Independent System Operator and as Mayor of the City of Long Beach, California. He has also served as President of Southern California Edison.

Allister J. McPherson
Alberta, Canada
Date of Birth: September 1943
Year appointed: 2008
Term expires: 2018

Principal Occupation During Past Five Years:
Corporate Director.

Skills and Experience:
Mr. McPherson holds a Masters of Science degree from the University of British Columbia. He served as Executive Vice President of the Canadian Western Bank and was Deputy Provincial Treasurer, Finance and Revenue, for the Province of Alberta. Mr. McPherson is presently an external member of the University of Alberta's Investment Committee. He is past Chair of the Credit Union Deposit Guarantee Corporation, a past Director of The Churchill Corporation and Capital Power Corporation and has served on the Endowment Fund Policy Committee of Alberta Finance and the Edmonton Regional Airports Authority Board of Directors.

Douglas H. Mitchell, C.M., Q.C.
Alberta, Canada
Date of Birth: February 1939
Year appointed: 2001
Term expires: 2017

Principal Occupation During Past Five Years:
National Co-Chair, Borden Ladner Gervais LLP (law firm) from January 2007 to November 2013.

Skills and Experience:
Mr. Mitchell holds a Bachelor of Laws degree from the University of British Columbia and a Bachelor of Arts degree from Colorado College. He presently is or has served as National Co-Chair of Borden Ladner Gervais LLP, Chair of the Calgary Airport Authority, Chair of the Calgary Sports Tourism Authority, Legacy Sports Inc., Co-Chair of the Banff Global Business Forum, Vice-Chair of ParticipAction, Chair of the Alberta Economic Development Authority, President of the Calgary Chamber of Commerce and a member of the Canadian Football League Board of Governors and Chair of the Southern Alberta Institute of Technology Board of Governors. In 2004, he was appointed to the Order of Canada and in 2007 was inducted into the Alberta Order of Excellence.

Catherine M. Roozen
Alberta, Canada
Date of Birth: March 1956
Year appointed: 2014
Term expires: 2018

Principal Occupation During Past Five Years:
Chair, Cathton Investments Ltd. from 2009.

Skills and Experience:
Ms. Roozen holds a Bachelor of Commerce degree from the University of Alberta. She is Chair of Cathton Investments Ltd., as well as Director and Secretary of the Allard Foundation Ltd., and is a former Vice-President, Investments at Cathton Holdings Ltd. She is currently a Director at Melcor Developments Ltd. and Corus Entertainment Inc. She has also served as Vice President, Investments, at North West Trust Company, and has served on a number of other boards. In December 2015, Ms. Roozen was appointed to the Order of Canada.

Helen K. Sinclair
Ontario, Canada
Date of Birth: April 1951
Year appointed: 2008
Term expires: 2018

Principal Occupation During Past Five Years:
Chief Executive Officer, Bank Works Trading Inc. (satellite communications and business television) from 1996.

Skills and Experience:
Ms. Sinclair holds a Masters of Arts (Economics) degree from the University of Toronto and is a graduate of the Advanced Management Program at Harvard Business School. She is the founder and Chief Executive Officer of Bank Works Trading Inc. and its business television network (BCN.tv), and is a former President of the Canadian Bankers Association. She previously served as a Director at TD Financial Group and DH Corporation (formerly Davis + Henderson Corporation). She has also served as Senior Vice President, Planning and Legislation at Scotiabank, and on the boards of a number of public policy and adjudicative bodies. Ms. Sinclair has served on the human resources and compensation committees of TD Bank Financial Group, DH Corporation (previously as Chair), Canada Pension Plan Investment Board and McCain Capital.

Nizar Jaffer Somji
Alberta, Canada
Date of Birth: March 1959
Year appointed: 2015
Term expires: 2017

Principal Occupation During Past Five Years:
Chief Executive Officer, Jaffer Inc.; prior thereto President and Chief Executive Officer of Matrikon Inc. to June 2010.

Skills and Experience:
Mr. Somji graduated from the University of Birmingham with a Bachelor of Science degree in electrical engineering and holds a Master of Science degree in Chemical Engineering from the University of Alberta. Mr. Somji is the President and Chief Executive Officer of Jaffer Inc. and founder and former President and Chief Executive officer of Matrikon Inc. prior to it being acquired by Honeywell in 2010. He is currently a Chairman at Redline Communications Group Inc. and at Zafin Inc., a Director at Critical Control Energy Services Corp. and is on the University of Alberta Board of Governors.

Sheila C. Weatherill, C.M.
Alberta, Canada
Date of Birth: October 1945
Year appointed: 2002
Term expires: 2019

Principal Occupation During Past Five Years:
Senior Advisor at University of Alberta (post-secondary education) from January 2009; prior thereto, Independent Investigator to the Government of Canada from January 2009 to July 2009; prior thereto, President and Chief Executive Officer, Capital Health Authority (regional health authority) from 1996.

Skills and Experience:
Ms. Weatherill graduated from the University of Alberta in nursing. She holds an Honorary Doctor of Laws degree from the University of Lethbridge and an Honorary Bachelor of Arts degree from MacEwan University. Ms. Weatherill is former President and Chief Executive Officer of the Capital Health Authority and presently serves as Director of Canada Health Infoway, Inc. She is currently a Director at Shaw Communications Inc. She received the Alberta Centennial Medal, was appointed to the Order of Canada and was formerly a member of the Prime Minister’s Advisory Committee on the Public Service.

Director Independence

All members of the Board are independent, as the term is defined in National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (NI 58-101). Under NI 58-101, a director is independent if he or she would be independent within the meaning of independence under National Instrument 52-110 – *Audit Committees* (NI 52-110). Essentially, a director is independent if he or she has no direct or indirect material relationship with the Corporation. A "material relationship" is a relationship that could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's independent judgment.

The Board determines annually whether each member of EPCOR's Board is independent based on whether they, among other things, worked for EPCOR, had any immediate family member engaged in the employment of EPCOR, benefited from a business relationship with EPCOR that could reasonably be perceived to materially interfere with their independent judgment, or received remuneration from EPCOR other than remuneration for acting as a member of the Board and Board established committees of the Corporation.

Chair of the Board

Mr. Hugh Bolton is the Chair of the Board. Mr. Bolton, who is independent as the term is defined in NI 58-101, was appointed to this position on January 1, 2000. Mr. Bolton's responsibilities as the Chair of the Board are set out in the Chair's Terms of Reference, which have been formally adopted by the Board. The Chair reports to the City and is responsible for ensuring that the City receives accurate, relevant and timely information respecting the Board's actions. As chief spokesperson for the Board, the Chair represents the Board's views to, and reports back to the Board respecting communications with, the City.

The primary responsibilities of the Chair are to chair effective Board and shareholder meetings, monitor and oversee the strategic agenda of the Corporation and to provide leadership and advice respecting business planning processes, corporate governance and supporting material provided to the Board. Furthermore, the Chair shall ensure the responsibilities of the Board are well understood by the Board and management of the Corporation and that the boundaries between the Board and management are clearly understood and respected.

Outside Directorships

The following directors of EPCOR are presently directors of other issuers that are reporting issuers (or the equivalent) in Canada or in a foreign jurisdiction:

Mr. Bolton	Director of WestJet Airlines Ltd.
Mr. Mitchell	Director of AltaLink Management Ltd., which is the general partner of AltaLink L.P. and trustee of Northview Apartment Real Estate Investment Trust.
Ms. Roozen	Director of Melcor Developments Ltd. and Corus Entertainment Inc.
Mr. Somji	Director of Redline Communications Group Inc. and Critical Control Energy Services Corp.
Ms. Weatherill	Director of Shaw Communications Inc.

For a portion of 2016, there was one interlocking directorship resulting from the directors of EPCOR acting as directors of other issuers: Mr. Bolton is currently and until May, 2016 Mr. Laurence (Larry) Pollock was a director of WestJet Airlines Ltd., however, Mr. Pollock`s term as a director of the Corporation ended on May 6, 2016. The Board had determined that this interlocking directorship did not impact the ability of these directors to act in the best interests of the Corporation.

There is one interlocking relationship resulting from Mr. Culmone being the Executive Vice President, Finance and Chief Financial Officer of Shaw Communications Inc. and Ms. Weatherill acting as a director of Shaw Communications Inc. The Board has determined that this interlocking relationship does not impact the ability of these directors to act in the best interests of the Corporation.

Material Interests

Directors and executive officers of the Corporation are regularly asked to disclose in writing any material interest he or she has in a material contract or transaction with the Corporation, whether or not it is a current or proposed contract or transaction, or have the interest entered into the minutes of a Board meeting, including its nature and extent. When a director has a material interest, the director must refrain from participating in any discussion or vote on the matter. In practice, a director with a material interest recuses himself or herself from the Board meeting when a discussion or vote takes place on such matter.

Board Meetings

The Board holds regularly scheduled meetings as well as *ad hoc* meetings from time to time. The Board, which consists only of independent members as defined by NI 58-101, regularly meets without management present for a portion of its meetings. The Board may excuse directors and members of management from all or a portion of any meeting where a potential conflict of interest arises or where otherwise appropriate.

In 2016, the attendance of directors at Board meetings was as follows:

Name	Number of Meetings	Attendance
Hugh J. Bolton	8 of 8 meetings	100%
Vito Culmone	8 of 8 meetings	100%
Robert G. Foster	8 of 8 meetings	100%
Allister J. McPherson	8 of 8 meetings	100%
Douglas H. Mitchell	8 of 8 meetings	100%
Laurence M. Pollock[(1)]	3 of 3 meetings	100%
Catherine M. Roozen	8 of 8 meetings	100%
Helen K. Sinclair	8 of 8 meetings	100%
Nizar Jaffer Somji	8 of 8 meetings	100%
Sheila C. Weatherill	8 of 8 meetings	100%

(1) Mr. Pollock retired on May 6, 2016.

Orientation and Continuing Education

EPCOR has procedures in place for the orientation of new directors. New directors meet with the President and Chief Executive Officer, the Chief Financial Officer and the Chair of the Board in order to improve their understanding of the Corporation as well as the overall industries within which the Corporation participates. New directors are also provided the option of receiving briefings from members of senior management of the Corporation and the Corporation's external auditor.

In addition, all directors are provided with a Board of Directors Governance Manual, which contains detailed information about EPCOR's business, Board and committee terms of reference, individual director terms of reference, authority matrices, corporate structure, governance, policies and other related matters of interest to the directors. This Board of Directors Governance Manual, which is available to all directors electronically, is updated as the documents included in it are amended or replaced. Furthermore, all directors are also provided with the opportunity to annually tour at least one of the Corporation's sites that is illustrative of each of the various types of facilities and plants owned and operated by the Corporation.

The Corporate Governance and Nominating Committee's (CG&N Committee) Terms of Reference require that the CG&N Committee review, monitor and make recommendations to the Board regarding new director orientation and ongoing development of existing Board members. The Board, in consultation with senior management, identifies discussion topics for its annual planning retreat. Regular presentations are organized for the Board by senior management with respect to subjects relevant to the operations of the Corporation. In addition, with respect to developments in the law regarding directors' obligations and regulatory developments that may impact the Corporation's operations, EPCOR's General Counsel keeps informed of such developments and updates the Board as necessary. The Corporation also makes available $1,500 per year or $6,000 every four years for each director towards professional development courses of a general nature that will be of benefit to the Corporation. This contribution can be used for any relevant expenses related to the pursuit of the director's education, which expenses may include conference fees, membership dues, registration fees, materials, reference books and similar expenses.

