2000 – 10423 101 St NW, Edmonton, AB
T5H 0E8 Canada
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October 16, 2017

VIA RESS AND COURIER

Attention: Registrar
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: EPCOR Southern Bruce Gas Inc.
South Bruce Expansion Applications EB-2016-0137 | EB-2016-0138 | EB-2016-0139

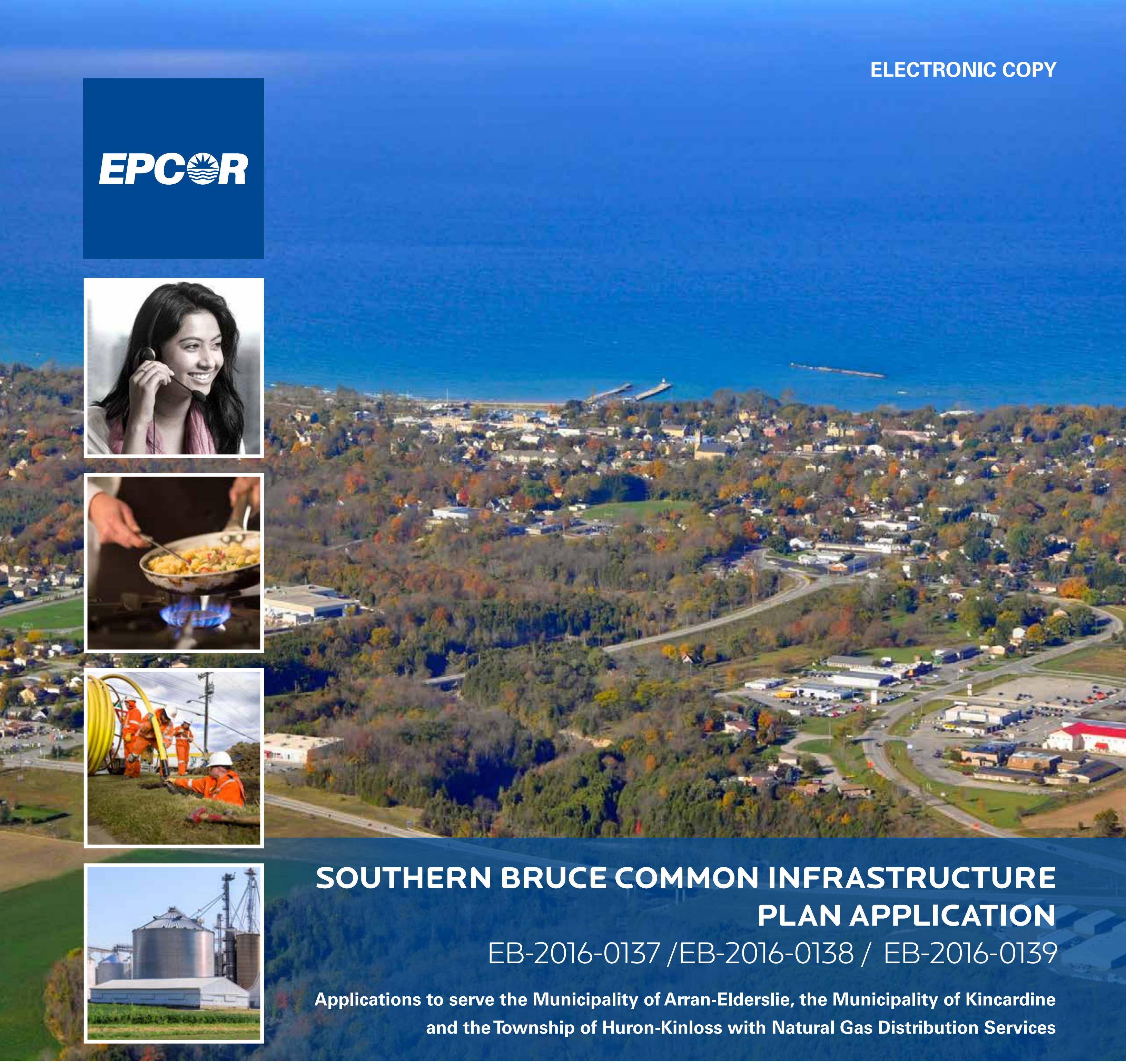
Please find enclosed EPCOR Southern Bruce Gas Inc.'s Common Infrastructure Proposal to serve the Municipality of Arran-Elderslie, the Municipality of Kincardine and the Township of Huron-Kinloss with natural gas distribution services.

Should you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

[Original signed by]

Bruce Brandell
Director, Corporate Development
EPCOR Commercial Services Inc.
bbrandell@epcor.com
(780) 412-3720



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EPCOR

SOUTHERN BRUCE COMMON INFRASTRUCTURE PLAN APPLICATION

EB-2016-0137 /EB-2016-0138 / EB-2016-0139

Applications to serve the Municipality of Arran-Elderslie, the Municipality of Kincardine and the Township of Huron-Kinloss with Natural Gas Distribution Services

October 16, 2017

The Corporation of the Municipality of Arran-Elderslie

EB-2016-0137

The Municipality of Kincardine — great energy. balanced life.

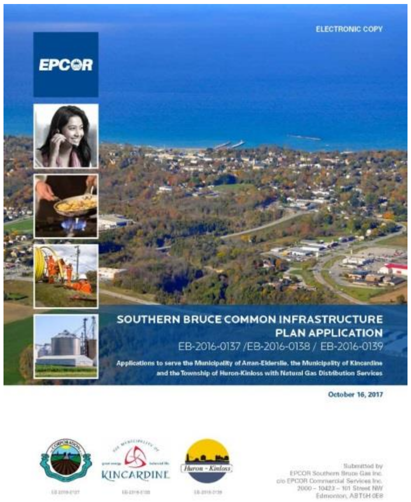
EB-2016-0138

Huron - Kinloss

EB-2016-0139

Submitted by
EPCOR Southern Bruce Gas Inc.
c/o EPCOR Commercial Services Inc.
2000 – 10423 – 101 Street NW
Edmonton, AB T5H 0E8

TAB 1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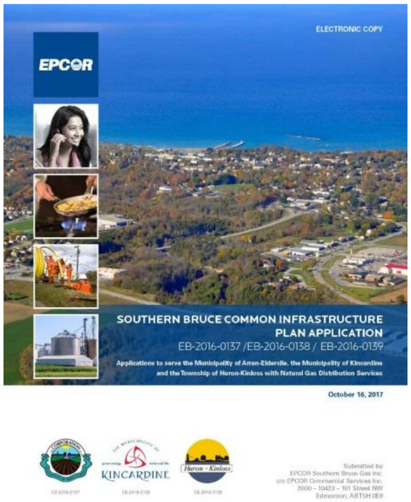


TAB 2

Executive Summary

Executive Summary

1. EPCOR is pleased to have this opportunity to present to the Ontario Energy Board (OEB) its proposal for introducing its unique and innovative approach to bringing natural gas infrastructure to the communities in Southern Bruce, one of the many communities in Ontario that can benefit from the EPCOR approach. This OEB process is precedent setting in several ways.

2. First and foremost, the OEB is relying on a competitive process to maximize value for future Southern Bruce customers, without depending on explicit or implicit subsidies from existing natural gas customers in the Province. The new service area will have self-supporting rates that benefit from Ontario's natural gas infrastructure program. EPCOR proposes to achieve this objective through a stand-alone natural gas utility.

3. OEB's Renewed Regulatory Framework for Electricity Distributors and its Handbook for Utility Rate Applications, proposes increased customer focus and a shift from cost recovery to long term value for money. EPCOR through this submission proposes such an approach to extend to gas distribution in Ontario.

4. By creating a new stand-alone utility, EPCOR is able to bring a number of unique benefits to nine Southern Bruce Communities (Chesley, Paisley, Inverhuron, Tiverton, Kincardine, Lurgan Beach, Point Clark, Ripley, and Lucknow) as well as the Bruce Energy Centre. These communities awarded EPCOR franchise agreements through their competitive process as the first step in their partnership with EPCOR to bring the following benefits to their region:

   - A natural gas distribution system that would be undertaken by an experienced utility operator in EPCOR, who is like minded in its approach and committed to working closely with the communities it serves.
   - The economic development opportunities that will ensue from having competitive natural gas service to attract the anticipated commercial and residential development as a result of the planned refurbishment of the Bruce Power nuclear facilities.
   - A commitment to seek out synergies that will reduce the cost of not only the local natural gas distribution system but also to assist in the development of other infrastructure projects that are important to the communities. These other infrastructure opportunities include high speed internet and the provision of water and wastewater services to the region's expanding business and residential development.

5. EPCOR believes that endorsing the selection that is supported by the local communities based on a broader spectrum of benefits EPCOR offers, the OEB will encourage all utilities to continually seek innovative strategies for managing costs to achieve lower long term rates for its customers. EPCOR's objective is not simply to ensure that the recoverable costs from rates are prudently incurred; but also to investigate and pursue all available strategies to ensure that costs borne by ratepayers are the lowest prudently possible. Our proposed value-added synergies are central to this goal. We do this by leveraging the vast knowledge and experience that we have gained in other utility operations including electrical, natural gas, water and waste water treatment and sanitary collection in both Canada and the United States. By pursuing infrastructure synergies, we bring additional benefits to the communities through reduced costs,

and improved service of other infrastructure projects. EPCOR believes that the broader public interest can be best served by thinking ‘outside the box’ by aggressively pursuing synergies with other non-gas utility operations. By introducing this approach to doing business in Ontario, EPCOR believes it can lead by example to positively influence the approach taken in future competitive infrastructure projects in Ontario.

6. This OEB process also promises to be precedent setting by shifting some of the traditional utility risks from ratepayers to investors. Specifically, the CIP process has limited customer risk through a 10 year rate stabilization period during which any operating cost overruns, if incurred, cannot be recovered from customers. The investor also takes the capital cost risk for the initial capital invested even beyond the 10 year rate stability period. It would be unfortunate for customers if the competitive factors that produced the current CIP were not to persist. Furthermore, this CIP process has resulted in investors taking additional risk that go beyond what has been traditionally required of utilities in the province. Table 1 below provides a summary of these risks and their allocation:

Table 1: CIP Application Utility Risk

Risks	Traditionally	Under this CIP	EPCOR at LTC
Initial Capital Cost	Ratepayer	Utility Shareholder	Utility Shareholder
O&M Costs – 10 years	Ratepayer	Utility Shareholder	Utility Shareholder
Target Connections – 10 years	Ratepayer	Utility Shareholder	Utility Shareholder
Target Volumes – 10 years	Ratepayer	Utility Shareholder	Utility Shareholder
Commercial Upside Post CIP – Additional Volumes, New Synergies, etc.	Not Defined	Not Defined	Passed to the Ratepayer
Projected “Customer Years” – 10 years	Ratepayer	Utility Shareholder	Utility Shareholder
Return on Equity	Ratepayer	Utility Shareholder	Utility Shareholder

About EPCOR

7. EPCOR Utilities Inc. owns and operates electrical transmission and distribution networks, and natural gas distribution networks, water and wastewater treatment facilities, sanitary and storm water systems and networks in Canada and the United States. EPCOR manages over $6.0 billion in assets and an annual capital program of approximately $530 million. As at December 31, 2016, EPCOR employed 2,710 full-time, part-time, temporary and casual employees. The recent transfer of the City of Edmonton’s sanitary and storm water utilities to EPCOR have added another 700 employees. In fiscal 2016, EPCOR’s consolidated revenue was $1.946 billion and its consolidated operating income was $309 million. Additionally, EPCOR’s acquisition of the natural gas distribution assets of Natural Resource Gas Limited (NRG) received regulatory approval from the Ontario Energy Board in August 2017. Closing of this transaction is expected by end of October 2017.

8. For this project, EPCOR's team consists of its newly acquired NRG management team who has already provided guidance on this project, AECON Utilities as design-construction partner, and Stantec Consulting Ltd. who are close to completing the Project Environmental Report (ER).

CIP Common Parameters

9. The parties have agreed to service the communities of Chesley, Inverhuron, Paisley, Tiverton, Kincardine, Lucknow, Lurgan Beach, Point Clark, Ripley, and Bruce Energy Centre Industrial Park (Project), all to be serviced within two years from the commencement of construction. Volume forecasts for mass markets have relied on common average use consumption levels. Large commercial or industrial customer volumes have been individually forecast separately by Union and EPCOR.

10. The utility capital structure, tax, depreciation, interest during construction, and inflation rates are as outlined in the Union/EPCOR Letter to the Board of Oct 2, 2017. No Z-Factor events in the Revenue Requirements are included. EPCOR commits to meet or exceed the Service Quality Requirements (SQR) in accordance with Board's Gas Distribution Access Rule (GDAR) dated January 1, 2017.

CIP Common Exclusion Parameters

11. As per OEB guidance, the grants, contributions, aids to construction, demand side management programs, cap and trade costs, gas commodity costs, and upstream reinforcement costs, have been excluded from the revenue requirement calculations.

12. While the costs of raising debt and equity to finance the Southern Bruce Project have been incorporated into the overall revenue requirement, the Board has confirmed that the cost of debt and the return on equity are considered competitive elements, and therefore have not been disclosed.

CIP EPCOR Proposed Parameters

13. Within the proposed geographical target market of Arran-Elderslie, Kincardine, and Huron-Kinloss, EPCOR has estimated the total available market to be 8,739 customers. EPCOR forecasts attaching a total of 5,278 customers over the 10-year rate stability period based on a conversation rate of 60% for residential customers and 65% commercial customers. This is supported by formal survey results for residents and extensive face to face meetings with commercial customers and augmented with the results of a commercial survey.

14. Details of the infrastructure proposed, including routing, engineering, material specifications, construction schedule, environmental considerations have all been provided herein.

15. EPCOR has applied the utility principles of fully allocated costs as set out in the August 22, 2017 Decision on Preliminary Issues and Procedural Order No. 8, to preventing any cross-subsidization of new expansion customers by current ratepayers. EPCOR has included the royalty payments proposed to be made to the municipalities in the overall revenue requirement.

16. The annual revenue requirements commencing 2019 through 2028 are provided hereunder:

Table 2: Annual Revenue Requirement (2019 – 2028)

Year									
2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
1,332,492	4,388,984	6,155,922	7,534,172	8,488,867	9,122,050	9,406,087	9,567,338	9,722,807	9,864,542

- The net present value of revenue requirement over the 2019-2028 period is $59,072,317.
- The cumulative revenue requirement over the 2019-2028 period is $75,583,261.

CIP Revenue Requirement and Customer Comparison Criteria

17. The following are EPCOR's forecasted revenue requirement and customer volume parameters:

Table 3: Forecasted Comparison Parameters

Comparison Parameter	Forecast
EPCOR Planned Cost per m^3 for the 10 year 2019-2028 period	0.1766 $/ m^3
EPCOR Planned No. of Customer Years over the 10 year 2019-2028 period	42,569
EPCOR Planned Cumulative Volume over the 10 year 2019-2028 period	428,035,564

18. The above forecasted comparison parameters do not take into account several additional community based value-added initiatives which EPCOR is currently pursuing and may come into fruition before filing the necessary Leave to Construct (LTC) application. If selected by the Board as the successful proponent, it is EPCOR's intention to add the benefits of those synergies and volume to its final rate application to pass on these benefits to the ratepayers during the 10-year rate stability period, as summarized below.

Other Value-Added Factors

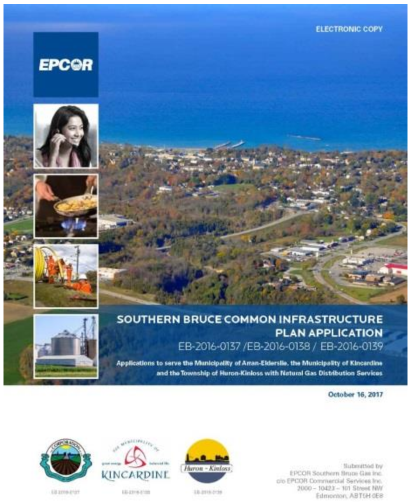
19. EPCOR, as the communities' preferred franchisee has collaborated not only towards developing its natural gas Project, but also providing significant other value-added initiatives that will directly benefit the Project as well as taxpayers in the communities. These other value-added initiatives, which are more fully detailed in the submission, include the following:

- A multi-utility partnership with the respective communities to realize further efficiencies, introduce synergies, and introduce economies of scale, all of which will help with the overall economic development of the communities as well as the lower rates for the respective ratepayers.
- Two synergistic initiatives that this early partnership between the communities and EPCOR proposes the co-construction of a water pipeline and fibre optics network during the construction of the natural gas lines into the communities.

- There is an opportunity to accelerate the construction schedule since EPCOR has completed a large percentage of the work for the Environmental Report (ER) initiated in anticipation of being awarded the Franchise by the OEB.
- A proposed future EPCOR-Municipal partnership that contemplates multi-utility level operational efficiencies by way of service level agreements ("SLA") or formal alliance agreements resulting in additional synergies of mutual benefit for EPCOR and the respective municipalities. EPCOR and the Southern Bruce municipalities are also exploring additional initiatives for multi-utility servicing of business parks in the communities to attract new business by providing the multi-utility services to these lands on a fast track basis to benefit the gas utility as well as the municipalities.
- The natural gas facility construction will also result in the development of a five kilometre bike path to the community.
- Also under discussion is EPCOR undertaking the fibre optics project co-construction under a Design-Build-Operate and Finance Agreement that the municipality, through its wholly-owned telecommunications company finds of significant value.
- Finally, one immediate potential benefit that would result in additional cost savings for all ratepayers involves EPCOR working with an agro-business to develop a CHP facility in a Business Park to help expand a revitalized greenhouse enterprise, if finalized before the LTC application. EPCOR has used its multi-utility experience to propose a CHP facility as a cost-effective solution to overcome a local power transmission constraint and provide heating and cooling to further improve the economic benefits. Based on current estimates this could translate into savings to all ratepayers of up to 3-8% during the rate stability period further improving the economic success of the Project and lower the cost of the gas supply for the community.

20. As noted previously, EPCOR's strong relationship with the communities and its local government leadership has been ongoing and strengthened over the last 24-30 months. During this time, the parties have worked diligently as partners to develop new and creative ways to enhance this Project and explore how EPCOR, with its broad integrated utilities background and financial wherewithal, may bring about other economic development initiatives to help the municipalities and in the process, improve the natural gas project benefits to its ratepayers. Both the municipalities leadership, and EPCOR, believe that in the long term, the Project success will largely depend on finding creative synergies by way of economies of scale under a well aligned utility platform. This alignment and resulting benefits have already been identified in the 24 short months through construction synergies and other value-added benefits that now remain to be realized.

Figure 1: EPCOR Kincardine Customer Care Centre Opening – Ribbon Cutting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October 16, 2017

Submitted by
EPCOR Southern Bruce Gas Inc.
c/o EPCOR Commercial Services Inc.
2000 – 10423 – 101 Street NW
Edmonton, AB T5H 0E8

TAB 3

Applicant Background & Contact

1. Applicant Background & Contact

Contact Information:

The Applicant

Name:	EPCOR Southern Bruce Gas Inc.
Address:	c/o EPCOR Commercial Services Inc. 2000 – 10423 – 101 Street NW Edmonton, AB T5H 0E8
Telephone:	(780) 412-3720
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Fax:	(780) 441-7118

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Telephone:	(780) 412-3720
Email:	bbrandell@epcor.com
Fax:	(780) 441-7118

Legal Representative(s)

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Telephone:	(780) 412-3998
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Name:	Richard King
Company:	Osler, Hoskin & Harcourt LLP
Address:	100 King Street W One First Canadian Place Suite 6200 Toronto, ON M5X 1B8
Telephone:	(416) 862-6626
Email:	rking@osler.com
Fax:	(416) 862-6666

Affiliates

1. For the purposes of the Affiliate Relationship Code for Gas Utilities, all of the subsidiaries of EPCOR Utilities Inc. ("EUI") are deemed to be affiliates of EPCOR Southern Bruce Gas Inc., as EPCOR Southern Bruce Gas Inc. is a direct subsidiary of EUI. Following the closing of EPCOR Natural Gas Limited Partnership's purchase of the natural gas distribution system of Natural Resource Gas Limited expected by the end of October 2017, EPCOR Natural Gas Limited Partnership will be operating a gas distribution system in Aylmer, Ontario. Other than EPCOR Natural Gas Limited Partnership and its general partner and limited partner, no other EUI subsidiaries operate businesses in Ontario. Please refer to Figure 2 for a simplified corporate chart of EUI depicting EUI's material subsidiaries and subsidiaries related to Ontario.

Background on Applicant

2. EPCOR Southern Bruce Gas Inc. is a corporation incorporated under the laws of the Province of Ontario and is an indirect wholly owned subsidiary of EUI which is a corporation incorporated under the laws of the Province of Alberta, and wholly owned by the City of Edmonton. EUI's head office is in the City of Edmonton. Figure 2 below outlines the corporate structure of EUI.

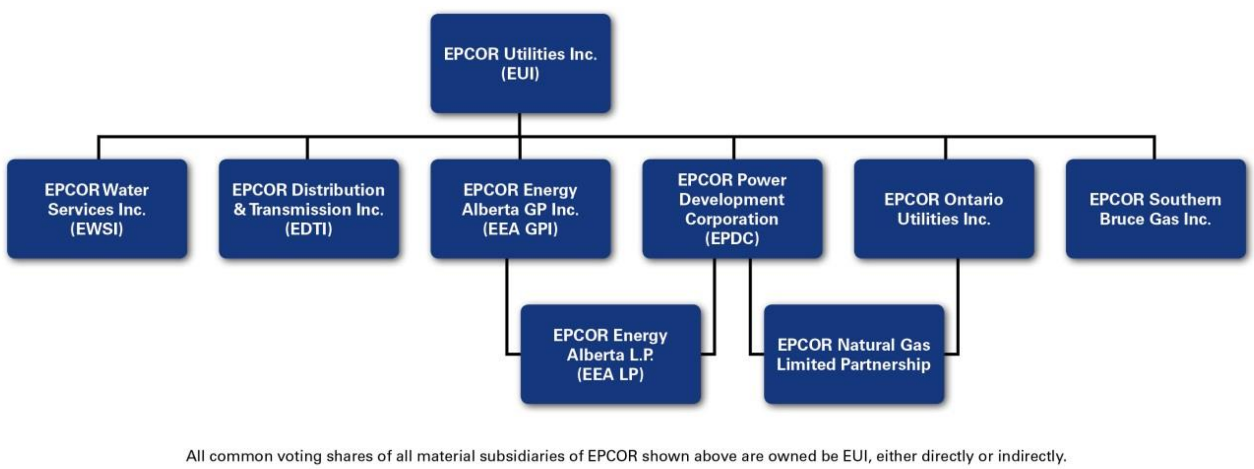


Figure 2: EPCOR Utilities Inc. Corporate Structure

3. EUI, through wholly-owned subsidiaries (collectively, "EPCOR"), builds, owns and operates electrical transmission and distribution networks, natural gas distribution networks, water and wastewater treatment facilities, and sanitary and stormwater systems and networks in Canada and the United States. Figure 3 highlights the locations of major EPCOR operations.

