Exhibit 5: Cost of Capital and Capital Structure

1. This Exhibit provides evidence to support EPCOR's capital structure and target values for cost of debt and return on equity.

5.1 Capital Structure

2. Pursuant to the Board's decision in the CIP Proceeding:

> *"The capital structure for both proposals were to be based on Union's approved deemed debt/equity ratio of 64%/36%."*[1]

3. Table 5-1 summarizes EPCOR's proposed capital structure during the rate stability period.

Table 5-1: Capital Structure

	Col. 1 Capital Component	Col. 2 Weighting
Row 1	Equity	36%
Row 2	Long-term Debt	60%
Row 3	Short-term Debt	4%

[1] EB-2016-0137/0138/0139 – Decision and Order, April 12, 2018, page 9

5.2 Cost of Capital

1. As determined by the Board, the target values for cost of debt and Return on Equity ("ROE") EPCOR included its CIP were as defined by EPCOR and represents the target values EPCOR deemed to be acceptable for this project.

> *"However, the OEB finds that the cost of debt and return on equity (ROE) is properly considered competitive"*[2].

2. In addition, the proponents were not required to provide details as to their expected cost of debt or ROE in their CIPs.

> *"The OEB does not expect the cost of debt and ROE to be provided in proponent's proposals."*[3]

3. Consistent with the determination of its revenue requirement EPCOR adopted the OEB's deemed cost of equity, long-term debt and short-term debt during the rate stability period. For the purpose of forecasting the cost of capital from 2019 to 2028, the deemed cost of capital released by the OEB on October 27, 2016 have been incorporated, which is consistent with EPCOR's CIP submission. Table 5-2 summarizes the cost of capital from 2019 to 2028.

Table 5-2: Cost of Capital

	Col. 1	Col. 2
	Capital Component	Annual Cost
Row 1	Equity	8.78%
Row 2	Long-term Debt	3.72%
Row 3	Short-term Debt	1.76%
Row 4	WACC	5.46%

[2] EB-2016-0137/0138/0139 – Decision on Preliminary Issues and Procedural Order No. 8, August 22, 2017, page 7
[3] Ibid page 8

5.3 Financing Plan

1. EPCOR will issue equity, intercompany long-term debt and intercompany short-term debt to its parent company, EPCOR Utilities Inc. (EUI). A financial commitment letter from EUI to EPCOR is attached in Exhibit 5 Tab 2 Schedule 1. EUI is rated by DBRS (A low) stable and Standard & Poor's (A-). The most recent reports by these two agencies are included in Exhibit 5 Tab 2 Schedule 2.

2000 – 10423 101 St NW,
Edmonton, Alberta
T5H 0E8 Canada
epcor.com

August 30, 2018

Subject: EPCOR Utilities Inc's Financial Commitment to EPCOR Natural Gas LP

We are writing to support EPCOR Natural Gas LP ("ENGLP")'s Rate Application for Southern Bruce gas distribution system ("the Application). Unless otherwise defined herein, all capitalized terms will have the meaning given in the Application. EPCOR Utilities Inc. ("EUI"), rated A- and A(low) by S&P and DBRS respectively, confirms it is providing full financial support to its wholly-owned subsidiary ENGLP.

We confirm:

(a) Our ability and willingness to provide a parent guarantee on behalf of ENGLP for its responsibility to fund debt and equity capital.

(b) Adequate funds from EUI are readily available to meet ENGLP's debt and equity commitments. EUI's financial capacity is as follows (as of June 30, 2018):

- cash and cash equivalents totaling $23 million;
- over $10 billion in total assets
- a fully undrawn $600 million committed syndicated bank credit facility;
- access to the Canadian debt capital market under EUI's unutilized $2 billion Base Shelf Prospectus.

EPCOR Utilities Inc.

Pamela Zrobek

Name: Pam Zrobek
Title: Treasurer

S&P Global
Ratings

RatingsDirect®

Summary:

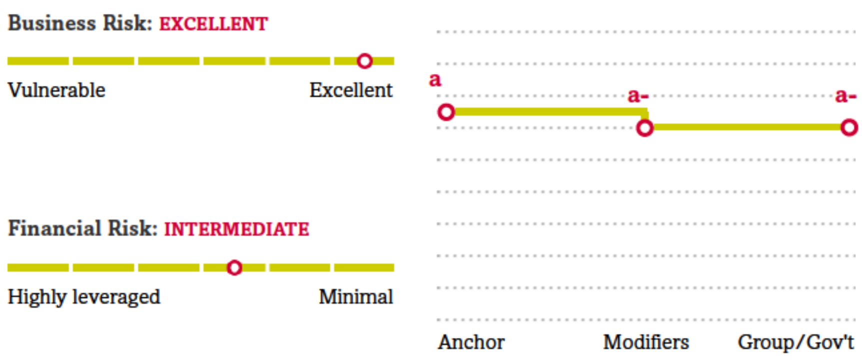
EPCOR Utilities Inc.

Primary Credit Analyst:
Vinod Makkar, CFA, Toronto + 1 (416) 507 3271; vinod.makkar@spglobal.com

Secondary Contact:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Table Of Contents

Summary:
EPCOR Utilities Inc.



Issuer Credit Rating

A-/Stable/--

Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• Largely low-risk rate-regulated electricity distribution and transmission, water, and drainage operations in Canada and the U.S. • Vast majority of cash flow from stable and predictable regulated utility business • Solid operational performance	• S&P Global Ratings' assessment of EPCOR Utilities Inc.'s (EUI) financial measures using the most relaxed financial benchmarks compared with the typical corporate issuer • Financial measures that are consistent with the midrange of the financial risk profile benchmarks • Negative discretionary cash flow after sizable capital spending and distributions, indicating external funding needs • The company's intent to continue tuck-in acquisitions for growth and expansion, which could stress credit metrics

Outlook: Stable

The stable rating outlook on EUI reflects S&P Global Ratings' view that the company's high degree of regulated water and electricity utilities businesses will continue to provide stable and predictable cash flows. The outlook also reflects our expectation that the regulated business will continue to contribute the overwhelming majority of total consolidated EBITDA.