Ethical Business Conduct

The Corporation has adopted a written ethics policy (the Ethics Policy), applicable to all employees of EPCOR and its Canadian subsidiaries, including their directors. The Board has oversight and control over the policy including governance over all material changes to and deviations from the policy. A summary report of all ethics investigations are included in the quarterly Litigation and Ethics Report provided to the Audit Committee. A copy of the Ethics Policy can be obtained from EPCOR's Corporate Secretary upon request or from EPCOR's website at www.epcor.com.

EWUS has adopted a written ethics policy (the U.S. Ethics Policy), applicable to all employees of EWUS and its subsidiaries, including their directors. The board of directors of EWUS has oversight and control over the U.S. Ethics Policy including governance over all material changes to and deviations from the U.S. Ethics Policy. A summary report of all ethics investigations are included in the quarterly Ethics Report that EWUS' Ethics Officer provides to the board of directors of EWUS and is also appended to the quarterly Litigation and Ethics Report provided by EPCOR's Ethics Officer to EPCOR's Audit Committee. A copy of the U.S. Ethics Policy can be obtained from EPCOR's Corporate Secretary upon request or from EPCOR's website at www.epcor.com.

The Corporation promotes a culture where anyone can speak openly about ethical concerns without fear of reprisal. Employees can raise a concern with their manager or a member of senior management, or report a concern or possible violation through EPCOR's Integrity Hotline (for concerns or violations with respect to the Ethics Policy) or EPCOR's Compliance Hotline (for concerns with the U.S. Ethics Policy). These hotlines operate in a fashion that ensures confidentiality. Ethics training for employees and the Board is conducted bi-annually.

The Corporation investigates complaints thoroughly and promptly. An investigation may involve review of documents and interviews of employees, contractors or agents in order to corroborate facts. The Corporation's goal is to keep every complaint, investigation and resolution as confidential as possible, and take corrective action as appropriate. A written report is completed on every investigation process and the outcome is maintained in the Corporation's files. All of the Corporation's employees are required to participate in ethics training every two years.

Nomination of Directors

The Board is a competency-based board with diverse skills and business and professional backgrounds. Suitability as a director is based on a balance of personal characteristics, applicable experience, specialized knowledge, technical skills and affiliations. The CG&N Committee keeps matrices, which identify the skills, expertise, knowledge, education and experience of the existing Board and areas where the Board requires certain skills, expertise, knowledge, education and experience. EPCOR's Board Recruitment and Appointment Procedure was approved by the City on November 9, 2012. In accordance with that procedure, new candidates are identified by the CG&N Committee with a view to matching their attributes with the attributes collectively required by the Board.

The CG&N Committee's Terms of Reference and the Board's Recruitment and Appointment Procedure include the requirement to consider gender diversity when recruiting new Board members. When identifying and nominating Board candidates, the CG&N Committee and the Board consider the level of representation of women on the Board but do not set targets regarding such. Presently, 33% of the Board is comprised of women.

City of Edmonton Council represents the City as sole Shareholder of the Corporation and is responsible for the appointment and re-appointment of the Chair and directors of the Corporation. The candidates recommended by the Board may then be interviewed by the Shareholder, which then appoints the new Board members. The Corporation does not impose a mandatory retirement age for Board members. The Corporation's By-Law specifies a maximum 15-year term for directors, unless the Shareholder waives the restriction.

Director and Executive Compensation

The CG&N Committee's Terms of Reference prescribe regular review of director compensation. The CG&N Committee considers time commitment, comparative fees, and responsibilities related to remuneration for directors. On the advice of the CG&N Committee, the Chair of the Board makes recommendations to the City in order to determine directors' compensation. The CG&N Committee receives independent advice in respect of directors' compensation from Willis Towers Watson Public Limited Company (WTW).

The compensation of the members of the executive team, including the Chief Executive Officer's compensation, is approved by the Board on the basis of recommendations from the Human Resources & Compensation (HR&C Committee). As further described herein, among other things, through use of an independent executive compensation consultant, considering comparable market data from third party surveys to provide an initial reference point for assessing present and determining future compensation levels, and having the Board approve director and officer compensation policies recommended by the HR&C Committee, the Board ensures that the HR&C Committee has in place an objective process for determining compensation for directors and officers.

Standing Committees

The Board has established the following standing committees: (i) Audit Committee; (ii) HR&C Committee; (iii) Environment, Health & Safety Committee (EH&S Committee); and (iv) CG&N Committee. The members of the four standing committees as of the date of this AIF were as detailed below:

Directors	Audit Committee	HR&C Committee	EH&S Committee	CG&N Committee
Hugh J. Bolton	Ex-officio	Ex-officio	Ex-officio	Ex-officio
Vito Culmone	Chair	✓		
Robert G. Foster			Chair	✓
Allister J. McPherson		Chair		✓
Douglas H. Mitchell				Chair
Catherine M. Roozen	✓		✓	
Helen K. Sinclair	✓		✓	
Nizar Jaffer Somji	✓	✓	✓	
Sheila C. Weatherill		✓		✓

The functions of the four standing committees are as follows:

Audit Committee

The Corporation's Audit Committee operates under the "Audit Committee Terms of Reference" attached as Appendix I to this AIF.

HR&C Committee

The HR&C Committee assists the Board in fulfilling its responsibilities relating to human resources matters including compensation, evaluation and succession of employees of the Corporation.

EH&S Committee

The EH&S Committee monitors, evaluates, advises, makes recommendations and has general oversight on matters relating to the impact of the operations of the Corporation on the environment and workplace health and safety of its employees.

CG&N Committee

The Corporation's CG&N Committee ensures appropriate structures, processes and policies are in place to address governance matters and maintain compliance with governance guidelines. It also manages the procedures related to the appointment of new directors, the re-appointment of existing directors and the performance and effectiveness of the Board, its committees and individual directors. The CG&N Committee identifies new candidates and recommends appointments to the Board for further recommendation to the Shareholder.

Assessments

The CG&N Committee reviews, monitors and makes recommendations on the effectiveness of the Board. Directors are annually surveyed on the effectiveness of the Board and its committees. With a view to obtaining constructive feedback, the Board annually considers the manner in which it will monitor its effectiveness, its committees and individual Board members. In the past, the Board has chosen to use varying methods, including: (i) retaining an external consultant to interview all members of the Board; (ii) having the Chair of the Board or the CG&N Committee interview all members of the Board; and (iii) having all members of the Board complete confidential surveys and evaluations with respect to each member of the Board. With respect to each of the evaluation methods, the results are compiled and discussed by the Board as a whole. Evaluations focus on individual Board members' attendance, preparation and contributions made during the meetings as well as other matters germane to the performance of the Board, its committees and individual directors.

AUDIT COMMITTEE INFORMATION

AUDIT COMMITTEE MANDATE

The Corporation's Audit Committee operates under the "Audit Committee Terms of Reference" attached as Appendix I to this AIF.

COMPOSITION OF THE AUDIT COMMITTEE

The current members of the Audit Committee are outlined above under Standing Committees. Each of the members of the Audit Committee is considered "financially literate" within the meaning of NI 52-110. The education and experience of each director relevant to the performance of a director's duties as a member of the Audit Committee is outlined above under Directors of the Corporation.

POLICIES AND PROCEDURES FOR THE ENGAGEMENT OF AUDIT AND NON-AUDIT SERVICES

Under its Terms of Reference, the Audit Committee is required to pre-approve all non-auditing services to be performed by the external auditors in relation to the Corporation and its subsidiaries. Annually, the external auditors will submit their annual work plan to the Audit Committee, including the nature and scope of any audit-related advisory services (as requested by management) planned for the upcoming year. Once that plan is pre-approved by the Audit Committee, management has the authority to schedule the pre-approved services.

Any unplanned audit-related advisory services or other advisory services are presented for pre-approval at the regularly scheduled meetings of the Audit Committee. If, due to timing issues, the pre-approval of unplanned non-audit services must be expedited and it is not practically possible to wait until the next regularly scheduled Audit Committee meeting, the Chair of the Audit Committee has the delegated authority, on behalf of the Audit Committee, to pre-approve the unplanned non-audit services when the individual engagement fees are projected to be less than $50,000 subject to an annual maximum approval limit of $200,000. The unplanned non-audit services pre-approved by the Chair of the Audit Committee are then reviewed at the next Audit Committee meeting.

AUDITOR OF THE CORPORATION AND AUDITOR'S FEES

KPMG LLP, Chartered Accountants has served as the Corporation's auditing firm continuously since 1995. Fees billed by KPMG LLP to the Corporation and its subsidiaries in the years ended December 31, 2016 and December 31, 2015 were approximately $0.9 million and $1.1 million, respectively, as detailed below.

($ millions)	**Year Ended December 31, 2016**	**Year Ended December 31, 2015**
Audit fees	$0.9	$0.9
Audit-related fees	0.0	0.1
All other fees	0.0	0.1
Total	$0.9	$1.1

Audit fees

Audit fees billed by KPMG LLP were for professional services rendered for the audit and review of the consolidated financial statements of the Corporation and the financial statements of certain subsidiaries or services provided in connection with statutory and regulatory filings and providing comfort letters associated with securities documents.

Audit-related fees

Audit-related fees billed by KPMG LLP are for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements and are not reported under audit fees listed above. These services include the auditing of financial information contained in securities documents and audit procedures pertaining to acquisitions and joint venture related projects.

All other fees

"All other fees" as listed in the table above include fees billed by KPMG LLP for services other than audit fees, audit-related fees and tax fees including control effectiveness testing.

COMPENSATION DISCUSSION AND ANALYSIS

The purpose of this Compensation Discussion and Analysis is to provide an overview of EPCOR's executive compensation philosophy, objectives and processes, and describe the compensation decisions made in respect of EPCOR's Named Executive Officers (NEOs). In 2016, EPCOR's NEOs were: Stuart Lee, President and Chief Executive Officer; Guy Bridgeman, Senior Vice President and Chief Financial Officer; Joseph Gysel, Senior Vice President, EPCOR Water USA (President, EWUS); Stephen Stanley, Senior Vice President, Commercial Services; and Frank Mannarino, Senior Vice President, Electricity Services.

COMPENSATION GOVERNANCE

HR&C Committee

<u>Mandate</u>

The role of the HR&C Committee with respect to compensation is to:

- Oversee and recommend for approval by the Board, EPCOR's executive compensation philosophy including all forms of compensation for the Chief Executive Officer and each member of the executive team;
- Approve and monitor the general compensation policies and plans for EPCOR; and
- Review and approve the performance measures, payout ranges and resultant incentive plan payouts to ensure risks have been appropriately accounted and adjusted for in alignment with the Corporation's risk tolerance.

In evaluating the degree to which performance measures and targets have been achieved under applicable incentive plans and in determining resulting payouts, the Board applies informed judgment to look beyond the formal measures to consider other elements it believes have significantly impacted overall corporate performance. Such other elements include the consideration of events or circumstances that are outside of management's direct influence or control and management's actions in respect of unplanned events or circumstances.

The HR&C Committee Terms of Reference establish its purpose, responsibilities and membership. During 2016, the HR&C Committee met three times. The HR&C Committee undertakes an objective process for determining compensation by holding in-camera sessions at the end of meetings, without management present. Any decisions made during such sessions are recorded in the minutes of the meeting.

<u>Composition of the HR&C Committee</u>

The current members of the HR&C Committee are outlined above under Standing Committees. The education and experience of each director relevant to the performance of a director's duties as a member of the HR&C Committee is outlined above under Directors of the Corporation.