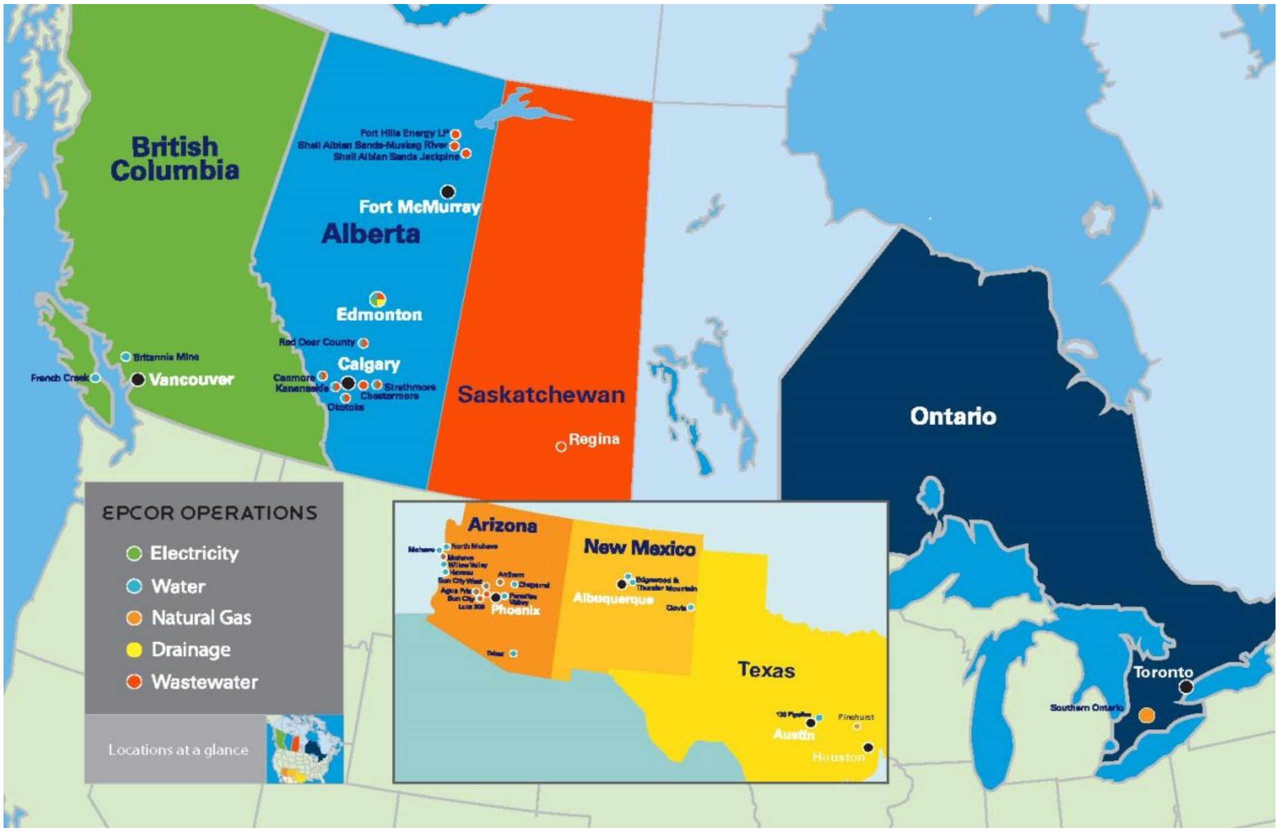


Figure 3: EPCOR Operations

4. As a multi-utility company, EPCOR brings a unique perspective to the provision of utility services. This value has been uniquely demonstrated in the competitive market for electricity services in Alberta. EPCOR feels that in Ontario the provision of natural gas services could benefit from a multi-utility approach that provides multiple utilities to a customer within a geographic region. EPCOR's multi-utility offering and its municipal history were a critical factor in being selected as the preferred franchisee in Southern Bruce.

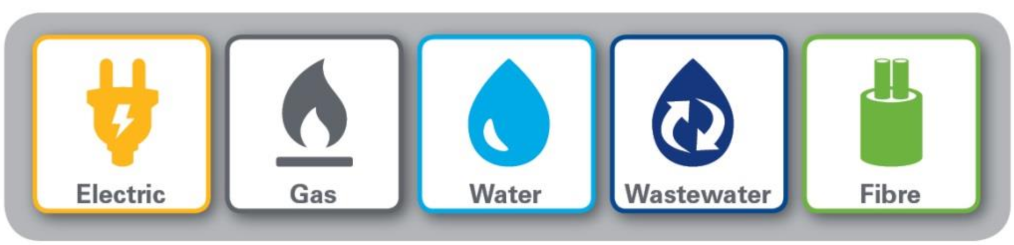


Figure 4: EPCOR Multi-Utility Scope of Services

5. EPCOR's electric distribution and transmission businesses own and operate high voltage substations and transmission lines and cables that are primarily situated within and around Edmonton and form part of the Alberta Interconnected Electric System ("AIES") power grid. Through these facilities, EPCOR provides transmission services to the Alberta Electric System Operator ("AESO"), the independent not-for-profit entity that is charged with, among other things, ensuring the efficient operation and expansion of the Alberta transmission grid. In 2015,

EPCOR distributed approximately 13% of Alberta's provincial energy consumption to approximately 343,000 residential and 36,000 commercial and industrial customer sites in Edmonton.

6. EPCOR's energy services business procures electricity for its Regulated Rate Option and default supply customers in Alberta and provides customer care and billing services to its customers, and certain customer care and billing services to affiliates and third parties. The energy services business also sells electricity and natural gas to Alberta consumers under competitive contracts through its Encor brand. EPCOR provides billing and customer care services to approximately 640,000 energy and natural gas customer sites and 265,000 water customer sites in Alberta.

7. EPCOR's water business provides water purification, water distribution, wastewater treatment, sanitary and stormwater systems and related management services within the City of Edmonton and several other communities in Western Canada and the Southwestern United States, and provides similar services and water and wastewater plant financing and construction services to industrial customers in Western Canada. In Edmonton and surrounding areas, EPCOR services a population of over 800,000 and delivers bulk water to over 67 communities and counties. In addition, EPCOR USA provides water purification and distribution and wastewater collection and treatment services in the southwestern United States to more than 350,000 people in Arizona and New Mexico. It also delivers wholesale water service to municipalities in the Austin metropolitan area.

8. In September 2017, the City of Edmonton transferred its sanitary and stormwater system to EPCOR. This system contains pipes, tunnels, pump stations and stormwater management facilities that make up the sanitary and stormwater network in the City of Edmonton. Wastewater from the system is transported to EPCOR's Gold Bar Wastewater Treatment Plant.

9. EPCOR's acquisition of the natural gas distribution assets of Natural Resource Gas Limited (NRG) received regulatory approval from the Ontario Energy Board in August 2017. Closing of this transaction is expected by the end of October 2017. Once complete, EPCOR will distribute natural gas to over 8,700 residential, commercial and industrial customers in Elgin, Middlesex, Oxford and Norfolk counties in southwestern Ontario. EPCOR also owns and operates a natural gas utility that provides service to approximately 4,300 connections and wholesale natural gas transmission service to local distribution utilities near Houston, Texas.

10. EPCOR is a public issuer of debt with current credit ratings of A- stable (S&P) and A (low) stable (DBRS). In fiscal 2016, EPCOR's consolidated revenue was $1.946 billion and its consolidated operating income was $379 million. Presently EPCOR has credit facilities totaling $575 million of which $375 million is available for borrowing. EPCOR also has access to long-term debt through the Canadian public debt market where it has an existing $1-billion, short form base shelf prospectus.

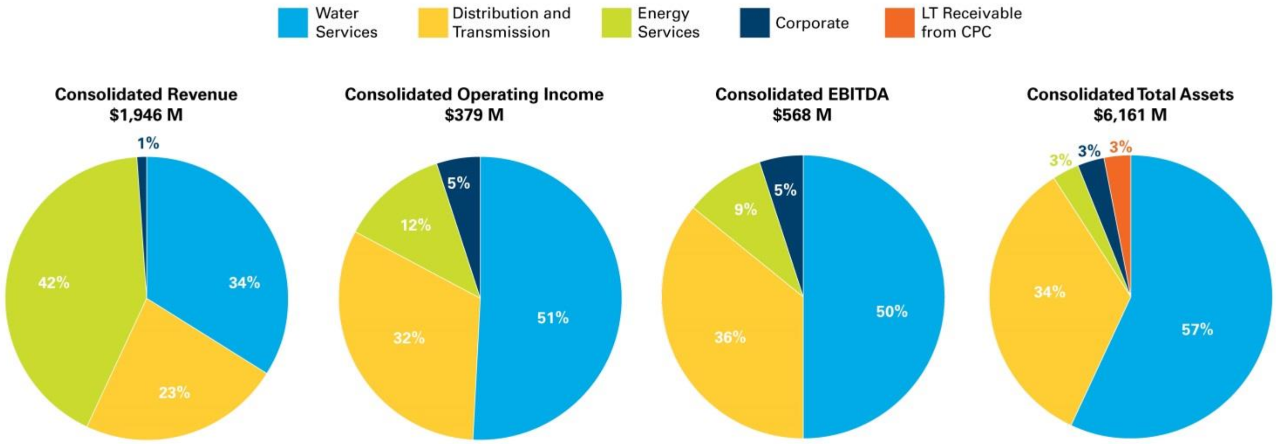


Figure 5: EPCOR's 2016 Financial Overview

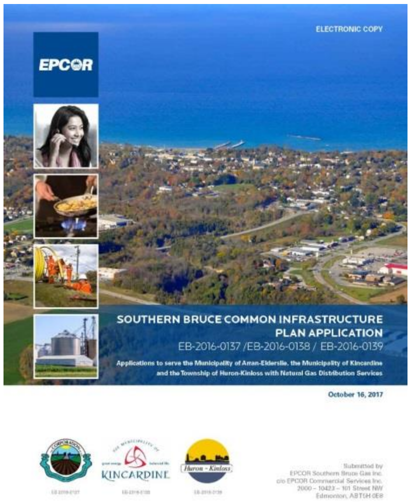
11. In its major business units (electricity distribution and transmission; water and wastewater; natural gas and energy services), EPCOR's customers number in the hundreds of thousands. EPCOR and its predecessors, through their subsidiaries, have provided reliable utility service for over 120 years, consistently meeting and exceeding service quality metrics in the areas served. Details of EPCOR's corporate profile, major operations and corporate finances are provided in EPCOR Utilities Inc.'s 2016 Annual Information Form, a copy of which is attached as Schedule F.

12. As at December 31, 2016, EPCOR employed 2,710 full-time, part-time, temporary and casual employees. The recent transfer of the City of Edmonton's sanitary and stormwater system to EPCOR added approximately 700 employees. Further, 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 over 1,772 EPCOR employees. For more than a decade, EPCOR has been on multiple lists ranking best employers and corporate citizens. These include Canada's Top Employers for Young People, Alberta's Top 70 Employers, Best Place to Work (EPCOR Water USA), Government of Alberta Envirovista Program and Public-Private Partnership (P3) awards, and the Best 50 Corporate Citizens (2014). EPCOR employees volunteer thousands of hours of their time each year in their communities both on their own as well as through EPCOR organized initiatives with its Community Partners. EPCOR further supports its employee community volunteer efforts with Helping Hands Grants to the charitable organizations that its employees are directly involved with. EPCOR and its employees also raise funds through an annual United Way campaign and EPCOR further supports the communities it works in through its education focused corporate giving program.

13. EPCOR is subject to federal, provincial, state and municipal operational, rate-setting, environmental and safety laws, regulations and guidelines concerning its businesses. EPCOR has developed positive, ongoing working relationships with a number of regulators and agencies including the Alberta Utilities Commission (AUC), the AESO, the BC Water Comptroller, the Arizona Corporate Commissions and the New Mexico Public Regulation Commission. EPCOR also works closely with a number of government health and safety agencies including Health Canada, Alberta Environment and Parks Alberta, multiple Occupation Health and Safety agencies, Water Security Agency (Saskatchewan), and Work Safe BC. Many of EPCOR's facilities are ISO 14001 and OHSAS 18001 certified.

14. EPCOR manages over $6.0 billion in assets and an annual capital program of approximately $530 million. EPCOR and its design-build partners have also successfully designed, built, owned and operated 15 water/wastewater projects in Western Canada, outside of Edmonton. This achievement is the direct result of EPCOR's ability to evaluate projects efficiently and accurately, and to add value to benefit its clients over the entire project life cycle. EPCOR's construction experience includes installing systems in geographies and terrains with complex geological conditions including rocky formations in British Columbia to desert sands of Arizona. EPCOR has experience with aerial as well as underground installations of linear assets, from extreme hot to extreme cold seasonal conditions and specific experience with horizontal directional drilling installations along highways and under rivers, consistently demonstrating sensitivity towards the environment. A recent installation included crossing under multiple water ways within an environmentally sensitive provincial park. EPCOR also has experience in constructing linear infrastructure in mature urban areas where it has demonstrated social sensitivity with respect to ongoing access for homeowners and restoration of property to original or better condition.

15. EPCOR employs program and project management methodologies based on industry best practices, such as from the Project Management Institute. These program elements include Defining, Planning, Executing, Monitoring and Controlling, and Closing. Project scope, schedule, resources, budget, and risk are addressed in all of these elements. Key aspects that have driven EPCOR's project management success include: rigorous executive oversight; and an internal independent Project Management Office that sets standards for and then monitors project progress, creates standard templates for project scoping and reporting to ensure consistency, undertakes ongoing risk assessment and mitigation, and holds regular lessons learned workshops to incorporate continuous improvement into EPCOR's processes. As a utility operator, EPCOR carefully considers factors such as operability, maintainability, and life-cycle asset management costs in carrying out each project. All projects focus on safety as a priority in the design, construction and maintenance of all capital projects, with safety performance being held to the highest standard.



TAB 4

CIP Common Parameters

2. CIP Common Parameters

Common Assumptions Agreed by the Parties

Communities to be Served

1. As part of the Southern Bruce Natural Gas Project, EPCOR agrees to provide natural gas service to the communities of Chesley, Paisley, Inverhuron, Tiverton, Kincardine, Lurgan Beach, Point Clark, Ripley, Lucknow and the Bruce Energy Centre. The proposed infrastructure to service these communities is illustrated in Figure 7 and Schedule B.

Rate Stability Period

2. The Board indicated in its Decision on Preliminary Issues and Procedural Order No. 8 Dated August 22, 2017 that:

   "For the purpose of structuring a common platform for selection purposes, the OEB finds that proponents should price their revenue requirement proposals based on the assumption that there will be no rate adjustments during the 10-year rate stability period, other than the availability of Z-factor relief for certain events that fall within the OEB's policy".

3. EPCOR accepts this 10-year rate stability period for the delivery rates. The revenue requirement has been prepared on this basis. EPCOR has incorporated the annual inflation adjustment of 1.27% as referenced in Schedule C in calculating its revenue requirement.

Forecast Horizon

4. EPCOR has used a 10-year forecast period for customer attachments and volume forecasts and in preparing the three comparison metrics as set out in the OEB Staff Progress Update dated July 20, 2017:

   - **$/m^3** –the sum of total (gross) annual revenue requirement for 10 years divided by the total volumes for 10 years
   - **Number of customer years** – the cumulative number of customers connected over the 10 year rate stability period multiplied by the number of years each customer is connected
   - **Cumulative volume (m3)** – the cumulative volume of throughput per year, over the ten-year rate stability period. This metric would be calculated in a similar manner to the second criteria, but based on the volume consumed by the customers to better depict the various customer classes and their demand. Credit for volumes from new customer additions in a specific year are based on connection to the system in the middle of the year, with the exception of large industrial and commercial customers for whom a specific connection period can be determined by the proponent.

Customer Consumption Levels

5. EPCOR and Union have worked cooperatively to reach agreement on the average annual consumption levels for the mass markets. Schedule C is a copy of the letter sent to the Board dated October 2, 2017 outlining the categories of mass markets and the respective average consumption for each category of customer. Fifty percent of these consumption levels have been used as the estimated consumption level for the customer's first year of service. As directed by the Board, EPCOR has developed its own volumetric estimates for large industrial and commercial customers. As agreed with Union, these large commercial customers include large poultry farms and grain dryers as these loads could be route dependent. These consumption levels have been used in developing the comparative metrics.

6. Several industrial customers are expected to enter into long term contracts for capacity. Annual volumes for these customers have been based on the capacity under contract.

Community Service Period

7. EPCOR has agreed to develop the overall infrastructure necessary to provide service to each of the above listed communities over a two year period.

Depreciation Rates

8. EPCOR has agreed to use Union's Board approved depreciation rates and confirms that these rates have been incorporated in its submission. These rates can be found in Schedule C.

Capital Structure

9. EPCOR's CIP revenue requirement has been based on Union's approved deemed debt/equity ratio of 64% / 36%.

Interest During Construction (IDC)

10. EPCOR confirms that it has used the Board's fourth quarter 2017 Construction Work in Progress (CWIP) rate of 2.99% as outlined in Schedule C.

Inflation Costs

11. As outlined in Schedule C, EPCOR has used an inflation rate of 1.27% in calculating its annual revenue requirement. This is the most recent four quarter average annual inflation rate as determined from GDP IPI FDD, which is reported for the second quarter of 2017.

Z-Factor Relief

12. EPCOR has not included any Z-Factor events in its revenue requirement, but acknowledges that during the 10-year rate stability period Z-Factor relief may be available for certain OEB approved Z-Factor events during this period.

Tax Rates

13. A corporate income tax rate of 26.5% has been used in developing EPCOR's revenue requirement.

Service Levels

14. EPCOR acknowledges that the Board's Gas Distribution Access Rule (GDAR) dated January 1, 2017, sets out: certain rules governing the conditions of access to gas distribution services provided by a gas distributor, rules governing the conduct of a gas distributor as such conduct relates to a gas vendor, and certain minimum Service Quality Requirements (SQR) for natural gas distributors.

15. EPCOR confirms that it will comply with GDAR including, but not limited to, the minimum SQRs established by the Board as set out in Section 7. EPCOR is in the process of acquiring the assets of Natural Resource Gas Ltd. (NRG) pursuant to the Board's August 3, 2017 decision in EB-2016-0351. Table 4 illustrated below, is an excerpt from the Board's "2016 Yearbook of Natural Gas Distributors" dated August 17, 2017 outlining the major Ontario natural gas distributors' 2016 SQR performance results. EPCOR notes that NRG has not only met or exceeded the Board's SQRs, but in most cases exceeded the SQR metrics of the other major Ontario natural gas utilities. EPCOR will employ the best practices of NRG in the operation of Southern Bruce.

Table 4: 2016 Service Quality Requirements Performance Results

Service Quality Requirements	Enbridge	Union	NRG
Call Answering Service Level (OEB Minimum Standard: 75%)	82.40%	80.10%	98.50%
Number of Calls Abandon Rate (OEB Standard: not exceed 10%)	1.80%	3.60%	1.50%
Meter Reading Performance (OEB Standard: not exceed 0.5%)	0.40%	0.10%	0.00%
Appointments Met within Designated Time Period (OEB Minimum Standard: 85%)	94.80%	98.90%	99.30%
Time to Reschedule Missed Appointments (OEB Standard: 100%)	94.20%	99.80%	100.00%
Emergency Calls Responded within One Hour (OEB Minimum Standard: 90%)	96.10%	98.80%	93.20%
Number of Days to Provide a Written Response (OEB Minimum Standard: 80%)	95.50%	100.00%	100.00%
Number of Days to Reconnect a Customer (OEB Minimum Standard: 85%)	93.70%	86.20%	91.70%

Common Exclusions Agreed by the Parties

Grants, Contributions and Aids to Construction

16. EPCOR has prepared its revenue requirement and excluded any grants from the Ontario Ministry of Infrastructure, contributions from municipalities related to property tax rebates, and any aids to construction.

Demand Side Management (DSM Programs)

17. EPCOR has not included any costs associated with DSM programs in its revenue requirement.

Cap and Trade Costs

18. No costs associated with complying with the Board's Regulatory Framework for the Assessment of Costs of Natural Gas Utilities' Cap and Trade Activities dated September 26, 2016, have been incorporated in the preparation of the revenue requirement.

Gas Commodity Costs

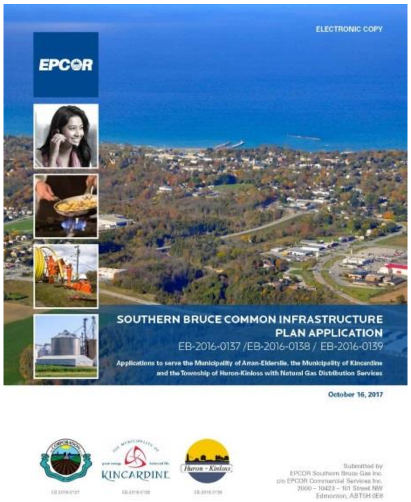
19. No gas commodity costs have been included in the revenue requirement.

Upstream Reinforcement Costs

20. Consistent with the Board's direction in the Decision on Preliminary Issues and Procedural Order No. 8 Dated August 22, 2017, EPCOR has excluded any costs associated with the upstream reinforcement of the Union Gas system that may be required to deliver gas to the Dornoch meter station. Similarly, ongoing upstream transportation charges have been excluded from the revenue requirement.