Downside scenario

Although unlikely during our two-year outlook period, we could lower the ratings if EUI aggressively pursues unregulated opportunities, including contracted, that result in an increased proportion of unregulated EBITDA. In addition, assuming the current business risk profile does not change, a negative rating action is possible if we expect adjusted funds from operations (FFO)-to-debt to decline to and remain in the 9%-11% range. This could occur if EUI decides to pursue a large acquisition or development project funded with significant debt.

Upside scenario

Although unlikely within the next two years, we could take a positive rating action if we forecast adjusted FFO-to-debt to be consistently above 21%, all else being equal. However, based on our financial forecast and the company's capital programs, we believe the prospect of a positive rating action is highly unlikely during our outlook horizon.

Our Base-Case Scenario

Assumptions

- EBITDA margin expected to remain largely in the 30%-35% range
- Capital spending of about C$800 million per year focusing on regulated businesses
- Timely recovery of prudently incurred costs
- Modest volume growth
- Negative discretionary cash flows indicate external funding needs
- Annual dividend payments of about C$180 million
- The refinancing of all debt maturities

Key Metrics

	2017A	2018E	2019E
Adjusted FFO to debt(%)	16.9	17-20	15-18

FFO—Funds from operations. A--Actual. E—Estimate.

Company Description

EUI builds, owns and operates electrical, natural gas and water transmission and distribution networks including drainage services in Canada and the U.S.

Business Risk: Excellent

Our assessment of EUI's business risk reflects the company's low-risk regulated businesses, composed of electricity, natural gas and water services, which account for about 95% of its consolidated EBITDA. Our assessment also considers the utility's operations in the stable operating environments of Canada and states of the U.S., which support EUI's competitive position and allow it to fully recover prudently incurred operating and capital expenses in a timely manner.

Furthermore, the company's regulated cash flows have been enhanced after the City of Edmonton transferred its drainage operations to EUI, as well as from the steady divestment of interests in Capital Power Corp.'s high-risk power generation business. EUI recently acquired the rights to distribute natural gas in southern Bruce County (in Ontario) and acquired the assets of Natural Gas Resources Ltd. to distribute natural gas in southwestern parts of the province. EUI's foray into the stable and supportive Province of Ontario would further support the company's regulated business.

EUI benefits from regulatory and geographic diversity, with residential and commercial customers across Alberta, Texas, Arizona, and New Mexico. It operates across distinct business segments providing electricity, natural gas, water, drainage and wastewater services.

Overall, we continue to assess the business risk profile at the lower half of the excellent category, given the company's exposure to non-utility cash flows and our view that Arizona's regulatory jurisdiction is less credit-supportive compared with other regulatory jurisdictions.

Financial Risk: Intermediate

Our assessment of EUI's financial risk profile incorporates a base-case scenario that includes adjusted FFO to debt of about 18%, near the midpoint of the benchmark range of the intermediate category. We expect the supplemental ratio of adjusted operating cash flow-to-debt to be in the 18% range, supporting the financial risk assessment. The company as a whole has a sizable capital program in the next few years. Combined with the utility's dividend payments, this will result in negative discretionary cash flow that could strain credit metrics. However, these expenditures are on regulated activities, which we view as a credit positive.

We base our financial risk assessment of EUI on the most relaxed benchmarks compared with the typical corporate issuer, reflecting the company's steady cash flow from almost-entirely rate-regulated utility operations and operations under a highly-supportive regulatory framework.

Liquidity: Adequate

Our assessment of EUI's liquidity is adequate. We expect liquidity sources to cover uses by more than 1.1x over the next 12 months, and that the company could meet cash outflows even with a 10% decline in EBITDA. In our view, EUI has sound relationships with banks, generally satisfactory standing in the credit markets, and has the ability to absorb high-impact, low-probability events without refinancing.

Principal Liquidity Sources	Principal Liquidity Uses
• Estimated cash FFO of C$580 million-C$600 million • Estimated credit facility availability of about C$600 million	• Capital expenditures of C$800 million • Debt maturities of about C$150 million • Dividend payments of approximately C$170 million in the next 12 months

Other Credit Considerations

We apply a negative comparable ratings analysis modifier to account for the company's desire to grow through debt-financed acquisitions, which could strain credit metrics.

Government Influence

We believe there is a low likelihood that EUI's owner, the City of Edmonton, would provide timely and sufficient extraordinary support in the unlikely event of financial distress. In our view, EUI has a role of limited importance to the city, given that the province has oversight of electricity regulation licensing and that a private enterprise could provide the utility's services. We think there is a limited link between the company and the city, given our belief that, in a stress scenario, Edmonton might provide some temporary liquidity support but would be unlikely to support the utility with taxpayer dollars.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/--

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Stand-alone credit profile : a-

- **Likelihood of government support:** Low (no impact)

Issue Ratings--Subordination Risk Analysis

Capital structure

EUI's capital structure consists of about C$2.6 billion of debt.

Analytical conclusions

We rate the senior unsecured debt the same as the long-term issuer credit rating because it is the debt of a qualified investment-grade utility.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Rating Report

EPCOR Utilities Inc.

Tom Li
+1 416 597 7378
tli@dbrs.com

Eric Eng, MBA
+1 416 597 7578
eeng@dbrs.com

James Park
+1 416 597 7567
jpark@dbrs.com

DBRS
Insight beyond the rating.