<u>Independent Executive Compensation Consultant</u>

Since 2001, the HR&C Committee has retained the services of an independent executive compensation consultant, WTW, to provide advice to the HR&C Committee on levels of compensation in the competitive market in which the Corporation operates and on other compensation and governance-related matters such as total compensation benchmarking, comparator group selection and incentive plan design and calibration. WTW provides advice to the HR&C Committee through an individual employed by WTW (the Executive Compensation Consultant).

While WTW provides consulting advice and administrative support to the management of the Corporation on pension, general compensation surveys and regulatory rate case matters, WTW was also engaged by the HR&C Committee, independent of management. The Corporation and WTW took several steps to maintain the independence of the Executive Compensation Consultant. Although the HR&C Committee concluded that there were adequate safeguards in place to ensure the independence of the Executive Compensation Consultant's advice and recommendations, the HR&C Committee recently decided to engage Hugessen Consulting Incorporated (Hugessen), to provide exclusive executive compensation advice to the Committee. Hugessen began providing advice to the HR&C Committee in the first quarter of 2017.

WTW has served as a consultant to management of the Corporation continuously for the past 20 years. The services provided to management of the Corporation and the related costs are subject to the Corporation's planning, budgeting and approval processes and costs related to these services are not pre-approved by the HR&C Committee. WTW will continue to provide consulting services to management.

Fees billed by WTW to the Corporation and its subsidiaries in the years ended December 31, 2016 and December 31, 2015 were $0.29 million and $0.45 million, respectively, as detailed below.

<u>Executive Compensation – Related Fees</u>

($ millions)	Year Ended December 31, 2016	Year Ended December 31, 2015
Fees paid to Executive Compensation Consultant(1)	$0.20	$0.21
All Other Fees		
Pension and Benefits(2)	0.04	0.07
Regulated Rate Applications(3)	0.00	0.13
Other fees(4)	0.05	0.04
Total	**$0.29**	**$0.45**

(1) Includes advice to the HR&C Committee on levels of compensation in the competitive market in which the Corporation operates and on other compensation matters such as total compensation benchmarking, comparator group selection, incentive plan design and calibration, and trends in executive compensation practices and governance.
(2) Includes actuarial and consulting services related to pension plan design, pension benefit calculations and benefit survey participation.
(3) WTW provides advice, evidence and appears as an expert witness (when required) in respect of EPCOR's EDTI and Energy Services rate application proceedings before the AUC.
(4) Includes management compensation surveys and accounting and actuarial reporting for the Corporation's annual consolidated financial statements.

Compensation Approval Process

In determining the compensation arrangements for each of the Corporation's executives, the HR&C Committee considers a comprehensive market analysis. The analysis includes market data prepared by WTW for similar positions within the comparator group, as discussed in further detail in the Comparator Group section below, and the Chief Executive Officer's recommendations for his direct reports, including all of the other NEOs.

The HR&C Committee reviews the various compensation elements for individual executives and in aggregate to evaluate internal equity and seek alignment with program objectives and alignment to the Corporation's overall business strategies. The HR&C Committee then makes recommendations on all executive compensation elements to the Board for approval. The Board also ensures that the individual performance objectives for the Chief Executive Officer and other NEOs align with the Corporation's business objectives and reflect performance areas that are specific to each role when it reviews and approves his or her total compensation.

Risk Mitigation

EPCOR is primarily a rate regulated entity with very limited opportunities for excessive risk taking. The HR&C Committee is responsible, with assistance from its advisors and management, for identifying the potential risks associated with the compensation policies and practices and for developing and monitoring compliance with such policies and practices.

In 2016, the HR&C Committee requested the Executive Compensation Consultant to review the Corporation's compensation policy and programs for its executive team and the related governance structure and to assess any potential risk implications. The Executive Compensation Consultant concluded that there did not appear to be significant risks arising from the programs and structure that were reasonably likely to have an adverse effect on the Corporation.

The HR&C Committee has implemented a range of compensation policies and practices to incent the right behaviours and prevent excessive or undue risk-taking by management, as highlighted in the table below.

Policy/Practice	Description
Compensation Philosophy	Compensation is designed and delivered in accordance with a detailed compensation philosophy.
Ethics & Compliance Policies	Management rigorously enforces EPCOR's Ethics Policy. Quarterly compliance reports are submitted to EPCOR's Compliance Officer by all executive and senior officers indicating compliance with EPCOR policies in their area of responsibility (or the nature of any non-compliance).
Regulatory Review	External rate regulators review operating forecasts (which include compensation) and capital programs as part of rate tariff proceedings.
Structured Review and Approval Process	All aspects of the executive compensation program, including the compensation policy, annual compensation budgets, incentive metrics and executive pay levels are presented to the HR&C Committee for review and recommendation to the Board for approval. With respect to short-term and mid-term incentive plans: • Actual performance against short-term incentive metrics is audited internally. • The annual capital expenditure budget (including sustaining capital) and larger growth-related capital projects or investments that impact mid-term incentive payout opportunities are approved annually by the Board.
Independent Compensation Advice	The HR&C Committee retains Hugessen (WTW prior to 2017) to assist and guide them in executive compensation and benefit matters.
External Benchmarking	Total compensation is targeted at the 50th percentile of the market, based on a comparator group that is reviewed by the HR&C Committee. In addition, management participates in multiple external salary survey programs to obtain and maintain current market data, which is presented to the HR&C Committee in conjunction with the annual compensation cycle.
Pay-for-Performance	Approximately 23% of the executive team's total direct compensation is delivered through short-term variable pay and 31% through longer-term variable pay, which provides strong pay-for-performance alignment over multiple time periods.
Multiple Performance Metrics	The Short-term Incentive Plan (STIP) is designed using a scorecard approach measuring a series of financial, safety, operational and customer metrics thereby minimizing the risk that one metric will overly influence payout results. Mid-Term Incentive Plan (MTIP) metrics measure capital and income growth to help monitor performance of capital investment decisions.
Robust Target Setting Process	Performance targets are set in consideration of multiple factors, including historical trends, with a view to raising performance expectations on an annual basis.
Incentive Funding & Payout Caps	The amount of funding available for distribution under the STIP is capped at a maximum of 200% of aggregate target awards. Further, individual awards under the MTIP are capped at 200% of target.
Application of informed judgment	When determining final compensation, the HR&C Committee and the Board may apply informed judgment to adjust the value of awards. This ensures that the awards appropriately take account of associated risks and other unexpected circumstances that arise during the year.
Clawback Policy	Allows the Board to seek reimbursement of full or partial compensation applicable to short-term or mid-term incentive awards under specified scenarios for the executive team.
Status Reports and Communication	The HR&C Committee and the Board receive regular updates in respect of all aspects of compensation program design. Specifically: • The HR&C Committee receives updates on EPCOR's performance against STIP and MTIP performance targets and estimated payout levels throughout the year. • Labour negotiating mandates are presented in advance to the HR&C Committee for review and approval and post-negotiation outcomes are presented to the HR&C Committee. • Post implementation reviews of capital investments and resultant profitability are conducted internally by management and presented to the Board for information.

After considering the potential risks associated with EPCOR's compensation program, including the Executive Compensation Consultant's review of the policies and practices outlined above, the Board believes that:

- EPCOR has the proper practices in place to effectively identify and mitigate potential risks; and
- EPCOR's compensation policies and practices do not encourage any employee to take inappropriate or excessive risks, and are not reasonably likely to lead to an event which would have a material adverse effect on the Corporation.

COMPENSATION PHILOSOPHY

Guiding Principles

EPCOR's compensation programs are grounded on principles that support the management of risk, ensuring management's plans and activities are prudent and focused on generating shareholder value within an effective risk control environment. The following principles form EPCOR's compensation philosophy:

Principle	Compensation Programs
Stakeholder Interests	• Recognize EPCOR's role as a significant Alberta employer and service provider, taking into account the unique interests of its shareholder, employees, customers, and regulatory stakeholders.
Link to Strategy	• Link to the successful execution of EPCOR's business strategy and support its values: (i) We put safety first in everything we do; (ii) We act with integrity; (iii) We work as a team; (iv) We are trusted by customers; (v) We create shareholder value; and (vi) We are environmental leaders.
Long-term Value Creation	• Support strategic business objectives of prudent, sustainable and profitable growth while funding shareholder dividends at acceptable levels.
Pay-for-Performance	• Promote a performance culture that rewards superior corporate, business unit and individual performance and results. • Align compensation costs with affordability and business growth.
Career Oriented	• Reinforce a long-term career orientation that reflects the deep technical skill sets required to support key focus areas.
Market Competitive	• Support the attraction, retention and engagement of high performing talent through competitive compensation opportunities.
Simple and Integrated	• Are simple to understand and administer, and communicated in a way that the integrated value of monetary and non-monetary rewards is understood.

Target Competitive Positioning

Individual compensation arrangements are designed to be market-competitive in order to attract, engage and retain highly qualified leaders. Market competitiveness is defined as maintaining, in aggregate, a 50th percentile (or median) target total compensation level relative to EPCOR's approved comparator groups, consisting of organizations with similar operations, degrees of complexity and employee skill sets. Total actual compensation may be positioned above the 50th percentile in the event of superior performance by the Corporation, business unit and / or the individual. Where performance does not meet some or all of the stated objectives, total actual compensation could be positioned below the 50th percentile.

Comparator Groups

For purposes of benchmarking market compensation levels and assessing alignment with its stated competitive positioning philosophy, EPCOR has developed compensation comparator groups (comparator groups) that represent the labour market in which the organization competes for talent. As part of its annual compensation review, the Corporation considers comparator group data from third party surveys to provide an initial reference point for assessing present and determining future compensation levels.

The composition of the Corporation's comparator groups is reviewed annually for continued relevance by WTW and the HR&C Committee. The guiding principles for consideration of businesses for inclusion in the comparator group are:

Principles	Canada	U.S.
Industry	Energy utilities and pipeline organizations.	Utilities and other industries that either have capital intensive, engineering and / or regulated aspects.
Market For Talent	Resource based organizations, particularly in the Alberta energy sector.	Similar market where Water USA operates.
Company Size	Organizations of all sizes for skilled professionals and executives.	Revenue criteria of 0.5x to 3x to current EWUS revenue.
Geography	Operations in Western Canada.	Operations in the Lower Mountain region of the U.S. (i.e. Arizona, Colorado, New Mexico, or Utah).
Ownership Structure	All corporate structures.	
Organizational Complexity	Regulated and non-regulated business components.	
Business Characteristics	Capital intensive organizations.	

Based on the above criteria, the comparator group used to assess Canadian pay levels in 2016 for industry specific roles was comprised of the following organizations:

- Alberta Electric System Operator
- Alliance Pipeline Limited Partnership
- AltaGas Ltd.
- AltaLink Management Ltd.
- ATCO Group (ATCO Electric, ATCO Power and ATCO Gas)
- British Columbia Hydro and Power Authority
- Capital Power Corporation
- City of Medicine Hat (Hydro Division)
- Enbridge Inc.
- ENMAX Corporation
- FortisAlberta Inc.
- FortisBC (Terasen Gas)
- Inter Pipeline
- Kinder Morgan Canada
- SaskEnergy
- SaskPower
- Spectra Energy Transmission
- TransAlta Corporation
- TransCanada Corporation

Based on the above criteria, the comparator group used to assess Canadian pay levels in 2016 for shared services and non-industry specific roles was comprised of the following organizations in addition to the organizations listed immediately above that were used to determine pay levels for industry specific roles:

- Agrium Inc.
- Bruce Power
- Cogeco Inc.
- Dow Chemical
- Energy Resources Conservation Board
- Ericsson Canada Inc.
- Independent Electricity System Operator
- INEOS Canada Partnership
- MacDonald, Dettwiler & Associates
- Methanex
- NOVA Chemicals
- Ontario Power Generation
- ShawCor
- Siemens Canada
- Sierra Wireless
- Stantec Inc.
- TELUS
- Toronto Hydro Electric System

Based on the above criteria, the comparator group used to assess U.S. pay levels in 2016 was comprised of the following organizations:

- Arcadis NV
- Arizona Water Company
- Atmos Energy Corporation
- Black Hills Corporation
- CH2M Hill Companies Ltd.
- Colorado Springs Utilities
- El Paso Electric Company
- Global Water Resources Inc.
- Level 3 Communications Inc.
- Pinnacle West Capital Corporation
- Platte River Power Authority Inc.
- PNM Resources Inc.
- Questar Corporation
- Salt River Project Agricultural Improvement and Power District
- Southwest Gas Corporation
- Tucson Electric Power Company Inc.
- UNS Energy Corporation
- Vectrus Inc.

