EPCOR UTILITIES INC.

Management's Discussion and Analysis

For year ended December 31, 2023

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This management's discussion and analysis (MD&A), dated February 15, 2024 should be read in conjunction with the audited consolidated financial statements of EPCOR Utilities Inc. for the years ended December 31, 2023 and 2022 including the related notes, and the cautionary statement regarding forward-looking information at the end of this MD&A. In this MD&A, any reference to "the Company", "EPCOR", "we" or "our", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. Financial information in this MD&A is based on the audited consolidated financial statements, which were prepared in accordance with IFRS Accounting Standards (IFRS) as issued by International Accounting Standards Board (IASB) and effective on December 31, 2023 and is presented in Canadian dollars unless otherwise specified. Terms used throughout this MD&A are defined in the Glossary at the end of this document.

In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors approved this MD&A on February 15, 2024.

Overview of Business and Financial Results

The Company, through its wholly owned subsidiaries, builds, owns and operates electrical, natural gas and water transmission and distribution networks, water and wastewater treatment facilities, and sanitary and stormwater systems in Canada and the United States (U.S.) The Company also provides electricity, natural gas and water products and services to residential and commercial customers. The Company provides Regulated Rate Option (RRO) and default supply electricity related services and sells electricity and natural gas to Alberta residential and commercial consumers under contracts through its Encor brand. In addition, EPCOR provides design, build, finance, operating and maintenance services for electrical, water, and wastewater infrastructure for municipal and industrial customers in Canada and the U.S. EPCOR operates its business under the Water Services, Distribution and Transmission, Energy Services, North American Commercial Services and U.S. Regulated Water segments.

Net income was $95 million and $361 million for the three months and year ended December 31, 2023 compared with net income of $93 million and $379 million for the comparative periods in 2022, respectively. The increase of $2 million for the three months ended December 31, 2023 was primarily due to higher adjusted EBITDA and transmission system access service charge net collections, partially offset by fair value adjustments related to financial electricity purchase contracts. The decrease of $18 million for the year ended December 31, 2023 was primarily due to fair value adjustments related to financial electricity purchase contracts and higher depreciation and finance expenses in 2023, partially offset by higher Adjusted EBITDA, as described below.

Adjusted EBITDA is a non-GAAP financial measure and is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers. It is described in the Adjusted EBITDA and Net Income section on page 5 of this MD&A.

Adjusted EBITDA was $256 million and $1,061 million for the three months and year ended December 31, 2023, compared with $223 million and $930 million for the comparative periods in 2022, respectively. The increase of $33 million and $131 million for the three months and year ended December 31, 2023, respectively, was primarily due to higher construction activity, higher rates and customer growth, partially offset by higher operating costs.

Strategic and Performance Priorities

EPCOR's vision is to be a premier essential services company in North America that attracts and retains the best employees, is trusted by our customers and valued by our stakeholders. To achieve this vision, EPCOR must excel at its utility operations, ensure its human resources and focus results in highly engaged employees and be successful in its pursuit of growth opportunities. This vision is driven by EPCOR's purpose statement, "Communities count on us. We count on each other".

EPCOR's water strategy includes maintaining and developing regulated water transmission and distribution networks, water and wastewater treatment facilities and sanitary and stormwater systems within its current franchise service areas. EPCOR will also continue to pursue the development or acquisition of new rate-regulated and contracted water and wastewater assets and operations in new markets. This includes design, build, finance, operating and maintenance services for municipal water and wastewater treatment infrastructure, the provision of water and wastewater treatment services, potable and process water for industrial customers and development of contracted water transmission and distribution pipelines. EPCOR expects that significant capital investment will be required in its Edmonton franchise service area to address flood mitigation and other infrastructure needs related to its sanitary and stormwater systems.

EPCOR's electricity strategy includes maintaining and developing new distribution and transmission infrastructure in its Edmonton franchise service area and Ontario, as well as the development or acquisition of new electrical rate-regulated and contracted assets and operations in new markets. EPCOR will continue to assess the impacts of climate change and resulting impacts of the transition from fossil fuel to cleaner energy including electricity. This may test the resiliency of the Company's infrastructure and may require investments to ensure that the electricity systems are strengthened against impacts of climate change and can react to the climate change adaptation strategies of its stakeholders.

We believe the long-term outlook for the North American water, wastewater, electricity and natural gas businesses remains strong. The demand for this infrastructure in North America is expected to increase due to population growth, aging infrastructure and water scarcity issues. Further, consumer expectations are increasing for safe, high-quality water, reliable and environmentally responsible energy and wastewater treatment and disposal.

Over the next five years, we plan to invest in water, wastewater, electricity and natural gas assets where appropriate returns are expected, operational excellence can be delivered and the environmental impact of the investment is acceptable. We will seek growth opportunities within our existing geographical footprint and in new geographies. EPCOR also intends to invest in renewable energy generation including solar and biogas facilities within its geographical footprint, where commodity risk can be minimized, to enhance the Company's environmental performance.

EPCOR will continue to focus on key initiatives with respect to its employees to ensure the Company has an engaged and available workforce to reach the Company's goals. Given current activities and the Company's plan to grow investment over the next five years, EPCOR will need to focus on human resource capacity to ensure EPCOR has the people necessary to operate its existing business and to prepare for growth in the future. EPCOR will also need to ensure its growing workforce has access to appropriate professional growth and the leadership capabilities to meet the Company's growth objectives. Finally, EPCOR will continue to focus on implementing various diversity, equity and inclusion initiatives to enhance the Company's employee experience and to allow the Company to attract and retain a strong workforce.

EPCOR plans to invest in initiatives to improve operational excellence across its various businesses. This will primarily be focused on new technology spending and investments to improve customer service and to allow EPCOR's employees to provide services to customers more efficiently and safely.

EPCOR recognizes the importance of Environment, Social and Governance (ESG) issues to its stakeholders and investors and developed its ESG framework and practices to ensure that the Company has a strong strategic position related to ESG. In May 2023, EPCOR published its 2022 ESG Performance Update Report. The report demonstrated the Company's progress against the scorecard of 25 performance measures and 17 targets which were introduced in 2021. The ESG performance update is available on the EPCOR website at www.epcor.com/esg.

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

Operational and financial performance is monitored through non-financial as well as financial measures that fall under these broad categories: health, safety and environment (HSE); operational efficiency; customer service; and net income.

Specific measures are established for each business unit and the corporate shared services group in alignment with the Company's strategy. Business unit and segment measures are focused on customer related measures relevant to the particular business unit and segment, such as customer satisfaction survey results and service reliability metrics. Certain segment performance measures are discussed under Segment Results of this MD&A.

Significant Events

Samsung Austin Semiconductor, LLC (Samsung) Projects

The Company signed two Preliminary Services Agreements and subsequent amending agreements with Samsung, a wholly owned subsidiary of Samsung Electronics Co., Ltd., to carry out design work, site investigation, procurement of long lead equipment and completion of early works for construction of a groundwater supply system (Project Sandow) and an industrial water reclamation facility (Project Blue Sky) to support Samsung's new semiconductor fabrication facility in Taylor, Texas.

The Company signed definitive Project Agreements (the PAs) in December 2022 and April 2023 for Projects Sandow and Blue Sky, respectively, to carry out the remaining work to design, build, own, operate, maintain and transfer the project assets to Samsung at the expiry of the full operation and maintenance term, or in certain instances of early termination. The construction of both projects is expected to be substantially complete by the end of 2024, with an initial operation and maintenance period of 30 years after completion of construction. Under the terms of the PAs, the Company committed to fund US$300 million during the projects and the remaining commitment as of December 31, 2023 is US$240 million.

During the year ended December 31, 2023, the Company recorded construction revenues of $1,688 million (2022 - $478 million) related to the Samsung projects, which were recognized on the basis of costs incurred plus an agreed-upon margin. The construction expenditures, totalling $1,615 million (2022 - $466 million), were recorded in other raw materials and operating charges.

At December 31, 2023, the Company recorded $122 million (2022 - $407 million) in the current portion of other financial assets, and $3 million (2022 - $nil) in the non-current portion of other financial assets, which represents unbilled construction revenues translated at the period end exchange rate.

At December 31, 2023, the Company funded $79 million (2022 - $nil) of the groundwater supply system, and recorded a finance lease receivable, which will be recovered over the term of 30 years after completion of construction.

At December 31, 2023, the Company recorded $258 million within trade and other receivables due from Samsung, of which $138 million was past due. Samsung is disputing certain charges billed by the Company and has failed to fully pay invoiced amounts. Subsequent to year-end, Samsung paid EPCOR $139 million pertaining to amounts recorded within trade and other receivables at December 31, 2023, including $75 million of the past due amounts.

Reciprocally, the Company elected to withhold $9 million of amounts invoiced by the Design Build Contractor for Project Blue Sky (the Contractor) when otherwise due under the terms of the Design Build Contract based on Samsung's partial payment of the invoices issued by EPCOR.

The Company continues to work with Samsung and the Contractor to resolve the disputed charges in accordance with the dispute resolution remedies in the various contracts. If the disputes are not resolved satisfactorily, further dispute resolution remedies may be pursued, including possible termination of the contracts.

Executive Appointment

Effective May 2, 2023, Stuart Lee retired as President and Chief Executive Officer and EPCOR's Board of Directors appointed John Elford as EPCOR's new President and Chief Executive Officer.

Reorganization of Corporate Structure and Reporting Segments

During the fourth quarter of 2023, the Company realigned its operating segments to reflect the results of an internal reorganization. The reorganization resulted in the formation of a new operating segment, North American Commercial Services, which combines certain previously existing businesses in a new reportable segment. Comparative segmented results for 2022 have been restated to align with the 2023 reportable segment presentation.

Appointment to the Board of Directors

Effective November 1, 2023, Dr. Verna Yiu was appointed to EPCOR's Board of Directors.

Dividend Increase

The EPCOR dividend to its sole shareholder, the City of Edmonton (the City), is being increased from $185 million in 2023 to $193 million in 2024.

Material Accounting Policies Information

The audited consolidated financial statements for the years ended December 31, 2023 and 2022 have been prepared in accordance with IFRS. The Company adopted amendments to various accounting standards effective January 1, 2023, which did not have a material impact on its consolidated financial statements. Management used judgement to determine that information is material if, when considered with other information included in its financial statements, it could influence decisions users make on the basis of financial information.

Consolidated Financial Information

($ millions) **Years ended December 31,**	**2023**	**2022**	**2021**
Revenues	$ 4,377	$ 2,937	$ 2,226
Adjusted EBITDA	1,061	930	843
Net income	361	379	388
Capital expenditures	988	920	909
Total assets	15,419	14,606	13,247
Loans and borrowings (non-current)	4,456	4,040	3,638
Other liabilities (non-current)	135	169	180
Common share dividends	185	177	171

Revenues

($ millions)	**Three months ended December 31,**		**Year ended December 31,**	
	2023	**2022 (restated)**	**2023**	**2022 (restated)**
Water Services segment	$ 193	$ 176	$ 776	$ 715
Distribution and Transmission segment	128	113	492	439
Energy Services segment	153	256	868	800
North American Commercial Services segment	534	304	1,975	741
U.S. Regulated Water segment	89	81	333	303
Other	-	1	3	2
Intersegment eliminations	(19)	(22)	(70)	(63)
Revenues	**$ 1,078**	**$ 909**	**$ 4,377**	**$ 2,937**

Consolidated revenues were higher by $169 million and $1,440 million for the three months and year ended December 31, 2023, respectively, compared with the corresponding periods in 2022, primarily due to the net impact of the following:

- Water Services segment revenues increased by $17 million and $61 million for the three months and year ended December 31, 2023, respectively, compared with the corresponding periods in 2022, primarily due to higher rates and customer growth.
- Distribution and Transmission segment revenues increased by $15 million and $53 million for the three months and year ended December 31, 2023, respectively, compared with the corresponding periods in 2022 primarily due to higher transmission system access service charge net collections and higher electricity distribution and transmission rates and volumes.
- Energy Services segment revenues decreased by $103 million for the three months ended December 31, 2023 compared with the corresponding period in 2022 primarily due to lower electricity rates, lower service fees from competitive sites, and lower electricity volumes resulting from fewer RRO customer sites. Revenues for the year ended December 31, 2023 increased by $68 million compared with 2022 primarily due to higher electricity rates and higher service fees from competitive sites, partially offset by lower electricity volumes resulting from fewer RRO customer sites.
- North American Commercial Services segment revenues increased by $230 million and $1,234 million for the three months and year ended December 31, 2023, respectively, compared with the corresponding periods in 2022, primarily due to higher construction revenues for Projects Blue Sky and Sandow.
- U.S. Regulated Water segment revenues increased by $8 million and $30 million for the three months and year ended December 31, 2023, respectively, compared with the corresponding periods in 2022, primarily due to increased water and wastewater rates in Arizona.

Adjusted EBITDA and Net Income

We use earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments, transmission system access service charge net collections, and other unusual items (collectively, Adjusted EBITDA) to discuss operating results for the Company's lines of business.

Change in fair value of derivative financial instruments represents the change in fair value of financial electricity purchase contracts between the electricity market forward prices and the contracted prices at the end of the reporting period, for the contracted volumes of electricity. Transmission system access service charge net collections are the difference between the transmission system access service charges paid to the provincial system operators and the transmission system access service charges collected from electricity retailers. Transmission system access service charge net collections are timing differences, which are collected from or returned to electricity retailers as the transmission system access service charges and customer billing determinants are finalized.

We believe that Adjusted EBITDA provides an indicator of the Company's ongoing ability to fund capital expenditures, to incur and service debt and to pay dividends to its shareholder, and may be useful for external stakeholders in evaluating the operations and performance of the Company. Adjusted EBITDA is a non-GAAP financial measure and is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers.