Ratings

Debt	Rating Action	Rating	Trend
Issuer Rating	Confirmed	A (low)	Stable
Senior Unsecured Debentures	Confirmed	A (low)	Stable
Commercial Paper	Confirmed	R-1 (low)	Stable

Rating Update

On September 17, 2018, DBRS Limited (DBRS) confirmed the Issuer Rating and Senior Unsecured Debentures rating of EPCOR Utilities Inc. (EUI or the Company) at A (low) and the Company's Commercial Paper rating at R-1 (low). All trends are Stable. The ratings reflect the stable operations of the Company's regulated utilities in the City of Edmonton (the City; 100% owner of EUI) and its robust key financial metrics.

EUI's business risk profile continues to be supported by the reasonable regulation for its regulated businesses. DBRS continues to view regulation under the Alberta Utilities Commission (AUC) for the Company's electricity distribution and transmission businesses, and regulation under the City for the Company's water, waste-water and drainage businesses, as supportive of the current ratings. In August 2018, the AUC issued its decision on the Alberta utilities' 2018–2020 Generic Cost of Capital (GCOC) proceeding. The AUC maintained the return on equity (ROE) at 8.5% and equity thickness at 37%. DBRS views the decision as neutral for EUI's earnings and cash flows, but notes that it does remove uncertainty regarding these perimeters for the next two years. EUI's business risk profile continues to be partly offset by the more challenging, albeit improving, regimes in Arizona and New Mexico, where the use of historical test years could result in greater regulatory lag.

On September 1, 2017, the City transferred its drainage operations to EUI (the Transfer). As noted in its September 29, 2017, rating report, DBRS continues to view the Transfer as neutral to EUI's overall business risk profile as drainage operations are fully regulated by the City, albeit under a less robust regulation compared to its water and waste-water operations. DBRS notes that as the Company has committed to cap rate increases for the Drainage business at 3% through 2021, this may limit earnings and cash flow growth from this segment because of the significant capital expenditures (capex) required. This large capex program is expected to result in free cash flow deficits for the medium term, which will likely be funded through debt. As such, DBRS expects EUI's key financial metrics to be pressured and see deterioration over the next few years. DBRS has factored this deterioration into the current rating; however, should the metrics deteriorate to a level no longer supportive of the current ratings, a negative rating action may occur. Additionally, a positive rating action is unlikely given the more challenging regulatory environments for the U.S. water operations and the current large capex program.

Financial Information

EPCOR Utilities Inc.	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Total debt in capital structure 1, 2	43.1%	46.0%	43.7%	47.7%	48.6%	47.7%
Cash flow/Total debt 1	21.1%	16.5%	21.0%	20.2%	16.0%	16.3%
EBIT gross interest coverage (times) 1	3.19	2.94	3.13	2.86	2.21	2.27

1 Adjusted for operating leases. 2 Adjusted for accumulated other comprehensive income.

Issuer Description

EUI builds, owns and operates electrical transmission and distribution networks, water and waste-water treatment facilities and infrastructure, and natural gas distribution in Canada and the United States. EUI is wholly owned by the City of Edmonton.

Rating Considerations

Strengths

1. Low business risk

EUI's regulated water and electric transmission and distribution assets in Canada should continue to provide a stable financial base. The Company has fully divested its ownership in Capital Power Corporation (CPC; rated BBB (low) with a Stable trend by DBRS) with all debt obligations associated with CPC fully repaid as of June 30, 2018. Proceeds from the sell-down of CPC have been used to fund the Company's expansion into the U.S. regulated water and waste-water market. DBRS views the business risk associated with the acquired Arizona and New Mexico utilities to be higher than EUI's regulated utilities in Alberta because of the more challenging regulations in these states.

2. Strong financial profile

EUI's balance sheet remains solid for an entity with relatively lower business risk, following the divestiture of the power generation business in 2009. The Company's key credit metrics have also been relatively strong for the current rating, providing some flexibility for the Company's large capex plan and acquisitions. DBRS notes, however, following the complete sell-down of CPC in January 2017, free cash flow deficits that arise from the ongoing large capex program will likely be funded through debt, which will pressure key credit metrics over the medium term. DBRS expects the Company's metrics will be under pressure, but will remain in the "A" rating category.

3. Diversified asset portfolio

The Company's diversification across different segments, including water and electric transmission and distribution and the recent expansion into regulated natural gas distribution space, helps to improve the stability of earnings and cash flow and to reduce the risks associated with concentration in one single business.

Challenges

1. Expansion into the United States and non-regulated activities

The utilities EUI have acquired in Arizona and New Mexico operate in more challenging regulatory environments than the utilities operating in Alberta because of the use of historical test years in those states. This increases regulatory risk for the Company and could potentially have a negative impact on the timing of capex recovery for the U.S. utilities. Additionally, the Company has been pursuing opportunities on the non-regulated side, such as the construction and operation of the Evan-Thomas Water & Wastewater Treatment Facility and a new waste-water treatment plant in the city of Regina. While under long-term contracts, DBRS considers the non-regulated operations as higher risk than the Company's core regulated activities. Furthermore, with the Transfer in September 2017, the mix of earnings contributed by the regulated segment has increased to approximately 95%. As such, DBRS expects non-regulated operations to remain below 10% going forward.

2. High level of planned capex

EUI has experienced a high level of capex as the Company invests in enhancing the capacity of its infrastructure and reinforcing the reliability of its system. Gross capex in 2017 was $566 million, and the Company expects to spend a similar level in 2018 ($234 million spent in the six months ended June 30, 2018). DBRS notes that, because of the Transfer, capex will likely increase by approximately $1.6 billion over the 2017–2027 period. DBRS expects the Company to fund its capex in a manner that will maintain the debt-to-capital ratio of its regulated utilities in line with their respective regulatory capital structures.

3. Limited access to equity markets

EUI's ownership structure (100% owned by the City) limits its ability to access equity markets directly. As a result, EUI's free cash flow deficits have been largely financed through debt and proceeds from the selling down of its economic interest in CPC. DBRS expects any free cash flow deficits in the future to be funded primarily with debt.

