MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and twelve months ended December 31, 2011
February 7, 2012

The following discussion and analysis of financial condition and results of operations of FortisAlberta Inc. (the "Corporation") should be read in conjunction with the Corporation's audited financial statements for the twelve months ended December 31, 2011. The financial information presented in this document has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP" or "Canadian GAAP") and is in Canadian dollars unless otherwise specified.

FORWARD-LOOKING STATEMENTS

The Corporation includes forward-looking information in the Management's Discussion and Analysis ("MD&A") within the meaning of applicable securities laws in Canada ("forward-looking information"). The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management.

The forward-looking information in the MD&A includes, but is not limited to, statements regarding: the Corporation's expectation to generate sufficient cash required to complete planned capital programs from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; the Corporation's belief that it does not anticipate any difficulties in accessing the required capital on reasonable market terms; and the Corporation's forecast gross capital expenditures for 2012. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its electricity systems to ensure their continued performance; the commercial development of alternative sources of energy; favourable economic conditions; the level of interest rates; access to capital; maintenance of adequate insurance coverage; the ability to obtain licences and permits; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors that could cause results or events to differ from current expectations include, but are not limited to: legislative and regulatory developments that could affect costs, revenues and the speed and degree of competition entering the electricity distribution market; loss of service areas; costs associated with environmental compliance and liabilities; costs associated with labour disputes; adverse results from litigation; timing and extent of changes in prevailing interest rates; inflation levels; weather and general economic conditions in geographic areas where the Corporation operates; results of financing efforts; counterparty credit risk; and the impact of accounting policies issued by Canadian or provincial standard setters.

All forward-looking information in the MD&A is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

THE CORPORATION

The Corporation is a regulated electricity distribution utility in the Province of Alberta. Its business is the ownership and operation of electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Corporation does not own or operate generation or transmission assets and is not involved in the direct sale of electricity. The Corporation has limited exposure to exchange rate fluctuations on foreign currency transactions. It is intended that the Corporation remain a regulated electric utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

The Corporation operates a largely rural, approximately 114,000 kilometre, low-voltage distribution network in central and southern Alberta, which serves approximately 499,000 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers of electricity.

The Corporation is regulated by the Alberta Utilities Commission (the "AUC") pursuant to the *Alberta Utilities Commission Act* (the "*AUC Act*").

The AUC's jurisdiction, pursuant to the *Electric Utilities Act* (the "*EUA*"), the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation, including the rates and terms and conditions on which service is to be provided by those utilities.

The Corporation operates under cost-of-service regulation as prescribed by the AUC. Rate orders issued by the AUC establish the Corporation's revenue requirements, being those revenues required to recover approved costs associated with the distribution business, and provide a rate of return on a deemed capital structure applied to approved rate base assets. The Corporation applies for tariff revenue based on estimated costs-of-service. Once the tariff is approved, it is not adjusted as a result of actual costs-of-service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. When the AUC issues decisions affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. ("Fortis"), a diversified, international electricity and gas distribution utility holding company having investments in distribution, transmission and generation utilities, real estate and hotel operations.

REGULATORY MATTERS

2010/2011 Distribution Tariff Application

On June 16, 2009, the Corporation filed a comprehensive Phase I and II Distribution Tariff Application ("DTA") for 2010 and 2011 electric distribution service rates with the AUC. On July 6, 2010, the AUC issued Decision 2010-309 (the "10/11 DTA Decision") on the Corporation's 2010 and 2011 Phase I DTA. The Corporation submitted a compliance filing for its 2010 and 2011 Phase I DTA on August 30, 2010 that incorporated Decision 2010-309. On December 6, 2010, the AUC issued Decision 2010-560 approving the 2011 distribution revenue requirement of $368.3 million.

In the 10/11 DTA Decision the regulated return on equity ("ROE") for 2011 was approved as 9.0% on an interim basis consistent with the AUC Generic Cost of Capital Decision 2009-216.

On July 22, 2010, the AUC released Decision 2010-329 regarding the Corporation's Phase II DTA. The Corporation's Phase II rate design proposals were all effectively approved as filed. The Corporation submitted a Phase II compliance filing to obtain final approval of rates by customer class, to the AUC on September 10, 2010 based on the Phase I compliance filing with an effective date for new final rates and riders of January 1, 2011. On December 14, 2010, the Phase II compliance filing was approved in Decision 2010-576.

Generic Cost of Capital Hearing

On December 8, 2011, the AUC issued Decision 2011-474 in respect of its 2011 Generic Cost of Capital Proceeding ("2011 GCOC Decision"). That decision established an ROE for ratemaking purposes of 8.75% for both 2011 and 2012, and an interim ROE of 8.75% for 2013. The impact of this decision on the financial statements was the recognition of a $1.8 million decrease in electric rate revenue in the three month period ended December 31, 2011 and an associated regulatory liability as at December 31, 2011. The Corporation's deemed equity capitalization was maintained at 41%, to be in place until any future order of the AUC may alter it. The AUC concluded that it would not return to a formula-based ROE adjustment mechanism at this time, and that it would initiate a proceeding in due course to establish a final ROE for 2013 and to revisit the matter of a return to a formula for establishing ROE on a go forward basis.