($ millions)	Three months ended December 31,		Year ended December 31,	
	2023	**2022 (restated)**	**2023**	**2022 (restated)**
Adjusted EBITDA by Segment				
Water Services segment	$ 104	$ 92	$ 436	$ 393
Distribution and Transmission segment	59	59	253	248
Energy Services segment	7	19	54	61
North American Commercial Services segment	20	6	105	40
U.S. Regulated Water segment	53	40	180	157
Other	13	7	33	31
Adjusted EBITDA	**256**	**223**	**1,061**	**930**
Other income	-	2	-	2
Finance expenses	(50)	(46)	(190)	(160)
Income tax expense	(12)	(14)	(20)	(37)
Depreciation and amortization	(112)	(116)	(429)	(409)
Change in fair value of financial electricity purchase contracts	2	46	(83)	64
Transmission system access service charge net collections	11	(2)	22	(11)
Net income	**$ 95**	**$ 93**	**$ 361**	**$ 379**

Changes in each business segment's Adjusted EBITDA, compared with the corresponding periods in 2022, are described in Segment Results below. Explanations of the remaining variances in net income for the three months and year ended December 31, 2023, compared with the corresponding periods in 2022, are as follows:

- Higher finance expense of $4 million and $30 million for the three months and year ended December 31, 2023, respectively, was primarily due to interest expense on long-term debt issued in 2022 and the fourth quarter of 2023, and higher interest expense due to higher short-term debt rates and balances during the year.

- Lower income tax expense of $2 million and $17 million for the three months and year ended December 31, 2023, respectively, was primarily due to lower income subject to tax in Canada, which includes unfavourable changes in the fair market value of electricity purchase contracts in Energy Services, partially offset by higher income subject to tax in North American Commercial Services resulting from increased income from the Samsung projects.
- Lower depreciation and amortization of $4 million for the three months ended December 31, 2023 was primarily due to early asset retirements in 2022 partially offset by 2022 and 2023 asset additions. Higher depreciation and amortization of $20 million for the year ended December 31, 2023, was primarily due to 2022 and 2023 asset additions.
- Unfavourable changes in the fair value of financial electricity purchase contracts of $44 million for the three months ended December 31, 2023, were due to a lower difference between electricity market forward prices and contracted prices in 2023, compared to 2022. Unfavourable changes in the fair value of financial electricity purchase contracts of $147 million for the year ended December 31, 2023, were due to the difference between settled electricity market forward prices and contracted electricity prices and contracted prices being higher than electricity market forward prices in 2023, compared to electricity market forward prices being higher than contracted prices in 2022.
- There were higher transmission system access service charge net collections of $13 million and $33 million for the three months and year ended December 31, 2023, respectively.

Segment Results

Water Services

Water Services is primarily involved in the treatment, transmission, distribution and sale of water, the collection and conveyance of sanitary and stormwater and the treatment of wastewater within Edmonton and other communities surrounding Edmonton. In the fourth quarter of 2023, Water Services transferred certain operations related to the provision of design, build, finance, operating and maintenance services for municipal and industrial customers in Western Canada to North American Commercial Services.

Water Services' primary objective is to reliably supply drinking water and industrial process water, to collect and treat wastewater and to collect and convey stormwater while ensuring that the quality meets or exceeds public health, environmental and industrial requirements. The majority of Water Services' income is earned through Performance Based Regulation (PBR) rates charged to its Edmonton customers. The PBR rates are intended to allow Water Services the opportunity to recover its costs and earn a fair rate of return on invested capital while providing an incentive to manage costs below inflation and other prescribed adjustments built into the rates. Under the PBR framework, customer rates are adjusted for inflation and expected efficiency improvements over the PBR term.

The current PBR for Water Services covers the five-year period effective from April 1, 2022 to March 31, 2027, while the current PBR for Drainage Services and Wastewater Treatment covers a three-year period effective from April 1, 2022 to March 31, 2025. The PBR approvals include a consumption deferral account that will accumulate over the PBR terms. The consumption deferral account for both PBR approvals is based on the difference between actual and forecast consumption, with a refund to or collection from customers in the subsequent PBR terms.

Bylaw 19626 related to Water Services includes an allowed return on equity (ROE) of 9.64%. Bylaw 19627 related to Drainage Services and Wastewater Treatment includes an allowed ROE for Wastewater of 9.64% and an allowed rate of 9.95% for Drainage Services. The ROE for Drainage Services is being implemented on an inclining basis over the 2022-2026 period in equal increments, starting at 5.50% in 2022 and resulting in an average ROE of 7.14% over the three-year period. The ROE of 9.95% in 2025 and 2026 will require further approval in a future bylaw. The approval includes special rate adjustments to sanitary and stormwater rates to recover the costs of Stormwater Integrated Resource Plan (SIRP) and the Corrosion and Odour Reduction (CORe) strategies over the 2022-2024 PBR term, with an approved ROE of 9.95%. The SIRP Strategy focuses on addressing flood mitigation risks in the City. SIRP will also achieve environmental quality objectives by capturing peak storm water volumes at the source using green infrastructure Low Impact Development and dry ponds, which reduces volumes of water at the outfalls and provides water quality improvements. The CORe Strategy focuses on preventing the formation of hydrogen sulfide gas (H2S), which will reduce community odour impacts and lengthen the life of sewer network assets by mitigating sanitary pipe corrosion caused by H2S.

For the April 2022 to March 2027 period, the City approved a non-routine adjustment (NRA) to the water rates related to the relocation of water distribution assets due to light rail transit construction and City road projects. The NRA will be added to the fixed monthly service charges starting on April 1, 2024.

Operationally, the facilities owned or managed by Water Services generally performed according to plan in 2023. EPCOR maintained the required quality of Edmonton's drinking water and wastewater discharge throughout the year, while supporting higher than anticipated water consumption resulting from the impact of lower than expected precipitation in 2023.

In 2023, the Company invested in sustaining and lifecycle projects including relocation of utility infrastructure and odour and flood mitigation projects.

Water Services Operating Income and Adjusted EBITDA

($ millions, including intersegment transactions)		Three months ended December 31,		Year ended December 31,	
		2023	**2022 (restated)**	**2023**	**2022 (restated)**
Revenues	Water sales	$ 70	$ 62	$ 285	$ 259
	Provision of services	123	114	491	456
		193	176	776	715
Expenses	Other raw materials and operating charges	21	19	88	81
	Staff costs and employee benefits expenses	33	36	130	133
	Depreciation and amortization	57	48	197	174
	Franchise fees and property taxes	11	10	45	41
	Other administrative expenses	10	7	40	31
		132	120	500	460
Operating income before corporate charges		61	56	276	255
Corporate charges		(14)	(12)	(37)	(36)
Operating income		**47**	**44**	**239**	**219**
Exclude depreciation and amortization		57	48	197	174
Adjusted EBITDA		**$ 104**	**$ 92**	**$ 436**	**$ 393**

	Three months	**Year**
Adjusted EBITDA for the periods ended December 31, 2022 (restated)	**$ 92**	**$ 393**
Higher water sales due to higher rates and volumes	14	55
Higher other revenues due to amortization of increased deferred revenue	1	4
Higher contractor costs	(4)	(9)
Lower staff costs and employee benefits expenses	3	3
Higher franchise fees	(1)	(3)
Other	(1)	(7)
Increase in Adjusted EBITDA	12	43
Adjusted EBITDA for the periods ended December 31, 2023	**$ 104**	**$ 436**

Water Services' Adjusted EBITDA increased by $12 million and $43 million for the three months and year ended December 31, 2023, respectively, compared with the corresponding period in 2022, primarily due to higher rates and volumes for water sales, partially offset by higher contractor costs.

Year ended December 31,	2023	2022
Volumes for Edmonton and surrounding regions (megalitres)		
Water sales	130,914	126,877
Sanitary volumes	90,319	87,407

Water sales and sanitary volumes increased in 2023 compared with 2022, primarily due to lower precipitation in 2023 resulting in higher consumption than in 2022.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton.

Distribution and Transmission's priority is to be a trusted provider of safe and reliable electricity, known for operational excellence through innovative and practical solutions. Distribution and Transmission earns income principally by transmitting high-voltage electricity through its facilities that form part of the Alberta Interconnected Electrical System to points of distribution, and from there, distributing lower voltage electricity to end-use customers. The transmission services are provided solely to the Alberta Electric System Operator (AESO). The distribution services are provided to retailers within Distribution and Transmission's distribution service area in Edmonton. Distribution and Transmission's assets are located in and around Edmonton and are rate regulated by the Alberta Utilities Commission (AUC). Transmission charges a regulated rate tariff (RRT) intended to allow recovery of prudent costs and earn a fair rate of return on invested capital. Distribution earns income through a PBR tariff charged to its customers. The PBR tariff is intended to allow Distribution the opportunity to recover its costs and earn a fair return on capital while providing an incentive to manage costs below inflation and other prescribed adjustments built into the tariff.

The AUC initiated a proceeding in June 2022 to establish the parameters of the PBR plans for Alberta distribution facility owners that will start in 2024. EPCOR received a decision in October 2023 that approved the continuation of a similar framework to the previous plan for the years 2024 to 2028 with some modifications to include an earnings sharing mechanism, increased capital funding provision changes and modifications to the productivity and inflation factor calculations. Additionally, the Commission removed the Efficiency Carry-Over Mechanism that was present in the previous two plans. EPCOR submitted a compliance filing in November 2023 to set the 2024 rates and in December 2023, the AUC approved the rates included in the compliance filing on an interim basis for 2024. EPCOR anticipates receiving final approval of the 2024 rates in the first quarter of 2024.

EPCOR filed its 2023 to 2025 Transmission Facility Owner Tariff Application in September 2022. In February 2023, EPCOR filed a negotiated settlement agreement on this application which was subsequently approved by the AUC in April 2023. EPCOR completed the true-up of interim to final rates in May 2023 and is charging approved rates through to the end of 2025.

In October 2023, EPCOR received a decision on the 2024 Generic Cost of Capital that established a formula-based approach to setting parameters for the next five years. The capital structure remained at the previously approved 37% equity and 63% debt, while the return on equity percentage is to be calculated annually based upon a 9% base rate adjusted by changes in future bond yields. The resulting return on equity for 2024 is 9.28%.

In October 2021, the AUC issued a decision that revised the regulatory accounting treatment for AESO directed customer contributions. As per the decision, any AESO directed customer contributions made by the distribution facility owners after April 23, 2021, requires the contributing entity to expense the contributions for regulatory purposes in the year they are incurred. These contributions were previously considered rate base for which the contributing entity earned a return. EPCOR filed a request for permission to appeal this decision with the Court of Appeal of Alberta, which was granted by the court in January 2022. The intent of the appeal is to reverse this decision and treat the contributions as capital investment on which either the transmission facility owner or distribution utility owner is entitled to earn a fair return. The appeal hearing took place in February 2023. EPCOR expects a decision by the first quarter of 2024. In compliance with the decision, the Company included contribution related expenses in EPCOR's 2023 distribution revenue requirement, with a true-up between forecast and actual contributions to be settled in a future year.

Work on several significant capital projects proceeded in 2023. These projects include work to construct a new substation at Genesee to facilitate interconnection of two new power generation units, ongoing work to connect new residential and industrial customers to EPCOR's distribution system, the annual Distribution pole and cable life cycle replacement programs to maintain the system reliability, replacing damaged underground assets, continuation of work on Distribution aerial and underground line reconfigurations, and providing development rebates to land developers who construct underground primary and secondary distribution infrastructure for new residential lot developments within the City.

Distribution and Transmission Operating Income and Adjusted EBITDA

($ millions, including intersegment transactions)		Three months ended December 31,		Year ended December 31,	
		2023	**2022 (restated)**	**2023**	**2022 (restated)**
Revenues	Provision of services				
	Distribution	$ 93	$ 80	$ 350	$ 309
	Transmission	31	28	126	113
	Commercial and other	4	5	16	17
		128	113	492	439
Expenses	Other raw materials and operating charges	5	5	21	19
	Staff costs and employee benefits expenses	16	16	56	51
	Depreciation and amortization	28	28	110	109
	Franchise fees and property taxes	25	25	102	98
	Other administrative expenses	4	3	16	13
		78	77	305	290
Operating income before corporate charges		50	36	187	149
Corporate charges		(9)	(7)	(22)	(20)
Operating income		**41**	**29**	**165**	**129**
Exclude depreciation and amortization		28	28	110	109
Exclude transmission system access service charge net collections		(10)	2	(22)	10
Adjusted EBITDA		**$ 59**	**$ 59**	**$ 253**	**$ 248**

	Three months	**Year**
Adjusted EBITDA for the periods ended December 31, 2022 (restated)	**$ 59**	**$ 248**
Higher electricity distribution rates	2	5
Higher electricity transmission rates	3	13
Higher staff costs	-	(5)
Higher operating and administrative expenses	(3)	(7)
Other	(2)	(1)
Increase in Adjusted EBITDA	-	5
Adjusted EBITDA for the periods ended December 31, 2023	**$ 59**	**$ 253**

Distribution and Transmission's Adjusted EBITDA increased by $5 million for the year ended December 31, 2023, compared with the corresponding period in 2022, primarily due to increases in electricity distribution and transmission rates partially offset by an increase in staff costs and employee benefits.

Year ended December 31,	2023	2022
Distribution reliability and electricity volumes		
Reliability (system average interruption duration index in hours)	0.58	0.72
Electricity distribution (gigawatt hours)	7,588	7,619

Distribution and Transmission's primary measure of distribution system reliability is the System Average Interruption Duration Index (SAIDI), which it focuses on minimizing. This measure captures the annual average number of hours of interruption experienced by Distribution and Transmission's customers, including scheduled and unscheduled interruptions to its primary distribution circuits. In 2023, the SAIDI was 0.58 hours which is an improvement from the 2022 value of 0.72 hours and remains well below the target of 1.15 hours set by AUC. Distribution and Transmission will continue with its reliability improvement programs to help maintain and improve overall system reliability. Electricity distribution volumes in 2023 slightly decreased compared to 2022.