4. Integration Risk

There is integration risk as EUI continues to execute on its strategy of acquiring water and waste-water utilities in the United States. The Company also faces integration risk with the Transfer, as well as its recent expansion into the regulated natural gas distribution market. Should EUI be unsuccessful in executing the integration of new businesses, this could have a negative impact on the Company's earnings and cash flows.

Earnings and Outlook

	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	2018	2017	2016	2015	2014	2013
Total revenues	1,937	2,035	1,932	1,996	1,904	1,929
Net sales	1,375	1,231	1,210	1,204	1,036	979
EBITDA	677	580	554	521	421	408
EBIT	412	356	367	351	270	269
Gross interest expense	129	121	117	123	124	120
Net income before non-recurring items	307	263	266	265	197	233
Reported net income	295	256	309	260	191	175
Return on equity 1, 2	10.0%	8.7%	10.6%	11.2%	8.7%	10.4%
Segmented reported EBIT						
Water services	163	120	129	124	102	92
Distribution and transmission	117	116	122	111	82	90
U.S. Operations	85	78	73	62	54	48
Energy services	35	34	45	47	25	32
Reported subtotal	**400**	**348**	**369**	**344**	**263**	**262**
Corporate 3	4	8	10	21	22	28
Reported total	**404**	**356**	**379**	**365**	**285**	**290**

1 Adjusted for operating leases. 2 Adjusted for accumulated other comprehensive income. 3 Includes financing revenues on the long-term receivable from CPC.

2017 Summary

- While EBITDA increased in 2017, EBIT decreased because of higher depreciation from the Water Services segment following the transfer:
  - Earnings decreased for Water Services, primarily because of lower income from industrial services contracts (including termination of the Suncor agreements in August 2016), lower water and waste-water volumes due to higher precipitation, and higher water treatment costs because of poor river quality conditions in early 2017.
  - Earnings for the Distribution & Transmission segment decreased because of lower net system access service collections, partially offset by higher electricity distribution and transmission customer rates.
  - The Energy Services segment recorded lower earnings in 2017, primarily because of lower Energy Price Setting Plan (EPSP) margins, partially offset by business growth.

2018 Summary/Outlook

- Earnings for the 12 months ending June 30, 2018 (LTM 2018), were higher, resulting from:
  - Water Services' operating income increased because of the Transfer in September 2017, higher water and waste-water revenues driven by customer growth and lower water treatment cost due to favourable river water quality in 2018.
  - Distribution & Transmission's operating income modestly increased, primarily because of higher electricity distribution customer rates.
- DBRS expects higher earnings in 2018, primarily driven by a full year's earnings from the transfer of Drainage operations.
  - DBRS notes, however, that earnings growth from Drainage will be somewhat limited until rebasing in 2022. While the capex requirement from this segment is significant, EUI has committed to cap rate increases at 3% until 2022.

Financial Profile

	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	2018	2017	2016	2015	2014	2013
Net income before non-recurring items	307	263	266	265	197	233
Depreciation & amortization	277	236	189	178	159	145
Deferred income taxes and other	(32)	(21)	(43)	(8)	(19)	(52)
Cash flow from operations	**552**	**478**	**412**	**435**	**337**	**326**
Dividends paid	(163)	(153)	(141)	(141)	(141)	(141)
Capital expenditures	(594)	(566)	(502)	(463)	(385)	(444)
Free cash flow (bef. working cap. changes)	**(205)**	**(241)**	**(231)**	**(169)**	**(189)**	**(259)**
Changes in non-cash work. cap. items	36	79	68	(16)	15	(50)
Net free cash flow	**(169)**	**(162)**	**(163)**	**(185)**	**(174)**	**(309)**
Acquisitions & long-term investments	(51)	(76)	(51)	0	0	(4)
Proceeds on asset sales	3	12	223	240	2	196
Net equity change	0	0	0	0	0	0
Net debt change	65	363	(187)	(15)	87	(14)
Other investing and financing	161	10	333	(41)	(8)	29
Change in cash	**9**	**147**	**155**	**(1)**	**(93)**	**(102)**
Total debt	2,577	2,866	1,920	2,117	2,080	1,972
Total debt in capital structure 1, 2	43.1%	46.0%	43.7%	47.7%	48.6%	47.7%
Cash flow/Total debt 1	21.1%	16.5%	21.0%	20.2%	16.0%	16.3%
EBIT gross interest coverage (times) 1	3.19	2.94	3.13	2.86	2.21	2.27
Dividend payout ratio	53.1%	58.2%	52.9%	53.2%	71.6%	60.6%

1 Adjusted for operating leases. 2 Adjusted for accumulated other comprehensive income.

2017 Summary

- The Company's key credit metrics weakened in 2017 as debt was assumed as part of the Transfer, but drainage operations only contributed four months of results.
- Cash flow from operations increased, tracking the higher EBITDA for the year.
- The Company's 2017 capex increased to $566 million because of higher spending at the Water Services segment ($210 million) on drainage operations and various growth projects. This was partially offset by a modest decrease for the Distributions & Transmission segment ($241 million) from lower spending on various growth and lifecycle projects.
- EUI increased its distribution to the City to $153 million in 2017 as part of its agreement for the Transfer.
- EUI generated a free cash flow deficit of $162 million due to the high capex. The Company funded this deficit through a $400 million debt issuance.

2018 Summary/Outlook

- EUI's key credit metrics returned to 2016 levels in LTM 2018 because of lower outstanding debt, along with modestly higher earnings and operating cash flow.
- Cash flow from operations increased, tracking the higher earnings for the period.
- The Company has forecast capex of approximately $662 million for 2018 ($234 million spent as at June 30, 2018). The increase in capex follows the Transfer of drainage operations.
- The Company is expected to pay $166 million in dividends. The increase is due to the commitment to raise dividends as part of the Drainage transfer.
- The Company sold its remaining interest in CPC in January 2017. As such, DBRS expects future growth projects to likely be funded through debt issuances that could lead to a weakening in EUI's key credit metrics. DBRS notes, however, that there is some flexibility in the Company's financial ratios for its current ratings.
  - Given the large capex program, as well as a weaker earnings profile from drainage until its rebasing in 2022, DBRS expects EUI's metric to weaken to the "A" category over the medium term.