In January 2012 the Corporation and other utilities that are subject to Decision 2011-474 filed with the Alberta Court of Appeal motions for leave to appeal Decision 2011-474. The motions are focused on pronouncements made by the AUC regarding cost responsibility for stranded assets, which pronouncements the Corporation is challenging as incorrectly made. In February 2012, the Corporation and other utilities filed with the AUC requests for the AUC itself to review and vary such pronouncements.

2012/2013 Distribution Tariff Application

On March 31, 2011, the Corporation filed a Phase I DTA for 2012 and 2013 electric distribution service rates to be in place prior to any transition to performance based regulation ("PBR") with the AUC. The Corporation requested approval of revenue requirements of $410.3 million in 2012 and $447.0 million in 2013, for rate increases of 8.2% and 6.9%, respectively. The rate increases were driven primarily by rate base growth associated with capital expenditures, which result in increased depreciation, interest and return on equity requirements.

In Decision 2011-369, the AUC approved commencement of a negotiated settlement process for that matter, but limited the process to considering Phase I matters in respect of the 2012 year only, in light of the AUC's target of 2013 being the initial year of PBR-based rates. The AUC stated that the Corporation's 2012 rates are to be the going-in basis for PBR-based rates commencing in 2013. These rates will be subject to any transitional adjustments determined by the proceeding regarding the transition to PBR in Alberta.

On November 8, 2011, the Corporation filed a Negotiated Settlement Agreement ("NSA") in respect of rates for 2012 for approval by the AUC. That NSA, if approved, will establish a 2012 distribution revenue requirement of $398.2 million, representing an average rate increase of approximately 5.0% and net forecasted capital expenditures of $368.8 million.

The Corporation's application for interim 2012 rates reflecting the parameters of the 2012 NSA was approved on December 21, 2011.

Review and Variance Application

Per Decision 2010-554, the AUC initiated a proceeding in respect of the Review and Variance Application to determine the prudence of capital expenditures related to the automated metering project expenditures in excess of $104.3 million. The Corporation received AUC Decision 2011-233 (the "Review and Variance Decision") on June 1, 2011. In the decision the AUC approved as requested the following:

- an additional $21.4 million in forecasted capital expenditures relating to the automated metering project, the associated depreciation and return to be calculated using the weighted average cost of capital;
- the requested $0.4 million for additional meter reading costs and associated carrying costs calculated in accordance with Rule 023;
- $1.0 million in respect of system settlement code changes; and
- a deferral account restricted to costs arising from changes to AUC rules.

The Corporation included the approved items above in its NSA. The impact of this decision on the financial statements was the recognition of $3.5 million of electric rate revenue in the twelve month period ended December 31, 2011 and an associated regulatory asset as at December 31, 2011.

RESULTS OF OPERATIONS

Highlights

	Three Months Ended December 31			Twelve Months Ended December 31		
	2011	2010	Increase / (Decrease)	2011	2010	Increase / (Decrease)
($ thousands)						
Revenues	104,075	99,452	4,623	414,135	388,462	25,673
Operating costs	38,229	37,560	669	144,443	141,472	2,971
Depreciation	30,671	28,769	1,902	120,394	113,334	7,060
Amortization	3,533	3,069	464	13,706	12,564	1,142
Income before interest and income taxes	31,642	30,054	1,588	135,592	121,092	14,500
Interest expense	14,882	13,082	1,800	59,084	53,525	5,559
Income before income taxes	16,760	16,972	(212)	76,508	67,567	8,941
Income tax (recovery) expense	(160)	(213)	53	969	(655)	1,624
Net income	16,920	17,185	(265)	75,539	68,222	7,317

The following table outlines the significant increases/(decreases) in the Results of Operations for the three months ended December 31, 2011 as compared to December 31, 2010:

Item	Increase/ (Decrease) ($ millions)	Explanation
Revenues	4.6	Electric revenue increased by a total of $4.5. Of this increase $7.0 was attributable to distribution rate increases and customer growth. Also, there was a $0.5 increase due to the impact of the Review and Variance Decision. These increases were partially offset by a decrease of $1.8 due to the 2011 GCOC Decision. In addition, franchise fee revenue, A-1 rider revenue, farm transmission and various revenue deferrals resulted in a net decrease of $1.2. Other revenue increased by $0.1 due to an increase in miscellaneous revenue.
Depreciation and Amortization	2.4	The increase was due to an increase in capital assets related to system growth, as well as upgrades and replacement of assets within the Corporation's service territory.
Interest Expense	1.8	The increase was due to higher debt levels arising from the issuance of long-term debt Series 10-1 and 11-1 that took place in October 2010 and October 2011 respectively to finance increased capital assets, as well as an increase in interest rates charged on the syndicated credit facility. This was partially offset by lower average drawings under the syndicated credit facility.