Market survey results reviewed by the HR&C Committee may be prepared using a methodology generally referred to as “size-adjusting”. Since organization size is often a key factor in determining executive compensation levels, regression analysis is used when appropriate to “size-adjust” the market data using a variable such as annual revenue to account for differences in the size and complexity of companies in the comparator groups and those of the Corporation. This technique enables compensation practices from a range of organizations within the Corporation’s targeted industry sector to be analyzed and considered. The HR&C Committee also considers “raw” unadjusted market data as a secondary reference point and / or where robust size-adjusted data is unavailable. In 2016, EPCOR was positioned around the median of the Canadian comparator group based on revenue.

Compensation Elements and Target Mix

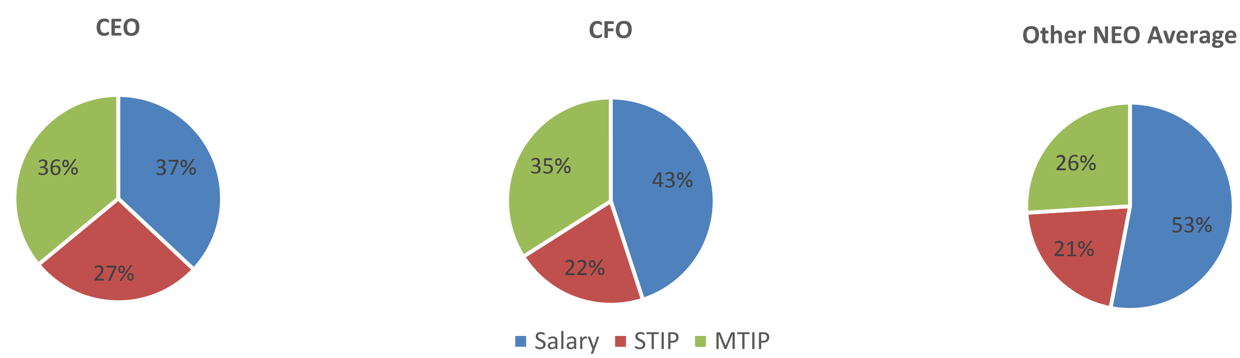
The compensation philosophy has guided the development of an executive compensation model that includes a mix of base salary, short-term incentives, mid-term incentives and pension and benefits.

Base salary	STIP	MTIP	Benefits and Pension
Fixed level of compensation based on specified accountabilities.	Designed to reward executives for achievement of annual corporate, business unit and individual targets that support the Corporation’s strategic direction.	Designed to align executive and shareholder interests by focusing executives on the Corporation's longer-term strategic objectives and sustained value creation.	Market competitive health, retirement and other benefits.

Total direct compensation represents the combined value of fixed compensation and performance-based variable compensation. For executives, a significant focus is on performance-related compensation (short and mid-term incentives). The relative weighting on base salary, short and mid-term incentives for each executive takes into account the executive's role and level in the Corporation, his or her ability to influence short and longer-term business results and the compensation mix for similar positions in the competitive market.

To assist in determining the values to be allocated to each compensation element for the NEOs, the HR&C Committee reviews competitive market data for similar positions within EPCOR's comparator group, including data provided by the Executive Compensation Consultant.

The pie charts below outline the target total direct compensation mix for the CEO, CFO and average of other NEOs in 2016:



2016 NEO COMPENSATION DECISIONS

STIP Compensation

The Corporation’s STIP is designed to place focus on the importance of achieving safety metrics while continuing to recognize business unit operational efficiency, customer and financial performance metrics. The STIP also allows management to allocate STIP payments on a discretionary basis (taking into account individual performance) within a budget both determined and funded by corporate and business unit results.

<u>2016 STIP Target Awards</u>

NEOs are eligible for annual target awards under the STIP, as recommended by the HR&C Committee and approved by the Board. Awards are payable the following year, subject to the achievement of corporate, business unit and individual performance objectives.

Individual target award levels are expressed as a percentage of salary and generally align with the median of the comparator group for positions with similar responsibilities to those of the Corporation. In 2016, NEO STIP target award levels were 75% for Mr. Lee, 50% for Dr. Bridgeman and 40% for other NEOs. The STIP target award represents the amount that could be paid if performance objectives were achieved at target levels. Actual STIP payouts may be above or below target award levels depending on plan funding (as described in detail below) and individual performance results. The aggregate payment of individual STIP awards cannot exceed the overall approved plan funding.

<u>2016 STIP Plan Funding</u>

STIP awards are funded based on a scorecard approach which considers performance against business unit and / or consolidated net income and operational business unit objectives. The aggregate amount of STIP funds available for payment to eligible employees is derived based on two pools, as follows:

Pool A "Managing the Business" *Up to 100% of target STI*	+	Pool B "Financial Profitability" *33% of the amount Corporate Net Income exceeds Target* *Up to 100% of target STI - (maximum of Pool A result)*	=	Total Available STI Funding *Up to maximum 200% of target STI*

STIP Pool A is established based on performance against pre-determined financial, safety, operational efficiency and customer service metrics at the business unit or consolidated level, which are approved by the HR&C Committee of the Board of Directors annually. For 2016, the STIP Pool A performance measures and respective weights were as follows:

Performance Metric	2016 STIP Pool A Weighting						
	Water Canada	Water USA	Electricity Operations	Technologies	Energy Services	Commercial Services	Corporate*
Consolidated Net Income	-	-	-	-	-	10%	10%
Business Unit Net Income	10%	10%	10%	10%	10%	-	-
BU Metrics: • Safety • Operational Efficiency • Customer Service	 30% 30% 30%	 30% 30% 30%	 30% 30% 30%	 30% 30% 30%	 30% 30% 30%	 30% 40% 20%	 30% 60% -

* *Corporate consists of all corporate departments (except Finance and HSE employees embedded in business units) reporting to the SVP & CFO, SVP Corporate Services, General Counsel & Corporate Secretary and Director, HSE. The Chief Executive Officer's performance is based on the average results achieved by his direct reports.*

Each metric is evaluated relative to a pre-determined performance scale which provides for a payout of 50% of target at threshold (minimum) performance levels, 100% of target at target performance levels and 150% of target at stretch (maximum) performance levels. No amount is payable for a given metric if threshold performance is not achieved.

Overall performance is determined using aggregate results for all metrics. To recognize the importance of safety as a key component of the Corporation's culture, safety results below target cannot be offset by higher performance of one of the other performance metrics. As such, Pool A funding will reflect the degree to which a specific safety metric falls below target. Further, maximum funding for STIP Pool A is capped at 100% of target (being the sum of target STIP amounts for all employees eligible to participate in the corporate STIP).

STIP Pool B is triggered and funded if actual Consolidated Net Income exceeds the pre-determined target level. Up to 33% of the excess Consolidated Net Income achieved between target and stretch performance levels may be allocated to STIP Pool B. However, any allocated amount is subject to a cap of 100% of the aggregate funding for STIP Pool A. This approach reinforces the importance of growing the business and maximizing EPCOR's overall profitability and shareholder return.

2016 STIP Awards

Actual 2016 STIP awards for each NEO reflect a combination of corporate, business unit and individual performance achievement, as follows:

- Corporate Performance – The Consolidated Net Income performance objective is intended to reflect the executives' responsibilities, through the management of their respective business units or corporate departments, towards the Corporation achieving its short-term profitability objective. Consolidated Net Income for STIP purposes is calculated based on net income excluding any income, gains, losses or adjustments related to its financial interest in Capital Power as well as certain unrealized gains and losses related to interest rate swaps and other financial derivatives, and provincial transmission flow-through impacts. Actual 2016 Consolidated Net Income for STIP purposes was $242.16 million, relative to a target of $235.01 million, resulting in a corporate performance factor of 103.04% of target;

- Business Unit Performance – The NEOs are accountable for the performance of their specific business units. Accordingly, the overall STIP pool funding is allocated to each business unit based on overall financial and operational business unit results (safety, operational efficiency and customer service). In 2016, business unit funding allocations ranged from 90.36% - 117.35% of target; and

- Individual Performance – Individual executive performance objectives are pre-established through EPCOR's performance management program and are intended to align with annual corporate objectives and each NEO's respective responsibilities. Although NEOs are accountable for the performance of their specific business units, they have common key accountabilities including the following:
    - Provide input to the EPCOR strategic plans and directions, ensure an appropriate understanding of the EPCOR strategy throughout the business unit and ensure ongoing effective positioning and appropriate relationships between that business unit and the rest of EPCOR; and

    - Formulate and implement business plans and strategies to provide for profitable operations, to meet short-term objectives and to ensure long-term corporate growth and success. This includes ensuring the required organizational structure and achieving the required outcomes with time spans (longest target completion time) ranging from 5 years to 10 years.

Individual 2016 STIP performance objectives and results for each NEO were as follows:

Name	Individual Performance Objectives for 2016	2016 Results
Stuart Lee	• Develop and execute EPCOR's long-term plan. • Develop and foster a zero injury safety culture. • Deliver on 2016 operating budget including dividend payment. • Develop and coach senior management talent. • Maintain shareholder and customer relations.	Met and in some cases exceeded expectations.
Guy Bridgeman	• Deliver cost effective financing for the business. • Deliver timely accurate financial reporting. • Develop and foster a zero injury safety culture. • Deliver appropriate cash management and treasury functions. • Deliver prudent tax planning and tax compliance. • Develop and coach senior management talent. • Oversee and manage Internal Audit and Enterprise Risk Management functions. • Oversee the Energy Services business unit. • Lead the Corporate long-term strategic planning process.	Met and in some cases exceeded expectations.
Joseph Gysel	• Produce and deliver water to customers in the U.S. Southwest in a safe, environmentally responsible, reliable and competitively priced manner. • Meet all operating and financial targets; focusing on lower operating costs and capital investment optimization.	Met and in some cases exceeded expectations.

	• Support the acquisition implementation, growth and expansion of the U.S. operations. • Develop and foster a zero injury safety culture. • Provide Water Services leadership in the U.S. Southwest through coaching and staff development, succession planning and thought leadership in the water business. • Direct the Encor rollout and operations.	
Stephen Stanley	• Lead Commercial Services business unit, developing growth objectives and deliver on opportunities identified for 2016. • Meet all operating and financial targets for Technologies and Commercial Services. • Develop and foster a zero injury safety culture. • Lead reorganization of Technologies with focus on core operations and smart growth. • Ensure the Regina Wastewater Project remains on time and on budget.	Met and in some cases exceeded expectations.
Frank Mannarino	• Produce and deliver electricity to customers in Edmonton in a safe, environmentally responsible, reliable and competitively priced manner. • Meet all operating and financial targets. • Lead Distribution and Transmission operations to drive efficiencies and build technical operations depth. • Develop and foster a zero injury safety culture. • Implement technologies to support operational excellence; OMS / DMS, AMI and fleet telematics. • Maintain and improve customer service and relationships with key stakeholders.	Met and in some cases exceeded expectations.