Debt and Liquidity

Credit Facilities

(CAD millions - as at June 30, 2018)	Amount	Drawn/LoC	Available	Expiry
Syndicated bank credit facility	600	105	495	Nov. 2022
Uncommitted bank credit facilities	225	68	157	
USD uncommitted bank credit facility	13	7	6	
Total	**838**	**180**	**658**	

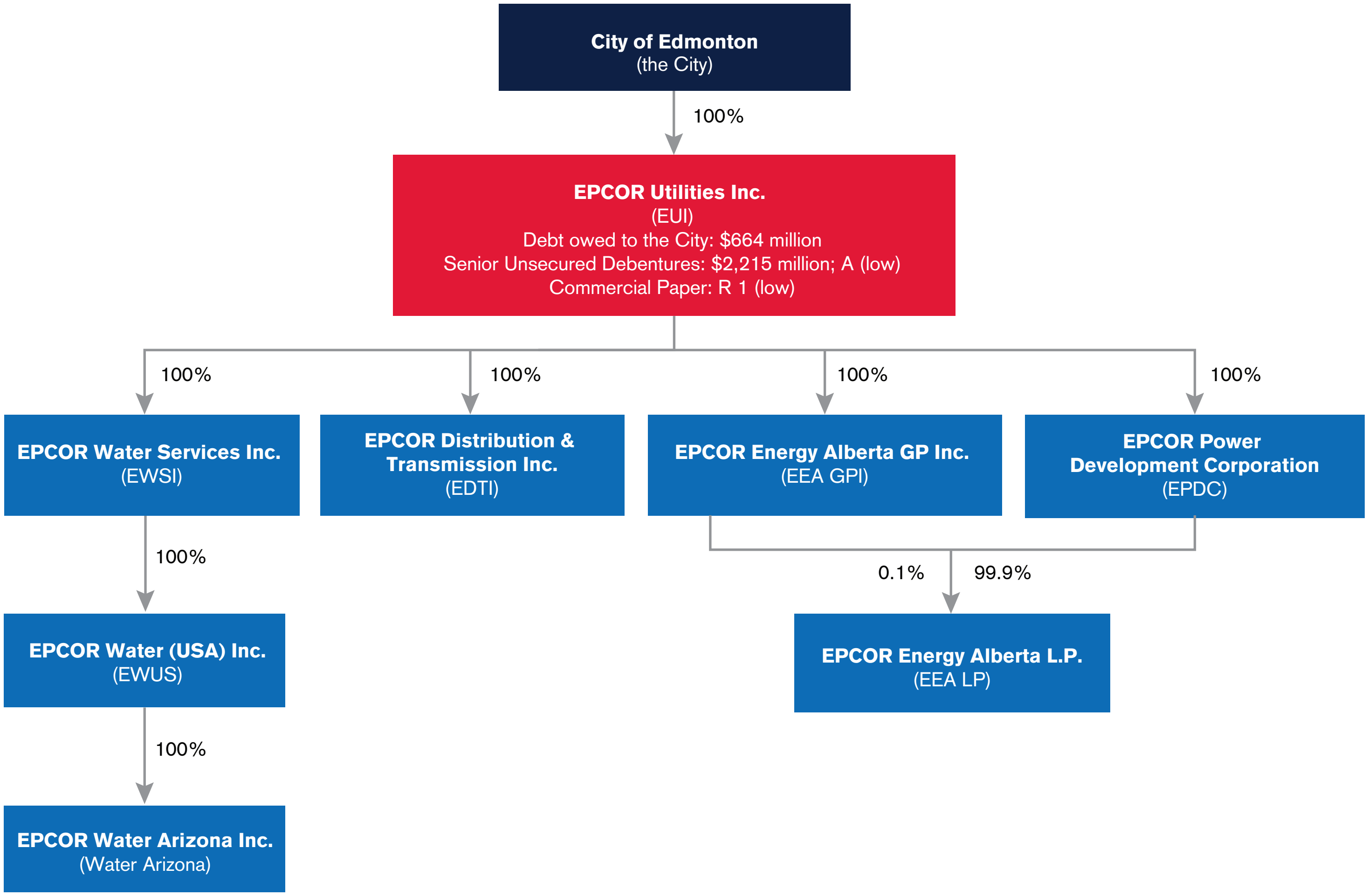
- DBRS views EUI's current liquidity position as sufficient for ongoing liquidity needs.
- In November 2017, the Company established a new $600 million committed bank credit facility, replacing the previous $350 million credit facility. The bank facility is primarily used for short-term borrowing and backstopping EUI's commercial paper program.
- EUI also established five new bilateral credit facilities, totalling $200 million, to replace the previous $200 million committed bank credit facility. The Company also maintained its previous $25 million uncommitted bank credit facility. The uncommitted line of credits are restricted to letters of credit.
- The Company additionally added a USD 10 million uncommitted bank facility, expiring April 2019, which is primarily used to meet the U.S. dollar operational requirements (USD 5 million outstanding as of June 30, 2018).