Cost of Debt & Return on Equity

21. While the costs of raising debt and equity to finance the Southern Bruce Project have been incorporated into the overall revenue requirement, the Board has confirmed that the cost of debt and the return on equity are considered competitive elements in the proponents CIP submissions. EPCOR therefore has not separately disclosed these inputs.



TAB 5

CIP EPCOR Proposed Parameters

3. CIP EPCOR Proposed Parameters

EPCOR Market Projections

1. Within the proposed geographical target market of Arran-Elderslie, Kincardine, and Huron-Kinloss, EPCOR has estimated the total available market to be 8,739 residential, commercial, industrial, and agricultural customers. EPCOR forecasts attaching a total of 5,278 customers over the 10-year rate stability period.

Customer Attachment Forecast

2. To assess the likelihood of residential customers converting to natural gas, EPCOR retained the firm of Innovative Research in July 2017 to conduct a residential telephone survey in the municipalities of Arran-Elderslie, Kincardine and Huron Kinloss slated to be served by EPCOR. As shown in Figure 6 this survey concluded that 58% of these residents "Definitely Would Convert" or "Would Likely Convert". Accordingly, EPCOR plans to implement a comprehensive marketing program to help customers assess the benefits of converting to natural gas and through these efforts, expectes to realize an overall 10-year residential conversion rate of 60%. This 60% target has therefore been applied as the overall 10-year capture rate for residential customers under the EPCOR plan. A total of 4,818 residential customers have been forecast to attach to the system over the 10-year rate stability period.

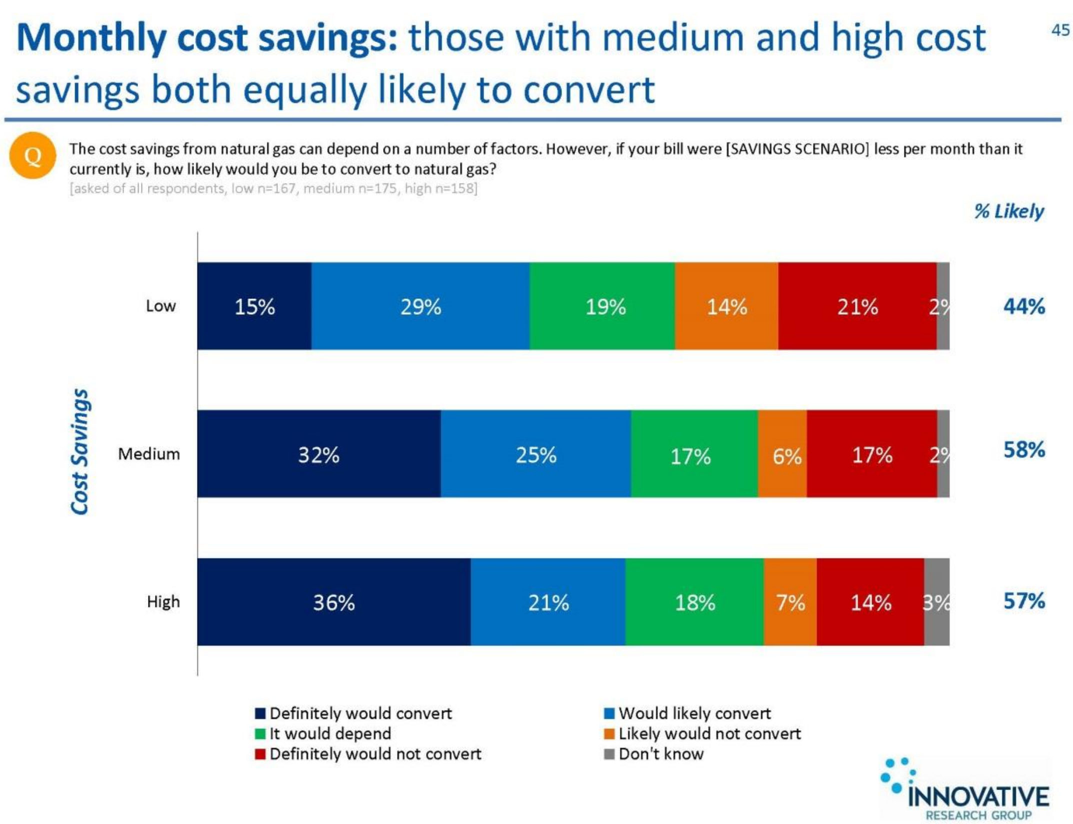


Figure 6: Customer Survey Results on Likelihood of Conversion

3. Total residential volumes have been derived by multiplying the average use per residential customer (for each of existing and new customers) assumptions agreed to between EPCOR and Union and illustrated in Schedule D, Table D2, by EPCOR's annual forecasted acquisition rate for each year over the 10-year rate stability period. The forecasted annual volumes for residential customers are illustrated in Schedule D, Table D3.

4. The municipalities of Arran-Elderslie, Kincardine and Huron-Kinloss previously retained Innovative Research (through their counsel BLG) to assess the feasibility of having these areas served by natural gas. That survey of commercial customers concluded that 65%[1] of this commercial customer sector would definitely or likely convert to natural gas if it were available. Based on recent discussions with customers, EPCOR has confidence in the 65% conversion rate which it finds a reasonable estimate of the commercial customers' conversion rate during the 10-year rate stability period, and has planned for this in its forecast. Commercial customers have been sub-divided by annual consumption levels as follows:

   - Small less than 15,000 m^3/year
   - Medium 15,000 - 50,000m^3/year
   - Large commercial customers 50,000 m^3/year

5. EPCOR forecasts that a total of 447 commercial customers will attach to the system over the 10-year rate stability period. The detailed annual forecast by commercial customer size is illustrated in Schedule D, Table D1.

6. EPCOR has worked closely with Union Gas to develop the average use per commercial customer by size. These average use estimates are illustrated in Schedule D, Table D2 and have been proposed as part of the common assumptions for this submission.

7. Total commercial volumes have been derived by applying the respective average use assumptions to the forecasted attachments. The annual volumes for commercial customers are illustrated in Schedule D, Table D3.

Large Contract Customer Volumes

8. EPCOR has also undertaken a more pro-active and consultative market assessment of the Industrial and large agriculture customer sector to assess their interest in converting to natural gas, and their natural gas requirements. EPCOR has therefore been able to individually forecast each customer requirements, consistent with the Board's direction[2].

9. EPCOR has aggregated industrial and large agricultural customer counts and volumes. This aggregation of customers was chosen for several reasons. Firstly, all customers' volumes are individually forecast as compared to other customers where there has been agreement with Union on their average use. Secondly, and more importantly, if there were further division of this category, there would be an insufficient number of customers in each category to maintain the confidentiality of each customer's respective volume. The Board has a long-standing practice of supporting the protection of commercially sensitive customer information. EPCOR

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[1] Expansion of Natural Gas Distribution in Southern Bruce County. The Business Case October 6, 2014, page 28

[2] Decision on Preliminary Issues and Procedural Order 8 dated August 22, 2017 page 5

believes that this level of aggregation is the minimum level of aggregation required to preserve the confidentiality of all customers' volumes.

10. Within this category there are certain customers that are expected to enter into long term contractual commitments for distribution capacity. EPCOR anticipates that the contract rate will have a monthly demand charge for capacity similar in nature to the contractual rates charged by other gas utilities in the province, where all fixed costs are recovered in the demand charge. These customers have the flexibility of using the capacity at any time of the year. EPCOR has been working cooperatively with customers to look for ways to improve their overall energy efficiency through the application of a combined heat and power (CHP) facility where natural gas is used to meet both on-site heating needs as well as a portion of their power needs. The annual consumption levels of natural gas under a CHP facility are very different from serving a heating only load. EPCOR has been and continues to work very closely with this customer group to help evaluate the potential for CHP usage, however until the award of the franchise; neither the customers nor is EPCOR able to formalize any commitment. Because of the contract structure, the flexibility to use the capacity at any time of year, the payment for capacity reserved regardless of usage, as well as the uncertainty of customers' ultimate commitment to CHP, EPCOR has therefore applied the annual capacity expected to be under contract and it is this capacity that forms its volume forecast.

11. The total number of customers and the aggregate annual volumes can be found in Schedule D.

EPCOR Capital and Operating Plans

12. For this project, EPCOR's team consists of:

EPCOR's newly acquired management team from NRG, which have already been involved in this project.

AECON Utilities, one of Ontario's leading utility contractors, as design-construction partner.

Stantec Consulting Ltd. for development of the Environmental Report (ER), which has completed over 200 ER's for natural gas projects in Ontario.

13. EPCOR proposes to develop a comprehensive natural gas distribution system to serve the communities of Chesley, Paisley, Inverhuron, Tiverton, Kincardine, Lurgan Beach, Point Clark, Ripley, Lucknow and the Bruce Energy Centre. EPCOR's distribution system will consist of two components – a larger diameter mainline that will be the backbone of the system and transport gas to each of the communities, and smaller diameter high density polyethylene (HDPE) distribution piping that will be constructed within each of the communities to directly serve homes and businesses.

14. The mainline will commence at Dornoch at an interconnection with Union Gas (Union) and will extend westerly from Dornoch to the Bruce Energy Centre, then extending southerly to serve Inverhuron, Kincardine Lurgan Beach and Point Clark. The mainline will then extend easterly to serve Ripley and Lucknow. Figure 7 illustrates the proposing routing of this mainline.

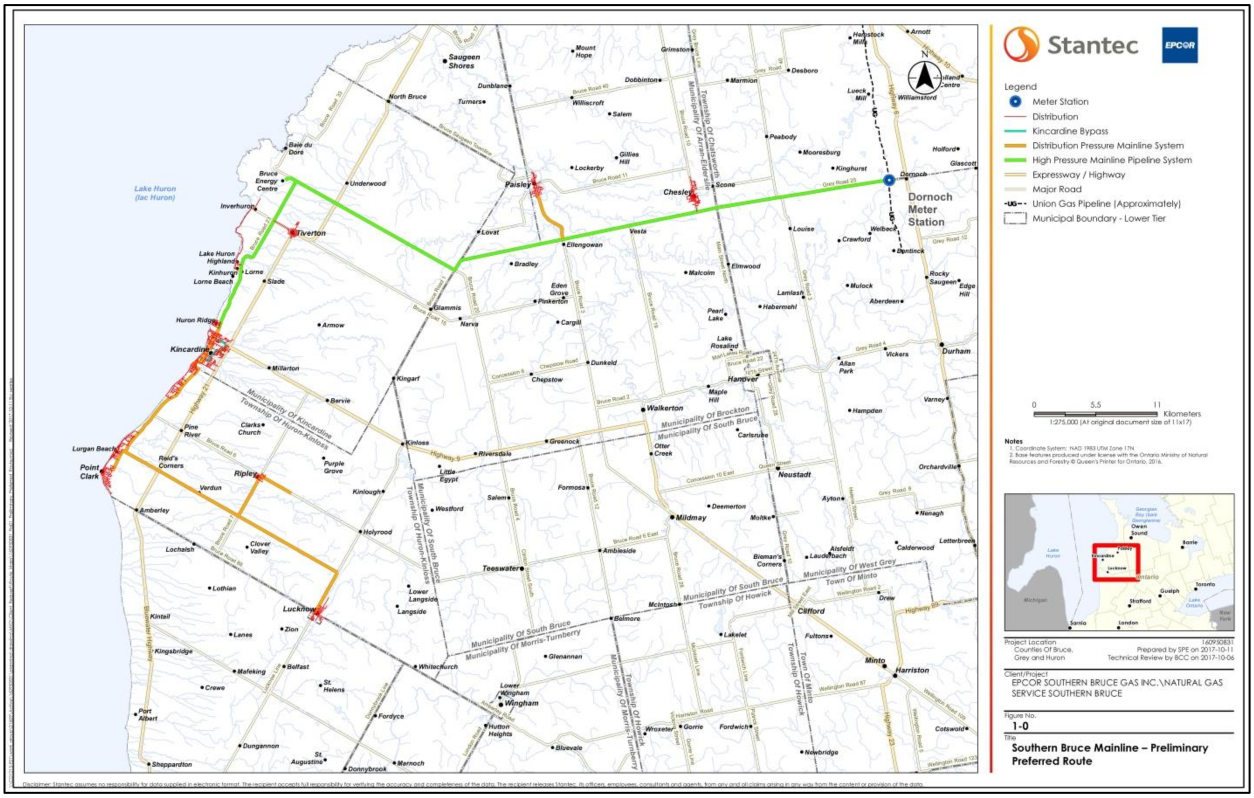


Figure 7: Southern Bruce Mainline – Preliminary Preferred Route

15. The mainline will be developed over two years and utilize two pressure systems. In 2019, the first year of the project, the mainline will be constructed from Dornoch to the south end of Kincardine. The portion of the mainline from Dornoch to the north end of Kincardine will consist of NPS 8 and NPS 6 steel pipeline. This steel line will be designed and tested for a maximum allowable operating pressure (MAOP) of 3447 kPa (500 psig), but is expected to operate at or below a pressure of 2068 kPa (300 psig). This pressure (2068 kPa) coincides with the proposed delivery pressure from Union. The higher design pressure will provide for longer term flexibility should a higher delivery pressure from Union be available in the future.

16. The remaining portion of the mainline through Kincardine is NPS 6 HDPE. The portion of this HDPE mainline from terminus of the steel line through Kincardine will also be developed in the first year of the project. EPCOR will install and operate a pressure regulating station at the junction of the steel system and the HDPE system to lower and control the pressure of the gas entering the HDPE system. This pressure reducing station will be situated in the north end of Kincardine. The balance of the NPS 6 HDPE mainline from the south end of Kincardine to Lucknow will be developed in the second year of the project commencing in early 2020.

17. The distribution systems within each of the communities serviced will be constructed using smaller diameter HDPE pipe. The MAOP of these HDPE systems will be 681 kPa (125 psig). The distribution system in Kincardine, Tiverton and Inverhuron will be constructed in 2019, with

the remaining communities of Chesley, Paisley, Lurgan Beach, Point Clark, Ripley and Lucknow constructed in 2020.

18. For those communities, such as Chesley, Paisley, Inverhuron and Tiverton, that are serviced off the higher-pressure steel mainline system, a pressure reducing station will be installed to lower the operating pressure of the gas prior to entering into the smaller diameter HDPE distribution.

19. For those communities south and east of Kincardine (Lurgan Beach, Point Clark, Ripley and Lucknow), the smaller diameter HDPE systems will be fed off the southern NPS 6 HDPE mainline.

20. The mainline will be installed within road allowances. The majority of this mainline will be installed using open trench construction methods. The mainline will be installed under most roads and major watercourses using horizontal directional drilling (HDD) methods where possible to avoid potential environmental impacts and to minimize the disruption to roads and highway operations.

21. Most of the smaller diameter distribution piping will be installed in already developed areas. Where possible the contractor will therefore use HDD installation techniques for the mains and services to minimize surface disturbances. Potential conflicts with other utilities will be daylighted during construction to avoid damage to these other utilities.

22. The entire distribution system will be designed and operated in accordance with the CSA Z662 code.

23. Union will provide gas service from its Owen Sound line in Dornoch as illustrated in Figure 7. Union has agreed to odourize the gas in a manner consistent with the odourization levels required by CSA Z662 code.

24. EPCOR will design and install SCADA systems to monitor and control the operations of the distribution system on an around the clock basis.

25. Further engineering specifications and details on the design of the pipe and pipeline system will be provided in the Leave to Construct (LTC) application. The pipeline and station facilities have been optimized to meet the forecast growth in the area.

26. Detailed maps of the proposed distribution system for each urban area are provided in Schedule B. EPCOR is aware that there are several planned new residential developments in Southern Bruce. EPCOR has included the capital cost to develop the distribution mains required to support an estimated 469 new homes during the first 10 years, however at this time the details of these development is not sufficient to illustrate the locations on the maps.

Environmental Considerations

27. The route of the proposed facilities was selected to optimize the economics of the Project and other socio-economic community benefits with a critical goal to abate environmental impacts.

28. There are a few of watercourse crossings associated on the routing proposed and the Design and Construction Plan will incorporate the environmental implications of these and various other environmental considerations by following the Board’s "Environmental Guidelines for Locating, Constructing and Operating Hydrocarbon Pipelines in Ontario".

29. EPCOR retained the firm of Stantec Consulting from the outset (immediately after its selection as preferred franchisee by the communities in September 2015) to develop a preliminary preferred route for the proposed mainline and prepare the necessary ER including proposed mitigation measures for the project. Stantec is well underway to assess and complete an environmental screening for the proposed development plan for the distribution pipelines within the communities being served. Stantec will also work with the Ontario Pipeline Coordinating Committee (OPCC) to finalize the requirements to issue an ER for the project.

30. All construction activities will meet the requirements of the OEB's document "Environmental Guidelines for Locating, Constructing and Operating Hydrocarbon Pipelines in Ontario".

31. The transmission line will be installed under most roads and major watercourses using horizontal directional drilling (HDD) methods where possible to avoid potential environmental impacts and to minimize the disruption to roads and highway operations. For the construction of the distribution systems, the contractor will use HDD installation techniques for the mains and services to minimize surface disturbances.

32. Stantec developed a study area for the mainline, identified alternative routes, conducted open houses along the route and obtained public input in order to identify a preliminary preferred route. Most of the environmental fieldwork has effectively been completed and will form part of EPCOR's Design and Construction Plan. Upon EPCOR being selected as the successful proponent from the CIP application, Stantec will conclude in short order the remaining limited fieldwork and conduct final public consultations to finalize the preferred route. Stantec will coordinate with the OPCC to complete the requirements to issue an ER for the project within 90 days of the OEB selecting EPCOR as the successful proponent. This ER will be submitted by EPCOR as part of the LTC application.

Material Specification

33. All the design specifications are in accordance with Ontario Regulation 210/01 under the Technical Standards and Safety Act, 2000, Oil and Gas Pipeline Systems.

34. The NPS 8 steel mainline from the Dornoch Interconnect with Union Gas to the Bruce Energy Centre will have a wall thickness of 4.8 mm, a yield strength of 290 MPa and will have Category I notch toughness properties. The NPS 6 steel mainline from the Bruce Energy Centre to Kincardine will have a wall thickness of 4.8 mm, a yield strength of 290 MPa and will have Category I notch toughness properties.

35. All measurement, valve site and pressure regulation facilities will be constructed with PN 50 rated materials.

36. The distribution systems will consist of piping ranging in size from NPS 6 to NPS 2. All distribution piping will be high density polyethylene (HDPE) as per the requirements of CSA Z662-15.

Construction Schedule

37. Schedule E provides the proposed construction schedule for the Project generally as agreed to under the common assumptions proposed as part of the Common Infrastructure Plan.

38. The following facilities are scheduled for construction in 2019:

- NPS 8 mainline from Dornoch to the Bruce Energy Centre
- NPS 6 steel pipeline from the Bruce Energy Centre to Kincardine
- The HDPE distribution system for Kincardine and Tiverton

39. The following facilities are scheduled for construction in 2020:

- NPS 6 HDPE pipeline to Lucknow
- NPS 4 HDPE pipeline to Point Clark
- NPS 4 HDPE pipeline to Ripley
- The HDPE distribution systems for Inverhuron, Paisley, Chesley, Point Clark, Lurgan Beach, Ripley and Lucknow.

40. Given that EPCOR had assumed that its Franchise approval by the OEB was a routine ratification, based on past practices, EPCOR has extended extensive effort on the Southern Bruce Project through its work on the ER and Design and Construction Plan in anticipation of submitting a Leave to Construct application shortly after the award of the original franchise application. EPCOR therefore believes that it can commence the construction in advance of the current proposed Board Staff schedule outlined in the OEB Staff Progress Update filed on July 20, 2017. This advanced schedule option has been further detailed under Section 5: Other Value-Added Factors.

Community Consultation

41. In September 2015, EPCOR was announced as the successful proponent by the municipalities of Kincardine, Arran-Elderslie and the township of Huron-Kinloss in their municipal-led competition to supply natural gas to the region. Since then, EPCOR has worked in partnership with the municipalities to understand the requirements of residential, commercial, industrial, farm/agribusiness and institutional customers. This includes sponsoring a series of community open houses in partnership with the municipalities: Thursday, October 15, 2015 at the Chesley Community Centre, Friday, October 16, 2015 at the Ripley-Huron Community Centre and Saturday, October 17, 2015 at the Kincardine Municipal Administration Building. Over the last two years EPCOR has also directly engaged with large customers and agricultural customers in the project area to understand their demand and economics required to convert to natural gas.

42. In 2017, EPCOR opened a customer care centre in Kincardine to talk directly with customers on the economics of converting to natural gas. To date many residents, business owners and farmers have visited the customer care centre and the information collected from these potential customers is consistent with the telephone survey results. EPCOR has also worked with the municipalities to take this customer care centre on the road to local events.

43. EPCOR has plans to use this Queen Street Kincardine location of its customer centre to conduct customer conversion clinics on weekends, post LTC approval to help meet its conversion targets. To-date EPCOR's acceptance in the communities has been welcoming and tremendously positive.

44. EPCOR has utilized two surveys to inform the customer and demand profiles for this project.

    i. Border Ladner Gervais LLP (BLG) - Business Case for Expansion of Natural Gas Distribution in Southern Bruce County. Surveys were conducted by telephone among residents and small-medium sized business establishments most likely to be in the service area, as identified by 6-digit postal code. This survey was conducted from July 31, 2014 to August 6, 2014. The survey included 753 respondents. These results are considered accurate to within ±3.6%, 19 times out of 20.

    ii. EPCOR Survey. Surveys were conducted by telephone among residents in the service area, as identified by the proposed pipeline alignment. Sampling was conducted with a stratified sample of permanent residents and non-permanent residents with properties in the service area from each municipality. The main sample was listed landlines in the service area. Additional sample of non-permanent residents were identified based on households who use a mailing address outside of the sample region to receive their property tax bills. The strata of permanent residents were weighted by municipality and household size according to Statistics Canada data. The residential survey was conducted by telephone among 554 randomly-selected households within the sample area, between July 6, 2017 and July 17, 2017 and the results were weighted to 500. The overall results are considered accurate to within ±4.4%,19 times out of 20.

45. In October 2015, EPCOR contacted the following First Nations and Metis Communities, delivering to them a Letter of Commencement for the project, notification of open houses and an invitation to either attend the open house or request a community meeting if it better suited their needs.