The following table outlines the significant increases/(decreases) in the Results of Operations for the twelve months ended December 31, 2011 as compared to December 31, 2010:

Item	Increase/ (Decrease) ($ millions)	Explanation
Revenues	25.7	Electric rate revenue increased by a total of $25.2. Of this increase $28.4 was attributable to distribution rate increases and customer growth. Also, there was a $3.5 increase due to the impact of the Review and Variance Decision. These increases were partially offset by a decrease of $1.8 due to the 2011 GCOC Decision. In addition, franchise fee revenue, A-1 rider revenue, farm transmission and various revenue deferrals resulted in a net decrease of $4.9. Other revenue increased by a total of $0.5. Miscellaneous revenue increased by $0.7 which was partially offset by a decrease of $0.2 in net transmission revenue.
Operating Costs	3.0	Operating costs were higher as a result of higher general operating costs partially offset by lower labour and contracted manpower costs. General operating costs were higher due primarily to higher staff expenses, vehicle operating costs, hearing costs, franchise fees, and office related expenses, partially offset by a reduction in self-insurance and other costs. Labour costs were lower due to the recognition of the prior years' deferred labour costs in 2010 which was partially offset by an increase in salaries and benefits in 2011. Contracted manpower decreased mainly due to lower meter reading contractor services as a result of the completion of the automated metering project. These were partially offset by an increase in consultant services, brushing activities and professional fees. Labour and benefit costs and contracted manpower costs comprised approximately 62.6% of total operating costs.
Depreciation and Amortization	8.2	The increase was due to an increase in capital assets related to system growth, as well as upgrades and replacement of assets within the Corporation's service territory. The increase was partially offset by a reduction in depreciation of computer hardware as a result of retirements.
Interest Expense	5.6	The increase was attributable to higher debt levels arising from the issuances of long-term debt Series 10-1 and Series 11-1 that took place in October 2010 and October 2011 respectively to finance increased capital assets, and by an increase in interest rates charged on the syndicated credit facility. This was partially offset by a higher 2011 allowance for funds used during construction ("AFUDC") and lower average drawings under the syndicated credit facility.
Income Tax Expense	1.6	There was an increase in current income tax expense that was largely offset by an increase in future income tax recovery; therefore, the increase in income tax expense was primarily due to the change in deferrals subject to future income taxes without an offsetting regulatory liability or asset. In addition, the Corporation recorded a higher current income tax expense in 2011 related to the sale of assets.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth certain quarterly information of the Corporation:

($ thousands)	Revenues	Net Income
December 31, 2011	104,075	16,920
September 30, 2011	102,853	18,352
June 30, 2011	103,715	19,069
March 31, 2011	103,492	21,198
December 31, 2010	99,452	17,185
September 30, 2010	109,911	19,180
June 30, 2010	91,243	17,396
March 31, 2010	87,856	14,461

There is no significant seasonality in the Corporation's operations.

Changes in revenues and net income from quarter to quarter are a result of many factors including regulatory decisions, energy deliveries, number of customer sites, growth of the distribution system, and changes in income tax expense due to fluctuations in future income tax expenses and recoveries due to changes in deferral account balances, availability of tax recoveries and levels of taxable income.

- Net income decreased for the three months ended December 31, 2011 compared to the three months ended September 30, 2011 by $1.4 million. Revenues increased by $1.2 million for the three months ended December 31, 2011 compared to the three months ended September 30, 2011 primarily as a result of an increase in customers and AFUDC recorded in the fourth quarter which was partially offset by lower demand and recording the impact of the 2011 GCOC Decision in the fourth quarter. There was an increase in operating costs of $2.8 million which was primarily due to an increase in labour and general operating costs. The increase in depreciation and amortization of $0.6 million was due to an increase in capital assets. The decrease in interest expense of $0.4 million was as result of recording the AFUDC in the fourth quarter which was partially offset by interest on the long-term debt Series 11-1 issued in October 2011. There was also a $0.4 million decrease in tax expense.

- Revenues decreased by $0.9 million for the three months ended September 30, 2011 compared to the three months ended June 30, 2011 due mainly to the effects of the Review and Variance Decision. Net income decreased for the three months ended September 30, 2011 compared to the three months ended June 30, 2011 by $0.7 million primarily as a result of the decrease in revenue by $0.9 million. This was partially offset by a decrease in operating costs of $0.1 million and a decrease in income tax expense of $0.1 million.

- Revenues increased by $0.2 million for the three months ended June 30, 2011 compared to the three months ended March 31, 2011. Net income decreased for the three months ended June 30, 2011 compared to the three months ended March 31, 2011 by $2.1 million primarily as a result of higher depreciation and amortization charges of $0.5 million due to an increase in the depreciable base of assets during the current quarter compared to the prior quarter, as well as an increase in interest costs of $1.7 million which was primarily due to higher drawings on the syndicated credit facility.