Long-term Debt

(as at December 31, 2017)	Rate	CAD millions
Obligations to the City of Edmonton		
Due in 2018	11.04%	6
Due between 2018 - 2023	7.01%	12
Due between 2018 - 2034	5.36%	58
Due between 2018 - 2042	3.41%	588
Total debt to City of Edmonton		**664**
Public debentures		
Debentures due in 2018	6.02%	400
Debentures due in 2029	7.05%	150
Debentures due in 2035	5.88%	200
Debentures due in 2038	6.83%	200
Debentures due in 2039	5.88%	200
Debentures due in 2042	4.65%	300
Debentures due in 2047	3.62%	400
Private debt notes		
Bonds due in 2021	3.80%	173
Bonds due in 2029	4.01%	1
Bonds due in 2041	5.08%	141
Bonds due in 2041	3.71%	50
Total debt issued by EUI		**2,215**
Deferred financing cost		(13)
Total long-term debt		**2,866**

- Total debt increased in 2017 as the Company issued $400 million of public debentures and issued $604 million of promissory notes to the City for the Transfer, mirroring debentures issued by the City in respect to the Drainage business.
- The 5.80% $400 million Note has been repaid in H1 2018, resulting in $2,577 million of debt outstanding as of June 30, 2018.
- EUI's debt maturities are well-spread out, with no major near-term maturities.

Simplified Organizational Chart



* As at December 31, 2017.

Description of Operations

Distribution & Transmission (EDTI) (approximately 29% of reported consolidated EBIT for LTM 2018)

Distribution and Transmission	%	2017	2016	2015	2014	2013
(thousands of MWh)						
Residential	28%	2,156	2,118	2,080	2,073	2,012
Commercial	72%	5,512	5,491	5,589	5,684	5,603
Total	**100%**	**7,668**	**7,609**	**7,669**	**7,757**	**7,615**
YOY growth		0.8%	-0.8%	-1.1%	1.9%	1.2%

(CAD millions)	2017	2016	2015	2014	2013
EBITDA	202	202	180	141	141
EBIT	116	122	111	82	90
Capital expenditures	241	281	235	200	276

- EDTI owns and operates substations and transmission lines that form part of Alberta's interconnected electric system, regulated by the AUC and situated primarily within the City. EDTI's distribution function distributes approximately 13% of Alberta's energy consumption to approximately 397,000 residential and commercial consumers in Edmonton. EDTI's transmission function operates 257 circuit kilometres of transmission lines.
- EDTI operates in a reasonable, albeit evolving, regulatory environment in Alberta (see the Regulation section). There is virtually no competition within the franchise areas.
- DBRS expects that completed projects will be added to the rate base in a timely fashion.
- Because of the increased capex required to meet customer demand and maintain system reliability, the segment is expected to generate moderate free cash flow deficits over the medium term. DBRS notes that the risk of cost overruns is manageable, given the experience that EUI has in managing projects of this nature.

Water Services (EWSI) & U.S. Operations (approximately 62% of reported consolidated EBIT for LTM 2018)

Water Sales (Canada & U.S.)	%	2017	2016	2015	2014	2013
(millions of litres)						
Residential	51%	109,292	108,031	105,491	104,242	99,657
Multi-residential	8%	17,829	17,987	18,071	17,696	17,161
Commercial and industrial	23%	49,157	50,765	49,973	51,028	51,464
Wholesale	17%	37,232	35,475	35,986	35,416	33,562
Total	**100%**	**213,510**	**212,258**	**209,521**	**208,382**	**201,844**
YOY growth		0.6%	1.3%	0.5%	3.2%	-0.2%

(CAD millions)	2017	2016	2015	2014	2013
EBITDA	329	292	274	234	212
EBIT	198	202	186	156	140
Capital expenditures	311	206	214	175	153

Description of Operations (CONTINUED)

- EWSI owns three and operates 13 water treatment and distribution facilities in Alberta and British Columbia. It also owns a waste-water treatment and/or collection facility and operates 16 waste-water and collection facilities in Alberta, British Columbia and Saskatchewan. EWSI has been the sole supplier of water within Edmonton for more than 100 years. Twenty-year supply agreements, which supply over 60 surrounding communities and counties and expire on various dates between 2018 and 2026, have been signed with nine regional customers.
  - On September 1, 2017, the City transferred its drainage assets to the Company. This segment provides sanitary waste-water and stormwater collection, and bio solids management and disposals.
- EWSI operations consist of three main lines of business: (1) retail water (59% of sales), (2) wholesale water (17% of sales) and (3) commercial and industrial services (23% of sales).
- The Canadian water business is characterized by low business risk, given the essential nature of the product and the lack of competition. Operations in Edmonton are regulated by the City pursuant to the provisions of a performance-based regulation (PBR) bylaw; wholesale water rates are calculated on a cost-of-service (COS) basis, allowing EWSI to recover its costs and earn a fair return on its investment (regulated by the AUC on a complaint-only basis); and commercial and industrial services are a non-regulated operation that earns income through competitive contract-based services.
  - Non-regulated operations include the construction and operation of the Evan-Thomas Water & Wastewater Treatment Facility and the Regina waste-water plant.
- Water Arizona, Chaparral City Water Company (Chaparral) and Water New Mexico are regulated utilities that provide water and waste-water services. Water Arizona and Chaparral are regulated by the Arizona Corporation Commission (ACC), with rate increase requests primarily based on the preceding year's revenues, operating expenses and capital costs. Water New Mexico is regulated by the New Mexico Public Regulation Commission (NMPRC) in a similar fashion to the Arizona water utilities.
- EWSI acquired a water transmission pipeline, groundwater well production assets and long-term wholesale water supply contracts in Texas in August 2016.
- EWUS accounts for the majority of U.S. Operations' earnings; however, EUI has recently expanded into the U.S. regulated natural gas sector. Please refer to "Natural Gas" section below.
- DBRS expects EUI to continue to exercise due diligence and discipline as it grows its water and waste-water business.