    - Saugeen First Nation
    - Chippewas of Nawash Unceded First Nation
    - Metis Nation of Ontario Great Lakes Metis Council
    - Historic Saugeen Metis
    - Beausoleil First Nation
    - Chippewas of Kettle and Stony Point First Nation

46. In November and December of 2015, the Saugeen First Nation and Chippewas of Nawash Unceded First Nation (acting together as the Saugeen Ojibway Nation) and the Historic Saugeen Metis both requested and EPCOR had face-to-face meetings with them to learn about the project. The Metis Nation of Ontario contacted EPCOR by telephone around the same time and asked questions about the project but did not request to meet at that time. However, in May 2017 they requested a face-to-face meeting to learn more about the project. Once EPCOR has been chosen as the successful proponent, EPCOR will work closely with these First Nations and Metis Communities on involvement in the successful outcome of this project.

Operational Costs and Allocations

47. For OM&A costs, EPCOR has fully allocated costs to this expansion project.

48. With over 125 years as a utility provider, EPCOR has the experience and knowledge to adequately forecast fully allocated OM&A costs for new operations. EPCOR's OM&A cost estimate has been developed to ensure a safe, reliable, cost-efficient, and environmentally responsible operation of the distribution system to be located in Southern Bruce. The OM&A cost estimate has been determined on a "bottom-up" approach. Leveraging the knowledge of internal subject matter experts and external consultants, the OM&A budget assesses the needs of the distribution system, considering length of pipe, customer connections, and emergency response requirements, and seeks to maximize the operational life of the system assets, ensuring a safe, and cost-efficient distribution system for ratepayers.

49. In all of EPCOR's existing utility operations, EPCOR incorporates a fully allocated cost of service model for its operational estimates. By working with regulators such as the AUC, EPCOR follows internationally recognized standards; the costs allocated within utilities should, as much as possible, reflect the services provided to ratepayers. Cross-subsidization is prevented via: proper cost of service allocation within the utility, and proper Corporate Shared Services cost allocations (e.g. overheads), as discussed below.

Cost of Service Allocation:

50. This portion of fully allocated costs ensures that rates borne by specific customer classes are fair and equitable. A full cost allocation study will be included in its submission of a rate application to the OEB, at which point EPCOR will incorporate the fundamental importance of ensuring customer classes are treated fairly. The Cost Allocation Study will include step-by-step schedules depicting the approach used in rate design, and the resulting revenue-to-cost ratios. EPCOR will implement prudent and fair rate design as is done with its current utility customers, and will be adhered to in its Ontario natural gas operations. The rate design will identify costs that are rate class specific (e.g. Industrial) and allocate such accordingly. Below are rate design principles set out by the AUC that are fundamental to EPCOR's operations:
    - Allocation should reflect cost causation
    - Allocation should be reasonable (fairly attributed) and supportable
    - Allocation should be cost effective
    - Allocation should be stable over time
    - Allocation should be transparent
    - Allocation should cause 'no harm' to customers

Corporate Shared Service Costs:

51. EPCOR allocates Corporate Shared Service costs justly amongst its operations. Regulated by the AUC, EPCOR's Distribution and Transmission group (EPCOR Distribution and Transmission Inc.) has been prescribed to ensure proper separation of corporate costs to guarantee ratepayers are only responsible for costs that can be fairly allocated to the service they receive. EPCOR's Edmonton water operations (EPCOR Water Services Inc.) are regulated by the City of Edmonton; In these utilities, EPCOR still applies, where determined to be prudent, the more stringent regulations set out by the AUC. EPCOR has extensive experience

in properly allocating corporate costs to a specific utility, ensuring no cross-subsidization takes place, and is confident it can adhere to the robust and industry leading standards set by the OEB.

52. EPCOR Southern Bruce Gas Inc. would obtain corporate services from its parent corporation, EUI. Corporate services are comprised of activities that are centrally managed within the EPCOR group due to their nature and/or for the purpose of realizing economies of scale and greater effectiveness. Over 50 departments and functions are considered to be providing corporate shared services; corporate finance, treasury, human resources, public and government affairs, legal services, and health, safety and environment are a few examples of the support provided by EUI. The amounts paid by the Southern Bruce utility in respect of these services form corporate shared service costs. The corporate shared service costs are determined on a cost recovery basis in accordance with EPCOR's Inter-Affiliate Code of Conduct and are reflected in a Service Agreement between the parties. EUI allocates corporate shared services costs to the EPCOR business units using the following five step process:

- Categorize corporate shared services costs as directly assignable or allocable
- Assign directly assignable costs to the appropriate business unit
- Review/develop/modify allocation method for allocable costs
- Apply allocation method to allocable costs
- Conduct a final review for reasonableness

53. EPCOR's cost allocation process is designed to ensure that the allocation of corporate shared service costs among business units is appropriate, fair and reasonable, cost-effective, predictable, and reflects the benefit received by function or cost causation. The costs associated with a corporate services department are allocated on one of two bases: (i) using a "functional cost causation allocator"; or (ii) using a "composite cost allocator".

54. A functional cost causation allocator has been used where the costs can be logically allocated using an identified cost causation driver, such as headcount. The composite cost allocator has been used where the costs cannot be allocated using a particular functional cost causation allocator. The latter types of costs tend to be related to corporate services that are of a governance nature, and it is appropriate that these types of costs be allocated based on a composite cost allocator which factors in the business unit's share of EPCOR's group revenues, assets, and headcount.

55. This analysis has been conducted for EPCOR Southern Bruce Gas Inc., and the OM&A estimates fairly reflect the costs associated with corporate services received from EUI.

Royalty Payments

56. EPCOR has agreed to provide its partner municipalities (Arran-Elderslie, Huron-Kinloss, and Kincardine) a royalty payment amounting to 1% of anticipated revenues. However, in the letter of support attached in Schedule A, the municipalities have foregone this royalty for the first 10 years, as a result, this value has been excluded in the OM&A estimates and the resulting Revenue Requirement provided in this CIP submission.

Operational Cost Exclusions

57. EPCOR is required to obtain upstream natural gas transportation service to Dornoch from Union. Union has refused to make available to EPCOR its existing Board approved services that are available to other embedded utilities such as NRG. Instead, Union proposes a new service, that is yet unapproved by the Board, that will require EPCOR to actively manage its supply and transportation through daily nominations and supply acquisition. Union's existing M9 service to embedded distributors does not have this daily workload burden. Union has advised that it will seek approval of this new rate subsequent to the Boards' decision on the CIP. EPCOR is not in agreement with Union limiting EPCOR's access to Union's proposed new service.

58. As a result, and, consistent with the Board's direction in the Decision on page 7 of the Preliminary Issues and Procedural Order No. 8, dated April 22, 2017 on upstream reinforcement, the OM&A costs associated with managing Union's proposed service and the resulting task of daily supply and transportation management have been excluded from this submission.

59. Additionally, the OM&A estimate excludes all costs agreed to by EPCOR and Union to be excluded from submission. A list of these items is located in Tab 4, "Common Exclusions Agreed by the Parties".

Capital and Operational Cost Certainty

60. The Board indicated in its Decision on Preliminary Issues and Procedural Order No. 8 Dated August 22, 2017:

> *"As determined in the Generic Proceeding, the OEB finds that any capital cost overruns incurred during the first 10 years above the forecasted costs reflected in the proposals will not be permitted into the successful proponent's rate base for year 11 and beyond (following the rate stability period). The treatment will be symmetrical: cost underruns will accrue to the utility's benefit.".*

61. EPCOR accepts this arrangement regarding cost overruns and underruns and has prepared its Revenue Requirement on this basis. Both the capital costs, as well as operational costs have been designed to meet the parameters of a 10 year rate stabilization period.

EPCOR Revenue Requirement

Overall Revenue Requirement

62. EPCOR has done a comprehensive analysis of the Southern Bruce distribution system and has at all times considered safety of the surrounding community, cost-efficiency for ratepayers and meeting the Board's SQRs. The Revenue Requirement has been determined on the Utility Basis Approach seen below in Figure 8:

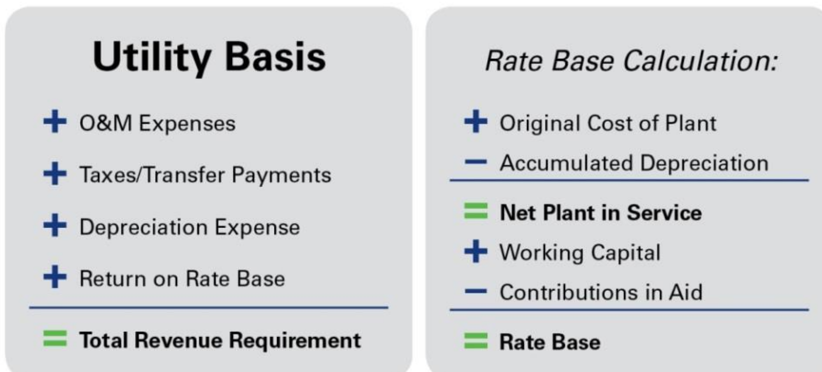


Figure 8: Utility Basis Approach

63. Full cost allocation in the form of assigning all Southern Bruce utility costs fully to the project and ensuring no cross-subsidization when creating the Revenue Requirement has been considered. The Revenue Requirement includes full design, build, operating, financing and maintenance costs associated with the Southern Bruce natural gas system. The depreciation expense considers each asset class to be depreciated on a straight-line basis accounting for the assets' respective life. These depreciation estimates are in line with the common assumptions used for this CIP submission.

Annual Revenue Requirement

Table 5: Annual Revenue Requirement (2019 – 2028)

Year ($)									
2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
1,332,492	4,388,984	6,155,922	7,534,172	8,488,867	9,122,050	9,406,087	9,567,338	9,722,807	9,864,542

Net Present Value of Revenue Requirement

At a 4% discount rate, the NPV of the Revenue Requirement for the 10 year 2019-2028 period, calculating the annual values as end of period, and as of ***December 31, 2018*** amounts to $59,072,317.

Cumulative Revenue Requirement

64. The Cumulative Revenue Requirement for the 10 year 2019-2028 period amounts to $75,583,261.

Key Assumptions / Exclusions

65. As noted in Tab 5, “Operational Cost Exclusions”, transportation costs from Dornoch, associated reinforcements and potential OM&A costs have been excluded from this CIP submission.

66. Additionally, the OM&A estimate excludes all costs agreed to by EPCOR and Union to be excluded from submission. A list of these items is located in Tab 4, “Common Exclusions Agreed by the Parties”.

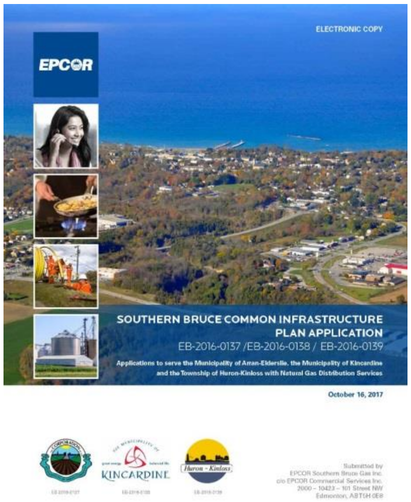
Annual Costs and NPV Requirements

67. The Board indicated in its Decision on Preliminary Issues and Procedural Order No. 8 Dated August 22, 2017 determined that:

> *“For the purpose of structuring a common platform for selection purposes, the OEB finds that proponents should price their revenue requirement proposals based on the assumption that there will be no rate adjustments during the 10-year rate stability period, other than the availability of Z-factor relief for certain events that fall within the OEB’s policy”.*

68. EPCOR accepts this 10-year rate stability period for the delivery rates. The revenue requirement has been prepared on this basis. EPCOR has incorporated the annual inflation adjustment of 1.27% as referenced in Schedule C in calculating its Revenue Requirement.

69. The NPV calculation has used inflated values, a 4% discount rate, and end of year discounting as agreed to by EPCOR and Union for this CIP submission.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EPCOR

SOUTHERN BRUCE COMMON INFRASTRUCTURE PLAN APPLICATION

EB-2016-0137 /EB-2016-0138 / EB-2016-0139

Applications to serve the Municipality of Arran-Elderslie, the Municipality of Kincardine and the Township of Huron-Kinloss with Natural Gas Distribution Services

October 16, 2017

Submitted by
EPCOR Southern Bruce Gas Inc.
c/o EPCOR Commercial Services Inc.
2000 – 10423 – 101 Street NW
Edmonton, AB T5H 0E8

TAB 6

CIP Rate Making Comparison Criteria

4.CIP Rate Making Comparison Criteria

EPCOR Planned Cost per m^3

1. Including all inflationary adjustments, the cost per m^3 for the 10 year 2019-2028 period is as follows:

Table 6: Cost per m^3 for Period 2019 - 2028

Item	Value
Cumulative Revenue Requirement ($):	$75,586,261
Total Volumes (m^3):	428,035,564
Cost per m^3	0.1766 $/ m^3

EPCOR Planned Number of Customer Years

2. The Number of Customer Years over the 10 year 2019-2028 period for each customer class is as follows:

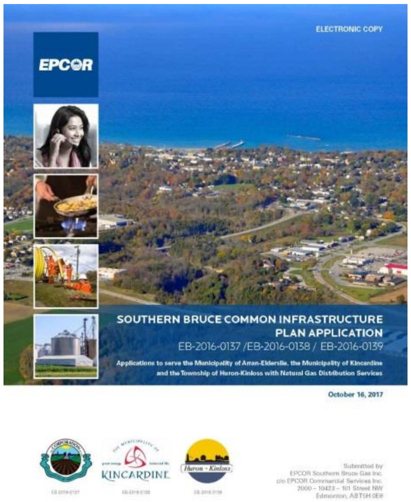
- Residential: 38,919
- Commercial: 3,542
- Industrial and Agricultural: 108
- Total: 42,569

EPCOR Planned Cumulative Volume

3. The cumulative volume over the 10 year 2019-2028 period is: 428,035,564 m^3. This value considers volumes dependent on the type of customer. Therefore, volumetric customers include forecasted natural gas annual usage, whereas capacity contracts would use the full annual capacity. Tabs 4, “Customer Consumption Levels” and 5, “CIP EPCOR Proposed Parameters” detail the assumptions regarding volume further.

EPCOR Commitment to Planned Rate Making Outcomes

4. When allocating costs to ratepayers of a utility, it is EPCOR’s intent to ensure ratepayers are paying a fair and stable rate for the services received. Each customer class should bear their fair share of costs – EPCOR has considered this from the inception of the work done for this submission. While a detailed rate study is not required at this phase, there is value in considering these factors early on, influencing design, and resulting costs. In accordance with the OEB’s decisions noted previously in this CIP Submission, EPCOR is committed to a 10 year rate stabilization period and the resulting responsibility for cost fluctuations. EPCOR is confident its submission provides a fair, stable, cost-efficient, and equitable Revenue Requirement to be borne by ratepayers.



TAB 7

Other Value-Added Factors

5. Other Value-Added Factors

The OEB's Rate Making Principles and Expectations

1. OEB's Renewed Regulatory Framework for Electricity Distributors and its Handbook for Utility Rate Applications, proposes increased customer focus and a shift from cost recovery to long term value for money. EPCOR through this submission proposes such an approach to extend to gas distribution in Ontario.

2. Under the Renewed Regulatory Framework for Electricity (RRFE), the OEB outlines four specific categories of outcomes: customer focus, operational effectiveness, financial performance and public policy responsiveness. Under the customer focus outcomes it states:

   "Customer engagement is now an explicit and important component of the regulatory framework. Utilities are expected to develop a genuine understanding of their customers' interests and preferences and reflect those interests and preferences in their business plans. Utilities are expected to demonstrate value for money by delivering genuine benefits to customers and by providing services in a manner which is responsive to customer preferences. [Emphasis added]"

3. In the Southern Bruce franchise area, EPCOR is directly aligned with the Board's goals to deliver value for money through its life cycle cost principles and ensuring pro-active control of costs and risks. From the onset, EPCOR has been diligent in seeking out other value-added opportunities to reduce costs for its customers by working with its municipal partners and agro-businesses. This section outlines those opportunities that have already been identified with some incorporated into its business plan for Southern Bruce. Furthermore, given the strong relationship that EPCOR has already developed with its municipal partners, EPCOR anticipates being able to continuously seek out additional synergies to reduce costs for both its customers and taxpayers.

4. EPCOR is also committed to managing risks and under the Executive Summary section notes its willingness to take on risks that utilities have traditionally asked customers to bear. This approach incents EPCOR to effectively better manage these risks.

EPCOR is the Preferred Partner for the Communities

Municipal Franchise Selection Process Carefully Selected EPCOR

5. The OEB franchise selection process in 2015 required the municipality, and the gas distributor to come to an arrangement and propose a Franchise Agreement to the OEB for approval. In spring 2015, a franchise selection process was undertaken by the three southern Bruce County municipalities, motivated in part, by the anticipated Government sponsored natural gas grant and loan program. A carefully executed competitive Request for Proposals process, open to potential natural gas providers in Canada and the United States, resulted in the selection of EPCOR as the successful proponent among several applicants, including Union Gas. EPCOR was selected as the community's franchise partner of choice, and subsequently entered into

franchise agreements with the municipalities. These franchise agreements were submitted to the Board for approval.

6. A Generic Hearing was initiated by the OEB and as a result the franchise agreements between the Southern Bruce communities and EPCOR were put in abeyance. Since then the communities and EPCOR have continued to work together to refine the Project. EPCOR and Southern Bruce communities have undertaken many initiatives to help improve the Project economics and ensure the Project focuses on economic development initiatives within the agriculture and industrial sectors of the communities, and to make the Project ready for rapid implementation post-franchise and grant approval.

Confirmation of Support & Ongoing Community Confidence

7. Today, almost two years after EPCOR's selection as the preferred franchisee the community leadership have not wavered from their support of EPCOR as their preferred choice. The communities even as this Project witnesses yet another round of selection, feel a greater level of confidence in their selection of EPCOR as their designated franchise partner and see joint opportunities in developing a successful natural gas utility with a compatible utility partner with whom they can explore a mutually beneficial and long-term infrastructure and economic development alliance. A letter of support Schedule A from the three municipalities confirms this optimism and reiterates its endorsement of EPCOR.

8. EPCOR and the communities while collaborating in developing the natural gas Project, have also landed on some significant other value-added initiatives that will directly benefit the Project as well as tax payers in the communities. These other value-added initiatives are more fully described below:

Towards a Multi Utility Partnership

9. Municipalities and utilities today are facing observable trends and challenges that are requiring a re-examination of the traditional utilities model. These trends include:

   - Changes in customer expectations and behavior due to evolving demographics, advancement in technology, and demand for a greener solution;
   - New forms of competition that are eroding some of the natural monopoly aspects of traditional public utilities;
   - Economic implications of climate change;
   - Fiscal, environmental and other pressures from policy makers, regulators and stakeholders; and
   - Infrastructure renewal imperatives.

10. In the communities of Southern Bruce, the provision for a natural gas service has been a decade's long goal and the communities saw the need for non-traditional approaches to find a way to obtain access to this service, the lack of which has disadvantaged economic development, residential growth, and affordability perspective for years. In EPCOR, they saw a like-minded partner operating as an integrated utility company providing electricity distribution, transmission, water, and wastewater services, fibre networks and saw natural gas as a natural opportunity to explore the synergies of the various utility services as a potential for improved

service provision. The City of Kingston and City of Kitchener, all demonstrating such value, were a good benchmark to have provided the communities the appreciation of the possibilities.

11. The parties therefore saw the long-term prospect of further enhancing their ability to grow, provide cost effective services, and finding ways to align the various services with a view to achieving synergies from multiple utility services such as electricity distribution and affiliate opportunities, natural gas, and water & wastewater under either a common platform or inter-company service level agreements to realize such synergies and reduce costs to the ultimate ratepayer and/or taxpayer. Figure 9 depicts an approach to multi utility based synergies that were considered.

Figure 9: Multi Utility Partnership Opportunities Explored

12. Over the last two years in EPCOR's dealings with the Southern Bruce communities, various other synergistic initiatives have continued to be explored. As the Project moves toward final approval, the communities see joint opportunities to developing a successful natural gas utility.

Planned Synergies on Fibre and Water Partnerships

13. Two synergistic initiatives that the partnership between the communities and EPCOR has yielded, relate to the potential for co-construction of utilities including joint construction of a water pipeline and fibre optics network during the construction of the natural gas lines in the communities. Both opportunities are expected to reduce the overall Project construction costs and in the process, increase gas pipeline safety and reliability, creating an economic development boost for the community, offer ratepayers potential for additional services, and providing lower than planned natural gas rates for end users. The proposed two initiatives that were explored in detail are as follows:

    i. EPCOR and Bruce Telecom, the Municipality of Kincardine owned telecommunications company, have investigated the opportunity to co-construct a new fibre optic cable network while constructing the natural gas pipelines. This approach is expected to enable each household to have access to high speed internet and would provide the gas pipeline system the ability to to be monitored for safety through optically based sensing for potential failure and disturbances leading to leaks. The proposed construction configuration now adopted by the industry is provided in Figure 10. The Southern Bruce communities, given this green field construction opportunity, can benefit from this new technological innovation by offering households a cost-effective manner to receive two additional utility services – natural gas and high-speed internet simultaneously. EPCOR has worked closely with the contractor and TSSA to determine the cost savings of such concept and doing so in a way that is consistent with all natural gas pipeline codes.