Energy Services

Energy Services is primarily involved in the provision of the RRO electricity service and default supply electricity services to customers in Alberta. The segment also provides competitive electricity and natural gas products under the Encor brand.

In December 2022, interim rates were filed for 2023 and were subsequently approved by the AUC. The 2023-2025 Non-Energy rate application was filed in September 2023 with a decision expected in the first half of 2024.

Application for a new 2024-2025 Energy Price Setting Plan (EPSP) was filed in December 2023. The current 2021-2024 EPSP is effective until June 2024.

In December 2022, the Government of Alberta (GOA) passed Bill 2 including amendments to the Regulated Rate Option Stability Act, to implement a rate ceiling on rates billed to RRO customers of 13.5 cents per kWH for electricity consumed during the three-month period from January 2023 to March 2023. The difference between the approved RRO rate and the rate ceiling is being collected from RRO customers through adjustments to electricity rates which started in April 2023 and will conclude in December 2024. Consequently, during the three months ended March 31, 2023, the Company received $138 million of funding from the GOA which is being repaid to the GOA upon collection of deferred amounts from RRO customers during the billing periods between April 2023 and December 2024. As at December 31, 2023, the Company recorded $87 million in the current portion of other liabilities and $51 million has been repaid to the GOA. The GOA, working with industry, conducted a review of the RRO with the goal of improving affordability and rate stability. There is also an ongoing provincial review to evaluate all elements of Alberta's electricity market design, aimed at adapting the market to better deliver on reliability, affordability and sustainability.

Energy Services Operating Income and Adjusted EBITDA

($ millions, including intersegment transactions)		Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Revenues	Electricity and natural gas sales	$ 142	$ 241	$ 805	$ 748
	Provision of services	11	15	63	52
		153	256	868	800
Expenses	Energy purchases and system access fees	116	167	802	585
	Other raw materials and operating charges	-	-	-	1
	Staff costs and employee benefits expenses	10	11	40	39
	Depreciation and amortization	3	2	9	8
	Other administrative expenses	12	8	37	32
		141	188	888	665
Operating income (loss) before corporate charges		12	68	(20)	135
Corporate charges		(6)	(5)	(18)	(18)
Operating income (loss)		**6**	**63**	**(38)**	**117**
Exclude depreciation and amortization		3	2	9	8
Exclude change in fair value of financial electricity purchase contracts		(2)	(46)	83	(64)
Adjusted EBITDA		**$ 7**	**$ 19**	**$ 54**	**$ 61**

	Three months	Year
Adjusted EBITDA for the periods ended December 31, 2022	**$ 19**	**$ 61**
Lower EPSP margins	(9)	(8)
Higher competitive site counts	2	8
Higher provision for expected credit losses	(3)	(4)
Other	(2)	(3)
Decrease in Adjusted EBITDA	(12)	(7)
Adjusted EBITDA for the periods ended December 31, 2023	$ 7	$ 54

Energy Services' Adjusted EBITDA decreased by $12 million and $7 million for the three months and year ended December 31, 2023, respectively, compared with the corresponding periods in 2022, primarily due to lower EPSP margins and higher provision for expected credit losses, partially offset by increased competitive margins resulting from higher competitive site counts.

Energy Services' retail electricity sales volumes were as follows:

Year ended December 31,	**2023**	**2022**
Retail electricity sales (gigawatt hours)		
RRO	3,088	3,901
Default and Competitive supply	2,039	1,565
Total	**5,127**	**5,466**

Energy Services' RRO sales volumes were lower in 2023, compared with 2022, primarily due to customers switching to competitive retailers due to higher energy costs leading to high RRO rates. The increase in default and competitive supply sales volume reflects an increase in competitive customer sites, including some who were previously on RRO supply.

Energy Services retail natural gas sales volumes were as follows:

Year ended December 31,	**2023**	**2022**
Retail natural gas sales (terajoules)		
Competitive supply	13,053	12,769

Energy Services' natural gas sales volumes were higher in 2023, compared with 2022, primarily due to increase in customer sites.

North American Commercial Services

North American Commercial Services includes business development projects related to the provision of design, build, finance, operating and maintenance services for municipal and industrial water, wastewater, electricity and natural gas customers in North America. The segment includes electricity distribution in Canada and natural gas distribution and transmission businesses in Canada and the U.S.

EPCOR operates and maintains water and wastewater facilities under contracts with various municipal and industrial customers in Alberta, British Columbia, Saskatchewan and Ontario. The most significant of these contracts is with the City of Regina. EPCOR operates the wastewater treatment plant located in Regina under a 30-year agreement that includes upgrades to the existing plant completed in prior years, operating the plant and partial financing of the completed upgrades. EPCOR is currently constructing a demineralized water treatment plant at the Darlington Nuclear Generating Station under a 30-year design, build, own, operate, maintain and transfer agreement with Ontario Power Generation. The facility is expected to in service in 2024 with the operations period continuing until 2053.

As noted in the significant events section on page 3, during the year ended December 31, 2022, the Company entered into PSAs with Samsung to carry out early works for Projects Blue Sky and Sandow. The Company subsequently signed PAs for both projects to carry out remaining work to design, build, operate, maintain and transfer the project assets to Samsung at the end of the 30 year term.

North American Commercial Services operates non-regulated water services in Texas, U.S. The EPCOR 130 Pipeline delivers water through a 30-inch pipeline to municipal customers near Austin, Texas under three long-term contracts. EPCOR operates and maintains the Vista Ridge Pipeline Project, a 143-mile wholesale water supply pipeline that delivers groundwater to the community of San Antonio. EPCOR owns a 5% minority interest in Vista Ridge LLC. While these wholesale water contracts are technically subject to Texas Public Utilities Commission appellate review, they are considered to be effectively unregulated.

EPCOR Gas Texas Inc. provides natural gas distribution and transmission services to customers in Texas and the utility's rates are subject to approval by the Railroad Commission of Texas. EPCOR Natural Gas Limited Partnership owns and operates the Aylmer and the Southern Bruce natural gas distribution systems in southwestern Ontario, and its customer rates are regulated by the Ontario Energy Board (OEB). EPCOR Electricity Distribution Ontario Inc., whose customer rates are also regulated by the OEB, provides electrical distribution services in the Ontario to four communities in the Collingwood area.

EPCOR maintains electrical transmission and substation infrastructure along the Trans Mountain pipeline expansion project under a 20-year design, build, own, maintain and transfer agreement with Trans Mountain

Pipeline L.P.

This segment also provides EPCOR affiliates with professional services, engineering design, project management, dispatch services, and fleet services.

North American Commercial Services Operating Income and Adjusted EBITDA

($ millions, including intersegment transactions)		Three months ended December 31, 2023	Three months ended December 31, 2022 (restated)	Year ended December 31, 2023	Year ended December 31, 2022 (restated)
Revenues	Natural gas and water sales	$ 20	$ 20	$ 75	$ 75
	Provision of services	39	42	149	142
	Construction revenue	472	241	1,738	512
	Other commercial revenue	3	1	13	12
		534	304	1,975	741
Expenses	Energy purchases and system access fees	15	15	53	54
	Other raw materials and operating charges	473	256	1,736	559
	Staff costs and employee benefits expenses	17	19	59	68
	Depreciation and amortization	5	8	13	22
	Franchise fees and property taxes	1	1	2	2
	Other administrative expenses	3	4	12	10
		514	303	1,875	715
Operating income before corporate charges		20	1	100	26
Corporate charges		(4)	(3)	(8)	(9)
Operating income (loss)		16	(2)	92	**17**
Exclude depreciation and amortization		5	8	13	22
Exclude transmission system access service charge net collections		(1)	-	-	1
Adjusted EBITDA		**$ 20**	**$ 6**	**$ 105**	**$ 40**

	Three months	Year
Adjusted EBITDA for the periods ended December 31, 2022 (restated)	**$ 6**	**$ 40**
Higher construction margins in central Texas	10	61
Higher groundwater reservation margin	3	8
Other	1	(4)
Increase in Adjusted EBITDA	14	65
Adjusted EBITDA for the periods ended December 31, 2023	**$ 20**	**$ 105**

North American Commercial Services' Adjusted EBITDA increased by $14 million and $65 million for the three months and year ended December 31, 2023, respectively, compared with the corresponding periods in 2022, primarily due to higher construction margins for the Samsung projects and the groundwater reservation margin.

Year ended December 31,	2023	2022
U.S. natural gas distribution volumes (terajoules)	340	396
Wholesale water sales (by EPCOR 130) volumes (megalitres)	5,659	5,425
Ontario natural gas sales volumes (terajoules)		
Alymer	3,578	3,452
Southern Bruce	1,097	986
Ontario electricity distribution volumes (gigawatt hours)	333	335

U.S. Regulated Water

U.S. Regulated Water is primarily involved in the treatment, transmission, distribution and sale of water, the collection and treatment of wastewater, and construction of related facilities in Arizona and New Mexico.

Customer rates in Arizona and New Mexico are subject to approval by the Arizona Corporation Commission (ACC) and the New Mexico Public Regulation Commission, respectively. Customer rates are intended to allow EPCOR the opportunity to recover costs and earn a reasonable rate of return under a historical cost-of-service framework.

At December 31, 2023, in Arizona and New Mexico, EPCOR owned operations in nine water utility districts, each containing one or more water treatment and / or distribution facilities, and four wastewater utility districts, each containing one or more wastewater treatment and / or collection facilities. In 2022, the ACC approved the Company's water rate case including consolidation of certain water utility districts into the Sonoran district.

On April 28, 2022, the Arizona Corporation Commission issued a rate case decision effectively increasing customer rates in the San Tan Water and Wastewater Districts. The new rates went into effect on May 1, 2022.

Work on several significant capital projects progressed satisfactorily in 2023. These projects include the sewer main extension and wastewater treatment plant expansion west of metropolitan Phoenix to accommodate new industrial and commercial customers and construction of a new wastewater treatment plant in the San Tan district.

On August 31, 2022, the Company filed with the ACC, a request for the further consolidation with the four wastewater utility districts to be consolidated into two districts and a rate increase. At December 31, 2023, that decision is still pending.

U.S. Regulated Water Operating Income and Adjusted EBITDA

($ millions, including intersegment transactions)		Three months ended December 31,		Year ended December 31,	
		2023	2022 (restated)	2023	2022 (restated)
Revenues	Water sales	$ 55	$ 45	$ 211	$ 190
	Provision of services	34	36	122	113
		89	81	333	303
Expenses	Other raw materials and operating charges	15	13	63	62
	Staff costs and employee benefits expenses	9	14	51	46
	Depreciation and amortization	14	22	73	67
	Franchise fees and property taxes	3	1	9	8
	Other administrative expenses	6	11	23	24
		47	61	219	207
Operating income before corporate charges		42	20	114	96
Corporate charges		(3)	(2)	(7)	(6)
Operating income		**39**	**18**	**107**	**90**
Exclude depreciation and amortization		14	22	73	67
Adjusted EBITDA		**$ 53**	**$ 40**	**$ 180**	**$ 157**

	Three months	Year
Adjusted EBITDA for the periods ended December 31, 2022 (restated)	**$ 40**	**$ 157**
Higher water and wastewater revenues in Arizona and New Mexico	10	29
Higher staff costs due to increased number of employees	-	(5)
Lower staff costs due to higher transfers to capital	5	-
Other	(2)	(1)
Increase in Adjusted EBITDA	13	23
Adjusted EBITDA for the periods ended December 31, 2023	**$ 53**	**$ 180**

U.S. Regulated Water Adjusted EBITDA increased by $13 million and $23 million for the three months and year ended December 31, 2023, respectively, compared with the corresponding periods in 2022, primarily due to customer growth and increased water and wastewater rates in Arizona.

Year ended December 31,	**2023**	**2022**
Water sales volumes (megalitres) for Arizona and New Mexico	103,605	101,867

Arizona and New Mexico water sales volumes increased in 2023 compared to 2022 primarily due to the growth in the San Tan region and higher volumes due to lower precipitation.

Capital Expenditures

($ million) **Years ended December 31,**		**2023**		**2022 (restated)**		**2021 (restated)**
Water Services segment	$	444	$	437	$	474
Distribution and Transmission segment		320		277		251
Energy Services segment		1		1		2
U.S. Regulated Water segment		179		153		130
North American Commercial Services		26		43		32
Other		18		9		20
Total capital expenditures	**$**	**988**	**$**	**920**	**$**	**909**

We continued to invest in our infrastructure assets to improve reliability and meet increasing electricity, natural gas, treated water, sanitary and stormwater collection and wastewater treatment demands. Total capital expenditures increased by $68 million for the year ended December 31, 2023, compared with 2022 primarily due to higher capital expenditures in the Company's Distribution and Transmission segment due to the construction of a new substation to facilitate interconnection of two new power generation units in Alberta and in the U.S. Regulated Water segment due to construction of a new wastewater treatment facility in Arizona**.**

During the year, the Company invested in sustaining and lifecycle projects including relocation of utility infrastructure necessitated by construction undertaken by the City and odour and flood mitigation projects.