Energy Services (EPCOR Energy Alberta LP or EEA LP, and EPCOR Energy Alberta GP Inc. or EEA GPI) (approximately 9% of reported consolidated EBIT for LTM 2018)

- The Energy Services division provides Regulated Rate Option (RRO) electricity service to residential, farm and small commercial consumers within the City, as well as several Rural Electrification Association service territories and the FortisAlberta Inc. service territory. EEA LP also provides billing, collection and contact centre services to EWSI, CPLP and the City's waste and drainage departments.
- Energy Services earns a return margin for providing RRO electricity services and a risk margin for bearing the commodity risk associated with providing RRO electricity services.
- Energy Services bears some price and volume risks, albeit in a relatively short period of time (120 days), but is compensated through the margins it negotiated in customer rates for incurring such risks (see the RRO section).
- DBRS expects earnings to remain stable in the medium term.

Competitive Retail (Encor) (less than 1% of reported consolidated EBIT for LTM 2018)

- Encor is a competitive retail energy provider for electricity and natural gas customers in Alberta under competitive contract. It was created in May 2014 to mitigate customer attrition from the RRO by signing competitive contracts.
- This division has an arrangement with an investment-grade third party to procure electricity and natural gas on a full load-following basis, eliminating commodity risk for Encor.

Natural Gas (less than 1% of reported consolidated EBIT for LTM 2018)

- EUI acquired Hughes Gas Resources Inc. (Hughes Gas), a rate-regulated gas distribution and transmission company operating in Texas, in June 2017. Hughes Gas's regulated operations include natural gas utility service to approximately 4,300 connections and wholesale natural gas transmission services to local distribution utilities.
  - Hughes Gas operates under EWUS.
- On November 1, 2017, the Company acquired Natural Resources Gas Limited (NRGL), an Ontario natural gas distributor. NRGL is a natural gas distributor with over 8,700 residential, commercial and industrial customers in Ontario. The operations are regulated by the OEB under a price cap incentive rate setting framework.
  - NRGL operates under EPDC.

Regulation

Distribution & Transmission (EDTI)

- EDTI's transmission function is regulated by the AUC through a COS recovery plus a fair rate of return on investment methodology.
- Since 2013, EDTI's distribution function is regulated based on a PBR framework, which calculates customer rates on an annual basis based on a formula. This formula also incorporates a capital tracker mechanism for capex beyond normal investments.
- EDTI is expected to continue to manage its operational efficiency to meet or exceed the PBR's productivity factor. Operational efficiency is key to achieving higher earnings under the PBR.
- The AUC released its decision on the 2018–2022 PBR plan in December 2016. Changes to the plan include: (1) going-in rates to be based on operating and maintenance expenses during the current PBR term, adjusted for inflation and increase in customer count; (2) rebasing using 2016 rate base, increased for approved capital tracker forecast amounts; and (3) the continuation of the capital tracker mechanism, albeit by using a placeholder with an annual true-up, rather than through annual forecast applications.
  - DBRS views the use of historical data, rather than a forecast test-year, as a negative, but expects this to be partly mitigated by the reduced regulatory lag for the recovery of capital tracker amounts, albeit with higher forecasting risk.
  - EDTI filed its 2018–2022 PBR application with the AUC in April 2017.
- The AUC released its 2018–2020 GCOC decision in August 2018.
  - The decision saw the allowed ROE remain at 8.50% for 2018–2020.
  - Deemed equity was set at 37% for all but one Alberta-based rate-regulated transmission and distribution utility (37% for 2017).
- DBRS notes that since the UAD decision, EDTI has seen modest stranded cost, as the AUC decided that the retirement of existing meters as part of the Advanced Metering Infrastructure project would be to the account of EDTI's shareholders and will result in approximately $10 million to $12 million of stranded cost. In April 2016, the Supreme Court dismissed the Alberta utilities' leave to appeal the UAD decision. Along with the other Alberta utilities, EUI is currently working with the Alberta government on a legislated solution.
  - DBRS views potential material UAD events as being low-probability, high-impact events (e.g., severe weather conditions). In constructing the procedures and methodologies used for its related ratings, DBRS generally assumes economic stability as the norm over the medium to long term, in the absence of major events that cause disruption to the marketplace. DBRS would assess the magnitude of a UAD event on a case-by-case basis should such an event materialize.

RRO

- Retail customers in Alberta have had a choice of suppliers since January 2001. EUI is required to offer RROs to residential and small commercial customers who do not sign up with a retailer within their service territory or FortisAlberta Inc.'s service territory.
- RRO operations are regulated by the AUC under COS regulation, in which the AUC issues rate orders establishing the revenue requirements to recover operating costs and earn a fair rate of return.
- The regulated rate is currently fully priced on a forward-month energy price. The margin earned on RRO electricity sales is based on the Energy Price-Setting Plan (EPSP).
- Energy Services conducts the procurement activities for this business, which was previously outsourced, and therefore assumes the commodity risks associated with purchasing electricity going forward. DBRS expects the risk to be manageable, as Energy Services currently procures electricity 120 days in advance of the consumption month and under well-defined risk parameters.
- In its February 2016 decision, the AUC approved for EEA LP to collect its full return margin through its energy charges effective March 1, 2016. The AUC also directed that, effective August 2016, the EPSP be referred to as the 2016–2018 EPSP to reflect changes in the plan that reduce exposure to energy risk and provide compensation for commodity losses.
- The Province of Alberta (the Province) recently announced an RRO rate cap of 6.8 cents per kilowatt hour, effective June 2017. Should the RRO rate exceed the cap, providers will be compensated accordingly. In addition, the Province also announced that it will be transitioning to a capacity market structure in 2021. It is uncertain how these initiatives will affect energy consumption in the Province, which would have a direct impact on this segment's earnings.
- In its March 2018 decision, the AUC approved EEA LP's 2018–2021 EPSP. The new auction methodology and market-based commodity risk compensation program proposed by EEA LP has been approved by AUC. Procurement of energy under the new EPSP is expected to begin Q4 2018.