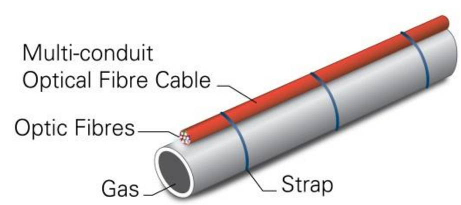


Figure 10: Gas Line with Optical Fibre

    ii. The Municipality of Kincardine is currently planning water and wastewater pipeline extensions to various new developments and industrial parks within its municipalities. One such Project is expected to follow the same routing as the proposed natural gas lines and the synergy of co-construction is being planned as part of this Project. Co-construction of the natural gas line to coincide with the installation of the water pipeline will allow for obvious synergies between the Projects to the cost benefit of both utilities. The water service is expected to enable the community to provide safe drinking water to residents/businesses that are currently either not serviced or receiving poor quality water with health risks. The natural gas ratepayers will benefit from the

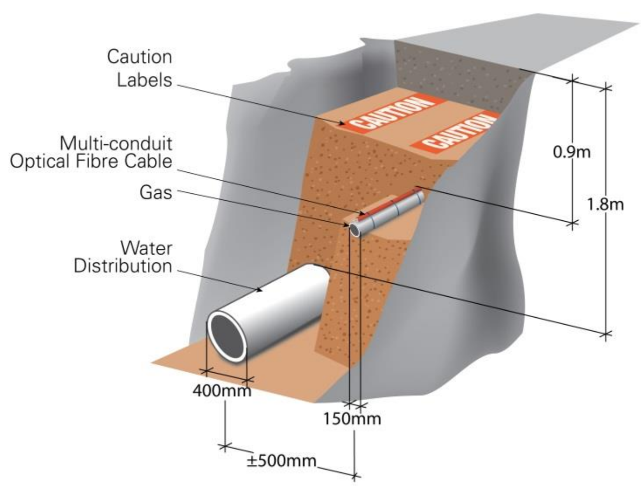


Figure 11: Multi-Utility Co-construction

synergies through reduction of construction costs of the natural gas pipeline as an outcome of the construction synergy. Finally, the Municipality of Kincardine will be able to service the industrial park with water and wastewater services to allow the park to attract further economic development for the community with creation of new employment and additional property tax and utility rate revenues.

14. In total, the above initiatives are expected to yield a direct capital cost savings for the natural gas Project of about 3-5% that has been included in lowering the Revenue Requirement being proposed.

15. The work that the municipalities and EPCOR have put in the last 24 months are centered around two core concepts, minimizing costs for ratepayers, and providing economic value to the communities. This integrated utility approach will not only drive the success of delivering natural gas to Southern Bruce, but also drive economic growth, and enhance the wellbeing of the residents through innovative safety measures, and cost-effective delivery of industry leading technologies.

An Early Project Commencement Schedule

16. One other factor of significance that EPCOR and the communities believe is an advantage for EPCOR is having the ER for the Project close to completion. After the communities concluded its competitive RFP solicitation process and selected EPCOR as the Franchisee for the distribution of natural gas, EPCOR and the municipalities anticipated a straight forward process for approval from the OEB. To that end, and based on the strict timelines set by the communities to have natural gas in place by 2018, EPCOR commenced the ER process to expedite the Project's implementation and public engagement process. In the meantime, EPCOR and the communities have nevertheless made considerable progress in concluding the majority of the ER work on the EPCOR portion of the pipeline and expect the ER process to be completed within 6 to 10 weeks of the franchise award by undertaking final community public open houses and receive feedback from all stakeholders to inform the routing finalization.

17. EPCOR believes that this advantage provides the following benefit to the Project:
    i. A one winter advancement of the Project's implementation provides improved viability on the Project economics;
    ii. Mitigate the loss of further co-construction synergies and enhancing the current synergies if approvals happen in a timely manner; and
    iii. A partial ground breaking for the Project in 2018 would allow EPCOR to take a step toward meeting the commitments it made to the municipalities when first selected as their preferred franchisee.

18. To provide a better understanding of the proposed EPCOR Schedule advantage, Figure 12 below summarizes the proposed differences in the implementation plans that can transpire if timely decision can be attained.

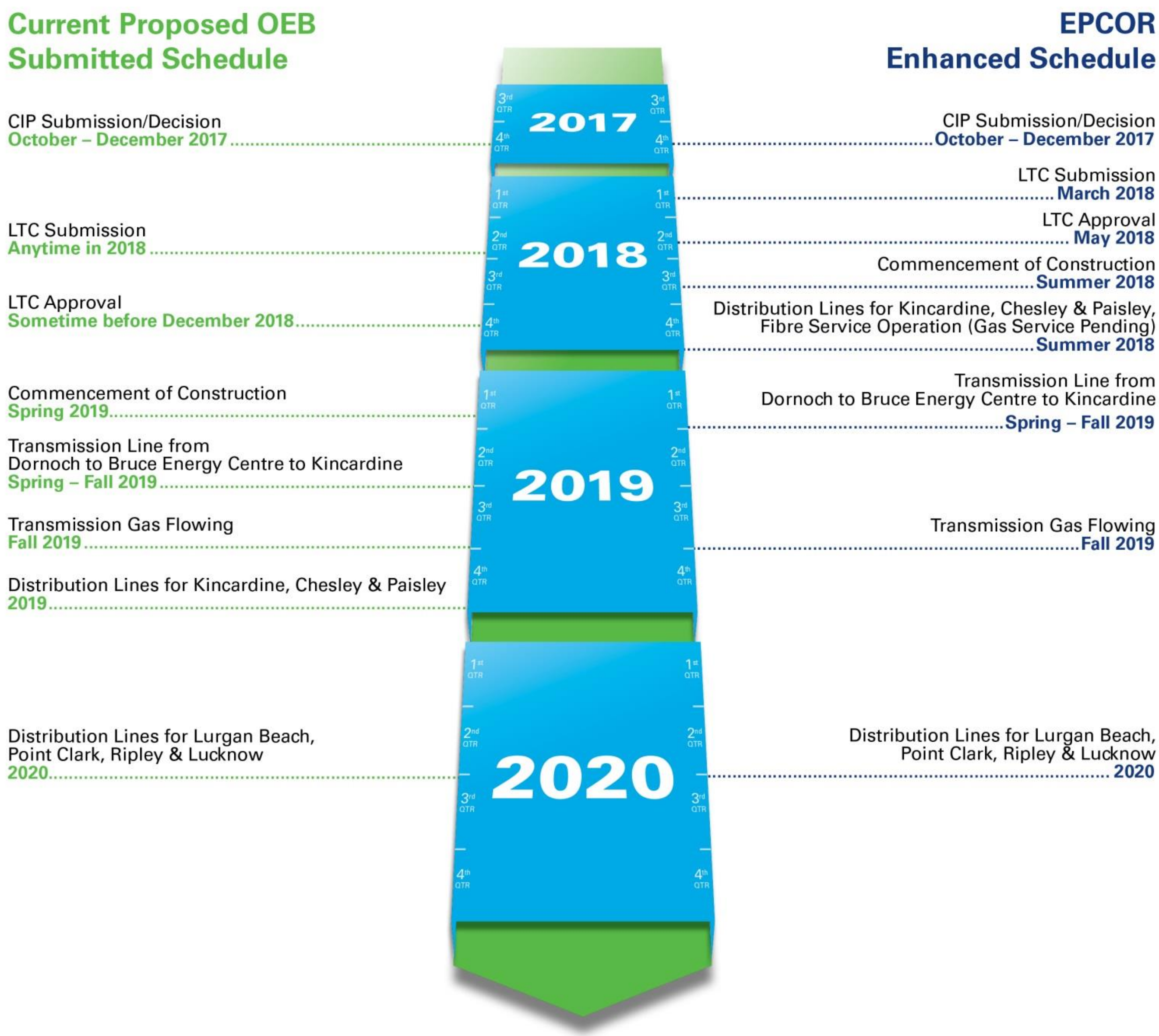


Figure 12: Comparing Current Proposed Schedule with the EPCOR Enhanced Schedule

Expansion of the Greenhouse Business in the Community

19. In 2016, a greenhouse agro-business reestablished itself under a new ownership with plans to expand. Unfortunately, this business needs to expand but faces a challenge with the supply and cost of its electricity, as well as land requirements for its expansion needs. If energy cost barrier to expansion is not overcome, the business will need to locate its expansion to another site outside of the proposed franchise community. The business currently also inefficiently meets its substantial cooling and heating needs. As part of this natural gas initiative, EPCOR brought its extensive multi-utility expertise and existing municipal partnership to bear by facilitating the introduction of a CHP based co-generation facility to meet the enterprise's heating and cooling

needs and in the process enabling the generation of electricity on a leased municipal site to improve the current economics of the greenhouse business with a view to expand the co-gen site to augment the expansion electricity requirements. If the expansion initiatives were to be successfully serviced with additional co-generation opportunities that the parties, including the Municipality of Kincardine, are jointly investigating, besides the prospect of the enterprise expanding at its current location, the gas utility stands to realize significant increase in the natural gas demand of the expanded facility and bring economies of scale benefits to the ratepayers of the Natural Gas Project. It is EPCOR's intention to pass on this volumetric gain to the project through lower rates for ratepayers.

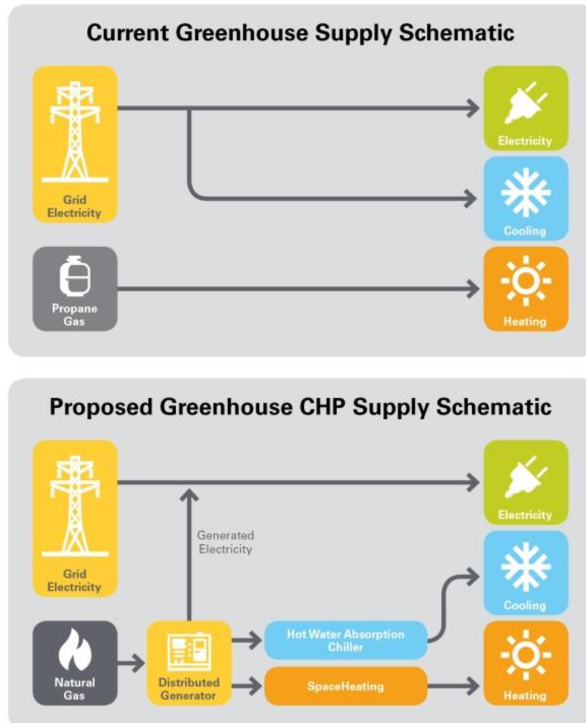


Figure 13: Co-Generation Facility for Greenhouse

20. Table 7 below compares the existing boiler based heating and cooling natural gas volumes proposed under this CIP application to the OEB with additional demand volumes under an expanded co-generation scenario to meet the heating, cooling and electricity needs of this facility:

Table 7: Proposed Annual Natural Gas Demand Volumes for the Greenhouse Operations

Description	Under Existing CIP Application with Boiler based HVAC	Based on Co-Gen HVAC with Electricity Generation at existing Facility	Based on Expanded Facility with Co-Gen
Volumes of Natural Gas Consumed m^3/year	2,000,000	8,250,000	12,500,000
Impact to $/m^3 on this CIP Application	0%	-3%	-8%
Resulting $/m^3 on this CIP Application	0.1766	0.1710	0.1623
MW of Electricity Produced	0.0 MWe	3.3 MWe	5.0 MWe
MW of Thermal Energy Produced	2.5 MWth	5.0 MWth	7.5 MWth

Other Proposed Future EPCOR-Municipal Partnerships

21. As noted previously, EPCOR's strong relationship with the communities and its leadership has been ongoing and strengthened over the last 24 to 30 months. During this time, the parties have worked as partners not only to develop new and creative ways to enhance this Project but also to explore how EPCOR, with its broad integrated utilities background and financial wherewithal, can bring about other economic development initiatives to help the municipalities and in the process, improve the natural gas project benefits to the ratepayers. The municipalities and EPCOR believe that in the long term, Project success will largely depend on finding creative synergies by way of the economies of scale, such as through a collaborative utility platform. This collaboration and resulting benefits have already been identified in the past 24 months through construction synergies and other value-added benefits that now remain to be realized. Below are some concepts and ideas that are being further explored with a view to develop and implement them where prudent and receives stakeholder support.

Further Operational and Organizational Alliances Going Forward

22. Since the selection of EPCOR as the municipalities' preferred utility franchisee, discussion surrounding alliances to benefit the communities and their respective rate and taxpayers has been ongoing. The municipalities have always recognized that EPCOR, with its multi utility background can provide a strategic fit and the parties could form a mutually beneficial alliance.

23. One key area of alliance that is envisaged and on confirmation of the EPCOR franchise award is to explore further gas utility level operational efficiencies through either service level agreements ("SLA") or formal alliance agreements to find additional synergies of mutual benefit.

24. In Figure 14 a multi-utility collaboration has been summarized. Prior to the Leave to Construct (LTC) application, EPCOR anticipates that some of these collaboration opportunities, if firmed up and operational efficiencies are realized, will form part of the LTC. Note that none of these efficiencies have been incorporated into this submitted CIP submission.

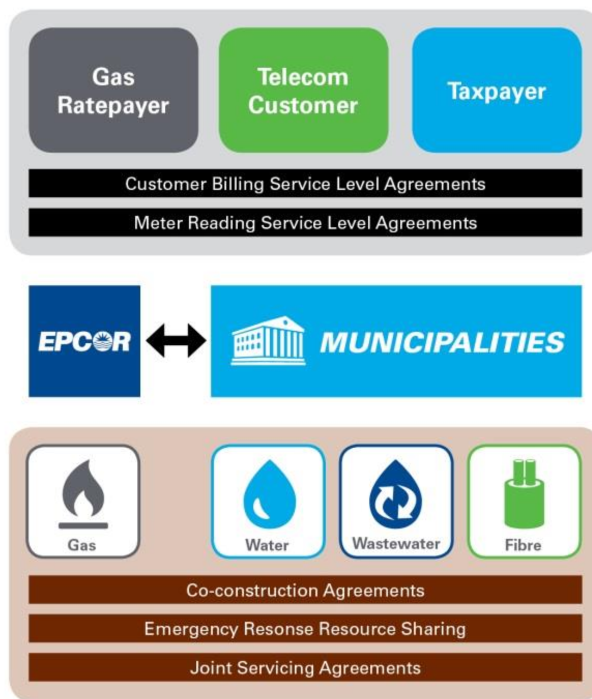


Figure 14: Multi-Utility Collaboration for Service Efficiencies

Additional Multi-Utility Servicing of Employment Lands in the Community

25. In anticipation of the Bruce Power's Major Component Replacement (MCR) project which entails the life extension of six Bruce Power units over a decade with an estimated expenditure of $13 billion, the Municipality of Kincardine plans to position itself for the resultant growth that

will come about. The community leaders understand the lack of natural gas service in the community during the last economic boom resulted in significant economic development opportunities being lost to adjoining communities.

26. Since EPCOR's selection as the preferred franchisee in 2015, discussions have been ongoing to work jointly to service new business parks within the municipalities so major contractor and supporting businesses may locate in the municipality to provide the necessary support to the ongoing refurbishment of the Bruce Nuclear Power Plant. While there is ample raw land available in the area, there is a lack of ready utility serviced business parks and employment based commercial and industrial land available. EPCOR has been in discussions to explore the multi-utility servicing of these lands on a fast track basis under a potential alliance arrangement to enable businesses to locate in the municipality to the benefit of both the gas utility and the municipality.

Figure 15: Multi-Utility Servicing of Proposed Lands in Kincardine

27. The above effort is in keeping with the spirit of what the municipality and EPCOR saw from the outset as a value not only to the Project, but EPCOR's value as a strategic partner with a multi-utility dimension to help grow the community. It is the intent of EPCOR and the municipalities if EPCOR is selected as the Franchisee by the OEB, to determine if this servicing of the business parks can be undertaken in a timely manner before the economic wave of new businesses is once again lost to the neighboring communities as was the case in the past.

Financing and Expansion of the Fibre Optics Services

28. As previously noted, the municipally owned telecommunications company has jointly explored with EPCOR, to determine whether additional benefits to the Project, and subsequently, ratepayers can be achieved through a cooperative planning and implementation strategy related to the expansion of a fibre network. Under this alliance, the telecommunications company has expressed a desire to work with EPCOR to co-construct part of its fibre optic network with a view that synergies may be shared between the two initiatives.

29. As part of the fibre optic network co-construction initiative, the parties are exploring the possibility of EPCOR extending financing to the fibre optics network project co-construction through a Public Private Partnership of a Design-Build-Operate and Finance delivery of the Project that the municipality finds of significant value.

30. This financing opportunity will be undertaken independent to the natural gas servicing Project, but the coincidence of the Projects aligning provides an important synergy value typically not available on such a Project.

31. These initiatives will not in any way alter the independent and standalone principles of the proposed regulated gas utility and nor will any risks related to co-construction or financing or development will be borne by the utility or its ratepayer. However, the value of the deep relationship the parties would like to engage in are evident and in keeping with the broader benefits that will accrue to both parties and the respective infrastructure developments.

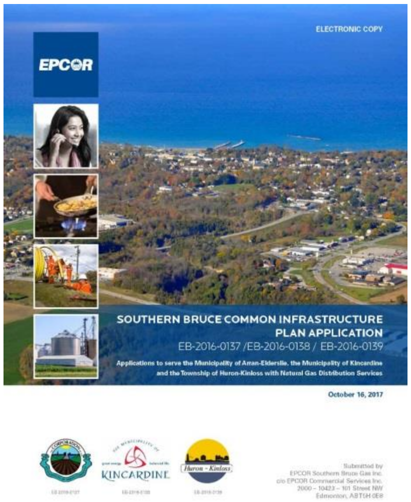
Park Trail Co-Construction Initiative

32. The Municipality of Kincardine and the County of Bruce in conjunction with Kincardine Trails Association are currently developing a 12 km Kincardine to Inverhuron Provincial Park Trail ("KIPP" Trail). The Trail is being funded by local community businesses and individual support and government grant programs. Off the 12-km trail run, a 5 km stretch (Phase 2A) coincides with the current natural gas pipeline construction project that routes through Bruce Road 23 (B-Line) between Kinhuron and Westridge development as shown in Figure 16.

Figure 16: Kincardine to Inverhuron Provincial Bike Trail

33. EPCOR has extended to the community an offer as part of its Project development plan to construct this trail under a co-construction initiative while installing the pipeline, and help pave this stretch for recreational use without any direct subsidy from the natural gas project. The proposal lowers the KIPP development costs to the community trail users without any negative impact to the otherwise capex implications of the natural gas Project. It is estimated that such an initiative would provide a synergy savings of $300,000 towards the community to lower their budget by 30%.

34. This initiative once again shows the value of the partnership relationship that has developed between the municipalities and EPCOR over the period since its selection as the preferred Franchisee for the Project.



Schedule A
Municipalities Letter of Support

Municipality of Kincardine
1475, Con. 5, RR #5
Kincardine, ON, N2Z 2X6
519.396.3018

Township of Huron-Kinloss
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Ripley, ON, NOG 2RO
519.395.3735

Municipality of Arran-Elderslie
Bruce Road #10
Chesley, ON, NOG 1LO
519.363.3039

October 13, 2017

Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: EPCOR's Common Infrastructure Plan (CIP)

EB-2016-0137, EB-2016-0138, EB-2016-0139

Dear Board Panel Members:

The Municipality of Arran-Elderslie, the Municipality of Kincardine, and the Township of Huron-Kinloss (collectively, "Southern Bruce") is pleased to submit this letter in support of EPCOR's Common Infrastructure Plan ("CIP") to serve our respective communities with natural gas services.

The three municipal governments that comprise the Southern Bruce group have devoted the past 6 years to achieve access to natural gas for our residents, businesses and farms. This time consuming and resource intensive initiative continues to be critically important to the future well-being and prosperity within our region. This collective work also represents a powerful example of how small municipalities can effectively and cooperatively work together to achieve creative solutions to benefit their communities through providing access to lower cost energy alternatives.

If Southern Bruce had not developed a comprehensive business case and thereafter pursued our international, competitive solicitation process to obtain proposals from potential Canadian and American natural gas providers, Ontario would not have the opportunity to now welcome EPCOR, a multi-billion dollar 100% municipally-owned Canadian company and new entrant, into Ontario's natural gas sector.

Southern Bruce's continued support for EPCOR and the CIP Application which EPCOR will file with the OEB on Monday October 16, 2017 is based on the following key factors and considerations:

1. Our municipalities, in particular Arran-Elderslie and Huron-Kinloss, have a significant proportion of rural and agricultural consumers. A critical distinguishing feature of EPCOR's proposal from the very beginning was the commitment to serve all Southern Bruce communities. As a collection of small rural communities, our residents, businesses and farmers desperately require access to lower cost energy alternatives. However, those of us who live in rural Ontario often find ourselves being "left behind" with respect to energy choices and alternatives that other parts of Ontario take for granted. EPCOR has been stalwart in its firm commitment to provide natural gas service to all of our communities. We believe the OEB should consider this important obligation in its evaluation of EPCOR's CIP.

2. Like most Ontario municipalities, Southern Bruce continues to face serious and acute challenges with respect to infrastructure renewal. Roads, bridges, hospitals, schools, water, waste water systems, telecommunications networks and community centres all need to be upgraded, expanded or replaced. In many cases infrastructure renewal has become the central challenge for Ontario's municipal sector and this essential work will continue for many decades to come. In working with EPCOR Southern Bruce hopes to transform this daunting challenge into an opportunity. Only EPCOR has come forward with the interest, experience, creativity and financial capacity to present an interesting and compelling vision to explore synergy savings in areas such as telecommunication network expansion and water/waste water renewal and expansion with a view to reducing costs as part of its construction of the new natural gas distribution system. Synergy savings may span a wide range of activities from service level agreements to potential co-construction projects. A more detailed description of these matters can be found in the Value Added section of EPCOR's CIP. Accordingly, we ask the Board to consider this larger opportunity which EPCOR represents to all of our communities.

3. The Southern Bruce municipal Councils have already all approved making a direct financial contribution towards the proposed natural gas access project in an amount equivalent to the municipal property tax that would be recovered on the new natural gas infrastructure for a minimum period of 10 years. We estimate that this municipal financial contribution has a net present value of between $3M to $5M which is a significant amount for small communities. Southern Bruce has also agreed to work with EPCOR in seeking tax exemptions from other levels of government such as neighbouring municipalities and at the county level.

4. The Board will also note that in its CIP EPCOR has agreed to provide the Southern Bruce municipalities with a royalty payment amounting to 1% of anticipated net revenues. We

estimate that the net present value of these payments to be approximately $500,000 in total over 10 years. Southern Bruce is pleased to advise the Board that it will forgo collection of this royalty fee for the first 10 years to further assist the overall economics of the project.

In summary, Southern Bruce supports EPCOR as its preferred provider of natural gas services. We strongly encourage the OEB to make a speedy determination in this matter in order to conclude the regulatory process within a reasonable timeline so that construction and operation of the new natural gas services system and services can be provided to our citizens and communities as soon as possible.