Consolidated Statements of Financial Position – Assets

($ millions)	December 31 2023	December 31 2022	Increase (decrease)	Explanation of primary changes
Cash and cash equivalents	$ 25	$ 130	$ (105)	Refer to Consolidated Statements of Cash Flows section.
Trade and other receivables	931	653	278	Higher construction and competitive retail energy receivables and higher receivables related to the RRO Stability Act, partially offset by lower regulated retail energy receivables.
Inventories	29	25	4	
Other financial assets	514	682	(168)	Lower unbilled construction receivables relating to the Samsung Projects, partially offset by higher derivative financial assets.
Deferred tax assets	75	67	8	Increases in non-capital loss carryforward balances resulting from lower income subject to tax in Canada, which includes the unfavourable changes in the fair value of electricity purchase contracts in Energy Services.
Property, plant and equipment	13,306	12,491	815	Capital expenditures, partially offset by depreciation expense, disposal of assets and foreign currency valuation adjustments.
Intangible assets and goodwill	539	558	(19)	Amortization expense and foreign currency valuation adjustments, partially offset by capital expenditures.
Total Assets	**$ 15,419**	**$ 14,606**	**$ 813**	

Consolidated Statements of Financial Position – Liabilities and Equity

($ millions)	December 31		Increase	
	2023	2022	(decrease)	Explanation of primary changes
Trade and other payables	$ 853	$ 832	$ 21	Higher construction payables related to the Samsung Projects, partially offset by lower energy purchase prices and volume and rebates payable related to the Alberta Government initiated Electricity Rebate program.
Loans and borrowings	4,741	4,557	184	Issuance of long-term debt, partially offset by lower short-term debt balance and principal repayments of long-term debt.
Deferred revenue	4,798	4,429	369	Cash and asset contributions received, and transfers from provisions and other liabilities, partially offset by deferred revenue recognized and foreign currency valuation adjustments.
Provisions	198	182	16	Receipt of construction advances net of transfers to deferred revenue.
Other liabilities	256	201	55	Addition of funding received (net of repayments) under the Regulated Rate Option Stability Act partially offset by the satisfaction of the Arizona Department of Environment quality liability.
Deferred tax liabilities	78	83	(5)	Decrease in the net deferred tax liability for the U.S. Regulated Water segment and foreign exchange translation adjustments.
Equity	4,495	4,322	173	
Total liabilities and equity	**$ 15,419**	**$ 14,606**	**$ 813**	

Consolidated Statements of Cash Flows

($ millions)
Cash inflows (outflows)

Three months ended December 31,	**2023**	**2022[1]**	**Increase (decrease)**	**Explanation of primary changes**
Operating	$ 214	$ (106)	$ 320	Higher net cash flows due to changes in non-cash operating working capital and higher contributions received partially offset by higher income tax payments.
Investing	(337)	(2)	(335)	Higher net cash outflows due to changes in financial assets and increase in capital expenditures.
Financing	18	199	(181)	Lower net cash flows due to higher net repayments of short-term debt and repayment of funding received under the Regulated Rate Option Stability Act, partially offset by proceeds from issuance of long-term debt in the fourth quarter of 2023.
Opening cash and cash equivalents	130	39	91	
Closing cash and cash equivalents	**$ 25**	**$ 130**	**$ (105)**	

($ millions)
Cash inflows (outflows)

Year ended December 31,	**2023**	**2022[1]**	**Increase (decrease)**	**Explanation of primary changes**
Operating	$ 845	$ 549	$ 296	Higher net cash flows due to changes in non-cash operating working capital and higher contributions received partially offset by higher interest payments, and higher income tax payments,
Investing	(1,041)	(764)	(277)	Higher net cash outflows due to changes in non-cash investing working capital, changes in financial assets, increase in capital expenditures and the proceeds from the expropriation of Bullhead City water utility systems in 2022.
Financing	91	315	(224)	Lower net cash flows due to higher net repayments of short-term debt, partially offset by higher proceeds from issuance of long-term debt and funding received under the Regulated Rate Option Stability Act.
Opening cash and cash equivalents	130	30	100	
Closing cash and cash equivalents	**$ 25**	**$ 130**	**$ (105)**	

1. 2022 unbilled construction receivables have been reclassified to cash flows from operating activities from cash flows used in investing activities to conform with the current year classification.

Operating Activities and Liquidity

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

The Company expects to have sufficient liquidity to finance its plans and fund its obligations, including current liabilities in excess of current assets, for the next year, with a combination of available cash, funds from operations, issuance of commercial paper, public or private debt offerings and availability of liquidity from committed credit facilities described under the Financing section below. Cash flows from operating activities would be impaired by events that cause severe damage to our facilities and would require unplanned cash outlays for system restoration repairs. Under those circumstances, more reliance would be placed on our credit facilities for working capital requirements until a regulatory approved recovery mechanism or insurance proceeds are put in place.

Capital Requirements and Contractual Obligations

EPCOR's projected cash requirements for capital expenditures in 2024 include $976 million to $1,176 million.

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

($ millions)	2024	2025	2026	2027	2028	2029 and thereafter	Total
Distribution and Transmission segment capital projects[1]	$ 35	$ 2	$ -	$ -	$ -	$ -	$ 37
U.S. Regulated Water billing and customer care services agreement[2]	5	5	5	5	5	12	37
The Company's remaining investment in Samsung projects[3]	269	50	-	-	-	-	319
Sandow Lakes Ranch[4]	11	12	12	13	13	442	503
EPCOR 130 pipeline expansion[5]	34	13	-	-	-	-	47
Loans and borrowings[6]	285	34	34	33	33	4,330	4,749
Interest payments on loans and borrowings	196	192	191	190	186	3,043	3,998
Contingent consideration[7]	-	-	44	-	-	-	44
Lease liability payments[8]	14	14	13	13	13	38	105
Other	60	14	8	5	4	22	113
Total contractual obligations	**$ 909**	**$ 336**	**$ 307**	**$ 259**	**$ 254**	**$ 7,887**	**$ 9,952**

1. The Company has commitments for several Distribution and Transmission projects as directed by the AESO.
2. The Company entered into a contract for billing software and support services for its U.S. Regulated Water segment. The contract is valid for a period of 10 years up to November 2030.
3. Under the PAs executed with Samsung (as described in the Significant Events section on page 3), the Company committed to invest US$300 million of the projects, At December 31, 2023, the Company has invested $US60 million.
4. The Company entered into a sub-contract with Sandow Lakes Ranch for utilization of their waste disposal facilities and the reservation and supply of water to Samsung.
5. The Company is party to an agreement to meet minimum capacity requirements for a customer of the EPCOR 130 pipeline. Based on the demand from this customer, the Company will be commencing construction to increase the capacity in 2024.
6. During the year, the Company issued $567 million long-term public debentures for a term of 30 years with a coupon rate of 5.33% and an effective interest rate of 5.25%. The debentures were issued at a premium with a face value of $550 million. The interest is payable semi-annually and the principal is due at maturity. For additional information on loans and borrowings, refer to Loans and Borrowings (note 16) of the consolidated financial statements for the years ended December 31, 2023 and 2022.

7. The contingent consideration represents the present value of the Company's commitment to pay approximately US$33 million on securing newly executed long-term contracts for the supply of water by EPCOR 130 Project Inc. and finalization of certain pending agreements with third parties. The Company is reasonably certain that it will be required to settle the commitment related to EPCOR 130 Project Inc. by way of cash payments and, accordingly, recognized the liability for contingent consideration in the consolidated statements of financial position.

8. The Company entered into various agreements for lease of land and buildings including office space. For additional information on lease liabilities, refer to EPCOR's consolidated financial statements for the years ended December 31, 2023 and 2022.

As at February 15, 2024, there were three common shares of the Company outstanding, all of which are owned by the City. During the year ended December 31, 2023, the Company paid a dividend of $185 million to the City which will be increased to $193 million in 2024 and beyond until such time as the EPCOR Board recommends that it be changed.

In the normal course of business, EPCOR provides payment guarantees and performance assurances bonds on behalf of its subsidiaries to meet the conditions of the agreements with third parties. At December 31, 2023, guarantees of $641 million (2022 - $559 million) have been issued to various third parties.

Financing Updates

Generally, our external financing is raised at the corporate level and invested in the operating business units. Our external financing has consisted of commercial paper issuance, bank loans under credit facilities, debentures payable to the City related to utility assets transferred from the City, debentures payable to other municipalities, publicly issued medium-term notes and U.S. private debt notes.

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

($ millions) December 31, 2023	Expiry	Total facilities	Banking Commercial paper issued	Letters of credit issued and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	December 2028	$ 750			
Bank credit facility[1]	November 2025	200			
Bank credit facility[1]	May 2026	150			
Total committed		$ 1,100	$ 145	$ -	$ 955
Uncommitted					
Bank credit facilities[2]	No expiry	340	-	110	230
Bank credit facility	No expiry	25	-	-	25
Total uncommitted		365	-	110	255
Total credit facilities		**$ 1,465**	**$ 145**	**$ 110**	**$ 1,210**

($ millions) December 31, 2022	Expiry	Total facilities	Banking Commercial paper issued	Letters of credit issued and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2027	$ 750			
Bank credit facility[1]	November 2025	200			
Bank credit facility[1]	May 2026	150		$ 32	
Total committed		$ 1,100	$ 385	$ 32	$ 683
Uncommitted					
Bank credit facilities[2]	No expiry	240	-	236	4
Bank credit facility	No expiry	25	-	-	25
Total uncommitted		265	-	236	29
Total credit facilities		**$ 1,365**	**$ 385**	**$ 268**	**$ 712**

1 The Company's committed bank credit facilities are available and can be used for direct borrowings, issuance of letters of credit and backstopping EPCOR's commercial paper program. The committed bank credit facilities cannot be withdrawn by the lenders until expiry, provided that the Company operates within the related terms and covenants. The extension feature of EPCOR's committed bank credit facility gives the Company the option each year to re-price and extend the term of the facilities by one or more years subject to agreement with the lenders. The Company regularly monitors market conditions and may elect to enter into negotiations to extend the maturity dates. In 2023, the syndicated bank credit facility was modified to tie borrowing rates to ESG targets and extended from November 2027 to December 2028. At December 31, 2023, commercial paper totalling $145 million (2022 - $385 million) and no letters of credit (2022 - $32 million) were issued and outstanding.

2 The Company's uncommitted bank credit facility consists of six bilateral credit facilities totalling $340 million (2022 – six credit facilities totalling $240 million) which are restricted to letters of credit. At December 31, 2023, letters of credit totalling $110 million have been issued and outstanding (2022 - $236 million) to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements.

As of December 31, 2023, the Company had a Canadian base shelf prospectus under which it could raise up to $2 billion of debt with maturities of not less than one year. At December 31, 2023, the available amount remaining under this base shelf prospectus was $1 billion (December 31, 2022 - $1.55 billion). The Canadian base shelf prospectus expired in January 2024.

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

Credit Ratings

Years ended December 31,	2023	2022	2021
Credit ratings			
S&P Global Ratings:			
Issuer credit rating and senior unsecured debt rating	A-	A-	A-
DBRS Morningstar:			
Commercial paper rating	R-1 (low)	R-1 (low)	R-1 (low)
Issuer rating and senior unsecured debentures rating	A (low)	A (low)	A (low)
Fitch Ratings:			
Issuer default rating	A-	n/a	n/a
Instrument rating	A	n/a	n/a

In December 2023, S&P Global Ratings confirmed its A- / stable long-term corporate credit and senior unsecured debt ratings for EPCOR. In October 2023, DBRS Morningstar confirmed its A (low) / stable senior unsecured debt and R-1 (low) / stable short-term debt.

In November 2023, Fitch Ratings assigned its ratings of A- / issuer default rating to EPCOR and A / instrument rating to EPCOR's senior, unsecured debt.

These credit ratings reflect the Company's ability to meet its financial obligations given the stable cash flows generated from the rate-regulated water, wastewater, natural gas, and electricity businesses. A credit rating downgrade for EPCOR could result in higher interest costs on new borrowings and reduce the availability of sources and tenor of investment capital.

Financial Covenants

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

The key financial covenants and their thresholds, as defined in the respective agreements and EPCOR's actual measures at December 31, 2023 and 2022 were as follows:

	Threshold	Actual 2023	Actual 2022
Modified consolidated net tangible assets to consolidated net tangible assets[1]	> or = 80%	100%	100%
Consolidated senior debt to consolidated capitalization ratio[2]	< or = 75%	52%	52%
Interest coverage ratio[3]	> or = 1.75:1.00	4.55	5.26
Debt issued by subsidiaries to consolidated net tangible assets[4]	< or = 12.5%	0.1%	0.1%

1. Modified consolidated net tangible assets to consolidated net tangible assets refers to the total assets of the material subsidiaries of the Company on a consolidated basis, less intangible assets expressed as a percentage of the total assets of the Company on a consolidated basis, less intangible assets.

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

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

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

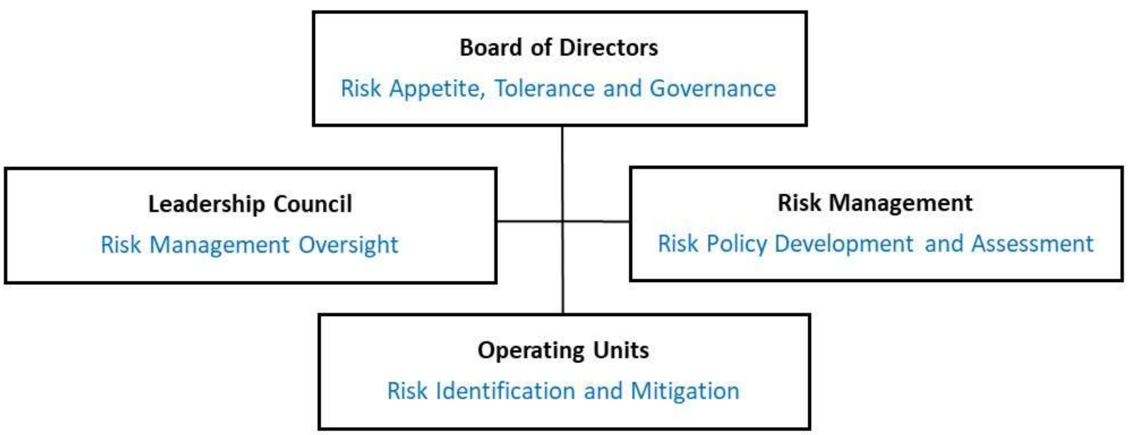
Outlook

In 2024, EPCOR will focus on the expansion and construction of wastewater treatment plants and water treatment plants and will continue to target growth in rate-regulated and contracted water, wastewater, electricity and natural gas infrastructure. We expect much of this investment to come from lifecycle replacement of existing infrastructure primarily related to the Edmonton and U.S. based operations, new infrastructure, and acquisition of new customers. The Company also intends to expand its water and electricity commercial services activities and renewable energy investments which will help reduce greenhouse gas emissions

As noted in the significant events section on page 3, during the year ended December 31, 2023 and 2022, the Company entered into PAs for Projects Sandow and Blue Sky to carry out the remaining work to design, build, operate, maintain and transfer the project assets to Samsung at the end of the 30-year term.