- Revenues increased by $4.0 million for the three months ended March 31, 2011 compared to the three months ended December 31, 2010 primarily due to distribution rate increases and customer growth. Net income increased for the three months ended March 31, 2011 compared to the three months ended December 31, 2010 by $4.0 million, due to the increase in revenues of $4.0 million and a decrease in operating costs of $2.3 million resulting from decreases of $3.9 million in contracted manpower and $0.6 million in other operating expenditures, partially offset by an increase of $2.2 million in salaries and wages. This is partially offset by an increase of $1.1 million in depreciation and amortization due to an increase in the depreciable base of assets, an increase of $0.5 million of interest expense and an increase of $0.7 million in income tax expense.

- Revenues decreased by $10.5 million for the three months ended December 31, 2010 compared to the three months ended September 30, 2010 primarily as a result of AUC Decision 2010-309 being recorded in the third quarter of 2010. Net income decreased for the three months ended December 31, 2010 compared to the three months ended September 30, 2010 by $2.0 million due to the decrease in revenues of $10.5 million, an increase in operating costs of $4.7 million, an increase in interest expense of $0.3 million and a decrease in income tax recovery of $0.1 million. This was partially offset by a net decrease in depreciation and amortization of $13.6 million as a result of AUC Decision 2010-309 being recorded in the third quarter of 2010.

- Revenues increased by $18.7 million for the three months ended September 30, 2010 compared to the three months ended June 30, 2010 primarily as a result of AUC Decision 2010-309. Net income increased for the three months ended September 30, 2010 compared to the three months ended June 30, 2010 by $1.8 million due to the increase in revenues of $18.7 million, a decrease in operating costs of $2.7 million, a decrease in interest expense of $1.0 million primarily due to the AFUDC and an increase in income tax recovery of $0.4 million. This was partially offset by a net increase in depreciation and amortization of $21.1 million as a result of AUC Decision 2010-309.

- Revenues increased by $3.4 million for the three months ended June 30, 2010 compared to the three months ended March 31, 2010. Net income increased for the three months ended June 30, 2010 compared to the three months ended March 31, 2010 by $2.9 million due to the increase in revenues of $3.4 million and decreased interest expense of $0.2 million due to the timing of drawings on the syndicated credit facility. This was partially offset by an increase in operating costs of $0.1 million, an increase in depreciation and amortization of $0.2 million primarily due to the increase in capital assets and a decreased tax recovery of $0.4 million.

SUMMARY OF SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2011, 2010 and 2009:

($ thousands)	2011	2010	2009
Revenues [(a)]	414,135	388,462	330,845
Net income [(a)]	75,539	68,222	60,328
Assets [(b)]	2,669,858	2,352,947	2,097,288
Long-term debt [(b)]	1,203,438	1,073,465	948,154

Notes:

a. *See Results of Operations for commentary on revenue and net income.*

b. *See Financial Position for a discussion of significant changes in asset and long-term debt balances.*

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheets as at December 31, 2011 as compared to December 31, 2010:

Item	Increase/ (Decrease) ($ millions)	Explanation
Assets:		
Accounts Receivable	29.3	The increase in accounts receivable was largely due to a net increase in revenue accruals of $22.6 for distribution and transmission revenue, an increase in customer contribution receivables of $4.0 and an increase in trade receivables of $3.0. These were partially offset by a decrease in other receivables of $0.3.
Property, Plant and Equipment	260.4	Property, plant and equipment was comprised of net additions of $334.8, adjusted for proceeds on retired assets, less depreciation of $75.9 and an adjustment of $1.5 to increase the site restoration liability. The depreciation of $120.4 reported in the statements of income, comprehensive income and retained earnings includes $44.5 for future removal and site restoration costs recovered through depreciation.
Regulatory Assets	28.1	The increase in regulatory assets was largely due to an increase in the Alberta Electric System Operator ("AESO") charges deferral of $24.9, an increase in the future income tax deferral of $24.5 and an increase in deferred overhead of $10.3. Further, there was an increase in the Review and Variance Decision deferral of $3.5 and net increases in other regulatory deferrals of $0.9. These were partially offset by a $36.0 decrease in the 2010 distribution adjustment rider as it was collected in 2011.
Liabilities:		
Accounts payable, accrued and other liabilities	51.3	The increase in accounts payable, accrued and other liabilities was largely due to an increase in payables of $30.1 for transmission connected projects, an increase of $15.8 for transmission cost accruals, net increases in trade and other accounts payable of $4.4 and a net increase in liabilities related to other post-retirement benefits and supplemental employment benefits of $1.0.
Regulatory Liabilities	25.2	The increase in regulatory liabilities was due to an increase to the provision for future site restoration costs of $22.2, an increase in AESO charges deferrals of $2.9, an increase in the 2011 distribution adjustment rider of $1.8 due to the 2011 GCOC Decision, an increase in load settlement charges deferral of $1.1 and increases in other regulatory liabilities of $0.5. These increases were partially offset by a $3.3 decrease in the A1 rider deferral.
Future Income Taxes	22.0	Future income taxes increased due to an increase in temporary differences between the carrying value of assets and liabilities and their values for income tax purposes.
Long-term Debt	130.0	The increase was primarily due to the issuances of $125.0 in public debt on October 27, 2011, which was used to repay existing indebtedness incurred under the syndicated credit facility, and for general corporate purposes. In addition, there was an increase of $6.0 in drawings under the syndicated credit facility and a net increase to transaction costs of $1.0.
Shareholder's Equity:		
Contributed Surplus	55.0	During the twelve months ended December 31, 2011, the Corporation received $55.0 in equity contributions from Fortis Alberta Holdings Inc. (the Corporation's parent and an indirectly wholly-owned subsidiary of Fortis). No additional shares were issued in connection with these contributions.