Performance against individual objectives is reviewed following the completion of the fiscal year and each NEO receives a performance rating reflecting the degree to which business unit objectives and individual performance were achieved. Individual performance ratings are used to determine the overall STIP award for each NEO.

The table below summarizes the STIP result and payout for each executive for 2016:

Executive	2016 Base salary (annualized) (CAD$)	STIP Target Award (% of base salary)	STIP Result (% of Target)	STIP Payment (1) ($)
Stuart Lee	600,000	75	138	620,000
Guy Bridgeman	370,996	50	142	263,407
Joseph Gysel(2)	430,091	40	142	244,292
Stephen Stanley	311,220	40	101	124,488
Frank Mannarino	274,275	40	117	128,361

(1) Represents STIP award (in Canadian currency) earned for 2016 performance and paid in 2017.
(2) All compensation is reported in Canadian currency. Joseph Gysel was paid in U.S. currency with all U.S. dollars paid converted to Canadian currency using the average Canada / U.S. exchange rate as used in preparing the Corporation's consolidated financial statements for the year ended December 31, 2016. The average exchange rate was USD $1 to CDN $1.3256 in 2016.

MTIP Compensation

The Corporation's MTIP rewards for sustained value creation and dividend growth and is designed to align the longer-term interests of NEOs with those of the shareholder. The MTIP emphasizes the efficient management of capital and achievement of long-term profitability objectives. As EPCOR is wholly-owned by the City, EPCOR does not grant equity securities as compensation to employees or its directors.

2016 MTIP Target Awards

NEOs are eligible for annual target awards under the MTIP, as recommended by the HR&C Committee and approved by the Board. The awards are eligible to vest and become payable at the end of each three-year performance cycle, subject to pro-rated payouts on retirement, death or disability. Pro-rated payouts are based on the number of full months an employee was actively employed by the Corporation during applicable three-year periods.

Target award levels are expressed as a percentage of salary and generally align with the median of the comparator group for positions with similar responsibilities to those of the Corporation's MTIP participants. In 2016, NEO target award levels were 100% for Mr. Lee, 80% for Dr. Bridgeman and 50% for other NEOs. The target award represents the amount that would be paid if the performance objectives were achieved at target.

The plan is funded using a target calculation approach as illustrated below:

Base Salary (e.g. $300,000)	X	MTIP Target Award (e.g. 50%)	X	Actual MTIP Payout % (e.g. 100%)	=	MTIP Award (e.g. $150,000)

2016 MTIP Performance Measures

The performance objectives in respect of 2016 MTIP awards include two equally weighted components, measured over a three year performance period: (a) compounded annual growth rate (CAGR) of Property, Plant & Equipment (PP&E); and (b) Consolidated Net Income in 2018.

The PP&E growth metric is well aligned with the Corporation's primary corporate strategy to place capital and is a leading indicator of future earnings growth. Further, the measure is reasonably stable across most utilities and is easily understood by all participants, facilitating effective line of sight. In addition to tangible assets, PP&E growth calculations incorporate items such as intangible assets, long-term receivables and lease assets that relate to the design, build, finance and operate contracts.

The Consolidated Net Income metric provides focus on increasing the income generated from EPCOR's existing assets and finding significant investment capital to yield long-term earnings growth. For purposes of the MTIP, Consolidated Net Income is normalized to exclude gains and losses related to the investment in Capital Power as explained above, as well as certain unrealized gains and losses related to interest rate swaps and other financial derivatives, and provincial transmission flow-through impacts.

The following table illustrates the performance standards and associated payout levels in respect of 2016 MTIP awards (to be paid out in 2019, if performance warrants). The threshold, target and stretch performance standards were determined in consideration of a number of factors, primarily driven by EPCOR's long-term strategic plan, historical performance among peer companies and defined objectives for capital allocation and net income generation.

Performance Level	**CAGR PP&E (50% Weighting)**	**Consolidated Net Income (50% Weighting)**	**Payout as a % of Target**
Below Threshold	< 6%	< $238 million	0%
Threshold	6%	$238 million	50%
Target	8%	$248 million	100%
Stretch	10%	$258 million	200%

2013 MTIP Awards (paid out in 2016)

Target MTIP awards were provided to eligible NEOs in 2013, with payment made in 2016 based on the Corporation's PP&E growth performance. The strong performance results were driven primarily by organic growth. The table below summarizes actual performance achieved relative to target and the associated payout factor.

	CAGR PP&E (100% weighting)			
	Threshold	**Target**	**Stretch**	**Actual (2013 – 2015)**
Performance	7%	8%	9%	**8.81%**
Payout as a % of Target	50%	100%	200%	**181%**

The value of awards paid to eligible NEOs in respect of 2013 MTIP awards is provided under "Non-Equity Incentive Plan Compensation – Longer-Term Incentive Plans" within the Summary Compensation Table below.

BENEFIT AND PENSION PLANS

The Corporation's benefit and pension plans support the well-being of employees and facilitate retirement savings. The plans are reviewed periodically to determine whether they are competitive and whether they continue to meet the Corporation's business and human resources objectives.

Health and Welfare Benefits

The health and welfare benefit plans are designed to support ongoing wellness, protect the health of employees and their dependents and cover them in the event of death or disability. The executive officers participate in the same benefits program as all other permanent employees of the Corporation. EPCOR provides executives with an annual taxable Executive Benefit Allowance (EBA), paid on a bi-weekly basis, that offsets the costs associated with the benefits and pension plans. The Chief Executive Officer's EBA also covers the cost of completing annual personal income tax filings.

Executive Business Allowance

Executive officers are provided with an annual taxable allowance that can be used to offset the cost of a variety of business related expenses including but not limited to club and business memberships and other out-of-pocket costs associated with performing the duties of the position.

EPCOR Savings Plan

Under the voluntary EPCOR Savings Plan, all Canadian based non-bargaining unit employees may contribute up to 25% of their base salary towards either registered or non-registered accounts with a range of investment options. EPCOR matches employee contributions to a maximum of 5% of base salary.

Defined Benefit Pension Plan

The NEOs participate in the Local Authorities Pension Plan (LAPP), a contributory, defined benefit, highest average earnings pension plan that is currently governed by the *Public Sector Pension Plans Act* (Alberta). The LAPP is a multi-employer pension plan covering approximately 156,141 active employees of Alberta municipalities, hospitals and other public entities as at December 31, 2015.

Supplemental Retirement Plans

EPCOR has two supplemental retirement plans (Supplemental Retirement Plans) that provide benefits that cannot be paid by the LAPP due to the *Income Tax Act* (Canada) limits on earnings.

Effective January 1, 2000, EPCOR adopted a Defined Benefit Supplemental Retirement Plan (DB SRP) for management employees whose earnings exceed the *Income Tax Act* (Canada) limits (base salary plus target short-term incentive). Mr. Lee, Dr. Bridgeman, Mr. Gysel, Dr. Stanley and Mr. Mannarino participate in the DB SRP, which is a non-contributory, defined benefit, best average earnings plan.

As of June 30, 2012, the DB SRP described above was closed to new participants; although Mr. Lee's participation was grandfathered as he was previously an employee of EPCOR as a participant in the plan. Since July 1, 2012, new participants are provided with a Defined Contribution Supplemental Retirement Plan for eligible earnings that exceed the *Income Tax Act* (Canada) limits.

SUMMARY COMPENSATION TABLE

The following table provides a summary of compensation for each of the NEOs in 2016.

			Non-Equity Incentive Plan Compensation				
Name and Principal Position	**Year**	**Salary [1] ($)**	**Annual Incentive Plans [2] ($)**	**Longer-Term Incentive Plans [3] ($)**	**Pension Value [4] ($)**	**All Other Compensation ($)**	**Total Compensation[5] ($)**
Stuart Lee President and Chief Executive Officer	2016 2015	588,462 177,692[6]	620,000 237,416[6]	- -	511,045 851,514	83,525[7] 202,285[8]	1,803,032 1,468,907
Guy Bridgeman Senior Vice President and Chief Financial Officer	2016 2015 2014	365,395 356,904 324,231	263,407 288,649 301,500	317,895 266,975 204,000	246,039 117,393 288,892	60,813[9] 61,682[10] 58,391[11]	1,253,549 1,091,603 1,177,014
Joseph Gysel Senior Vice President, EPCOR Water USA (President, EWUS)	2016[12] 2015 2014	430,091 414,907 355,642	244,292 307,031 286,762	272,159 364,554 342,488	56,856 46,230 83,995	90,994[13] 87,998[14] 74,365[15]	1,094,392 1,220,720 1,143,252
Stephen Stanley Senior Vice President, Commercial Services	2016 2015 2014	307,800 316,800 293,331	124,488 272,688 219,336	187,473 257,925 275,000	139,262 32,781 89,052	61,891[16] 63,095[17] 60,255[18]	820,914 943,289 936,974
Frank Mannarino Senior Vice President, Electricity Services	2016 2015 2014	274,275 293,824 271,778	128,361 202,964 213,935	173,558 140,818 151,200	65,732 67,049 75,811	59,032[19] 61,858[20] 57,860[21]	700,958 766,513 770,584

General Notes:

(1) EPCOR adjusted base salaries effective March 23, 2014, March 22, 2015 and April 2, 2016. Salaries reflect actual amounts earned in 2014, 2015 and 2016 rather than the annualized salaries approved by the Board.

(2) Represents STIP award earned for the stated year's performance and paid in the subsequent year.

(3) Reflects MTIP payments in respect of the three-year performance period ending in the previous year.

(4) This column shows the compensatory value of defined benefit pension entitlements. For the defined benefit plan, the compensatory value equals the supplemental plan employer current service cost, plus any change in the supplemental plan obligation resulting from compensation increases that are different than the actuarial assumptions, plus, if applicable, employer contributions to the LAPP. Actual compensation increases may vary from the actuarial assumptions.

(5) All compensation is reported in Canadian currency. Joseph G. Gysel was paid in U.S. currency with all U.S. dollars paid converted to Canadian currency using the average Canada / U.S. exchange rates as used in preparing the Corporation's consolidated financial statements for the years ended December 31, 2016, 2015 and 2014. The average exchange rate was USD $1 to CDN $1.3256 in 2016, USD $1 to CDN $1.2788 in 2015 and USD $1 to CDN $1.1048 in 2014.

Stuart Lee

(6) Mr. Lee's salary and short-term incentive payment were reflective of his employment from September 1, 2015.

(7) Includes an executive benefit allowance of $24,000, an executive business allowance of $25,000 and a matching contribution under the EPCOR Savings Plan of $29,423.

(8) Includes a one-time signing bonus of $175,000.

Guy Bridgeman *(appointed to CFO position in 2013)*

(9) Includes an executive benefit allowance of $21,500, an executive business allowance of $20,000 and a matching contribution under the EPCOR Savings Plan of $18,270.
(10) Includes an executive benefit allowance of $22,327, an executive business allowance of $20,769 and a matching contribution under the EPCOR Savings Plan of $17,845.
(11) Includes an executive benefit allowance of $21,500, an executive business allowance of $20,000 and a matching contribution under the EPCOR Savings Plan of $16,212.