If the Board has any questions for Southern Bruce or EPCOR we trust you will allow us the opportunity to provide you with any needed clarifications.

Yours very truly,

Anne Eadie

Paul Eagleson

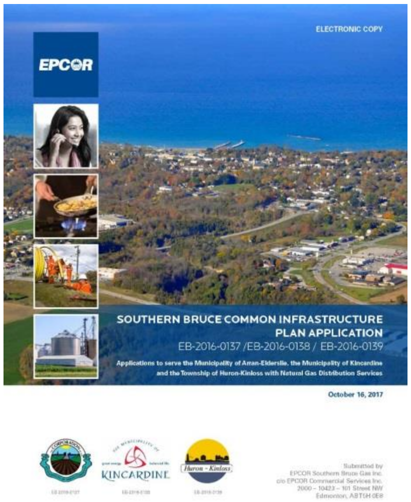
Mayor Anne Eadie
Municipality of Kincardine

Mayor Mitch Twolan
Township of Huron-Kinloss

Mayor Paul Eagleson
Municipality of Arran-Elderslie

Copy: Stuart Lee, President & CEO
EPCOR

TOR01: 7072690: v2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EPCOR

SOUTHERN BRUCE COMMON INFRASTRUCTURE PLAN APPLICATION

EB-2016-0137 /EB-2016-0138 / EB-2016-0139

Applications to serve the Municipality of Arran-Elderslie, the Municipality of Kincardine and the Township of Huron-Kinloss with Natural Gas Distribution Services

October 16, 2017

Submitted by
EPCOR Southern Bruce Gas Inc.
c/o EPCOR Commercial Services Inc.
2000 – 10423 – 101 Street NW
Edmonton, AB T5H 0E8

Schedule B

Schedule B
Proposed Natural Gas System Maps

Stantec EPCOR

Legend

- Meter Station
- Distribution
- Kincardine Bypass
- Distribution Pressure Mainline System
- High Pressure Mainline Pipeline System
- Expressway / Highway
- Major Road
- -UG- Union Gas Pipeline (Approximately)
- Municipal Boundary - Lower Tier

0 5.5 11 Kilometers
1:275,000 (At original document size of 11x17)

Notes
1. Coordinate System: NAD 1983 UTM Zone 17N
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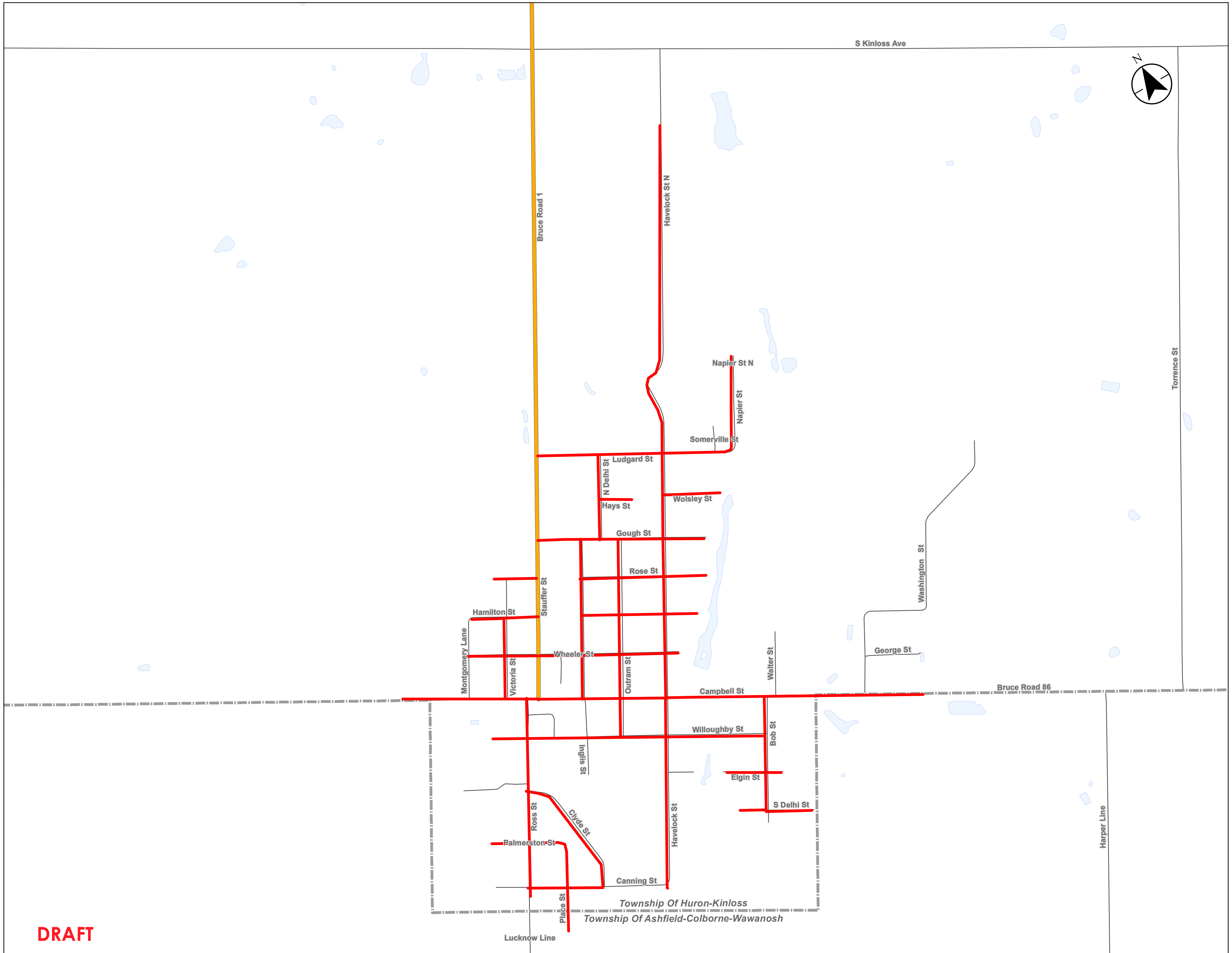
Project Location 160950831
Counties Of Bruce, Grey and Huron
Prepared by SPE on 2017-10-11
Technical Review by BCC on 2017-10-06

Client/Project
EPCOR SOUTHERN BRUCE GAS INC.\NATURAL GAS SERVICE SOUTHERN BRUCE

Figure No.
1-0

Title
Southern Bruce Mainline – Preliminary Preferred Route



Stantec

EPCOR

- Distribution
- Distribution Pressure Mainline System
- Road
- Watercourse
- Municipal Boundary - Lower Tier
- Waterbody

0 240 480 metres

1:12,500 (At original document size of 11x17)

Notes

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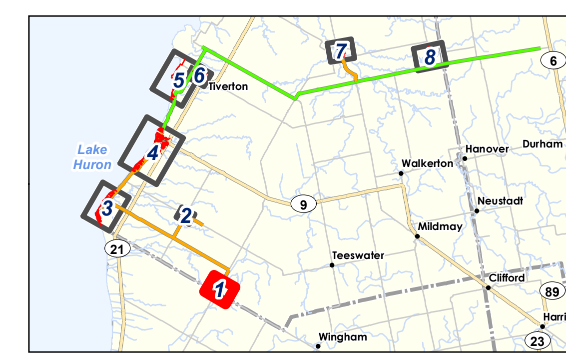


Project Location 160950831

Counties Of Bruce, Grey and Huron

Prepared by SPE on 2017-10-11

Client/Project

EPCOR UTILITIES INC.

NATURAL GAS SERVICE KINCARDINE

Figure No.

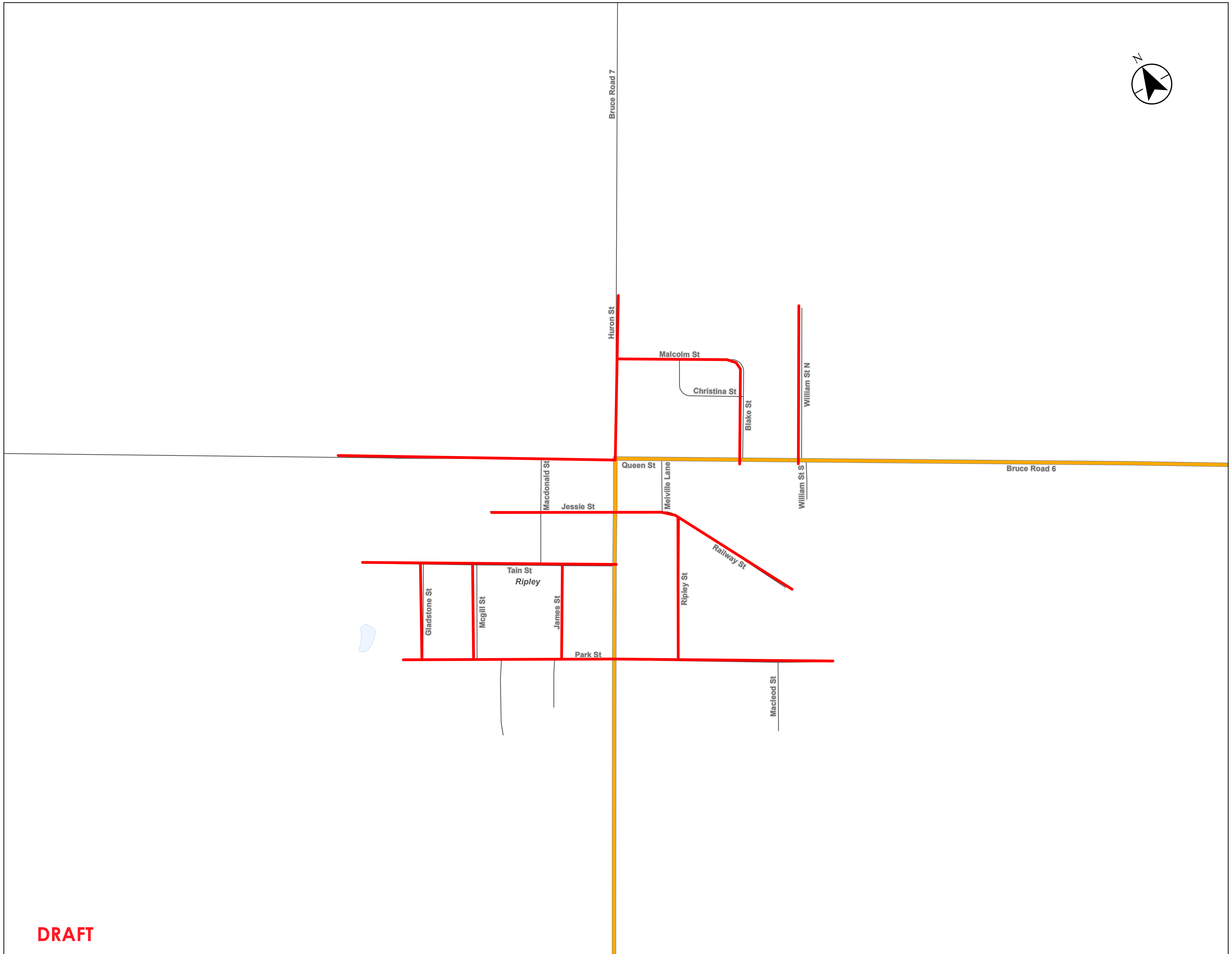
2-1

DRAFT

Title

Distribution Figures

Lucknow



Stantec

EPCOR

- Distribution
- Distribution Pressure Mainline System
- Road
- Municipal Boundary - Lower Tier
- Waterbody

0 140 280 metres

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Notes

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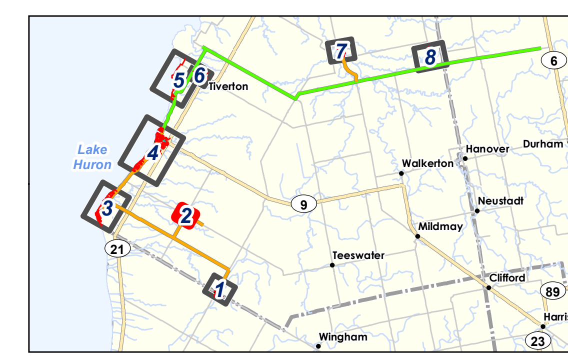

Project Location
Counties Of Bruce, Grey and Huron

160950831
Prepared by SPE on 2017-10-11

Client/Project
EPCOR UTILITIES INC.
NATURAL GAS SERVICE KINCARDINE

Figure No.
2-2

DRAFT

Title
Distribution Figures
Ripley

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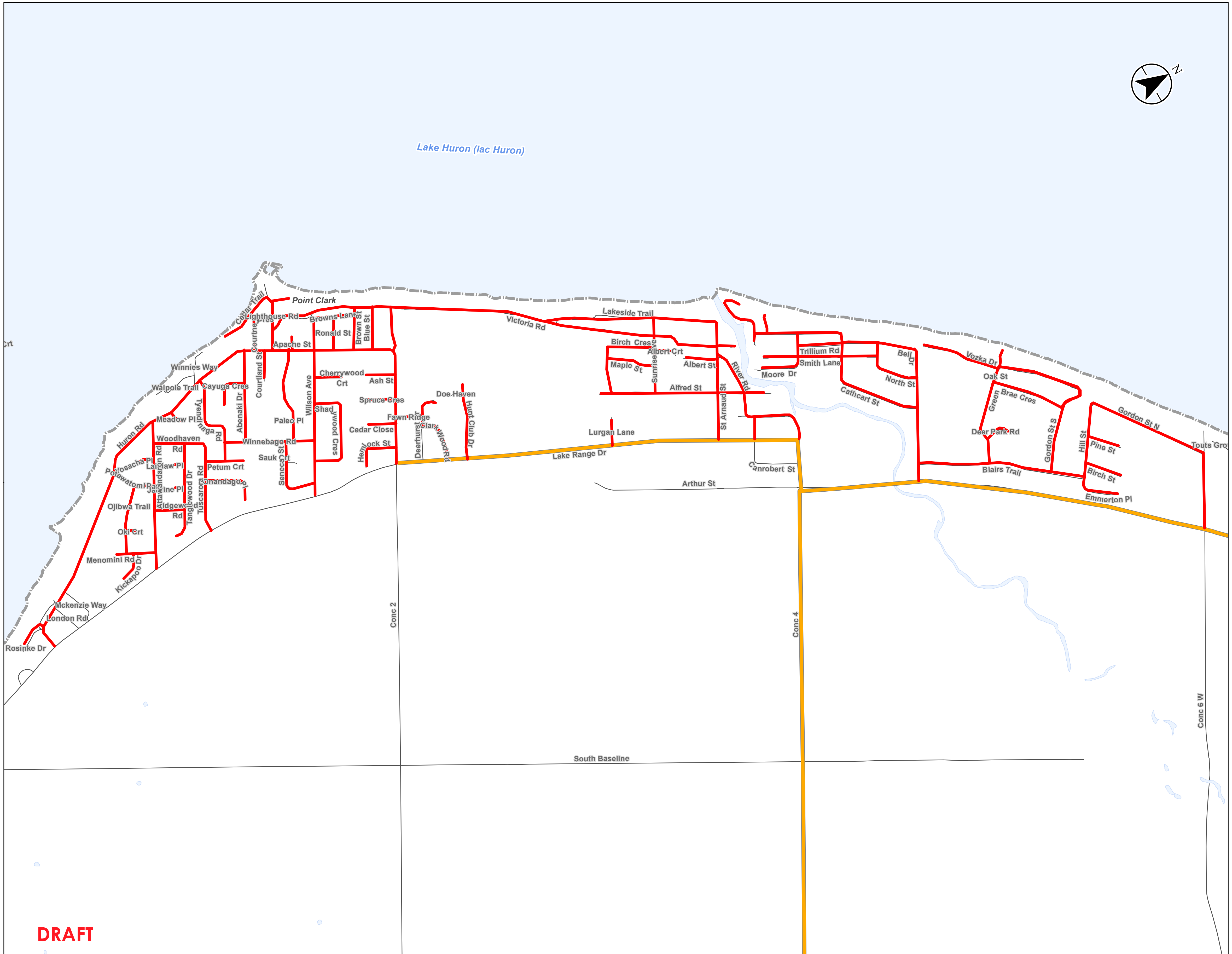

Stantec

EPCOR

- Distribution
- Distribution Pressure Mainline System
- Road
- Watercourse
- Municipal Boundary - Lower Tier
- Waterbody

0 390 780 metres

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Notes

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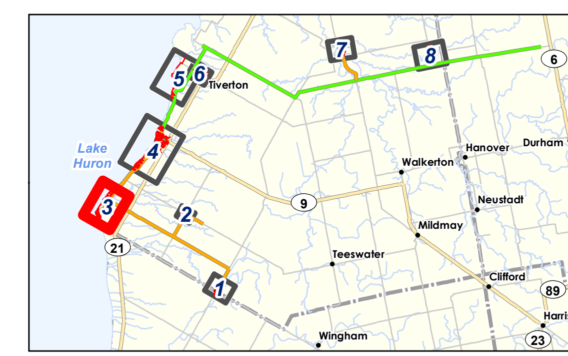


Project Location
Counties Of Bruce, Grey and Huron

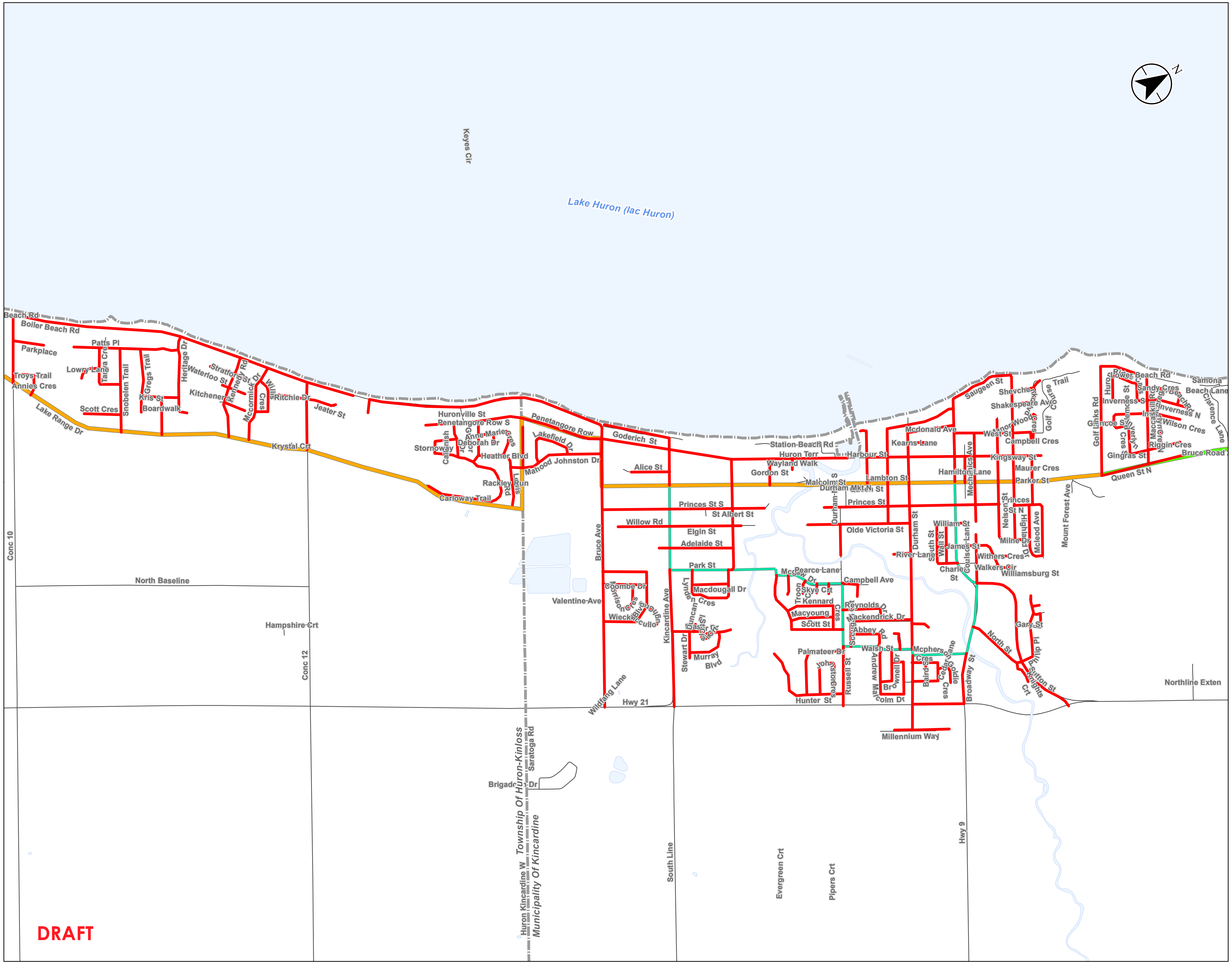
160950831
Prepared by SPE on 2017-10-11

Client/Project
EPCOR UTILITIES INC.
NATURAL GAS SERVICE KINCARDINE

Figure No.
2-3

DRAFT

Title
Distribution Figures
Lurgan Beach /Point Clarke



- Distribution
- Kincardine Bypass
- Distribution Pressure Mainline System
- High Pressure Mainline Pipeline System
- Road
- Watercourse
- Municipal Boundary - Lower Tier
- Waterbody

0 540 1,080 metres

1:27,500 (At original document size of 11x17)

Notes

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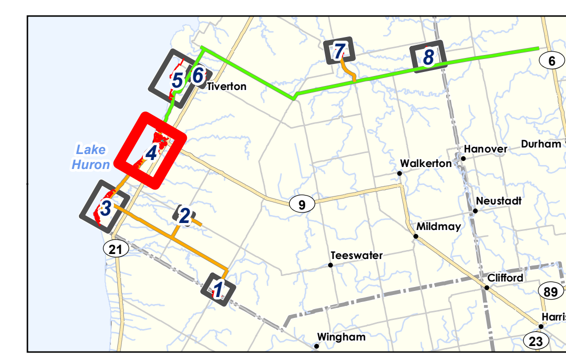