SOURCES AND USES OF LIQUIDITY AND CAPITAL RESOURCES

The Corporation's primary sources of liquidity and capital resources are the following:

- funds generated from operations;
- the issuance and sale of debt instruments;
- bank financing and operating lines of credit; and
- equity contributions from the Corporation's parent.

STATEMENT OF CASH FLOWS

	Three Months Ended December 31			Twelve Months Ended December 31		
($ thousands)	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Cash, beginning of period	–	–	–	–	–	–
Cash provided from (used in)						
Operating activities	49,374	61,846	(12,472)	222,486	195,712	26,774
Investing activities	(147,164)	(108,746)	(38,418)	(363,133)	(334,824)	(28,309)
Financing activities	97,790	46,900	50,890	140,647	139,112	1,535
Cash, end of period	–	–	–	–	–	–

Operating Activities

For the three months ended December 31, 2011, net cash provided from operating activities was $49.4 million, which was $12.5 million lower than the same period in 2010. Cash receipts were $13.9 million lower than the same period in 2010 primarily due to a decrease in cash from net transmission receipts and payments which were partially offset by an increase in cash receipts due to an increase in distribution rates and customer counts. Changes in other receivables and payables resulted in net cash inflows of approximately $5.7 million, which consisted of $4.3 million due to increases in accounts payables relating to transmission connected projects and an increase in other net changes of $1.4 million. These were partially offset by an increase in interest paid of $3.0 million as a result of the issuance of long-term debt Series 10-1 that took place in October 2010 and an increase in interest rates charged on the syndicated credit facility. Further, there was an increase in cash payments relating to operating expenditures of $0.4 million and income taxes paid of $0.9 million.

For the twelve months ended December 31, 2011, net cash provided from operating activities was $222.5 million, which was $26.8 million higher than the same period in 2010. Cash receipts were $16.3 million higher in 2011 than in 2010 primarily due to an increase in cash due to increase in distribution rates and customer counts which were partially offset by a decrease in cash from net transmission receipts and payments. Changes in other receivables and payables resulted in net cash inflows of $28.7 million, which consisted of net cash inflows of $21.9 million due to net increases in accounts payables relating to transmission connected projects and an increase of $6.8 million due to charges in other items. These were partially offset by an increase in interest paid of $6.0 million as a result of the issuance of long-term debt Series 10-1 that took place in October 2010, an increase in cash payments relating to operating expenditures of $8.6 million and an increase in income taxes paid of $3.6 million.

Management believes that the Corporation will continue to be a rate-regulated entity allowing for recovery of its prudently incurred regulated costs and a fair return on equity. In this environment the Corporation should be able to pay all operating costs and interest expense out of operating cash flows, with some residual available for dividend payments to the parent company and/or capital expenditures. If there is continued growth, the Corporation will require additional financing in the form of debt and equity to fund a portion of its capital expenditures. In addition, management expects that the Corporation will continue to provide these distribution services to the customers in its service territory for the foreseeable future and, as such, when the current debt instruments mature the Corporation would be required to issue new debt to repay the principal obligations, as there would still be a requirement for that capital to support the assets of the Corporation. There are no required long-term debt principal repayments in 2012.

Investing Activities

	Three Months ended December 31			Twelve Months ended December 31		
($ thousands)	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Capital expenditures						
New customers	48,134	43,476	4,658	169,937	166,831	3,106
Capital upgrades and replacements	27,392	23,036	4,356	98,791	69,875	28,916
Facilities, vehicles and other	6,080	16,244	(10,164)	41,232	65,793	(24,561)
Information technology	2,999	5,480	(2,481)	14,003	13,706	297
AESO contributions	57,917	10,768	47,149	80,262	33,091	47,171
Gross capital expenditures	142,522	99,004	43,518	404,225	349,296	54,929
Less: customer contributions	(13,501)	(13,105)	(396)	(54,229)	(41,505)	(12,724)
Net capital expenditures	129,021	85,899	43,122	349,996	307,791	42,205

The Corporation's utility operations are capital intensive. For the three months ended December 31, 2011, the Corporation had gross capital expenditures of $142.5 million compared to $99.0 million for the same period in 2010. Capital expenditures related to new customers increased $4.7 million compared to the same period in 2010. The majority of the increase was from increased demand for oil and gas and general service connects which were partially offset by decreased demand for small general service connects. Capital expenditures related to capital upgrades and replacements increased by $4.4 million compared to the same period in 2010, mainly due to an increase in substation upgrades and planned maintenance. Capital expenditures related to facilities, vehicles and other decreased by $10.2 million compared to the same period in 2010 as there was a decrease of $9.9 million in other expenditures related principally to decreased expenditures on the automated metering infrastructure project as all the meters have been installed, as well as a decrease in oilfield metering as the majority of the work for this project was completed in the third quarter. Capital expenditures related to AESO contributions increased by $47.1 million.