Risk Factors and Risk Management

Approach to Risk Management



Our approach to Enterprise Risk Management (ERM) is to manage the key controllable risks facing the Company and consider appropriate actions to respond to uncontrollable risks. ERM includes the controls and procedures implemented to reduce controllable risks to acceptable levels and the identification of the appropriate management actions in the case of events occurring outside of management's control. EPCOR's ERM framework is aligned with the Committee of Sponsoring Organizations 2017 Integrated ERM Framework and the ERM process follows CAN / CSA ISO 31000-10 Risk Management – Principles and Guidelines. EPCOR's ERM program and the risk management framework and process it supports is designed to identify, assess, measure, mitigate and report on EPCOR's significant risks. The goal is to create and sustain business value by helping the Company achieve its business objectives and strategies through better management of risk. The program promotes a common framework and language for managing risk across EPCOR.

Acceptable levels of risk appetite and risk tolerance for EPCOR are established by the Board of Directors and are embodied in the decisions and Board-approved corporate policies associated with risk management. Oversight of the Company's strategy and ERM framework to identify, monitor and report EPCOR's top strategic and operational risks, including those that are climate-change related, is provided by the Board of Directors. Oversight of the Company's system of controls and procedures associated with mitigating EPCOR's top risks is provided by the Company's senior executive body, Leadership Council. The Director, Audit and Risk Management is responsible for developing the framework and assessing risk at an enterprise level and monitors effectiveness of risk mitigating controls and conformance with risk management policies through the internal audit function. The Director, Audit and Risk Management provides the Board of Directors with an enterprise risk assessment quarterly. The Company's operating units, comprised of business units and shared service units, are responsible for identifying risks and developing and performing the activities associated with mitigating the risks in their respective operations. These operating unit activities are monitored by a cross-functional ERM Committee, chaired by the Director, Audit and Risk Management, which meets quarterly to review risks and to provide input into the quarterly ERM Board report. These risk management actions are integral aspects of the business units' and shared service units' operations.

EPCOR believes that risk management is a key component of the Company's culture and that we have cost-effective risk management practices in place. At the same time, EPCOR views risk management as an ongoing process and we continually review our risks and look for ways to enhance our risk management processes.

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

Among other things, the Company's Ethics Policy includes procedures which provide for confidential disclosure of any wrong-doing relating to accounting, financial reporting and auditing matters. The policy prohibits retaliation against any person making a complaint. During 2023, no significant substantiated complaints with respect to accounting, financial reporting or auditing matters were received.

The Company's principal risks are outlined below in order of most to least potentially serious, as assessed at December 31, 2023. Since December 31, 2022, new risks have been added, relative rankings of certain risks have been revised and commentaries have been amended, reflecting the evolving nature of the Company's risk exposure.

Political and Legislative Changes

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

The Company owns utilities that provide services to municipalities in Canada and the U.S. Although the Company is granted exclusive rights to operate in the municipalities through franchise agreements and certificates of convenience and necessity, the municipalities may exercise their rights under legislation to expropriate the utilities at fair value, subject to a special vote to do so.

EPCOR is a municipally controlled and subsidiary corporation of the City. The Modernized Municipal Government Act (MGA) contains provisions which could restrict EPCOR's ability to conduct its business and achieve its strategic objectives. The Municipally Controlled Corporations Regulation (MCC Regulation), which exempts EPCOR from the MGA expires periodically and is scheduled to next expire on June 30, 2028. If the MCC Regulation is not extended, then the Company could become subject to the provisions of the MGA. In advance of the MCC Regulation's next expiry, EPCOR will work with the GOA to extend the exemption past June 30, 2028, or to permanently exempt EPCOR from the MGA.

The GOA, working with industry, conducted a review of the RRO with the goal of improving affordability and rate stability. There is also an ongoing provincial review to evaluate all elements of Alberta's electricity market design, aimed at adapting the market to better deliver on reliability, affordability and sustainability.

EPCOR maintains an open dialogue with all levels of government in order to stay abreast of emerging issues including, but not limited to, proposed changes in legislation or government sentiment towards utility ownership in order to mitigate the Company's exposure to political and legislative risk.

Regulatory

The majority of EPCOR's operations are subject to risks associated with the regulation of utility rates. Such processes can result in significant lags between the time that customer rates or tariffs are applied for and the time that regulatory decisions are received. Furthermore, the regulator may deny or alter the applied-for customer rates or tariffs. With respect to many of EPCOR's U.S. operations, U.S. regulatory frameworks require utilities to apply a historic test year methodology to establish revenue requirements which further exposes the company to changing market conditions, such as interest and inflation fluctuations.

EPCOR's water treatment and distribution services to customers within Edmonton are rate regulated by Edmonton City Council pursuant to the Edmonton Water Bylaw. EPCOR's sanitary and stormwater collection services and wastewater treatment services to customers within Edmonton are rate regulated by Edmonton City Council pursuant to the Drainage and Wastewater Treatment Bylaw. Our ability to fully recover operating and capital costs and to earn a fair return is dependent upon obtaining regulatory approval of customer rates, achieving the performance targets prescribed in the bylaws, maintaining cost increases at or below inflation, managing operational risks and not exceeding approved capital additions. Rates for water sales to regional water commissions surrounding Edmonton are regulated by the AUC on a complaints-only basis. EPCOR sets the rates it charges to the regional water commissions to recover actual operating and capital costs plus earn a fair rate of return.

The AUC utilizes a PBR structure for distribution utilities in Alberta. Under the PBR framework, which was revised in 2023 to be effective January 1, 2024, EPCOR's annual electricity distribution rates are set by a formula that is generally equal to last year's rates plus an inflation factor less a productivity factor plus a provision for additional approved capital additions. Approval of certain additional capital projects may be applied for annually in a separate capital application, dependent on specific criteria. Our ability to recover the actual costs of providing service and to earn a fair return is dependent upon EPCOR's ability to manage cost increases at or below inflation, achieve the productivity factor and not exceed the approved capital additions, all as defined by the PBR formula or approved in a separate capital application.

The AUC sets rates intended to permit EPCOR's regulated electricity transmission business to recover forecast costs of providing service plus earn a fair return on capital invested in the business. The AUC sets rates intended also to permit the regulated Energy Services' RRO customer services business to recover forecast costs of providing service plus earn a return margin.

In December 2022, the GOA passed Bill 2 including amendments to the Regulated Rate Option Stability Act, to implement a rate ceiling on rates billed to RRO customers of 13.5 cents per kWH for electricity consumed during the three-month period from January 2023 to March 2023. The difference between the approved RRO rate and the rate ceiling is being collected from RRO customers through adjustments to electricity rates which started in April 2023 and will conclude in December 2024.

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

Physical Impacts of Weather and Climate-Change

Acute impacts

Normal weather can have a significant impact on our operations. Melting snow, freeze / thaw cycles and seasonal precipitation in the North Saskatchewan River watershed affect the quality of water entering our Edmonton water treatment plants and the resulting cost of purification. Climate-change could cause extreme weather events such as urban flooding, ice and electrical storms, and high winds resulting in damage to the Company's electricity transmission and distribution system assets, temporarily disrupting the reliable supply of power to customers. In Edmonton, urban flooding could also result in damage to the Company's reputation and increase exposure to legal action, where EPCOR is responsible for stormwater management. EPCOR developed a long-term SIRP for

Edmonton that will prioritize infrastructure investments to help mitigate the impact of urban flooding events.

Extreme heat is not considered to have a significant adverse effect on the majority of EPCOR assets and business, other than the suspension of outdoor work at peak heat times, due to concerns for the safety of the employees. Employee safety is particularly relevant for employees in EPCOR's U.S. operations, where the company experienced unprecedented and prolonged heat events in 2023. Moreover, as temperature rises, the efficiency of electrical equipment decreases, which puts a strain on the electricity operations in Alberta and Ontario and British Columbia as well as electrical equipment supporting Water operations in Arizona. Wildfires and high wind events associated with summer and fall storms have historically occurred in Alberta, Ontario and British Columbia, and it is believed that their frequency and intensity are increasing. Electricity operations are the most vulnerable to these events, and the potential outcomes could include collapse of lines and structures, and extended outages.

Unseasonal temperature changes can cause water main breaks, temporarily disrupting the reliable supply of water to customers. Severe cold temperatures can cause natural gas distribution lines to freeze if moisture is present in the natural gas or the main pipelines, disrupting service to customers.

Flooding of the North Saskatchewan River valley could damage electrical equipment in our three large treatment plants and two electricity substations and result in a loss of income due to the facilities being inoperable for an extended period of time to perform repairs. EPCOR developed a plan to mitigate the Company's exposure to flooding of the North Saskatchewan River valley including engineered solutions, some of which have already been employed.

Chronic impacts

Climate-change in the form of long-term shifts in weather patterns could result in drought conditions reducing source water supply, particularly in the desert region of the Southwestern U.S. where EPCOR's water sales comprise 7% of the Company's total revenues. One of the major sources of raw water in the desert region of the Southwestern United States is the Colorado River and the river's reservoirs have dropped dramatically since 2000. Due to the drought conditions in the Southwestern United States, the level of the Lake Mead reservoir, which feeds the Colorado River and is the source of the Central Arizona Project canal's water, continues to drop. This required Arizona to reduce the amount of water it drew from the Colorado River by 18% in 2022 and a further 3% in 2023. In Arizona, a number of water management and supply augmentation strategies are employed to mitigate the risk of water supply shortage including enacting some progressive policies to protect groundwater supplies. EPCOR actively manages its sources of water including replenishing reserves by injecting water into its wells when opportunity arises and working with regulators on rate rebalancing to mitigate the effects of declining consumption should it occur. While drought conditions are primarily a concern in the U.S., it should be noted that drought is also becoming a growing concern in Alberta. Recently, the Province established a Drought Command Team to help manage what is considered to be a significant growing concern for Alberta. It is important to note that the capital region and the North Saskatchewan River will not likely have any significant impact, but the Minister's direction will have implications on municipalities and Albertans. At a minimum EPCOR will have to actively monitor and participate in these activities and be prepared to manage customer questions or concerns.

Climate-change could also result in increased precipitation and cooler temperatures during summer months, reducing customer demand for water and electricity, or increased temperatures during winter months, reducing customer demand for natural gas. Increased precipitation could also adversely affect turbidity levels in the North Saskatchewan River and impact EPCOR's ability to produce potable water in an economical and sustainable manner. High temperatures during summer months could result in wildfires, damaging assets and disrupting services to customers, although the majority of the Company's operations are in urban municipalities rather than heavily forested rural areas more exposed to wildfires.

Transitional impacts

Financial exposures associated with climate-related events are partly mitigated through our insurance programs, however there is no guarantee that insurance covering climate-related events will continue to be available to the Company. Due to the number of catastrophic events in the past few years and the magnitude of losses incurred by the insurance industry, insurers have begun to limit coverage for high risk climate-related or climate-change related events such as flooding, wildfires, etc. Water conservation could lead to lower EPCOR revenues initially, but could also result in an opportunity for the Company to invest in water re-use infrastructure in the longer term.

Environmental and utility regulators are increasingly concerned with and requiring measures by utility companies to address emissions and mitigate other climate change factors. However, to date there have only been limited consideration by utility regulators regarding the recoverability of costs related to the foregoing and the effects of extreme weather and other climate change. This is compounded by the fact that the Company operates in several jurisdictions each with a different regulator. Recoverability of capital and operating costs related to response to acute weather and other climate conditions and also in preparation for chronic weather changes, including increased infrastructure resiliency, have not as yet been significantly tested before most utility regulators.

Changes in climate change policy and social perceptions and expectations may also change customer behavior and expectations, such as reduced per-household water, electricity or natural gas consumption. These changes could reduce customer demand and therefore revenue to the Company. Failure to address customer expectations regarding climate change could also adversely affect EPCOR's reputation.

The introduction of and / or demand for technology change related to climate change factors also presents risks to the Company. As the electrification of public and private transportation continues, the transmission grid and other electrical assets will need to be upgraded or replaced in order to accommodate the associated increase in electrical demand. Refer to the Technological Change Section for further information.

Failure to Attract, Retain or Develop Top Talent

Our ability to successfully operate and grow the business is dependent upon attracting, retaining and developing sufficient labour, technical and management resources.

The Company realizes it must continually adapt to the changing views and expectations of the workforce and that failing to adapt could result in lower engagement levels and high staff turnover or limit the Company's ability to attract new employees. Presently, the Company is facing a number of challenges in relation to employee attraction, engagement and retention. These challenges differ between the U.S. and Canada. In the U.S., attraction and retention are more of a broad-spread concern impacting most positions in the organization, mainly due to the tight labour market, while in Canada the issue is more targeted, with certain skillsets/positions being very difficult to fill. As a result, the Company continues to offer a hybrid work program providing employees flexible working arrangements, including the ability to work remotely, to the extent it does not impair their ability to perform their duties. However, there is no certainty that the Company's flexible work program will provide employees with the level of flexibility they are seeking and they may inevitably become disengaged and pursue employment with other employers. In addition, a permanently reduced level of in-person interaction and collaboration between employees may diminish the sense of belonging to the EPCOR team and erode the Company's culture and employees' loyalty towards the Company. This will become even more important as long-term staff retire over the next 5 to 10 years, not only due to impacts on culture but because there is a relatively high percentage of staff who are or will be eligible to retire, which elevates the need for strong succession planning.