Water Services (EWSI)

- Water is regulated by the City under a PBR tariff that is intended to allow EWSI to recover its costs and earn a fair rate of return while providing an incentive to manage costs below the inflationary adjustment built into the PBR rate.
- In October 2016, Edmonton City Council approved EPCOR's 2017–2021 PBR application. The ROE was set at 10.175% (down from 10.875% in 2016) and 40% equity thickness, with the initial rate increase to be smoothed over a five-year period.
- EWSI's wholesale rates in the communities surrounding Edmonton are regulated by the AUC on a complaint-only basis.

Regulation (CONTINUED)

- On September 1, 2017, the City transferred its drainage assets to the Company. The transfer was recorded as an asset transfer between related parties at book value. EUI assumed debt of approximately $600 million as part of the transfer.
  - Drainage is regulated under the City. EUI has committed to limit rate increases for this segment to 3% annually through 2021, after which it will be regulated under a PBR model similar to its other water operations.
- Water Arizona and Chaparral are regulated by the ACC and Water New Mexico is regulated by the NMPRC. Both are regulated on a COS basis. The commissions are responsible for regulating the prices charged for water and for setting a reasonable rate of ROE (included in the rates).
- The ACC recently approved the Company's application to consolidate five waste-water districts over a five-year period, along with a 10% increase in allowed revenue. At the ACC's request, the Company submitted a similar application to consolidate some or all of water districts. A final decision is expected in Q4 2018.

			Approved Capital Structure 2018	
Business Unit	Regulatory Authority	Approved ROE - 2018	Debt %	Equity %
EDTI - Distribution	AUC	8.50%	63	37
EDTI - Transmission	AUC	8.50%	63	37
Energy Services	AUC	N/A*	100**	0**
EWSI - Edmonton (Water)	City of Edmonton	10.175%	60	40
EWSI - Edmonton (Wastewater)	City of Edmonton	10.175%	60	40
EWSI - French Creek	Comptroller (BC)	9.75%	60	40
Arizona	ACC	9.7%***	57	43
New Mexico (Edgewood)	NMPRC	9.60%	54	46
Texas	TRC	10.60%	19	81

* Return based on fixed margin of $2.51/MWh (after-tax) with estimated energy purchases of approximately five million MWh/year. ** Deemed 100% debt.
*** ROE determined on the basis of a weighted-average according to equity levels in each water and wastewater district.

EPCOR Utilities Inc.

(CAD millions)	June 30	December 31				June 30	December 31		
Assets	**2018**	**2017**	**2016**	**2015**	**Liabilities & Equity**	**2018**	**2017**	**2016**	**2015**
Cash & equivalents	23	334	189	33	S.T. borrowings	0	0	0	98
Accounts receivable	431	360	299	333	Accounts payable	314	384	299	259
Inventories	19	17	14	15	Current portion L.T.D.	149	442	15	144
Prepaid expenses & other	0	196	34	290	Other current liab.	124	135	76	98
Total current assets	**473**	**907**	**536**	**671**	**Total current liab.**	**587**	**961**	**390**	**599**
Net fixed assets	9,203	8,977	4,983	4,568	Long-term debt	2,428	2,424	1,905	1,875
Future income tax assets	91	90	84	77	Deferred income taxes	44	39	46	35
Goodwill & intangibles	299	293	293	288	Other L.T. liab.	3,495	3,408	1,148	1,064
Investments & others	89	91	265	484	Shareholders' equity	3,601	3,526	2,672	2,515
Total assets	**10,155**	**10,358**	**6,161**	**6,088**	**Total liab. & SE**	**10,155**	**10,358**	**6,161**	**6,088**

	12 mos. to June 30	For the year ended December 31				
Balance Sheet & Liquidity & Capital Ratios	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Current ratio	0.81	0.94	1.37	1.12	0.85	1.48
Total debt in capital structure	41.7%	44.8%	41.8%	45.7%	47.1%	46.6%
Total debt in capital structure 1, 2	43.1%	46.0%	43.7%	47.7%	48.6%	47.7%
Cash flow/Total debt	21.4%	16.7%	21.5%	20.5%	16.2%	16.5%
Cash flow/Total debt 1	21.1%	16.5%	21.0%	20.2%	16.0%	16.3%
(Cash flow-dividends)/Capex	0.65	0.57	0.54	0.63	0.51	0.42
Dividend payout ratio	53.1%	58.2%	52.9%	53.2%	71.6%	60.6%
Coverage Ratios (times)						
EBIT gross interest coverage	3.19	2.94	3.14	2.85	2.18	2.24
EBIT gross interest coverage 1	3.19	2.94	3.13	2.86	2.21	2.27
EBITDA gross interest coverage	5.25	4.79	4.74	4.24	3.40	3.40
Fixed-charge coverage	3.19	2.94	3.14	2.85	2.18	2.24
Profitability Ratios						
EBITDA margin	35.0%	28.5%	28.7%	26.1%	22.1%	21.2%
EBIT margin	21.3%	17.5%	19.0%	17.6%	14.2%	13.9%
Profit margin	15.8%	12.9%	13.8%	13.3%	10.3%	12.1%
Return on equity 1, 2	10.0%	8.7%	10.6%	11.2%	8.7%	10.4%
Return on capital 1, 2	7.3%	6.3%	7.6%	7.7%	6.5%	7.3%

1 Adjusted for operating leases. 2 Adjusted for accumulated other comprehensive income.

Rating History

	Current	2017	2016	2015	2014	2013
Issuer Rating	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Senior Unsecured Debentures	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Action

- Confirmed, September 19, 2017.

Commercial Paper Limit

- $350 million.

Previous Report

- EPCOR Utilities Inc.: Rating Report, September 29, 2017.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings México, Institución Calificadora de Valores S.A. de C.V. (Mexico)(CRA, NRSRO affiliate, DRO affiliate). Please note that DBRS Ratings Limited was registered as an NRSRO affiliate on July 14, 2017. For more information on regulatory registrations, recognitions and approvals, please see: http //www.dbrs.com/research/225752/highlights.pdf.