For the twelve months ended December 31, 2011, the Corporation had gross capital expenditures of $404.2 million, compared to $349.3 million for the same period in 2010. Capital expenditures related to capital upgrades and replacements increased by $28.9 million compared to the same period in 2010. Capital expenditures related to facilities, vehicles and other decreased by $24.6 million compared to the same period in 2010. Capital expenditures related to AESO contributions increased by $47.2 million.

It is expected that ongoing capital expenditures will be financed from funds generated by operating activities, drawings on the syndicated credit facility, proceeds from new indebtedness, and equity contributions from Fortis Alberta Holdings Inc.

Capital Expenditures

As an electric utility, the Corporation is obligated to provide a safe and reliable service to its customers. The Corporation has forecast gross capital expenditures for 2012 of approximately $401.9 million including $136.3 million for customer requested capital, $136.5 million for capital upgrades and improvements, $9.2 million for metering, and $119.9 million for other capital. Included in other capital is $17.3 million for information technology, $7.9 million for facilities, $83.1 million for contributions to AESO projects and $11.6 million relating to other capital projects. In addition, the Corporation expects to receive forecast customer contributions of approximately $33.1 million. These estimates are based upon detailed forecasts, which include numerous assumptions such as customer demand, weather, cost of labour and material, as well as other factors that could change and cause actual results to differ from these forecasts.

Cash used in investing activities was $18.1 million higher than net capital expenditures for the three months ended December 31, 2011 and $13.1 million higher than net capital expenditures for the twelve months ended December 31, 2011 as illustrated by the following table:

($ thousands)	Three Months Ended December 31, 2011	Twelve Months Ended December 31, 2011
Net capital expenditures	129,021	349,996
Changes in:		
Non-cash working capital	5,422	3,523
Costs of removal, net of salvage proceeds, from the sale of property, plant and equipment and AFUDC	2,930	11,426
Capitalized depreciation	(1,248)	(4,897)
Materials and supplies	11,181	3,751
Change in employee loans	(142)	(666)
Cash used in investing activities	147,164	363,133

Financing Activities

For the three months ended December 31, 2011, net cash provided from financing activities was $97.8 million, compared to $46.9 million during the same period in 2010. This increase was due primarily to an increase in net debt issuances of $42.2 million and an increase of $10.0 million in equity contributions received compared to the three months ended December 31, 2010. These increases were partially offset by an increase in dividends paid of $1.2 million and an increase in cash transaction costs of $0.1 million as compared to the same period in 2010.

For the twelve months ended December 31, 2011, net cash provided from financing activities was $140.6 million, compared to $139.1 million during the same period in 2010. This increase was primarily due to an increase in net debt issuances of $7.1 million compared to the twelve months ended December 31, 2010. This increase was partially offset by an increase in dividends paid of $5.0 million and an increase in cash transaction costs of $0.6 million as compared to the same period in 2010.

The Corporation anticipates it will be able to meet interest payments on outstanding indebtedness from internally generated funds, but expects to rely upon the proceeds of new indebtedness to meet the principal obligations when due.

COMMITMENTS

Operating Leases and Other Contractual Obligations

The Corporation has operating leases for facilities, office premises and joint use agreements for electric system assets. Future minimum annual lease payments and debt repayments are as follows:

($ thousands)	Total	2012	2013-14	2015-16	Thereafter
Debt[(a)]	1,218,760	5,568	200,000	28,978	984,214
Joint use agreements[(b)]	61,040	3,052	6,104	6,104	45,780
Shared services agreements[(c)]	2,702	737	1,474	491	–
Office leases	2,308	750	1,045	513	–
Total contractual obligations	1,284,810	10,107	208,623	36,086	1,029,994

Notes:

a. *The debt balance does not include transaction costs of $9.8 million.*

b. *The Corporation and an Alberta transmission service provider have entered into an agreement to allow for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Corporation no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after year 2016 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time.*

c. *The Corporation and an Alberta transmission service provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of five years from September 1, 2010 and are subject to extension based on mutually agreeable terms.*

Pension Contribution Obligations

The Corporation makes minimum pension contributions into a defined benefit component of the Corporation's pension plan for certain employees, which according to the actuarial valuation for funding purposes as at December 31, 2010 amounts to approximately $2.8 million in 2012 and $2.3 million in 2013. Future actuarial valuations will establish the funding obligations for subsequent years, which could be materially different from prior years depending upon market conditions. The next required funding valuation is expected to be completed as at December 31, 2013 and will be filed in 2014.

CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are to ensure ongoing access to capital to allow it to build and maintain the electrical distribution system within the Corporation's service territory. To ensure this access to capital, the Corporation targets a long-term capital structure that includes approximately 59% long-term debt and 41% equity, which is consistent with the 2011 GCOC Decision. This targeted capital structure is after eliminating the effects of goodwill and other items that do not impact the deemed regulatory capital structure. This ratio is maintained by the Corporation through the issuance from time to time of bonds or other evidences of indebtedness, and/or equity contributions by Fortis Alberta Holdings Inc.

Summary of Long-term Capital Structure

December 31	2011		2010	
	$ millions	%	$ millions	%
Total long-term debt[(a)]	1,213.2	57.5	1,082.2	57.3
Shareholder's equity	898.0	42.5	807.5	42.7
Total	2,111.2	100.0	1,889.7	100.0

Note:

a. *The December 31, 2011, balance does not include transaction costs of $9.8 million (December 31, 2010 – $8.7 million).*

In the management of capital, the Corporation includes shareholder's equity (excluding accumulated other comprehensive income), short-term and long-term debt, and cash and cash equivalents in the definition of capital.

As at December 31, 2011, the Corporation has externally imposed capital requirements by virtue of the Trust Indenture and the syndicated credit facility to which it is subject that limit the amount of debt that can be incurred relative to equity. The Corporation is in compliance with these externally imposed capital requirements for the year ended December 31, 2011.

As at December 31, 2011, the Corporation's credit ratings were as follows:

Dominion Bond Rating Service Limited ("DBRS")	A (low), stable outlook
Moody's Investors Service ("Moody's")	Baa1, stable outlook
Standard and Poor's ("S&P")	A-, stable outlook

On October 14, 2011, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation agreed to sell $125.0 million of senior unsecured debentures. The debentures bear interest at a rate of 4.54%, to be paid semi-annually, and mature on October 18, 2041. The transaction closed on October 19, 2011, and the proceeds of the issue were used to repay existing indebtedness incurred under the syndicated credit facility, and for general corporate purposes.

As at December 31, 2011, the Corporation's outstanding long-term debt of $1,213.2 million was made up of public debt of $400.0 million issued October 25, 2004, $100.0 million issued April 21, 2006, $109.9 million (net of discount of $0.1 million) issued January 3, 2007, $99.5 million (net of discount of $0.5 million) issued April 15, 2008, $100.0 million (net of discount of $13 thousand) issued February 13, 2009, $124.9 million (net of discount of $0.1 million) issued October 30, 2009, $124.9 million (net of discount of $0.1 million) issued October 27, 2010, and $125.0 million (net of discount of $20 thousand) issued October 19, 2011. In addition, the Corporation had $29.0 million outstanding under its syndicated credit facility.

The Corporation has an unsecured syndicated credit facility with an amount available of $250.0 million. The maturity date of this facility is September 2015. Drawings under the syndicated credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans issued under the syndicated credit facility bear an interest rate of prime plus 0.1%. Bankers' acceptances issued under the syndicated credit facility are issued at the applicable bankers' acceptance discount rate plus a stamping fee calculated at 1.1%. The average interest rate for the year ended December 31, 2011 on the syndicated credit facility was 1.8% (year ended December 31, 2010 - 1.1%). As at December 31, 2011, there were $29.0 million in drawings under the facility for banker's acceptances (December 31, 2010 - $23.0 million), and there was $0.8 million drawn in letters of credit (December 31, 2010 - $56.6 million).

An unsecured demand facility of $10.0 million was available to the Corporation as at December 31, 2011. This facility bears an interest rate on all drawings equal to prime. There were no drawings on this facility as at December 31, 2011 (December 31, 2010 - $1.9 million, which was included in short-term debt).

OUTSTANDING SHARES

Authorized – unlimited number of:

- Common shares
- Class A common shares
- First Preferred non-voting shares, redeemable, cumulative dividend at 10% of the redemption price. Subject to applicable law, the Corporation shall have the right to redeem, at any time, all or any part of the then outstanding first preferred shares for $348.9 million together with any accrued and unpaid dividends up to the redemption date.

Issued – 63 Class A common shares, with no par value.

For the year ended December 31, 2011, the Corporation declared and paid dividends totaling $40.0 million (year ended December 31, 2010 – $35.0 million) to Fortis Alberta Holdings Inc. (the Corporation's parent and an indirectly wholly owned subsidiary of Fortis).