Joseph Gysel

(12) Mr. Gysel was paid in U.S. currency – the 2016 amounts paid in U.S. dollars were:
Salary - $324,450, Annual Incentive - $184,288, Longer-Term Incentive - $205,310 and Other Compensation - $68,644
(13) Includes an executive benefit allowance of $50,281
(14) Includes an executive benefit allowance of $48,240.
(15) Includes an executive benefit allowance of $39,933.

Stephen Stanley

(16) Includes an executive benefit allowance of $21,500 and an executive business allowance of $20,000.
(17) Includes an executive benefit allowance of $22,327 and an executive business allowance of $20,769.
(18) Includes an executive benefit allowance of $21,500, an executive business allowance of $20,000 and a matching contribution under the EPCOR Savings Plan of $12,467.

Frank Mannarino

(19) Includes an executive benefit allowance of $21,500 and an executive business allowance of $20,000.
(20) Includes an executive benefit allowance of $22,327 and an executive business allowance of $20,769.
(21) Includes an executive benefit allowance of $21,500 and an executive business allowance of $18,654.

Outstanding MTIP Awards

The following table outlines the respective values of outstanding MTIP awards (at target performance levels) granted in 2016, 2015 and 2014 for each NEO.

MTIP Grants (1)	Stuart Lee	Guy Bridgeman	Joseph Gysel(2)	Stephen Stanley	Frank Mannarino
2017 *(payable in 2020)*	$600,000	$296,800	$162,300	$155,700	$137,200
2016 *(payable in 2019)*	$600,000	$296,800	$162,300	$155,700	$137,200
2015 *(payable in 2018)*	$550,000	$260,100	$162,300	$148,200	$137,200

(1) Award amounts are calculated based on each NEOs respective target award as a percentage of salary, and rounded up to the nearest hundred dollars.
(2) Mr. Gysel's 2014, 2015 and 2016 awards were issued in U.S. dollar amounts and payouts will be converted to Canadian dollar amounts for Summary Compensation Table reporting purposes using Canada / U.S. exchange rates in the years they are paid.

Pension Programs

Benefits payable under the LAPP are based on the average of the highest five consecutive year's pensionable earnings and years of service. Pensionable earnings are equal to base salary plus paid incentive, up to a maximum of 20% of base salary (effective January 1, 2004). Pensionable earnings are limited for each year of service after 1991 to the earnings, which provide the maximum annual accrual under the *Income Tax Act* (Canada) limits.

Subject to *Income Tax Act* (Canada) limits, the benefit formula under the LAPP is 1.4% of the average of the best five consecutive year's annual pensionable earnings up to the average Year's Maximum Pensionable Earnings (YMPE), plus 2% of the average of the best five consecutive year's annual pensionable earnings in excess of the five year average YMPE under the Canada Pension Plan. The benefit formula is multiplied by years of service.

In 2016, employees were required to contribute 10.39% of pensionable earnings up to the YMPE plus 14.84% of pensionable earnings in excess of the YMPE, and EPCOR contributed 11.39% of pensionable earnings up to the YMPE and 15.84% of pensionable earnings in excess of the YMPE.

Plan members may retire with an unreduced pension if the combination of the individual's age and years of pensionable service equals at least 85 and they are at least 55 years of age or at age 65. If they choose to take an early retirement, the pension payable under the LAPP is reduced by 3% for each year that the combination of the individual's age and years of service is less than 85 or for each year the individual is younger than age 65, whichever provides the lesser reduction. No pension is payable if a participant has not completed two years of service.

The pension payable is indexed annually to 60% of the increase in the Alberta consumer price index.

The Supplemental Retirement Plans provide benefits that cannot be paid by the LAPP due to the *Income Tax Act* (Canada) limits on earnings.

- The pensionable earnings defined under the DB SRP include base salary and target short-term incentive (to a maximum of 50%). The benefit formula under the DB SRP is 2% of the average pensionable earnings in excess of the limit on earnings recognized by the LAPP. The benefit formula is multiplied by years of service under the DB SRP commencing no earlier than January 1, 2000. The DB SRP has the same early retirement and indexing provisions as the LAPP.

Pension Plan Table

The following table provides disclosure with respect to the LAPP and EPCOR's DB SRP:

Name	Number of Years of Credited Service(1) (#)	Annual Benefits Payable ($)		Opening Present value of defined benefit obligation(8) ($)	Compensatory Changes (8, 9) ($)	Non-compensatory Changes ($)	Closing Present value of defined benefit obligation(8) ($)
		At Year End(6)	At age 65(7)				
(a)	(b)	(c1)	(c2)	(d)	(e)	(f)	(g)
Stuart Lee	13.3956(4)	174,080	336,128	2,332,873	511,045	135,509	2,956,373
Guy Bridgeman	27.5696(2)	186,823	245,506	1,762,987	246,039	215,668	2,201,640
Joseph Gysel (10)	7.5000(3)	115,837	166,645	1,394,743	56,856	110,307	1,538,852
Stephen Stanley	17.6612(2)	135,616	219,562	1,278,401	139,262	99,570	1,494,179
Frank Mannarino	6.3169(5)	43,815	143,233	332,622	65,732	38,820	414,120

(1) Credited service in respect of the LAPP as at December 31, 2016.
(2) Credited service under DB SRP is 17 years.
(3) Credited service under DB SRP is 16.3333 years.
(4) Credited service under DB SRP is 13.4370 years.
(5) Credited service under DB SRP is 6.3169 years.
(6) Accrued DB pension under the LAPP and DB SRP as at December 31, 2016 payable at normal retirement age of 65 based on highest average earnings, average YMPE and credited service as at December 31, 2016. An unreduced pension is payable at the earliest of age 65 or 85 points.
(7) Amounts payable on retirement at age 65, assumes continued service accrual to age 65 and that the highest average earnings and estimated average YMPE at age 65, remain unchanged from December 31, 2016.
(8) The defined benefit obligation and service cost for the DB SRP were determined using the same methods and assumptions used to determine accounting information disclosed in EPCOR's financial statements. Accounting entries for the LAPP are recognized on a defined contribution basis; therefore, company contributions to the LAPP are only included in compensatory changes. As a result, columns (d), (e) and (f) do not sum up to column (g).
(9) Includes $23,054 in employer contributions to the LAPP.
(10) There is no currency adjustment for Mr. Gysel.

EMPLOYMENT AGREEMENTS

The Corporation entered into employment-related agreements with Mr. Lee. The Corporation does not have employment-related agreements with the other NEOs.

Stuart Lee

Mr. Lee was appointed President and Chief Executive Officer effective September 1, 2015. Mr. Lee's Executive Employment Agreement is in effect until August 31, 2025. If Mr. Lee was to cease employment with EPCOR, his compensation and benefits would be treated as follows, assuming each event took place on December 31, 2016:

Event	Action	Incremental Payment Resulting from Event
Resignation	• All salary and benefit programs cease. • Annual short-term incentive payment is forfeited. • All mid-term incentives are forfeited. • Vested pension paid as a commuted value.	• No resulting incremental payment.
Death	• All salary and benefit programs cease – survivor health and dental benefits will continue for 24 months. • Annual short-term incentive payment is paid on a pro rata basis coincident with those of active participants. • All unvested mid-term incentives are forfeited. Vested incentives will be paid at target.	• Lump sum payment of approximately $ 1,016,667 minus applicable deductions and withholding taxes.(1)
Termination for Inability to Carry Out Duties(2)	• All salary and benefit programs cease. • Annual short-term incentive payment is paid on a pro rata basis coincident with those of active participants. • All mid-term incentives continue to vest and are settled at the end of the regular performance period. • Following termination, benefits received in accordance with the Corporation's long-term disability plan.	• Long-term disability benefits would continue to be paid by the insurer for the duration of the disability in accordance with plan provisions based on pre-disability coverage (maximum of $20,000 per month).
Termination for cause	• All salary and benefit programs cease. • Annual short-term incentive payment is not paid. • All mid-term incentives are forfeited.	• No resulting incremental payment.
Termination without cause, or Resignation due to a material change to responsibilities within 12 months of the occurrence of a change of control, or Resignation due to a material breach of the employment agreement that the Corporation fails to cure within 120 days following notice	• All salary and benefit programs cease. • Severance is provided representing an aggregate value of 24 months of (i) annual base salary at the rate at the time of termination or resignation, as applicable, (ii) a payment equal to the value of the short-term incentive plan target (i.e. 75% of annual base salary), and (iii) a payment equal to the benefits and pension contributions for a 24 month period. • Mid-term incentives vest for service completed during the applicable performance period and will be paid out at target (i.e. 100% of annual base salary).	• Lump sum severance payment of approximately $2.3 million minus applicable deductions and withholding taxes; plus • Lump sum mid-term incentive payment of approximately $0.6 million minus applicable deductions and withholding taxes.(1)

(1) Represents an estimate of the value only based upon the information available as at December 31, 2016. This amount is subject to change and should not be relied upon as a statement of final value.

(2) Mr. Lee's employment can be immediately terminated by providing 30 days' notice if he is unable to perform his employment-related duties due to incapacity for a period of six consecutive months as his continued employment would constitute undue hardship for the Corporation.

BOARD OF DIRECTORS COMPENSATION

The directors' compensation program is designed to attract and retain the most qualified individuals to serve on the Board. The program takes into account the time commitment, duties and responsibilities of the directors, and the director compensation practices at comparable companies.

The program is reviewed periodically to ensure it remains competitive. Director compensation is benchmarked against publicly traded companies in the comparator group used to determine competitive compensation for the Corporation's executives. The last review was conducted in 2010 and revealed that the Corporation's director compensation was positioned at the median of the market.

In consideration for serving on the Board for 2016, directors were compensated as indicated below:

Type of Fee	Amount ($)[6]
Board Chair Annual Retainer	150,000[1]
Director Annual Retainer	30,000[2]
Director Annual Stock Retainer	30,000[3]
Travel Related Compensation	500[4]
Audit Committee Chair Annual Retainer	9,000
Audit Committee Member Annual Retainer	6,000
Other Committee Member Annual Retainer	3,000
Board Meeting Attendance Fee	1,500
Audit Committee Meeting Attendance Fee	3,000
Other Committee Meeting Attendance Fee	1,500
Annual General Meeting Attendance Fee	1,500
Shareholder Meeting Attendance Fee[5]	1,500

(1) The Chair of the Board receives an annual retainer of $150,000, paid in quarterly installments of $37,500.
(2) Of the annual retainer fee paid to each Director, except the Chair, $1,500 is subject to directors exercising their right to further education related to fulfilling their Board responsibilities and / or educating the Director on strategic and business processes relevant to the Corporation's business and governance issues.
(3) Each Director, including the Chair, is paid an annual $30,000 in lieu of stock-based compensation commonly paid to directors by EPCOR's publicly traded comparators, as the option to purchase shares in EPCOR is not available.
(4) In circumstances in which a Director must travel from his or her place of residence the day before a board or committee meeting and/or travel back to their residence the day following a meeting, the Director is entitled to a travel allowance equal to $500 per instance.
(5) The Chair of the Board is paid a $1,500 meeting fee to attend Shareholder meetings. Directors whose attendance is requested by the Board Chair or Management are also paid a $1,500 meeting fee.
(6) Directors who are resident in the United States are compensated in U.S. dollars at the figures noted above. For example, a U.S. resident director is paid USD $30,000 in respect of the Director Annual Retainer, $1,500 of which is subject to the director exercising their right to education. Currently, Mr. Foster is the only U.S. resident director and is compensated in U.S. dollars; for a summary of his actual 2016 compensation in Canadian dollars, please see the Director Compensation Table below.

The directors are reimbursed for out-of-pocket expenses incurred in carrying out their duties as directors of the Corporation.