Project Location
Counties Of Bruce, Grey and Huron

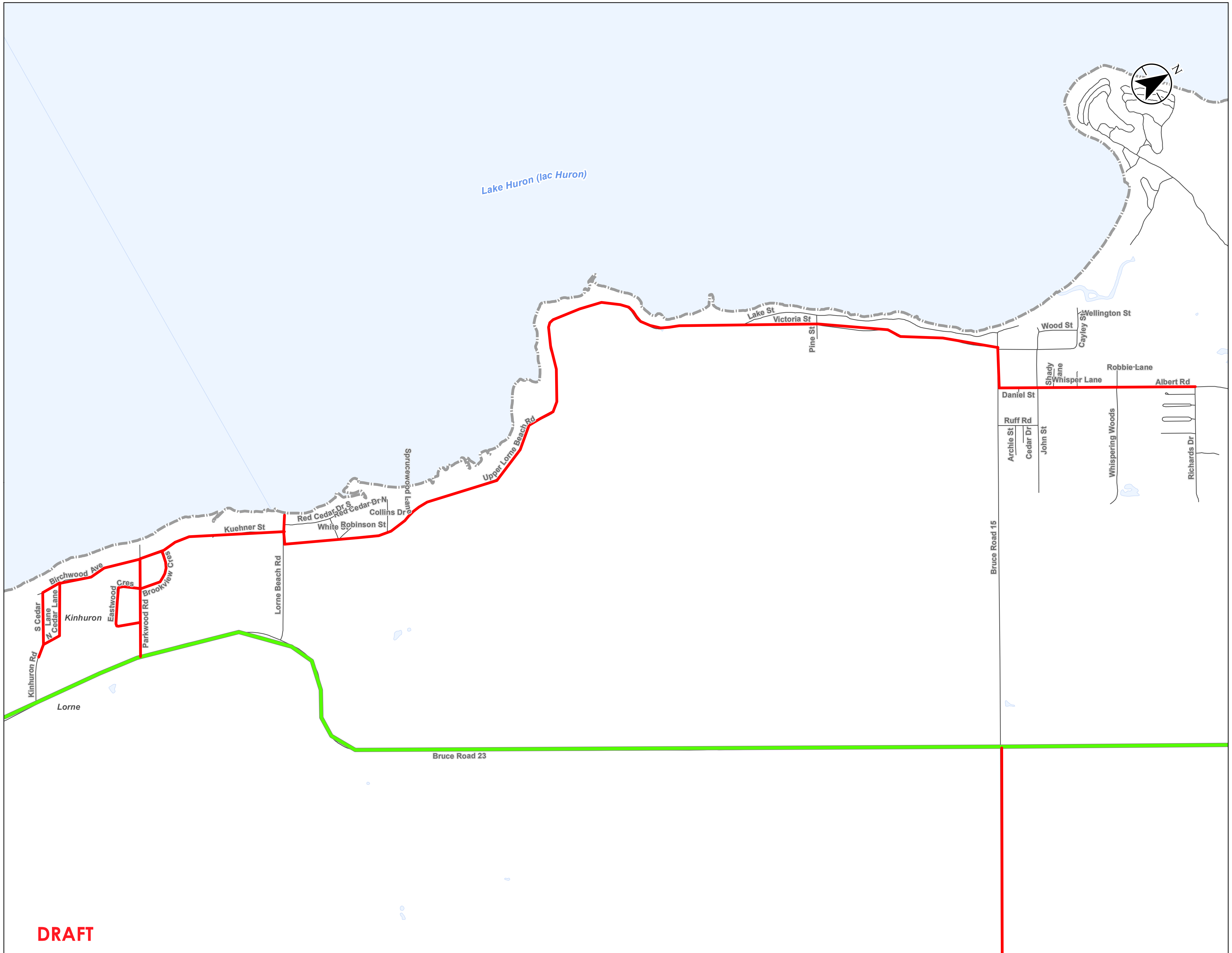
160950831
Prepared by SPE on 2017-10-11

Client/Project
EPCOR UTILITIES INC.
NATURAL GAS SERVICE KINCARDINE

Figure No.
2-4

DRAFT

Title
Distribution Figures Kincardine



- Distribution
- High Pressure Mainline Pipeline System
- Road
- Watercourse
- Municipal Boundary - Lower Tier
- Waterbody

0 440 880 metres

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Notes

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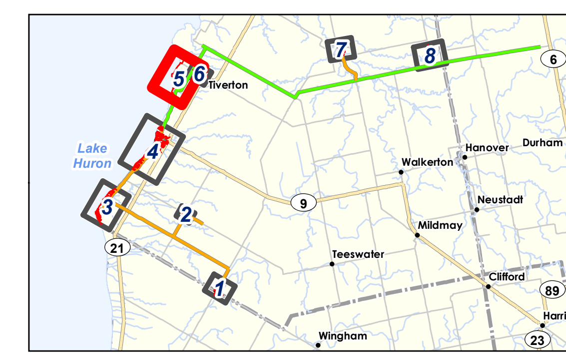

Project Location
Counties Of Bruce, Grey and Huron

160950831
Prepared by SPE on 2017-10-11

Client/Project
EPCOR UTILITIES INC.
NATURAL GAS SERVICE KINCARDINE

Figure No.
2-5

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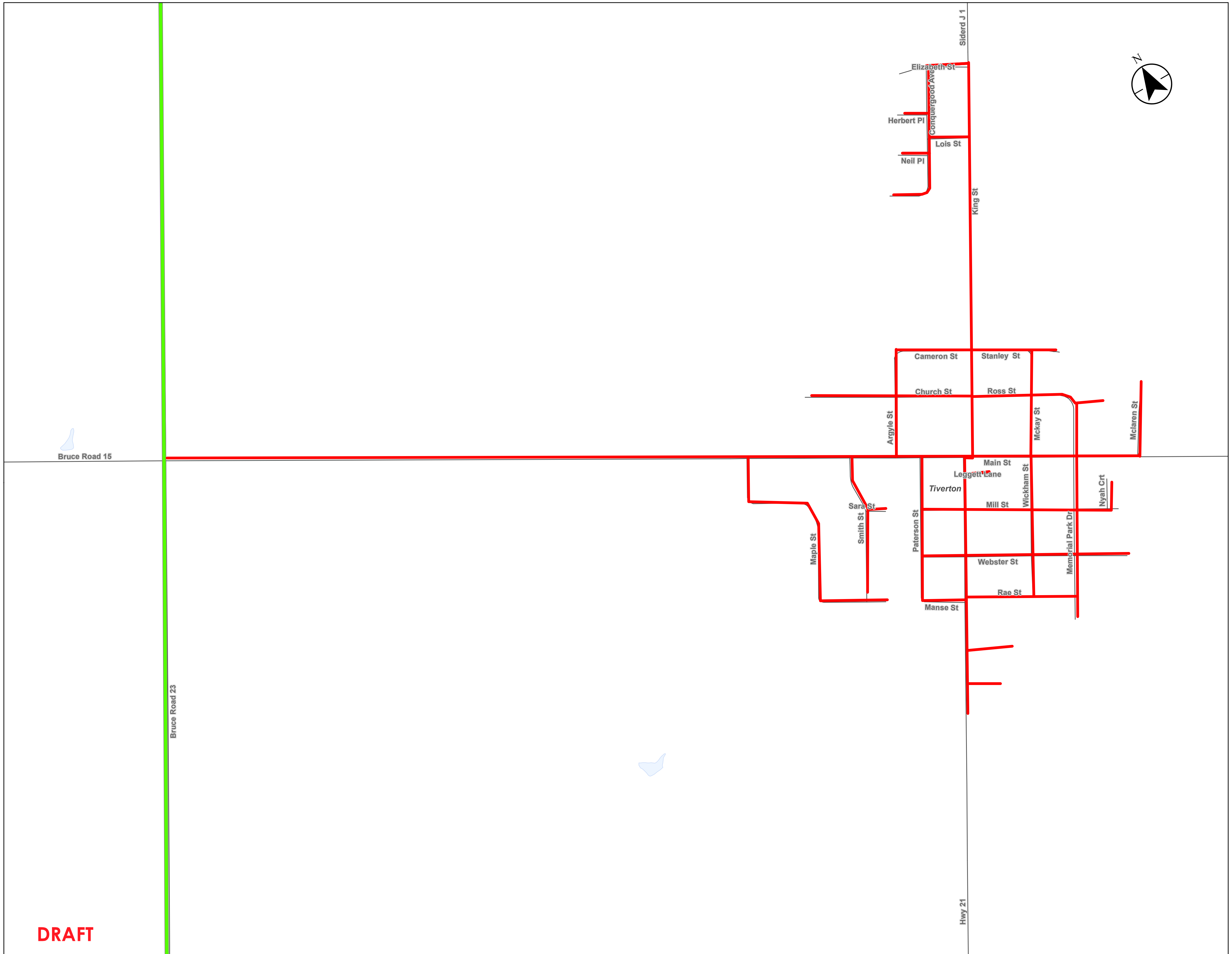
Title
Distribution Figures
Inverhuron



Stantec

EPCOR

Distribution

High Pressure Mainline Pipeline System

Road

Watercourse

Municipal Boundary - Lower Tier

Waterbody

0 190 380 metres

1:10,000 (At original document size of 11x17)

Notes

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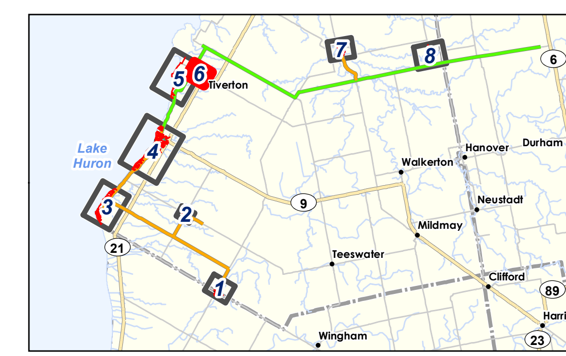

Project Location
Counties Of Bruce, Grey and Huron

160950831
Prepared by SPE on 2017-10-11

Client/Project
EPCOR UTILITIES INC.
NATURAL GAS SERVICE KINCARDINE

Figure No.
2-6

DRAFT

Title
Distribution Figures
Tiverton

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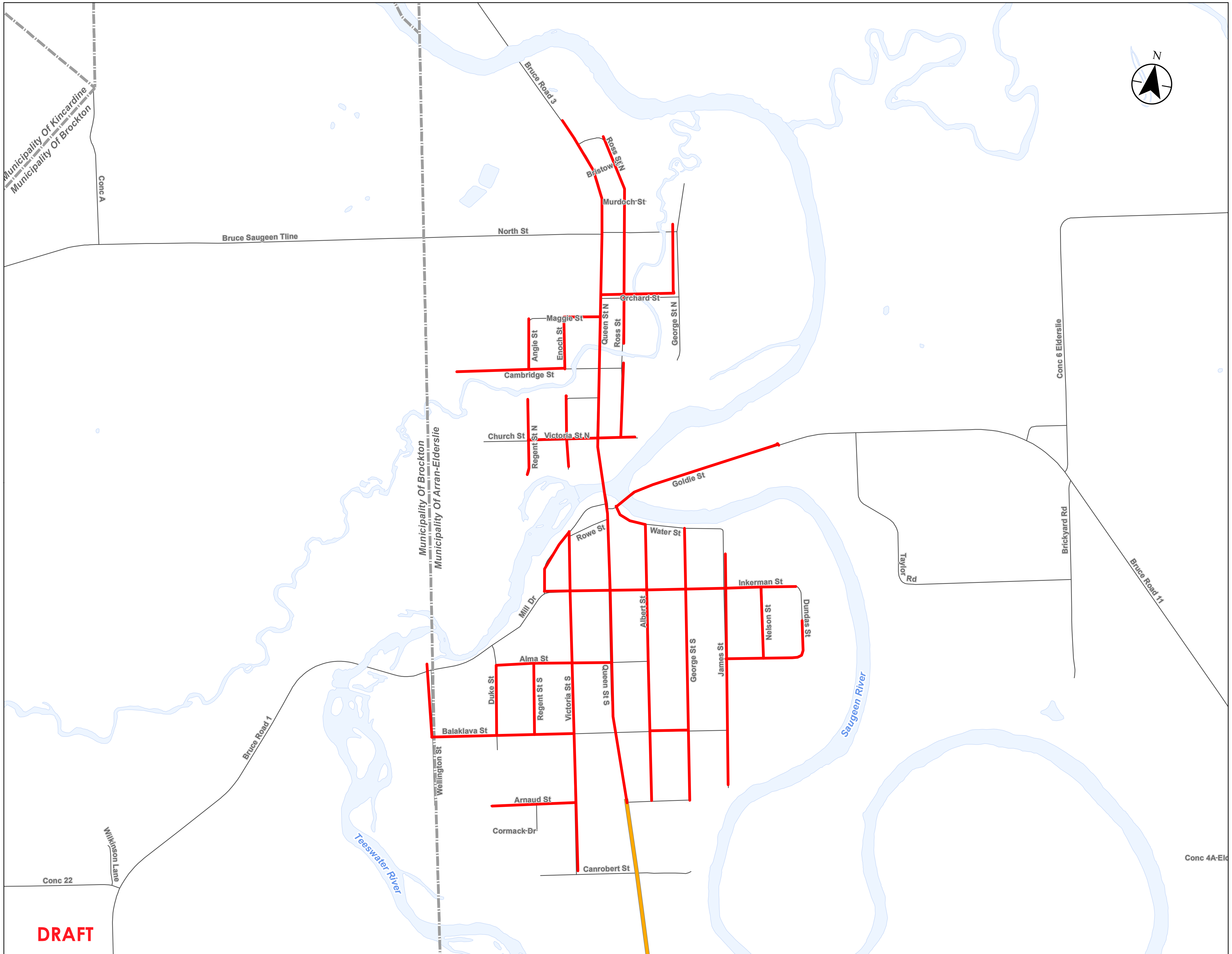

Stantec

EPCOR

- Distribution
- Distribution Pressure Mainline System
- Road
- Watercourse
- Municipal Boundary - Lower Tier
- Waterbody

0 240 480 metres

1:12,500 (At original document size of 11x17)

Notes

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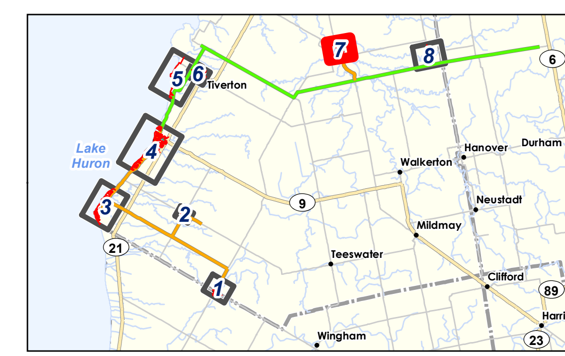

Project Location
Counties Of Bruce, Grey and Huron

160950831
Prepared by SPE on 2017-10-11

Client/Project
EPCOR UTILITIES INC.
NATURAL GAS SERVICE KINCARDINE

Figure No.
2-7

DRAFT

Title
Distribution Figures
Paisley

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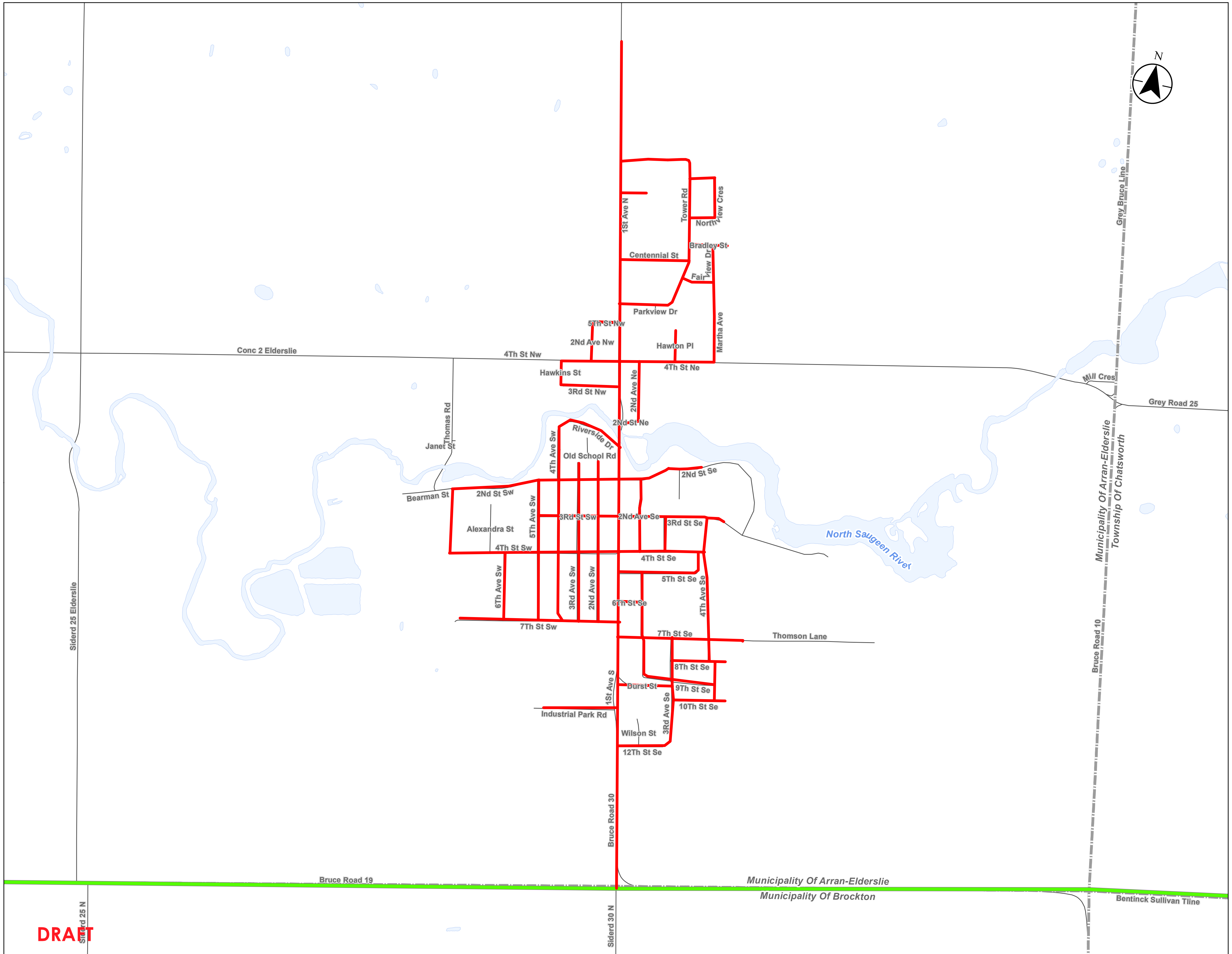

Stantec

EPCOR

Distribution

High Pressure Mainline Pipeline System

Road

Watercourse

Municipal Boundary - Lower Tier

Waterbody

0 290 580 metres

1:15,000 (At original document size of 11x17)

Notes

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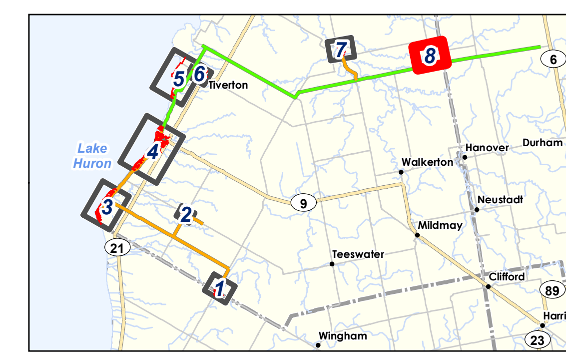

Project Location: Counties Of Bruce, Grey and Huron

160950831

Prepared by SPE on 2017-10-11

Client/Project

EPCOR UTILITIES INC.

NATURAL GAS SERVICE KINCARDINE

Figure No.

2-8

DRAFT

Title

Distribution Figures

Chesley

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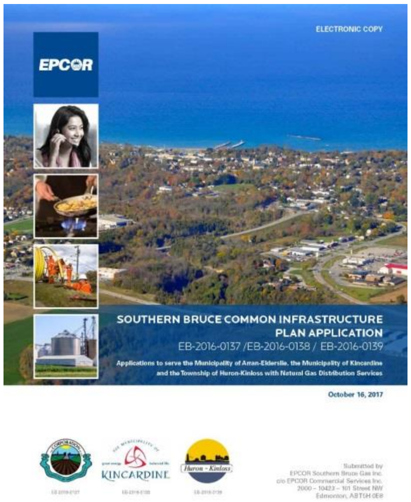

Schedule C

Schedule C
EPCOR/Union Gas
CIP Common Assumptions

October 2, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EPCOR Southern Bruce Gas Inc. Applications for Approval of Franchise Agreements and CPCNs, Board File Nos. EB-2016-0137, EB-2016-0138, EB-2016-0139 - CIP Parameters

In Procedural Order No. 8 in the above noted proceeding, the Ontario Energy Board (the "Board") indicated that the proponents had agreed to work together to determine average customer consumption values, and that several Common Infrastructure Plan (CIP) parameters would be used by both proponents in the determination of CIP Comparison Criteria measures. The purpose of this letter is to advise the Board of the details of agreed parameters established by EPCOR and Union Gas.

Customer Consumption[1]

The following annual average consumption values for forecasted mass market customer attachments will be incorporated in the calculation of annual revenue requirements:

Segment/Sub-Segment		**Average Annual Consumption (m^3/year)**
Residential	Pre-existing homes	2,149
	Future Construction	2,066
Commercial	Small (0-1,500 m3/year)	4,693
	Medium (15,001-50,000 m3/year)	26,933
	Large (>50,000 m^3/year)	75,685
Agricultural	Cash Crop Farm (excl. large grain dryers)	4,720
	Other Agri-Business	4,720

For the above segments, in the year each specific customer attaches, the volume will be 50% of the above figure[2]. Industrial, large grain dryer, and poultry or other similar large farm

[1] EB-2016-0137, 138 and 139 Decision on Preliminary Issues and Procedural Order No. 8, p. 5.
[2] OEB Staff Progress Update to the Board, July 20, 2017, p. 5.

consumption values will vary for each proponent, and their volumes in the year of connection will be based on expected connection timing for those customers.