We will continue to monitor developments and review our human resource strategies so that we have an adequate supply of labour and management. We believe that we employ good human resource practices. EPCOR is one of Alberta's top 80 employers and one of Canada's Top Employers for Young People. The Phoenix Business Journal has named EPCOR as one of the best places to work numerous times.

Cybersecurity

We use several key information technology systems to support our core operations, including industrial control systems and electricity settlement and utility billing systems. These systems and the associated hardware are vulnerable to malfunction and unauthorized access including cyber-attacks, which could lead to loss or unauthorized disclosure of sensitive customer or EPCOR information, extortion or otherwise disrupt operations. We take measures to reduce the risk of malicious attack or failure of these systems including the data, hardware and network infrastructure on which the systems operate.

EPCOR's security program is based on the ISO 27002 control framework. In applying this framework, EPCOR implemented a series of complementary defense mechanisms, starting from the external information technology perimeter down to the end user. Each layer is designed to prevent, detect and report on malicious activity. We regularly monitor our information technology protection systems and periodically employ third-party security providers to test the systems' effectiveness and to strengthen the systems as new cyber threats arise. Financial exposures associated with cyber-attacks are partly mitigated through our insurance programs.

Due to increased cyber security threats from malicious actors exploiting the world's heightened vulnerability during the COVID-19 outbreak, the Company implemented additional controls and precautionary measures to protect against cyber-attacks and prevent fraud.

Failure of Critical Equipment and Business Interruption

The company's operations are exposed to potential equipment failure and certain equipment and infrastructure is critical to the provision of uninterrupted services to customers. While redundancy is built into many of the critical operational functions and critical spare parts are kept in inventory, not all critical failure points are fully mitigated. Further to this, interruption of EPCOR's operations including plant equipment, electricity transmission or distribution equipment, water or natural gas pipelines, sanitary and stormwater collection systems or any of the industrial control systems utilized throughout operations could also result from accidental actions, natural occurrences or intentional acts such as terrorism or sabotage. In addition, the quality of raw source water can be affected by such things as hydrocarbons and other inorganic or organic contaminants entering water ways and aquifers. Depending on the type and concentration of the contaminant, their removal may be beyond the capabilities of water treatment plant processes, resulting in the water treatment plant being shut down until the contaminants become diluted to the point where they can be treated within the water treatment plant capabilities. In 2023, EPCOR also completed a consolidation of operations between the former Water Canada operations business unit and the Drainage operations business unit. This included a physical consolidation at a new site, referred to as the Aurum facility. While this move yielded a number of efficiencies for the company, it also increased business interruption risk since a number of staff, vehicles and other EPCOR equipment are now concentrated at one site.

An extended outage could result in lost revenues or additional costs to resume operations, including repair costs. This risk is managed through inherent redundancy and sound maintenance practices. Our maintenance practices are augmented by an inventory of strategic spare parts which can reduce down-time considerably in the event of equipment failure. We also have emergency response and business continuity plans which we exercise regularly. In addition, maintenance and capital plans are determined annually based on rigorous assessment of equipment and by continually monitoring the condition of assets.

Although all of our operations have historically performed in accordance with expectations, there can be no assurance that they will continue to do so. The Company's emergency response protocols are designed to ensure EPCOR can expeditiously resume operations following a business interruption. The Company's business continuity plans aim to enable EPCOR to continue providing critical services to customers in the event of a crisis. Financial exposures associated with business interruption are partly mitigated through our insurance programs.

Project Delivery

Development, construction and acquisition of water and wastewater treatment, sanitary and stormwater, electricity transmission and distribution, and natural gas infrastructure, including projects undertaken by the Company under design-build-finance-operate or other similar commercial arrangements with third parties, are subject to various engineering, construction, stakeholder, government, environmental and valuation risks. These risks can translate into performance issues, reputational impacts, delays and cost overruns. Project delays may defer expected revenues, and project cost overruns could make projects uneconomic. Many of the water, wastewater and natural gas growth projects currently pursued by the Company require design and construction capabilities that are provided by third parties. In order to pursue these projects, strategic partnerships have been established with reputable firms with proven abilities to successfully design and construct infrastructure projects. Should these partnerships dissolve or no longer be recognized by the market as a viable approach, the Company's growth plans could potentially be curtailed.

We attempt to mitigate project delivery risks by performing detailed project analysis and due diligence prior to and during development, construction or acquisition, and by entering into appropriate contracts with qualified design engineers and construction contractors for various services to be provided as required. Our ability to complete projects successfully depends upon numerous factors such as weather, availability of materials and skilled labour, strikes, regulatory matters, etc.

Reputational Damage and Stakeholder Activism

EPCOR's reputation amongst its shareholder, employees, regulators, customers and business partners is a key factor in the company's continued success. The Company is exposed to a number of risks that could damage its reputation as a safe, trusted and reliable utility operator and provider of environmentally friendly utility products and services, as well as, a safe, respectful employer. This risk is exacerbated by other factors including customer affordability, sustainability plans, and the economy. A damaged reputation could impair the Company's ability to sell its competitive products and services and to attract and retain employees.

Utilities are increasingly being challenged by external stakeholder activists on climate change, utility rates, environmental matters, etc. leading to public opposition to infrastructure projects. A lack of social license could impair the Company's ability to execute its capital expenditure programs necessary for the continued provision of safe, reliable utility services or achievement of strategic objectives. Risk of reputational damage and stakeholder activism is exacerbated by social media and the speed at which news stories and rumors can be spread or public opposition can develop.

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

Actual Performance Compared to Approved Revenue Requirement

The majority of EPCOR's businesses are rate-regulated. The rate-setting process requires the Company to forecast its revenue requirement for each business' test period based on factors such as projected water and electricity sales volumes, operating expenses, financing expense, etc. If the business is unable to achieve its forecasts, for example due to lower than projected water volumes or higher operating expenses due to higher than forecast inflation , then the Company's actual financial results could be adversely affected, resulting in lower net income and cash flow, and reduced financial condition, causing the business to perform below the regulator-allowed ROE until the business' revised revenue requirement is approved by the regulator for the next test period, which could be up to several years in the future.

The Company's rate-regulated businesses monitor their actual performance against the various factors forecast in their approved revenue requirements and make operating decisions that results in cost reductions, where it is safe and prudent to do so in order to recover or offset any shortfall between actual and forecast revenues and / or expenses. It is not always possible to achieve the regulator-allowed return. Rising inflation and interest rates exceeding what is reflected in EPCOR's regulated revenue requirements is a temporary effect until the Company files its next rate applications with higher revenue requirements to cover the increased costs and higher cost of capital.

Health and Safety

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

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

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

Drinking water quality and wastewater standards for EPCOR's U.S. operations are regulated by the U.S. Environmental Protection Agency (U.S. EPA) under the Safe Drinking Water Act and Clean Water Act, respectively. Among other things, the U.S. EPA 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's standards.

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

There are no formal watershed protection groups in the Arizona and New Mexico service areas. The Arizona Department of Environmental Quality and New Mexico Environment Department oversee the water systems in their respective states. In Texas, the Texas Commission on Environmental Quality and the Texas State Soil and Water Conservation Board support the development and implementation of watershed protection plans. Water wells in Arizona, New Mexico and Texas are protected from contamination by proper well construction and system operation and management.

Our operations have hazardous chemicals, high voltage electricity and natural gas transmission and distribution systems located in close proximity to populated areas and a significant incident could result in injury to the public, our employees or on-site suppliers. We manage occupational health and safety risks through a management system and measure occupational health and safety performance against recognized industry and internal performance measures. We conduct external compliance and internal conformance audits to verify that we meet or exceed all regulatory requirements. We are committed to working with industry partners to share and improve health and safety practices within the industry. At the end of 2023, all of our Edmonton water, wastewater, sanitary and stormwater, and electricity transmission and distribution operations were ISO 45001 registered. In Arizona since 2012, EPCOR won 276 awards (30 in 2023) from the Arizona Water Association for our work across the state. Additionally, in 2023, EPCOR received a Platinum award from the Healthy Arizona Worksites program, which is the highest level of recognition.

Supply Chain

The Company relies on the third-party supply of goods and services in its day-to-day operations including the construction of new facilities. Events such as cyber or terrorist attack, geopolitical actions such as international conflicts, shortage of labour or materials, shipping constraints, energy shortage, labour dispute, severe weather or natural disaster, bankruptcy or credit crisis, pandemics such as COVID-19, etc. could impact the Company's suppliers and disrupt supply of key goods and services relied upon by the Company. As supply chains become increasingly global, they are more interconnected, interdependent and vulnerable to broad disruption from isolated events.

Disruption of the Company's supply chain could impact the Company in a number of ways, the most significant of which include: interruption of services to EPCOR customers if parts critical to perform repairs and maintenance or to complete significant capital work are unattainable when needed; delays in the construction of new facilities, deferring the Company's realization of income or any other benefits to be derived from the facilities; or cause an acute supply and demand imbalance of goods and services, resulting in significant unplanned cost increases. The Company's most vulnerable supply is electricity which is provided by third party power generators for EPCOR to sell and distribute to customers and use to power the systems that treat and distribute potable water to customers, and convey and treat wastewater.

The Company closely monitors supply of key goods and services and applies a number of mitigating strategies to minimize the impact of supply chain challenges including: formalizing arrangements with alternate suppliers of key goods and services; maintaining higher inventories of critical supplies in order to mitigate unexpected delays in delivery; placing orders earlier than normal to offset known extended delivery lead times; etc. These strategies have allowed the Company to mitigate the supply chain effects resulting from the COVID-19 pandemic and Russia's attack on the Ukraine. However, continued supply shortages could have a greater impact on the Company going forward.

Credit

Credit risk is the possible financial loss resulting from the inability of counterparties to satisfy their contractual obligations to EPCOR. Exposures to credit risk in our rate-regulated and non-rated-regulated businesses are generally limited to amounts due from customers for goods and services provided but not yet paid for.

Exposure to credit risk associated with design-build-finance-operate and other similar commercial arrangements relates to the counterparties failing to satisfy their contractual obligations to pay the Company for the design, construction, financing and operating costs of their facilities. The exposure to credit risk associated with these arrangements is typically commensurate with the complexity and size of the projects, such as Projects Sandow and Blue Sky. The Company performs extensive credit reviews of the counterparties and seeks various forms of security to at least partially mitigate the credit risk. The exposure to credit risk is often considered to be lower with a government counterparty than with a private counterparty.

During the year ended December 31, 2023, revenues from one major customer of the Company's NACS segment represented $1,702 million (2022 - $488 million) of the Company's total revenues. Included within trade and other receivables is $258 million due from this customer as at December 31, 2023.

Exposure to credit risk for residential RRO customers and commercial utility customers under default electricity supply rates is generally limited to amounts due from customers for electricity consumed but not yet paid for. This portfolio is reasonably well diversified with no significant credit concentrations. Historically, credit losses in these customer segments have not been significant and depend in large part on the strength of the economy and the ability of the customers to effectively manage their financial affairs through economic cycles.

EPCOR's exposure to RRO and default customer credit risk is summarized below. The exposure represents the accounts receivable value for this portfolio, which is managed at the gross exposure level rather than by individual customer account.

($ millions) **December 31,**	**2023**	**2022**
RRO and default supply customers	$ 218	$ 219

The year-over-year decrease in exposure primarily relates to lower commodity prices and lower RRO sites count.

EPCOR is also exposed to the risk of non-payment for water, electricity transmission and distribution, natural gas, and sanitary and stormwater services provided to rate-regulated and non-regulated customers. Exposures represent the accounts receivable value for this portfolio, which is managed at the gross exposure level rather than by individual customer account, excluding receivables related to electricity transmission and distribution which are managed at individual customer level.

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

We manage credit risk and limit exposures through our credit policies and procedures. These include an established credit review, rating and monitoring process, specific terms and limits, appropriate allowance provisioning and use of credit mitigation strategies, including collateral arrangements. The Company assesses the credit risk for all high value customers to ensure heightened credit risk for identified customers is mitigated through additional security or other collateral arrangements.

Electricity is considered an essential service and regulations limit what actions the Company can apply to address delinquent accounts and therefore, EPCOR may experience higher credit losses in the future should economic conditions deteriorate.

Public Health Crisis

EPCOR is exposed to various potential effects that could result from a public health crisis such as an epidemic or pandemic like the COVID-19 outbreak. The potential short-term effects on the Company of a public health crisis include: failure to maintain continuity of service to customers due to a shortage of available employees and / or key supplies required to maintain operations should measures implemented to reduce spread of an outbreak be unsuccessful; and lower net income due to lower revenues primarily from commercial customers, increased credit losses from customers, costs incurred to mitigate risks of the outbreak and lower capitalization of operating costs due to reduced capital activity.

The Company could experience longer term effects due to failed economic recovery following the end of any outbreak, including: sustained decline in revenues, income and cash flows; operational challenges due to failure of the Company's supply chain relied upon for key parts, supplies and services; a credit rating downgrade leading to increased borrowing costs which in turn, could result in goodwill impairment or make the Company's cost of capital less competitive and limit growth potential.

The extent of the Company's exposure to the effects of a public health crisis is dependent upon a number of factors including, but not limited to: the spread, mortality rate and duration of the outbreak, including the length of time any mitigating measures are to be applied as recommended by healthcare experts or required under government order; the time required to develop and administer antibiotics or vaccines, and their efficacy; impact on customers, capital markets and the economy; ability of the Company's key suppliers to maintain service continuity; government orders imposed on utilities preventing the cut-off of customers for non-payment during an outbreak or allowing customers to defer payment of their bills, for example; effectiveness of the Company's business continuity plan; and ability to mitigate the various risks.