The table below reflects in detail the compensation earned by directors with respect to the calendar year-ended December 31, 2016:

Director Compensation Table

Name	Fees Earned ($)	Share-Based Awards ($)	Option-Based Awards ($)	Non-Equity Incentive Plan Compensation ($)	Pension Value ($)	All Other Compensation [1] ($)	Total ($)
Hugh J. Bolton	226,500	-	-	-	-	9,750	236,250
Vito Culmone	103,000	-	-	-	-	3,600	106,600
Robert G. Foster[2]	126,578	-	-	-	-	-	126,578
Allister J. McPherson	97,500	-	-	-	-	-	97,500
Douglas H. Mitchell	88,000	-	-	-	-	-	88,000
Laurence M. Pollock[3]	31,000	-	-	-	-	-	31,000
Catherine M. Roozen	101,000	-	-	-	-	-	101,000
Helen K. Sinclair	100,500	-	-	-	-	3,375	103,875
Nizar Jaffer. Somji	103,750	-	-	-	-	3,663	107,413
Sheila C. Weatherill	92,000	-	-	-	-	3,075	95,075

(1) Represents amounts contributed by EPCOR under the voluntary Employee Savings Plan, where EPCOR matches contributions to a maximum of 5% of the director's contribution.

(2) Mr. Foster is a U.S. resident and all compensation was converted to U.S. dollars using exchange rates at dates of payment.
(3) Mr. Pollock retired in May 2016.

FORWARD-LOOKING INFORMATION

Certain information in this AIF 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”, “could” 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. 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. All forward-looking information contained in this AIF is expressly qualified by this cautionary statement.

Forward-looking information in this AIF includes, or is related to, but is not limited to: (i) expectations related to customer growth; (ii) the expected terms of the Evan-Thomas and Regina agreements; (iii) expectations related to the renewal of the Corporation’s water, wastewater and electricity distribution franchise agreements with the City; (iv) expected expiration of water supply agreements in 2018 and 2023; (v) expectations related to projected capital expenditures and construction projects; (vi) expectations related to the cap on RRO customer rates and customer attrition; (vii) competition; and (viii) credit rating expectations.

The forward-looking information in this AIF involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: (i) the Corporation’s assessment of the economy, markets, government and regulatory environments in which it operates; (ii) availability and cost of financing; (iii) availability and cost of labor and management resources; (iv) performance of counterparties, including but not limited to contractors and suppliers, in fulfilling their obligations to the Corporation; (v) the Corporation’s ability to secure new utility investments; and (vi) quality and sufficiency of water supply. There are more specific factors that could cause actual results to differ materially from those described in this AIF. The more specific factors and related assumptions are identified and discussed in the sections entitled “Forward-Looking Information” and “Risk Factors and Risk Management” in the Corporation’s MD&A dated March 2, 2017 for the year ended December 31, 2016.

Except as required by law, EPCOR disclaims any intention and assumes no obligation to update any forward-looking statement, even if new information becomes available as a result of future events or for any other reason.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com and on the Corporation’s website at www.epcor.com.

Additional financial information is provided in the Corporation’s audited consolidated financial statements and MD&A for the year ended December 31, 2016.

APPENDIX I

AUDIT COMMITTEE
TERMS OF REFERENCE

A. OVERVIEW AND PURPOSE

1. The Audit Committee (the "Committee"), except to the extent otherwise provided by law, is responsible to the Board of Directors (the "Board"). The Committee monitors, evaluates, advises or makes recommendations, in accordance with these Terms of Reference and any other directions of the Board, on matters affecting the financial and operational control policies and practices relating to the Corporation, including the external, internal or special audits thereof. The term "Corporation" when used within these Terms of Reference includes all corporations and other entities within the EPCOR group of companies.

2. Management is responsible for preparing the interim and annual financial statements of the Corporation and for maintaining a system of risk assessment and internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly.

3. The Committee is responsible for reviewing management's actions and has the authority to investigate any activity of the Corporation. The primary responsibilities of the Committee include:

   - Assessing the processes related to identification of the Corporation's financial risks and effectiveness of its control environment;
   - Overseeing financial reporting;
   - Evaluating the Corporation's internal control systems for financial reporting; and
   - Evaluating the internal and external, and any special, audit processes.

4. The Committee shall have unrestricted access to company personnel and documents, including internal auditors, and will be provided with the resources necessary to carry out its responsibilities. Neither the Chief Financial Officer nor the Director, Risk Assurance & Advisory Services will be disciplined, demoted or terminated without the prior knowledge of the Committee and the Committee will be consulted prior to any decisions by Management regarding hiring for either of these roles. The Committee has the authority to retain, at the expense of the Corporation, outside advisors and consultants as it sees fit.

5. The Committee shall be the direct report for the external auditors, shall evaluate their performance and shall recommend their compensation to the Board.

B. STRUCTURE

1. The Committee shall be composed of such number of directors as may be specified by the Board from time to time, which number shall be not less than three.

2. The Chair of the Board is an ex officio and non-voting member of the Committee, unless appointed by the Board as a member of the Committee.

3. At the first meeting of the Board following the Annual General Meeting with the Shareholder, Committee members and the Committee Chair are appointed by the Board on the recommendation of

the Chair of the Board, to hold office until such time as new Committee members and a new Committee Chair are appointed.

4. Each Committee member should be independent and unrelated, as set forth in applicable securities laws, rules or guidelines of any stock exchange on which the securities of the Corporation are listed for trading, (which shall include, without limitation, National Instrument 52-110 issued by the Canadian Securities Administrators, or its successor instrument), and have no relationship to the Corporation that may materially interfere with the member's ability to act with a view to the best interests of the Corporation.

5. All Committee members shall possess sufficient financial literacy (as that term is defined in National Instrument 52-110 issued by the Canadian Securities Administrators, or its successor instrument) to effectively discharge their responsibilities. At least one member of the Committee shall have a professional accounting designation or equivalent financial expertise as determined by the Board.

6. All members of the Board shall be free to attend any meetings of the Committee and participate, but only Committee members shall be entitled to vote on any question before the Committee. Other than members of the Board, entitlement to attend all or a portion of any Committee meeting shall be determined by the Committee Chair or the Committee members.

7. The Committee shall meet at least four times per year and may call other meetings as required.

8. The minutes of the Committee meetings shall accurately record the decisions reached and shall be distributed to Committee members and others as directed by the Committee.

C. DUTIES AND RESPONSIBILITIES

In respect of all financial matters, the Committee is responsible for:

Public Disclosure of Financial Information

1. establishing and reviewing procedures for the review of all public disclosure documents containing audited, unaudited or forward-looking financial information before release by the Corporation including reviewing and recommending to the Board any changes to the Disclosure and Insider Trading Policy;

2. reviewing public documents containing financial information (annual audited financial statements, quarterly interim financial statements, annual and quarterly management discussion and analysis, media releases, the Annual Information Form, and any Prospectus or offering memorandum) before such documents are submitted to the Board of Directors (“Board”) for approval, and making recommendations as to their approval by the Board;

3. reviewing the annual and interim certificates provided by the Chief Executive Officer and Chief Financial Officer of the Corporation pursuant to National Instrument 52-109 issued by the Canadian Securities Administrators;

4. obtaining and reviewing reports from management and the external auditors describing the critical accounting policies used by the Corporation in the preparation of its annual and interim financial statements; any alternative treatments of financial information within generally accepted accounting principles (“GAAP”) that have been evaluated; and any other material written communications;

5. reviewing accruals, reserves and estimates which have a material effect on financial results;

6. reviewing the use of any “pro forma” information or “adjusted” information not in accordance with GAAP or use of any special purpose vehicles and / or off-balance sheet transactions;

7. reviewing with management and the external auditors, a summary of information in respect of the Ethics Policy and any litigation, claim or other contingency that could have a material effect upon the financial position or operating results of the Corporation, and the manner in which these will be disclosed in the financial statements;

8. monitoring compliance with the Corporation's Ethics Policy and ensuring that Management Compliance Certificates are received from management quarterly;

9. reviewing responses of management to information requests from government or regulatory authorities in respect of filing documents required under securities legislation, which may affect the financial reporting of the Corporation;

Internal Controls Over Financial Reporting

10. monitoring the appropriateness of accounting policies and financial reporting used by the Corporation, reviewing any prospective changes in financial reporting and accounting policies that may affect the Corporation;

11. obtaining reasonable assurance from discussions with and reports from the internal auditors and management that the Corporation's accounting systems are reliable and that the prescribed internal controls are operating effectively;

12. reviewing whether management has implemented policies ensuring that the Corporation's financial risks are identified and that controls are adequate, in place and functioning properly;

13. reviewing the post-audit management letter together with management's responses to external auditor recommendations together with status reports relating to follow-up actions;

14. reviewing all follow-up actions or status reports relating to the recommendations of the internal auditor;

15. reviewing the management prepared tax compliance and planning strategies annually, including a review of any tax exposures;

16. receiving and reviewing reports of all allegations related to financial impropriety and / or fraud, ensuring the investigations were conducted on a basis that protects the confidentiality of the complainer;

Financial Management

17. reviewing management's plans and strategies around investment practices, banking performance and treasury risk management;

18. reviewing and recommending to the Board any new or renewed financings including commercial paper programs, credit facilities, debt financings and equity financings;

19. reviewing management's procedures to ensure compliance by the Corporation with its loan and indenture covenants and restrictions, if any;

20. reviewing management’s plans, strategies and insurance coverage;

21. obtaining such information and explanations regarding the accounts of the Corporation as the Committee may consider necessary and appropriate to carry out its duties and responsibilities;

External Auditor Oversight

22. reviewing management’s assessment and completing the Committee’s assessment of external auditor performance, including an assessment of the objectivity and independence of the external auditor and obtaining written confirmation from the external auditor;

23. reviewing reports from external auditors respecting their internal quality control procedures and regulatory inspections;

24. recommending to the Board the appointment or the removal of external auditors, for approval by the Shareholder;

25. recommending to the Board for approval, the compensation paid to the external auditors on an annual basis;

26. approving the scope of the audit, including materiality, audit reports required, areas of audit risk, timetable and deadlines, including approving the auditor's engagement letters;

27. pre-approving all non-auditing services performed by the external auditors in relation to the Corporation and its subsidiaries;

28. meeting with the external auditors each quarter and when requested by the auditors, without management representatives present;

29. reviewing any other matters the external auditors bring to the attention of the committee;

30. confirming that appropriate liaison and cooperation exists where necessary between the external auditors and the internal auditors, and to provide a direct line of communication between the auditors and the Committee;

31. resolving issues with management regarding financial reporting;

32. reviewing and approving hiring policies regarding employees and former employees of the present and former external auditors;

Internal Auditor Governance

33. reviewing and approving the annual internal audit plan, including the mandate, staffing, scope and objectives of the internal audit department, and receiving regular reports on internal audit results and access to all internal audit reports, including status of all audit findings;

34. annually reviewing the budget of the internal audit function and directing the Chief Financial Officer to make any changes necessary;

35. annually reviewing the performance and independence of the internal audit function and directing the Chief Financial Officer to make any changes necessary;

36. meeting with the internal auditors each quarter or as requested by the auditors, without management representatives present;

Audit Committee Governance

37. reviewing annually the Terms of Reference for the Committee and recommending any required changes to the Board;

38. conducting periodic self-assessment relating to Committee effectiveness and performance;

39. conducting all other matters required by law or stock exchange rules to be dealt with by an audit committee;

40. reporting to the Board as required.

D. <u>MEETINGS</u>

1. Committee meetings may be called by the Committee Chair or by a majority of the Committee members. In addition, the Committee Chair shall call a meeting upon request of the external auditors.