Depreciation Rates[3]

The following annual depreciation rates, as approved in EB-2011-0210, will be used:

Plant Grouping Code	Description	Book Depreciation Rate[4]
TRANSMISSION PLANT		
46100	Land Rights Not tax deductible (25%) Tax deductible (75%)	1.76%
46200	Structures and Improvements Buildings (Including systems to run buildings)	2.03%
46501	Mains - Metallic	1.98%
46600	Compressor Equipment	3.23%
46700	Measuring and Regulating Equipment	2.60%
DISTRIBUTION PLANT- SOUTHERN OPERATIONS		
47100	Land Rights	1.65%
47200	Structures and Improvements Buildings (Including systems to run buildings)	2.22%
47301	Services - Metallic	2.81%
47302	Services - Plastic	2.51%
47400	Regulators	5.00%
47401	Regulator and Meter Installations	2.80%
47501	Mains - Metallic	2.83%
47502	Mains - Plastic	2.31%
47700	Measuring and Regulating Equipment	3.66%
47800	Meters	3.82%

Inflation Costs[5]

For purposes of CIP comparison, both proponents will apply the most recent four quarter average annual inflation rate as determined from GDP IPI FDD, which is 1.27% as reported for the second quarter of 2017.

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[3] EB-2016-0137, 138 and 139 Decision on Preliminary Issues and Procedural Order No. 8, p. 5.
[4] Depreciation rates per Union Gas 2013 Rate Case Evidence (EB-2011-0210) – Exhibit D3,Tab 4, Schedule 1.
[5] EB-2016-0137, 138 and 139 Decision on Preliminary Issues and Procedural Order No. 8, p. 8.

Net Present Value of Gross Revenue Requirement[6]

The Board indicated that it would be assisted in seeing the net present value of the gross revenue requirement for each CIP proposal, but also indicated that the costs of debt and return on equity, which are commonly used to establish a discount rate to determine net present value, are not expected to be provided in the proponents CIP submissions[7]. For this reason the proponents have agreed to apply a common discount rate of 4%, which is commonly used as a proxy for a "real" discount rate in DSM and CDM Cost Effectiveness Tests[8].

Corporate Tax Rate[9]

Both proponents will apply a corporate income tax rate of 26.5%, which is the sum of 15% federal tax rate and 11.5% Ontario provincial tax rate.

Prescribed Interest Rate[10]

For the purpose of calculating interest during construction, both proponents will use 2.99%, which is OEB's Construction Work in Progress ("CWIP") account prescribed interest rate for Q4, 2017.

Both proponents have agreed upon the above values and will apply them in their respective CIP proposals.

Yours truly,

Karen Hockin, P. Eng.
Manager, Regulatory Initiatives
Union Gas Ltd.

Bruce Brandell
Director of Commercial Services
EPCOR Southern Bruce Gas Inc.

Cc: Charles Keizer, Torys
Mark Kitchen, Union
Richard King, Osler
Britt Tan, EPCOR Utilities Inc.

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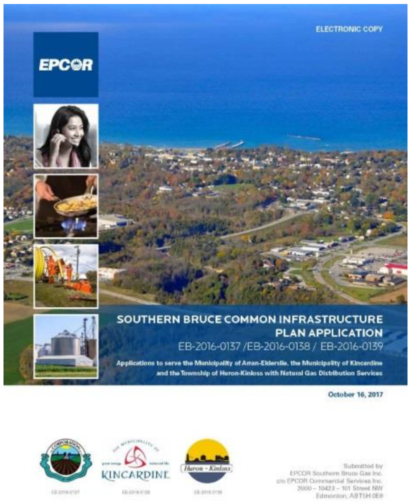
[6] Ibid, p. 8.
[7] Ibid, p. 6.
[8] EB-2014-0134 Filing Guidelines to the Demand Side Management Framework for Natural Gas Distributors (2015-2020), p. 35.
[9] *Corporation Tax Rates*, Government of Canada - Revenue Agency, 7 February 2017. Web. 14 September 2017 https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html
[10] *Prescribed Interest Rates*, Ontario Energy Board, 15 September 2017. Web. 15 September 2017 https://www.oeb.ca/industry/rules-codes-and-requirements/prescribed-interest-rates



Schedule D

Schedule D
Customer and Volume Demands

Schedule D

Table D1 - Customer Connections

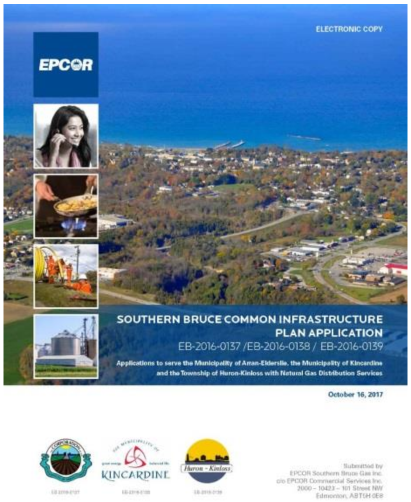
Customer Type	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total Available Market
Existing Residential	861	2,297	3,237	3,742	4,176	4,349	4,349	4,349	4,349	4,349	7,250
New Residential	46	103	159	215	271	328	384	424	462	469	781
Sub Total	**907**	**2,400**	**3,396**	**3,957**	**4,447**	**4,677**	**4,733**	**4,773**	**4,811**	**4,818**	**8,031**
Small Commercial	55	144	215	288	343	359	359	359	359	359	554
Medium Commercial	10	27	43	59	67	69	69	69	69	69	107
Large Commercial	3	7	13	16	17	19	19	19	19	19	28
Sub Total	**68**	**178**	**271**	**363**	**427**	**447**	**447**	**447**	**447**	**447**	**688**
Small Agricultural	-	-	-	1	2	2	2	2	2	2	7
Industrial and Large Agricultural	4	5	9	11	11	11	11	11	11	11	13
Sub Total	**4**	**5**	**9**	**12**	**13**	**13**	**13**	**13**	**13**	**13**	**20**
Grand Total	**979**	**2,583**	**3,676**	**4,332**	**4,887**	**5,137**	**5,193**	**5,233**	**5,271**	**5,278**	**8,739**

Table D2- Average Volume

Customer Type (m^3/yr)	Average Volume
Existing Residential	2,149
New Residential	2,066
Small Commercial	4,693
Medium Commercial	26,933
Large Commercial	75,685
Small Agricultural	4,720
Industrial and Large Agricultural	Individual

Table D3 - Volumes

Customer Type	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total Available Market
Existing Residential (m^3)	925,145	3,393,271	5,946,283	7,498,936	8,507,891	9,160,113	9,346,001	9,346,001	9,346,001	9,346,001	15,580,250
New Residential (m^3)	47,518	153,917	270,646	386,342	502,038	618,767	735,496	834,664	915,238	961,723	1,613,546
Sub Total	**972,663**	**3,547,188**	**6,216,929**	**7,885,278**	**9,009,929**	**9,778,880**	**10,081,497**	**10,180,665**	**10,261,239**	**10,307,724**	**17,193,796**
Small Commercial (m^3)	129,058	466,954	842,394	1,180,290	1,480,642	1,647,243	1,684,787	1,684,787	1,684,787	1,684,787	2,599,077
Medium Commercial (m^3)	134,665	498,261	942,655	1,373,583	1,696,779	1,831,444	1,858,377	1,858,377	1,858,377	1,858,377	2,869,550
Large Commercial (m^3)	113,528	378,425	756,850	1,097,433	1,248,803	1,362,330	1,438,015	1,438,015	1,438,015	1,438,015	2,091,631
Sub Total	**377,250**	**1,343,639**	**2,541,899**	**3,651,305**	**4,426,223**	**4,841,017**	**4,981,179**	**4,981,179**	**4,981,179**	**4,981,179**	**7,560,257**
Small Agricultural (m^3)	-	-	-	2,360	7,080	9,440	9,440	9,440	9,440	9,440	33,040
Industrial and Large Agricultural (m^3)	5,626,889	33,095,244	33,548,693	34,177,652	34,363,734	34,363,734	34,363,734	34,363,734	34,363,734	34,363,734	34,942,066
Sub Total	**5,626,889**	**33,095,244**	**33,548,693**	**34,180,012**	**34,370,814**	**34,373,174**	**34,373,174**	**34,373,174**	**34,373,174**	**34,373,174**	**34,975,106**
Grand Total	**6,976,802**	**37,986,071**	**42,307,521**	**45,716,594**	**47,806,966**	**48,993,071**	**49,435,850**	**49,535,018**	**49,615,592**	**49,662,077**	**59,729,159**



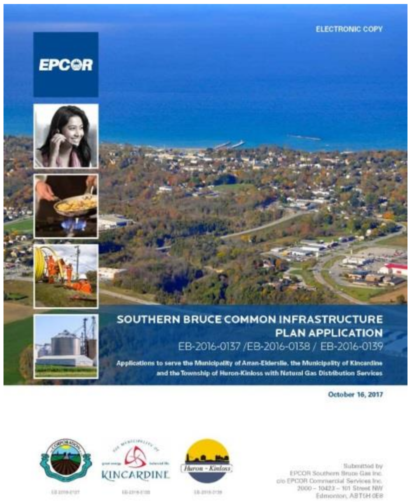
Schedule E

Schedule E
Construction Schedule

Schedule E

Construction Schedule

Task	Length (km)	Duration (days)
2018 - Leave to Construct Application		
Conclude Environmental Report		
Submit LTC Application		
LTC Approval		
2019 - Commencement of Construction – Dornoch to Kincardine		
NPS 8 steel Dornoch to Bruce Energy Center	58.6	131
Dornoch Check Meter Station		40
NPS 6 steel from Bruce Energy Center to Kincardine	15.8	110
NPS 2 plastic distribution in Tiverton	10.8	80
Tiverton Pressure Regulating Station		15
NPS 2 plastic distribution in Kincardine	66.8	130
Kincardine Pressure Regulating Stations		15
NPS 6 plastic heading south along shore	7.1	90
Bruce Energy Centre Sales Meter Station		10
GFSA Sales Meter Station		10
Connection to Union Gas System		
2020 - Construction – Kincardine to Lucknow		
NPS 6 plastic from Kincardine to Lucknow	36.6	150
NPS 2 plastic distribution in Ripley	6.4	48
NPS 4 plastic to Ripley	7.3	30
NPS 2 plastic distribution in Lucknow	11.6	110
NPS 4 & 2 plastic distribution in Inverhuron	12.1	100
NPS 2 plastic distribution in Paisley	11.9	90
Paisley Pressure Regulating Station		10
NPS 2 plastic distribution in Chesley	17.9	105
Chesley Pressure Regulating Station		10
NPS 2 plastic distribution in Point Clark	15.7	110
NPS 4 plastic from Lurgan Beach to Point Clark	2.1	45
NPS 2 plastic distribution in Lurgan Beach	15.0	110
2021 - Completion of all Construction		
Grain Dryer		15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EPCOR

SOUTHERN BRUCE COMMON INFRASTRUCTURE PLAN APPLICATION

EB-2016-0137 /EB-2016-0138 / EB-2016-0139

Applications to serve the Municipality of Arran-Elderslie, the Municipality of Kincardine and the Township of Huron-Kinloss with Natural Gas Distribution Services

October 16, 2017

Submitted by
EPCOR Southern Bruce Gas Inc.
c/o EPCOR Commercial Services Inc.
2000 – 10423 – 101 Street NW
Edmonton, AB T5H 0E8

Schedule F

Schedule F
EPCOR 2016 Annual Information Form

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.

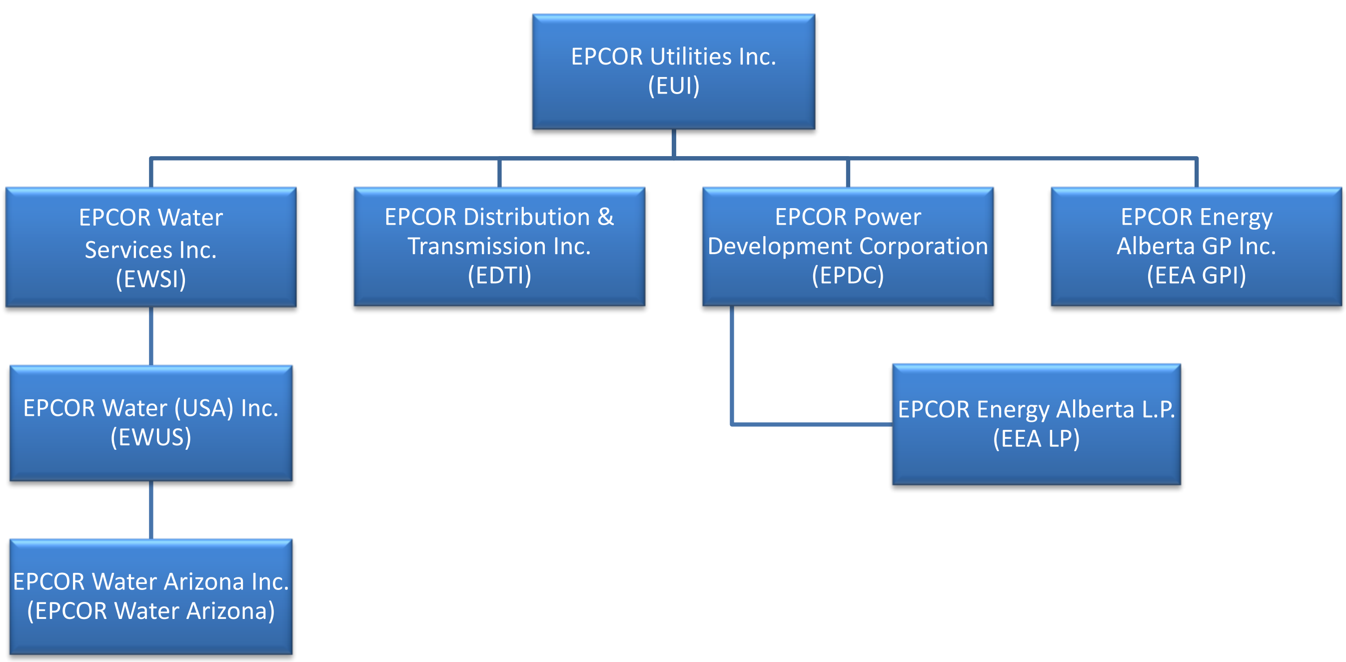
The Corporation's Management Discussion and Analysis (MD&A) dated March 2, 2017 for the year ended December 31, 2016 and the Corporation's Audited Consolidated Financial Statements for the year ended December 31, 2016 provide additional information. Copies of these documents are available on SEDAR at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

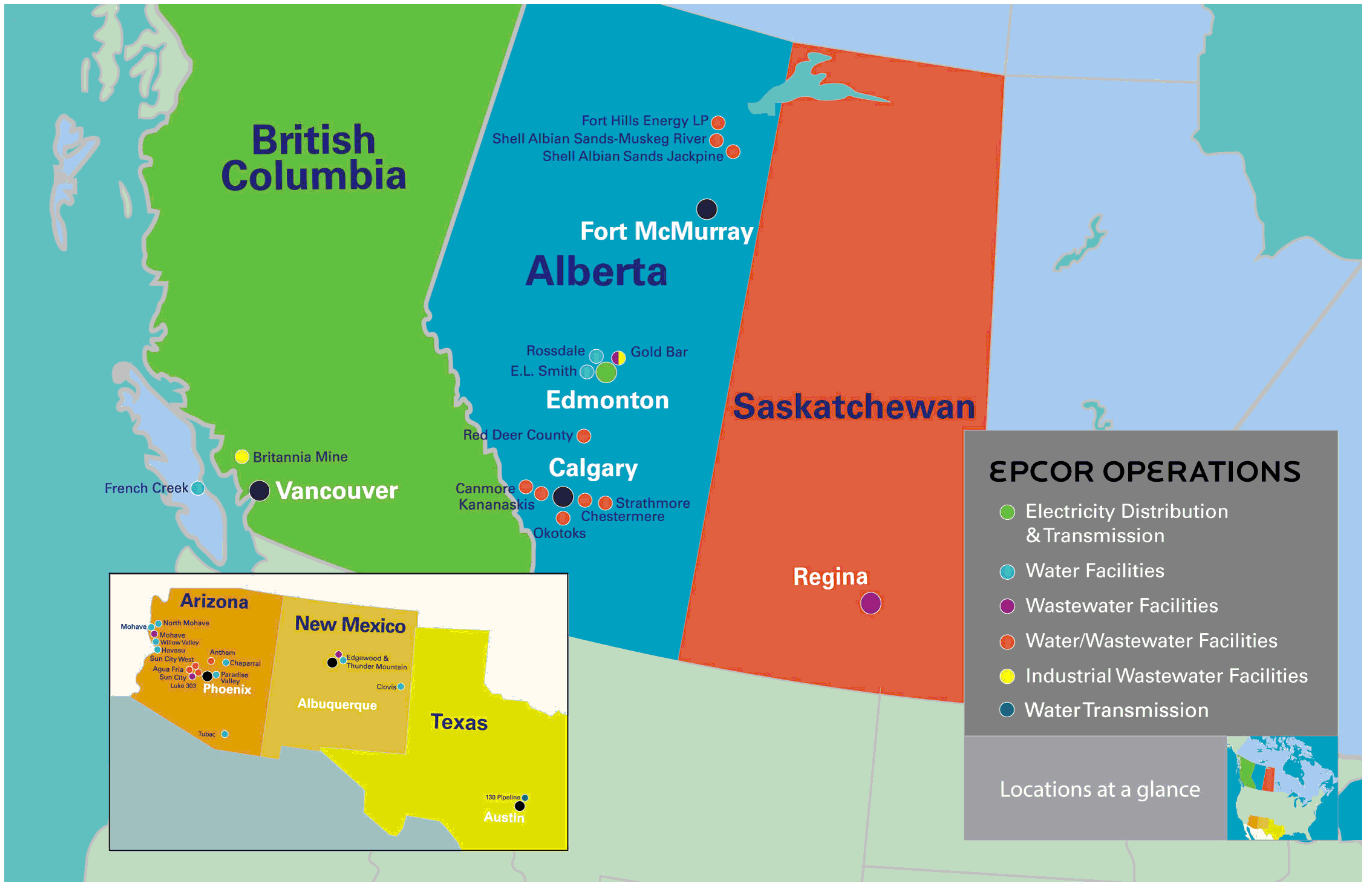
Commencing in 2009, EPCOR owned and operated potable water and domestic wastewater facilities under certain leasing, financing and operating agreements with Suncor Energy Oilsands Limited Partnership (Suncor). This included facilities at the Steepbank, Firebag, Borealis and Voyageur sites north of Fort 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:

<u>Audit Committee</u>

The Corporation's Audit Committee operates under the "Audit Committee Terms of Reference" attached as Appendix I to this AIF.

<u>HR&C Committee</u>

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.

<u>EH&S Committee</u>

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.

<u>CG&N Committee</u>

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

Mandate

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.

Composition of the HR&C Committee

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.

Independent Executive Compensation Consultant

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.

Executive Compensation – Related Fees

($ 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 50^{th} 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 50^{th} 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 50^{th} 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

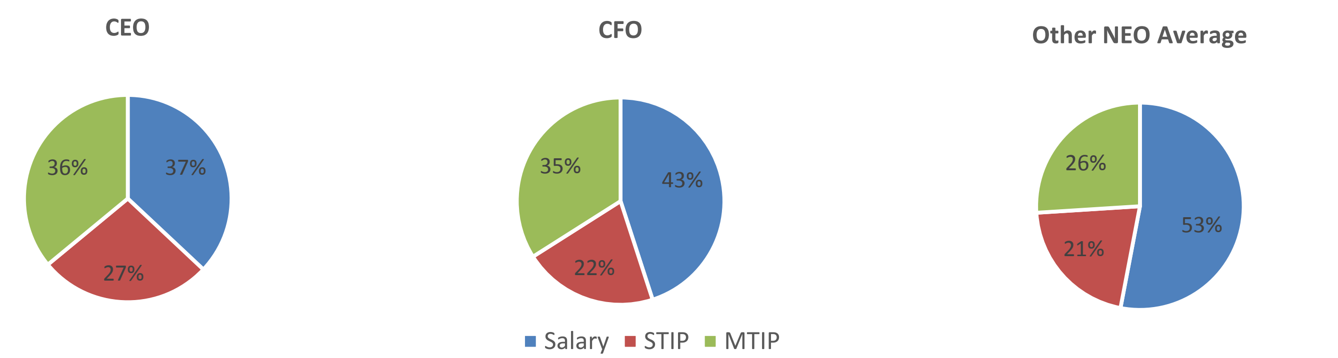
The compensation philosophy has guided the development of an executive compensation model that includes a mix of base salary, short-term incentives, mid-term incentives and pension and benefits.

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.

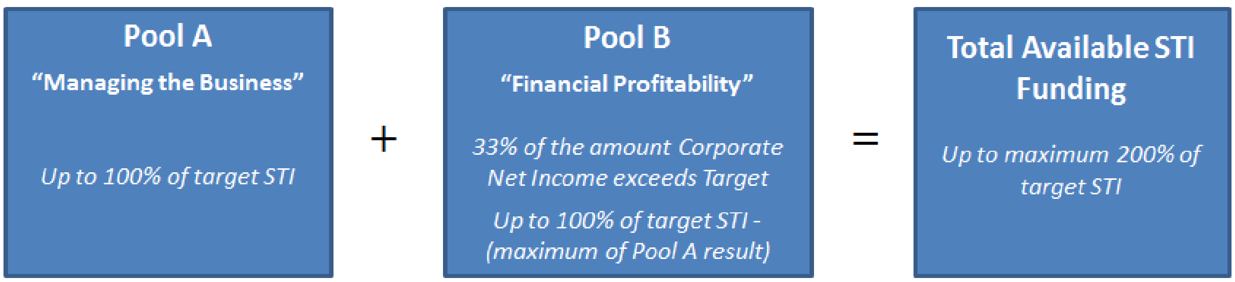
<u>2016 STIP Target Awards</u>

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:



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	30%	30%	30%	30%	30%	30%	30%
• Operational Efficiency	30%	30%	30%	30%	30%	40%	60%
• Customer Service	30%	30%	30%	30%	30%	20%	-

* *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. Shareholder and Corporate Communications

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. Policies and Procedures

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.

Submitted by
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