Groundwater Contamination

The Company's U.S. operations rely on multiple sources of water to treat and sell to customers. Aquifers are one of the more significant sources of water. Aquifers are charged naturally as water moves downward from the earth's surface through rock formations to form groundwater. Under the Company's water storage and recovery program, the aquifers are also re-charged by injections of partially treated wastewater.

Groundwater can become contaminated by pollutants contained in the surface water that runs off into the aquifers or contained in the treated wastewater injected into the aquifers for re-use. The Company's existing water treatment processes may not be capable of treating certain contaminants including pharmaceuticals, personal care products or per- and polyfluoroalkyl substances (PFAS) specific to any one aquifer. This could result in the Company no longer being able to rely on that aquifer as a source of treatable water until the Company's water treatment plant capabilities can be enhanced to remove the contaminant(s), in turn resulting in a temporary scarcity of source water.

New contaminants not yet identified or confirmed as threats to public health may be present in groundwater, go untreated and be present in tap water. In Arizona and New Mexico, certain aquifers have been found to be contaminated with PFAS, believed to be the direct result of past military base land use activities, and/or the recharge/discharge of treated effluent to replenish aquifers. Accumulation of certain PFAS has been shown, through blood tests, to occur in humans and animals. While the science surrounding potential health effects of certain PFAS is developing, evidence suggests that bioaccumulation of PFAS may have adverse long-term health implications.

In March 2023, the U.S. EPA published for commentary, the proposed National Primary Drinking Water Regulation for six PFAS in drinking water. The regulation proposes to establish legally enforceable levels, called Maximum Contaminant Levels, and health-based, non-enforceable Maximum Contaminant Level Goals for these six PFAS. In some cases, the new and revised PFAS health advisory levels are so low that current approved laboratory analytical methods cannot detect such low concentrations. Given the Company's use of groundwater and the known existence of PFAS in certain of the Company's aquifers, there is a high likelihood that the forthcoming regulation could impact EPCOR's U.S. operations by requiring new treatment processes to be put in place. Further, a number of legal claims have started to be issued in the U.S. targeting both the companies creating products containing PFAS and those that consequently utilize or distribute products that could contain PFAS, such as water treatment and distribution facilities. While these legal claims are in the early days, this poses a longer-term risk for EPCOR.

The Company will continue to monitor the legal landscape as well as the U.S. EPA's drinking water health advisories and will adapt its treatment processes to comply with all applicable regulatory requirements and to mitigate legal exposure as much as possible.

Electricity Price and Volume

EPCOR sells electricity to RRO customers under a RRT. All electricity for the RRO customers is purchased in real time from the AESO in the spot market. Under the RRT, the quantity of electricity consumption, the method used to reduce the risk of adverse price movement for expected electricity consumption, and the electricity selling prices to be charged to these customers is determined by the EPSP. Under the EPSP, the Company uses financial contracts to mitigate the risk of adverse price movement of electricity under the RRO requirements and incorporate the price into customer rates for the applicable month. The Company enters into financial contracts-for-differences for forecasted volumes of electricity to mitigate the risk of adverse price movement up to 120 days in advance of the month in which the electricity (load) is expected to be consumed by the RRO customers. The volume of electricity is based on load (usage) forecasts for the consumption month. When consumption varies from forecast consumption patterns, EPCOR is exposed to prevailing market prices on fifty percent of the load when the volume of electricity contracted under the financial contracts-for-differences is short of actual load requirements or greater than the actual load requirements. Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and extreme weather patterns which could impact electricity spot market prices.

Under contracts-for-differences, the Company agrees to exchange, with a counterparty meeting the Company's credit risk parameters, the difference between the AESO electricity spot market price and the fixed contract price for a forecasted volume of electricity, all in accordance with the EPSP. The contracts-for-differences are referenced to the AESO electricity spot price and any movement in the AESO price results in changes in the contract settlement amount.

If the risks of the EPSP were to become untenable, EPCOR could test the market and potentially re-contract the procurement risk under an outsourcing arrangement at a certain cost that would likely increase procurement costs and reduce margins. The Company may enter into additional financial electricity purchase contracts outside the EPSP to further economically hedge the price of electricity.

Environmental

There are a variety of environmental risks associated with EPCOR's water, wastewater, electricity, natural gas, sanitary and stormwater operations. EPCOR's operations are subject to federal, provincial and municipal laws, regulations and operating approvals which are designed to reduce the impacts on the environment. Failure to comply could subject the Company to fines or other penalties. In addition, the presence or release of hazardous or other harmful substances or other environmental incident could result in spills or emissions in excess of those permitted by law, regulations or operating approvals or lead to claims by third parties or governmental orders requiring the Company to take specific actions such as investigating, controlling and remediating the effects of these substances.

Furthermore, an environmental event could materially and adversely impact EPCOR's business, prospects, reputation, financial condition, operations or cash flow.

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

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

The primary sources of EPCOR's greenhouse gas emissions relate to powering and heating our treatment plants, building facilities, powering pumps that transport and distribute water, and operating our vehicle and equipment fleet. The Company is proactive in seeking ways to reduce its greenhouse gas footprint and commissioned the kīsikāw pīsim solar farm in the fall of 2022. The Company also signed a long-term agreement to purchase renewable attributes from a renewable energy source, which commenced in 2023. Together, these two initiatives are expected to significantly reduce EPCOR's net greenhouse gas emissions.

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

To the best of our knowledge we comply, in all material respects, with the laws, regulations and operating approvals affecting our facilities, and we minimize the potential for environmental incidents by applying an environmental management system based on the ISO 14001 standard. The scope of the environmental management system encompasses the Company's environmental policy, objectives, processes, procedures, training and stewardship of our environmental responsibility. We require each facility to have an environmental emergency response plan. Each plant and facility are also subject to third party environmental audits to help ensure conformance with the EPCOR HSE management system and compliance with all regulations. Every year since 2018, EPCOR has been recognized as one of the Best 50 Corporate Citizens in Canada in relation to sustainability and environmental protection. At the end of 2023, all regulated electricity distribution and transmission operations were ISO 14001:2015 registered while all Water operations in Edmonton, Regina, Strathmore, Britannia Mine, Canmore and the Evan-Thomas Water and Wastewater Treatment Facility in Kananaskis are also ISO 14001:2015 certified. The facilities we operate for Red Deer County and Chestermere are also aligned with the same ISO standard. Additionally, the White Tanks and Anthem Water Campus in Arizona have achieved Voluntary Protection Program (VPP) status under the US Occupational Safety and Health Administration.

Labour Disruption

Most of the Company's Canadian employees are members of labour unions under a number of collective bargaining agreements. Although EPCOR maintains working relationships with each of the labour unions, the inability to maintain those relationships or renew collective bargaining agreements with terms that are acceptable to the Company could result in labour disputes potentially leading to service interruption or higher labour costs than what is reflected in approved customer rates.

New Business Integration

EPCOR plans to continue growing its utility infrastructure business across various investment types and North American geographies. The Company has been accomplishing this growth through expansion into the natural gas distribution and sanitary and stormwater collection utility businesses, as well as, entry into new geographies. Expanding its utility infrastructure offerings and geographies will help diversify the Company's investments and thereby reduce investment risk.

While EPCOR has experience and expertise in linear utility infrastructure, natural gas distribution and large sanitary and storm water collection systems are relatively new to the Company. Expanding into new utility industries introduces risk to the Company due to potential unfamiliarity with the associated operational, safety and regulatory aspects of these businesses in addition to the risks associated with integrating these and other new businesses into EPCOR.

Additionally, the Company will be bringing online a groundwater supply system (Project Sandow) and an industrial water reclamation facility (Project Blue Sky). While EPCOR is experienced in maintaining and operating water treatment plants, the successful operation of these facilities will be key in maintaining the Company's reputation as a safe and reliable water utility.

Financial Liquidity

EPCOR's cash flows from operating activities do not provide sufficient capital to undertake or complete ongoing or future development, enhancement opportunities or acquisition plans and accordingly, the Company requires additional financing from time to time. The ability of the Company to arrange such financing will depend in part upon prevailing market conditions at the time and the Company's business performance. There can be no assurance that debt or equity financing will be available or sufficient to meet these requirements or for other corporate purposes.

Furthermore, if financing is available, there can be no assurance that it will be on terms acceptable to the Company. EPCOR's inability to access sufficient capital for its operations could have a material adverse effect on the Company's business, prospects and financial condition. Detailed discussion of EPCOR's sources of liquidity is included in the Operating Activities and Liquidity section of this MD&A.

The Company manages liquidity risk through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and also by matching the maturity profiles of financial assets and liabilities to identify financing requirements. In addition, the Company maintains access to a number of capital sources including the Canadian public debt and commercial paper markets, the U.S. private debt market and the various banks comprising the Company's syndicated bank credit facility. EPCOR's financial risks are governed by a Board-approved financial exposure management policy, which is administered by EPCOR's Treasurer.

Foreign Exchange

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

The Company's financial exposure management policy attempts to minimize economic and material transactional exposures arising from movements in the Canadian dollar relative to the U.S. dollar or other foreign currencies. The Company's direct exposure to foreign exchange risk arises from its U.S. operations and on Canadian capital expenditure commitments denominated in U.S. dollars or other foreign currencies. The Company coordinates and manages foreign exchange risk centrally, by identifying and measuring movements in normally opposing cash flows (i.e. revenues versus expenses) or balances (i.e. assets versus liabilities) and then dealing with any material residual foreign exchange risks. The Company's exposure to foreign exchange risk on its investment in foreign entities is partially mitigated by foreign-currency denominated financing and cross-currency interest rate swaps (CCIRS).

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

Conflicts of Interest

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

Technological Change

Technological change could impact the Company directly or indirectly depending on the nature of the technological change. New technology aimed at reducing natural gas, electricity or water consumption could directly result in lower demand for the Company's products and services. Rapid adoption of electric vehicles could strain the reliability of the Company's electricity transmission and distribution systems in the short term, but could also provide an opportunity in the longer term to invest in infrastructure to increase the capacity of EPCOR's electricity transmission and distribution systems.

The increased use of artificial intelligence will impact many companies with both risks and opportunities. With the advent of new technologies such as ChatGPT, increasing processing power and the potential advent of quantum computing, and continually improving machine learning algorithms, workplace roles also have the potential to be impacted, including potential job displacement (or at least transformation), cultural change, and skillset change. Further, artificial intelligence will increase one of EPCOR's other risks, cyber-attack, as bad actors deploy advanced intrusion techniques while EPCOR must consider improved prevention and detection tools.

Further, the development of new technologies may outpace EPCOR's ability to react or adapt quickly enough to remain competitive or be able to exploit the technologies as new business opportunities. The Company is continually monitoring new technologies, dialoguing with industry peers and advisors about the potential effects of emerging technologies on the utility industry, and conducts studies on those developing or emerging technologies that could impact EPCOR specifically.

Significant Decline in the Economy and Other Business Environment

A recession or other deterioration in the business environment could negatively impact the Company, directly and indirectly. While many economists had forecast that a recession would be realized in 2023, it has largely not yet materialized. There are many factors for this including relatively low unemployment rates, government stimulus that bolstered consumer savings, pent up demand following COVID, and resilient consumer spending but there are economic signals that a recession may still be imminent. A significant decline in the economy could lead to reduced demand for the Company's products and services or increased bad debt expense should we experience a recession in the coming year(s).

A number of mitigating strategies are available to the Company including reducing discretionary spending, deferring capital projects, re-establishing Company priorities and rationalizing non-discretionary spending, requiring increased security from commercial utility customers, performing extensive credit reviews and ongoing credit monitoring of significant credit counterparties, etc.

In addition to the risk of a recession, the following factors could materially and adversely impact EPCOR's business, prospects, financial condition, results of operations or cash flows: further fluctuations in interest rates or inflation; product supply and demand; risks associated with existing and potential future lawsuits; audits and assessments (including income tax) against EPCOR and its subsidiaries; failed execution of the Company's long-term strategy; increasing importance of ethical behavior and perception, fraud; billing or system errors; public disclosure of erroneous information; deficient risk management program and the inability to adequately identify and mitigate risks; and such other risks and uncertainties described from time to time in EPCOR's reports and filings with the Canadian Securities authorities.

Significant Cash Flow and Net Income Sensitivities

The following table outlines our estimated sensitivity to specific risk factors as at December 31, 2023. Each sensitivity factor provides a range of outcomes assuming all other factors are held constant and current risk management strategies are in place. Under normal circumstances, such sensitivity factors will not be held constant but rather, will change at the same time as other factors are changing. In addition, the degree of sensitivity to each factor will change as the Company's mix of assets and operations subject to these factors changes.

($ millions, except as otherwise noted)	Change	Annual cash flow	Annual net income
Related specifically to EPCOR's Alberta operations			
Increase in RRO customers	+2.0%	+1	+1
Decrease in RRO customers	-2.0%	-1	-1
Increase in Water Services segment water volumes	+5.0%	+18	+18
Decrease in Water Services segment water volumes	-5.0%	-18	-18
Related to EPCOR's U.S. Regulated Water			
Increase in U.S. Regulated Water segment water volumes	+5.0%	+5	+5
Decrease in U.S. Regulated Water segment water volumes	-5.0%	-5	-5

Litigation Update

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

Certification of Annual Filings

For purposes of certain Canadian securities regulations, EPCOR is a venture issuer. As such, it is exempt from certain of the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. EPCOR's Certifications of Annual Filings Venture Issuer – Basic Certificate include a note to reader stating that the certifying officers are not making any representations to the establishment or maintenance of disclosure controls and procedures and internal controls over financial reporting.