A majority of Committee members shall constitute a quorum. The Committee Chair shall be a voting member and questions will be decided by a majority of votes.

2. Meetings may be called with one day’s notice, which may be waived by Committee members. Attendance at a meeting shall be deemed to be waiver of notice of the meeting except where the Committee member attends the meeting for the express purpose of objecting to the transaction of business on the grounds that the meeting has not been duly called. All Committee members are entitled to receive notice of every meeting.

3. Meetings are chaired by the Committee Chair or in the Committee Chair's absence, by a Committee member chosen from amongst and by the Committee members present at the meeting.

4. Agendas will be set by the Committee Chair with such assistance as the Committee Chair may request from the Chief Executive Officer, the Chief Financial Officer, the General Counsel and the auditors, and will be circulated with the materials for consideration at the meeting by the Assistant Corporate Secretary to all Committee members, the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer and the General Counsel, no later than the day prior to the date of the meeting. However, it should be standard practice to deliver the agenda and the materials for consideration at the meeting at least five business days prior to the proposed meeting except in unusual circumstances.

5. Except as herein provided, the Committee Chair may establish rules of procedure to be followed at meetings.

6. Meetings may be conducted with the participation of one or more of the Committee members by telephone which permits all persons participating in the meeting to hear and communicate with each other. A Committee member participating in a meeting by telephonic means is deemed to be present at the meeting.

7. The powers of the Committee may be exercised at a meeting at which a majority of the Committee members are present, or by resolution in writing signed by all Committee members who would have been entitled to vote on the resolution at a meeting of the Committee.

8. A resolution in writing may be signed and executed in separate counterparts by Committee members and the signing or execution of a counterpart shall have the same effect as the signing or execution of the original. An executed copy of a resolution in writing or counterpart thereof transmitted by any means of recorded electronic transmission shall be valid and sufficient.

9. Attendance at all or a portion of Committee meetings by staff will be determined by the Committee and will normally include the Chief Executive Officer, the Chief Financial Officer and the General Counsel.

10. The Corporate Secretary shall keep minutes of the proceedings of all meetings of the Committee, which following Committee approval are available to any member of the Board. All minutes will be circulated to the Chair of the Board and to those receiving the agenda, and will be retained by the Assistant Corporate Secretary.

11. The Committee may delegate its power and authority to individual members of the Committee, where the Committee determines it is appropriate to do so in order for necessary decisions to be made between meetings of the Committee and where such delegation is permitted by law. Any such decisions shall be reported to the Committee at its next meeting.

APPENDIX II

CHARTER OF EXPECTATIONS
FOR THE BOARD OF DIRECTORS

I. INTRODUCTION

A. The Directors have the power to manage the business and affairs of the Corporation except as limited or restricted by the Unanimous Shareholder Agreement, the Act, the Articles, and the By-laws.

B. EPCOR has adopted a Charter of Expectations for the Board of Directors, which sets out the specific responsibilities to be discharged by EPCOR's Board. The purpose of the Charter is to assist the Board in annually assessing its performance.

C. While the Board is called upon to "manage" the business by law, this is done by proxy through the President and Chief Executive Officer (CEO) who is charged with the day-to-day leadership and management of the Corporation. The President / Chief Executive Officer's prime responsibility is to lead the Corporation. The CEO formulates strategies and plans and presents them to the Board for approval. The Board approves the goals of the business, the objectives and policies within which it is managed, and then steps back and evaluates management performance. Reciprocally, the CEO keeps the Board fully informed of the Corporation's progress towards the achievement of its goals and of all material deviations from the goals or objectives and policies established by the Board in a timely and candid manner.

II. RESPONSIBILITIES

All of the following responsibilities are undertaken within the parameters and restrictions established by the Unanimous Shareholder Agreement, the Act, the Articles, and the By-laws.

A. Managing the Affairs of the Board

The Board manages the affairs of the Board by establishing committees to provide more detailed review of important areas of responsibility, delegating certain of its authorities to management, reserving certain powers to itself and making certain recommendations to the Shareholder. These include:

(i) appointing committees and / or advisory bodies and establishing and periodically reviewing their terms of reference;

(ii) implementing processes to evaluate the performance of the Board, Committees and Directors in fulfilling their responsibilities;

(iii) implementing processes for new Director orientation and ongoing Director development;

(iv) appointing the Vice–Chair, and the Secretary;

(v) establishing and enforcing a Board confidentiality policy;

(vi) implementing effective governance processes to fulfill its responsibility for oversight and control; and

(vii) making recommendations to the Shareholder in the following areas:

(a) director compensation;

(b) the procedure for the appointment of the Board Chair and the Directors; and

(c) suggested changes for the Shareholder to consider regarding the By-law, Articles and Shareholder Agreement;

B. Strategy and Plans

The Board has the responsibility to:

(i) participate with management in the Corporation's strategic planning process including;

(a) providing input to management on emerging trends and issues;

(b) reviewing and approving management's strategic plans (long-term business plan); and

(c) reviewing and approving EPCOR's financial objectives, plans and actions, including significant capital allocations and expenditures;

(ii) approve annual capital and operating budgets which support the Corporation's ability to meet the objectives established in the strategic plan;

(iii) approve the organization of business units and subsidiaries as outlined in By-law Number 1 (Part II, 2.9); and

(iv) monitor the Corporation's progress towards its goals, and to revise and alter its direction through management in light of changing circumstances.

C. Management and Human Resources

The Board has the responsibility for:

(i) the appointment, termination and succession of the President / Chief Executive Officer (CEO);

(ii) approving CEO compensation;

(iii) approving terms of reference for the CEO;

(iv) monitoring CEO performance and reviewing CEO performance at least annually, against agreed upon written objectives;

(v) providing advice and counsel to the CEO in the execution of the CEO's duties;

(vi) approving decisions relating to senior management, including the:

(a) appointment and discharge of officers;

(b) compensation and benefits for officers;

(c) acceptance of outside directorships on public companies by officers (other than not-for-profit organizations);

(vii) ensuring succession planning programs are in place, including programs to train and develop management;

(viii) approving certain matters relating to all employees, including:

(a) the annual compensation policy / program for employees;

(b) new benefit programs or material changes to existing programs;

(c) material benefits granted to retiring employees outside of benefits received under approved pension and other benefit programs; and

(ix) approving the parameters for negotiated union collective agreements with employees of the Corporation.

D. Business and Risk Management

The Board has the responsibility to:

(i) monitor corporate performance against the strategic, operating and capital plans, including assessing operating results to evaluate whether the business is being properly managed and meeting its objectives;

(ii) ensure management identifies the principal risks of the Corporation's business and implements appropriate systems to manage these risks;

(iii) receive, at least annually, reports from management on matters relating to, among others, ethical conduct, environmental management, employee health and safety, human rights, and related party transactions;

(iv) assess and monitor management control systems:

(a) evaluate and assess information provided by management and others (e.g. internal and external auditors) about the effectiveness of management control systems; and

(b) understand principal risks and determine whether the Corporation achieves a proper balance between risk and returns, and that management ensures that systems are in place to address the risks identified.

E. Financial and Corporate Issues

The Board has the responsibility to:

(i) take reasonable steps to ensure the implementation and integrity of the Corporation's internal control and management information systems;

(ii) meet regularly with and receive reports from the Auditor;

(iii) monitor operational and financial results;

(iv) approve annual and quarterly financial statements, and approve release thereof by management;

(v) declare dividends subject to the dividend policy established by the Shareholder;

(vi) approve significant debt financing, banking resolutions, significant changes in banking relationships and exercise the borrowing powers outlined in By-Law Number 1 (Part II, 2.7);

(vii) review coverage, deductibles and key issues regarding corporate insurance policies;

(viii) approve commitments that may have a material impact on the Corporation;

(ix) approve the commencement or settlement of litigation that may have a material impact on the Corporation; and

(x) recommend, as required, to the Shareholder for approval;

(a) the appointment of external auditors and the auditors' fees;

(b) a dividend policy; and

(c) the merger, amalgamation, acquisition, lease or disposition of assets as outlined in the Unanimous Shareholder Agreement Sections 2.2.10 through and including 2.2.14.

F. <u>Shareholder and Corporate Communications</u>

The Board has the responsibility to take all reasonable steps to:

(i) ensure the Corporation has in place effective communication processes with the Shareholder and other stakeholders and financial, regulatory and other recipients;

(ii) ensure that the financial performance of the Corporation is adequately reported to the Shareholder, other security holders and regulators on a timely and regular basis;

(iii) ensure the financial results are reported fairly and in accordance with generally accepted accounting principles;

(iv) ensure the timely reporting of any other developments that have a significant and material impact on the value of the Corporation;

and the responsibility to:

(v) report quarterly and annually to the Shareholder as outlined in By-Law Number 1 (Part VIII, 8.2 and 8.7).

(vi) organize an annual planning meeting with the Shareholder and place before the Shareholder those items outlined in By Law Number 1 (Part VIII, 8.5).

G. <u>Policies and Procedures</u>

The Board has the responsibility to take all reasonable steps to:

(i) approve and monitor compliance with all significant policies and procedures by which the Corporation is operated;

(ii) direct management to ensure the Corporation operates at all times within applicable laws and regulations and to the highest ethical and moral standards; and

(iii) review significant new corporate policies or material amendments to existing policies (including, for example, policies regarding business conduct, conflict of interest and the environment).

III. GENERAL LEGAL OBLIGATIONS OF THE BOARD OF DIRECTORS

A. The Board is responsible for directing management to ensure legal requirements have been met, and documents and records have been properly prepared, approved and maintained.

B. Alberta law includes the following as legal requirements for Directors:

(i) to manage the business and affairs of the Corporation subject to any Unanimous Shareholder Agreement;

(ii) to act honestly and in good faith with a view to the best interests of the Corporation;

(iii) to exercise the care, diligence and skill that reasonably prudent people would exercise in comparable situation; and

(iv) to act in accordance with the obligations contained in the Act, the Unanimous Shareholder Agreement and any other relevant legislation, regulations and policies, and the Corporation's Articles and By-laws.

VECC-7

Reference: E1/Attachment 5/Schedule 1.1F

Preamble: EPCOR notes that Ayer wood Development Corp. (ADC) provides services in relation to regulatory matters, including the most recent rate application of NRG EB-2016-0236. The amount allowed in rates for these fees and the amount claimed to be incurred by NRG are significantly different (see EB-2016-0236, Exhibit 4, Tab 1, Schedule 2, page 1).

a) Does EPCOR intend on seeking recovery of the fees it is paying ADC in its amended rate application?

<u>Response:</u>

(a) To the extent that the fees payable to Ayerswood Development Corp. under the Transitional Services Agreement pertain to services directly related to rate application EB-2016-0236, EPCOR intends to seek recovery of same as it would for any other service provider or consultant that assists with the preparation of a rate application. See the response to 1-Staff-11 b) ii., for the rationale for these services.

VECC-8

Reference: Attachment 5/Schedule 4.1.7

a) Please explain what consent is required with respect to item 10: "Consent is required pursuant to Section 16 of the indenture granted to NIGEL by The Hydro-Electric Power Commission of Ontario registered as E389111 on October 19, 1998."

b) Have any impediments been encountered in respect to the required consents listed in Schedule 4.1.7? If so please identify these.

<u>Response:</u>

(a) The noted indenture is an easement relevant to the NRG distribution system. The indenture is to be assigned to EPCOR as part of the asset purchase and the terms of the indenture require consent to assignment

(b) To date, no substantial impediments have been encountered and no parties have indicated that they will not grant a consent.