The Chief Executive Officer and Chief Financial Officer have reviewed the annual information form, annual consolidated financial statements and annual MD&A, for the year ended December 31, 2023. Based on their knowledge and exercise of reasonable diligence, they have concluded that the annual filings do not contain any untrue statement of a material fact or omit to state a material fact and that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Company as of the date of and for the periods presented.

Future Accounting Standard Changes

A number of new standards, amendments to standards and interpretations have been issued by the IASB and the International Financial Reporting Interpretations Committee, the application of which is effective for periods beginning on or after January 1, 2024. The Company does not expect the implementation of these new accounting pronouncements to have a material impact on its accounting policies.

Critical Accounting Estimates

In preparing the consolidated financial statements, management made estimates in determining transaction amounts and financial statement balances. The following are the items for which significant estimates were made in the consolidated financial statements.

Electricity Revenues, Costs and Unbilled Consumption

Due to the time lag between customer electricity consumption and receipt of final billing consumption information from the load settlement agents, the Company must use estimates for determining the amount of electricity consumed and the distribution services provided to customers but not yet billed. These estimates affect accrued revenues and accrued electricity costs of the Energy Services segment and accrued revenues of the Distribution and Transmission segment. There are a number of variables and judgements required in the computation of these significant estimates, and the underlying electricity settlement processes within EPCOR and the Alberta electric systems are complex. Such variables and judgements include the number of unbilled sites, the amount of and rate classification of the unbilled electricity consumed and the amount of electricity distributed to customers. Owing to the factors above and the statutory delays in final load settlement determinations and information, adjustments to previous estimates could be material. Estimates for unbilled electricity consumption and distribution services provided to customers averaged approximately $173 million at the end of each month in 2023 (2022 - $86 million). These estimates varied from $134 million to $205 million (2022 - $61 million to $135 million). Adjustments of estimated revenues to actual billings were $2 million (2022 - $2 million).

Fair Values

We are required to estimate the fair value of certain assets or obligations for determining the valuation of certain financial instruments, asset impairments, and purchase price allocations for business combinations, and for determining values for certain disclosures. Significant judgement is applied in the determination of fair values including the choice of discount rates, estimating future cash flows, and determining the fair values of assets acquired and liabilities assumed. Following are the descriptions of the key fair value methodologies relevant for 2023.

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

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

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

Income Taxes

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

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

Impact of Current Market Conditions on Estimates

Although the current condition of the economy has not impacted our methods of estimating accounting values, it impacted the inputs in those determinations and the resulting values. Future cash flow estimates for assessing the value-in-use of long-lived assets or cash generating units (CGUs) for impairment were updated to reflect any increased uncertainties of recoverability. The assessments did not result in any impairment losses because a large portion of the Company's operations within various CGUs are subject to rate-regulation. Our valuation models for estimating the value-in-use for various CGUs depend partly on discount rates which were updated to reflect changes in credit spreads and market volatility. Our methods for determining the expected credit loss allowance are based on a provision matrix which uses the Company's historical credit loss experience and current economic conditions (including forward looking information) for accounts receivables to estimate the expected credit loss.

Other Comprehensive Income

For the three months and year ended December 31, 2023 and 2022, the Company's transactions in other comprehensive income included the following:

($ millions)	Three months ended December 31,		Year ended December 31,	
	2023	**2022**	**2023**	**2022**
Re-measurement of net defined benefit plans	$ (1)	$ 18	$ (1)	$ 18
Foreign exchange gain (loss) on U.S. denominated debt designated as a hedge of net investment in foreign operations[1]	6	4	8	(22)
Unrealized gain on derivative financial instruments designated as hedges of net investment in foreign operations[2]	9	6	13	7
Unrealized gain on derivative financial instruments designated as cash flow hedges[3]	-	2	-	9
Realized gain on derivative financial instruments designated as cash flow hedges[3]	-	-	10	17
Unrealized gain (loss) on foreign currency translation	(24)	(18)	(33)	84
Other comprehensive income (loss)	**$ (10)**	**$ 12**	**$ (3)**	**$ 113**

1. The Company designates the majority of long-term debt denominated in U.S. dollar as foreign exchange hedges on its net investment in foreign subsidiaries to mitigate the foreign currency risk. Accordingly, from the date of designation, foreign exchange gains or losses on translation of the debt denominated in U.S. dollars are recorded in other comprehensive income, which minimizes volatility in earnings resulting from the foreign currency conversion.

2. The Company entered into CCIRS contracts to partially hedge the foreign currency risk exposure related to net investment in foreign operations. These CCIRS contracts have been designated as hedges of net investment in foreign operations. Accordingly, from the date of designation, mark-to-market gains or losses on these financial instruments are recorded in other comprehensive income. For more information on CCIRS contracts refer to Financial Risk Management (note 25) of the consolidated financial statements for the years ended December 31, 2023 and 2022.

3. During the years ended December 31, 2023 and 2022, the Company entered into bond forward and interest rate swap contracts to manage its interest rate risk associated with movement in long-term Government of Canada bond rates related to planned long-term debenture issuances. These financial instruments have been designated as cash flow hedges. Accordingly, from the date of designation, mark-to-market gains or losses on these financial instruments are recorded in other comprehensive income. The Company settled bond forward and interest rate swap contracts concurrently with the issuance of long-term debentures. The $10 million gain on settlement of the contracts represents the effective portion and was recorded in OCI as a realized gain on cash flow hedges, which will be reclassified and recognized in net income over the 30-year period, reducing interest expense related to the long-term debentures. For more information on these cash flow hedges refer to Financial Risk Management (note 25) of the consolidated financial statements for the years ended December 31, 2023 and 2022.

Related Party Balances and Transactions

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

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

For further information on related party balances and transactions refer to related party balances and transactions (note 23) of the consolidated financial statements for the years ended December 31, 2023 and 2022.

Quarterly Results

($ millions)	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Revenues	$ 1,078	$ 1,213	$ 979	$ 1,107
Expenses	921	1,043	820	1,022
Operating income	**157**	**170**	**159**	**85**
Finance expenses	(50)	(46)	(47)	(47)
Income tax recovery (expense)	(12)	(6)	(10)	8
Net income[1]	**$ 95**	**$ 118**	**$ 102**	**$ 46**

($ millions)	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Revenues	$ 909	$ 882	$ 555	$ 591
Expenses	756	709	420	476
Operating income	**153**	**173**	**135**	**115**
Finance expenses	(46)	(40)	(37)	(37)
Income tax expense	(14)	(14)	(5)	(4)
Net income[1]	**$ 93**	**$ 119**	**$ 93**	**$ 74**

1. Quarterly results may fluctuate due to the seasonal demands for energy, water, related impact on sanitary system, changes in energy prices, and the timing and recognition of regulatory decisions.

Fourth Quarter Business Segment Information

($ millions)

Three months ended December 31, 2023

	Water Services	Distribution & Transmission	Energy Services	North American Commercial Services	U.S. Regulated Water	Other	Intersegment Elimination	Consolidated
External revenues	$ 193	$ 128	$ 147	$ 521	$ 89	$ -	$ -	$ 1,078
Inter-segment revenue	-	-	6	13	-	-	(19)	-
Revenues	193	128	153	534	89	-	(19)	1,078
Energy purchases and system access fees	-	-	116	15	-	-	-	131
Other raw materials and operating charges	21	5	-	473	15	-	(7)	507
Staff costs and employee benefits expenses	33	16	10	17	9	15	(8)	92
Depreciation and amortization	57	28	3	5	14	5	-	112
Franchise fees and property taxes	11	25	-	1	3	-	-	40
Other administrative expenses	10	4	12	3	6	8	(4)	39
Operating expenses	132	78	141	514	47	28	(19)	921
Operating income (loss)before corporate charges	61	50	12	20	42	(28)	-	157
Corporate income (charges)	(14)	(9)	(6)	(4)	(3)	36	-	-
Operating income	47	41	6	16	39	8	-	157
Finance recoveries (expenses)	(25)	(17)	(1)	(1)	(19)	13	-	(50)
Income tax expense	-	-	-	(4)	(6)	$ (2)	-	(12)
Net income	$ 22	$ 24	$ 5	$ 11	$ 14	$ 19	$ -	$ 95
Capital expenditures	$ 155	$ 81	$ -	$ 7	$ 50	$ 8	$ -	$ 301

($ millions)

Three months ended December 31, 2022 (restated)

	Water Services	Distribution & Transmission	Energy Services	North American Commercial Services	U.S. Regulated Water	Other	Intersegment Elimination	Consolidated
External revenues	$ 176	$ 112	$ 249	$ 290	$ 81	$ 1	$ -	$ 909
Inter-segment revenue	-	1	7	14	-	-	(22)	-
Revenues	176	113	256	304	81	1	(22)	909
Energy purchases and system access fees	-	-	167	15	-	-	-	182
Other raw materials and operating charges	19	5	-	256	13	-	(11)	282
Staff costs and employee benefits expenses	36	16	11	19	14	18	(5)	109
Depreciation and amortization	48	28	2	8	22	8	-	116
Franchise fees and property taxes	10	25	-	1	1	-	-	37
Other administrative expenses	7	3	8	4	11	3	(6)	30
Operating expenses	120	77	188	303	61	29	(22)	756
Operating income (loss)before corporate charges	56	36	68	1	20	(28)	-	153
Corporate income (charges)	(12)	(7)	(5)	(3)	(2)	29	-	-
Operating income (loss)	44	29	63	(2)	18	1	-	153
Finance recoveries (expenses)	(21)	(15)	(1)	(11)	(13)	15	-	(46)
Income tax recovery (expense)	-	-	-	1	-	(15)	-	(14)
Net income	$ 23	$ 14	$ 62	$ (12)	$ 5	$ 1	$ -	$ 93
Capital expenditures	$ 123	$ 96	$ -	$ 15	$ 52	$ 3	$	$ 289

Forward-looking Information

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

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

Forward-looking Information	Material Factors or Assumptions	Risk Factors
The Company expects to have sufficient liquidity to finance its plans and fund its obligations, including current liabilities in excess of current assets, for the next year.	EPCOR is able to generate the expected cash flow from operations and various means of funding remain available to the Company.	EPCOR’s operations do not generate the expected level of cash flow and / or circumstances arise, limiting or restricting the Company’s ability to access funds through the various means otherwise available.
EPCOR’s projected cash requirements for capital expenditures for 2024 include $976 million to $1,176 million.	EPCOR is able to complete its 2024 capital expenditure program on time and on budget and no material asset acquisitions are closed in the year.	EPCOR is successful in closing a material, unplanned acquisition or unforeseen circumstances result in construction or acquisition delays.
The Company’s dividend has been increased by 4.3% to $193 million in 2024.	EPCOR is able to generate the expected cash flow from operations and various means of funding remain available to the Company. There is no revision to the dividends to be paid to the City.	EPCOR is not able to generate the expected cash flow from operations and various means of funding are not available to the Company. There is a revision to the dividends to be paid to the City.
The Company signed definitive PAs with Samsung in December 2022 and April 2023 for Projects Sandow and Blue Sky, respectively, to carry out the remaining work to design, build, own, operate, maintain and transfer the project assets to Samsung at the expiry of the full operation and maintenance term, or in certain instances of early termination. The construction of the projects is expected to be substantially complete in 2024, with initial operation and maintenance period of 30 years after completion of construction. Under the terms of the PAs, the Company committed to fund US$300 million during the projects and the remaining commitment is US$240 million.	The Company is able to complete the remaining work to design and build Projects Sandow and Blue Sky within the required timelines.	The Company is unable to complete the remaining work to design and build Projects Sandow and Blue Sky within the timelines agreed with Samsung.

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

Material 2023 Objectives Previously Disclosed	Actual Result	Explanation of Material Differences from Objectives
EPCOR's projected cash requirements for capital expenditures for 2023 include $885 million to $1,080 million.	$988 million	Within the range
EPCOR's projected cash requirements for 2023 include $185 million for common share dividends.	$185 million	No change

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties, which could cause actual results to differ from expectations and are discussed in the Risk Factors and Risk Management section above.

Readers are cautioned not to place undue reliance on forward-looking statements as actual results could differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements. Except as required by law, EPCOR disclaims any intention and assumes no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

Glossary

ACC means Arizona Corporation Commission	**IFRS** means IFRS Accounting Standards
Adjusted EBITDA earnings before finance expenses, income tax recovery (expense), depreciation and amortization, changes in the fair value of derivative financial instruments, transmission system access service charge net collections, and other unusual items	**IASB** means International Accounting Standards Board
AESO means Alberta Electric System Operator	**MCC Regulation** means Municipally Controlled Corporations Regulation
AUC means the Alberta Utilities Commission	**MGA** means the Modernized Municipal Government Act
CCIRS means cross-currency interest rate swap	**PBR** means Performance Based Regulation
CGUs means cash generating units	**PFAS** means per-and polyfluoroalkyl substances
CORe means Corrosion and Odour Reduction Strategy	**PSAs** means preliminary services agreements
COVID-19 means novel coronavirus	**ROE** means return on equity
Drainage means drainage utility services within the city of Edmonton	**RRO** means Regulated Rate Option
EPEA means Environmental Protection and Enhancement Act	**RRT** means regulated rate tariff
EPSP means Energy Price Setting Plan	**SAIDI** means System Average Interruption Duration Index
ERM means Enterprise Risk Management	**San Tan Operations** mean water treatment and distribution and wastewater collection and treatment assets acquired from Johnson Utilities
ESG means Environmental, Social and Governance	**SIRP** means Stormwater Integrated Resource Plan
GOA means Government of Alberta	**U.S. EPA** means U.S. Environmental Protection Agency
HSE means health, safety and environment	**the City** means The City of Edmonton

Additional Information

Additional information relating to EPCOR, including the Company's 2023 Annual Information Form, is available on SEDAR+ at www.sedarplus.ca.