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent and other related companies under common control. The amounts included in accounts receivable and accounts payable for related parties were measured at the exchange amount and are as follows:

($ thousands)	Included in Accounts Receivable		Included in Accounts Payable	
December 31	**2011**	**2010**	**2011**	**2010**
FortisBC Inc.	1	76	–	7
Fortis	–	12	6	594
FortisBC Pacific Holdings Inc.	3	–	–	–
Fortis Turks and Caicos Inc.	–	15	–	–
FortisBC Holdings Inc.	–	–	2	–
Housing loans to officers of the Corporation[a]	700	750	–	–
Stock option loans to officers of the Corporation[b]	167	814	–	–
Employee share purchase plan loans to officers of the Corporation[c]	17	14	–	–
Employee computer loans to officers of the Corporation[d]	1	1	–	–
Total	889	1,682	8	601
Less: current portion	21	117	8	601
Long-term portion	868	1,565	–	–

Notes:

a. *The Corporation has granted housing and relocation loans to officers of the Corporation. The loans are interest-free for a period of three to six years from the loan grant date after which interest will accrue at the rate of prime plus 0.5%. The total amount of the loans must be repaid within 10 years of the loan grant date. The loans are secured by mortgages on the residences purchased by the officers.*

b. *The Corporation has granted stock options loans to officers of the Corporation for purposes of exercising their Fortis stock options. Each loan bears interest equal to the amount of the dividends received on the shares. The total amount of each loan must be repaid within 10 years of the loan grant date. Each loan is secured by the share certificates held by the officer.*

c. *The amounts receivable under the employee share purchase plan are for loans to officers of the Corporation under the employee share purchase plan. These loans are taken on an interest-free basis and must be repaid in full within one year of the share purchase date.*

d. *The amounts receivable under the computer loans are for loans to officers of the Corporation under the employee personal computer purchase program. These loans are taken on an interest-free basis and must be repaid in full within three years of the loan issue date.*

The Corporation bills related parties on terms and conditions consistent with billings to third parties. These require amounts to be paid on a net 30 day basis with interest on overdue amounts charged at a rate of 1.5% per month (19.56% per annum). Terms and conditions on amounts billed to the Corporation by related parties are net 30 days with interest being charged on any overdue amounts.

The amounts included in other revenue and operating costs for related parties for the years ended December 31, 2011 and 2010 were measured at the exchange amount and are as follows:

($ thousands)	Included in Other Revenue		Included in Operating Costs	
December 31	**2011**	**2010**	**2011**	**2010**
FortisBC Inc.	107	253	26	24
Fortis	–	72	3,162	2,453
FortisBC Pacific Holdings Inc.	12	12	–	–
Newfoundland Power Inc.	5	65	25	4
Fortis Turks and Caicos Inc.	471	27	–	–
Maritime Electric Company, Limited	15	12	1	–
FortisBC Holdings Inc.	8	–	5	–
FortisOntario Inc.	–	–	23	4
Fortis Properties Inc.	–	–	–	8
Total	618	441	3,242	2,493

FortisBC Inc. – billed the Corporation in 2011 for charges consisting of pension costs, as well as travel and accommodation expenses for board meetings, air fare and meals. In 2011, the Corporation provided metering services, employee services, information technology services and material sales to FortisBC Inc.

Fortis – billed the Corporation in 2011 for charges relating to corporate governance expenses, stock-based compensation costs, consulting services and travel and accommodation expenses.

FortisBC Pacific Holdings Inc. (formerly Fortis Pacific Holdings Inc.) – received metering services from the Corporation in 2011. Fortis Pacific Holdings Inc. was renamed to FortisBC Pacific Holdings Inc. effective March 1, 2011.

Newfoundland Power Inc. – billed the Corporation for consultant costs in 2011. In 2011 the Corporation provided employee services to Newfoundland Power Inc.

Fortis Turks and Caicos Inc. – received employee services and material sales from the Corporation in 2011.

Maritime Electric Company, Limited – in 2011 the Corporation provided metering services to Maritime Electric Company, Limited. Maritime Electric Company, Limited billed the Corporation in 2011 for travel and accommodation expenses.

FortisBC Holdings Inc. (formerly Terasen Inc.) – billed the Corporation in 2011 for consulting costs. In 2011 the Corporation provided employee services to FortisBC Holdings Inc. Terasen Inc. was renamed to FortisBC Holdings Inc. effective March 1, 2011.

FortisOntario Inc. – billed the Corporation in 2011 for charges relating to travel and accommodation expenses for board meetings.

All services provided to or received from related parties were billed on a cost-recovery basis.

FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, requires an entity to designate its financial instruments into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) held-for-trading assets and liabilities. The Corporation has designated both short-term and long-term accounts receivable as loans and receivables and accounts payable and accrued liabilities, short-term debt and long-term debt as other financial liabilities. The Corporation did not designate any of its financial assets or liabilities as held-to-maturity, available-for-sale or held for trading as at December 31, 2011.

The carrying values of financial instruments included in current assets, long-term accounts receivable, current liabilities and short term debt on the balance sheet of the Corporation approximate their fair values, which reflects the short-term maturity, normal trade credit terms and/or nature of these financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement is required to reflect the assumptions that market participants would use in pricing a financial asset or financial liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists which prioritizes the inputs used to measure fair value.

The three levels of the fair value hierarchy are defined as follows:

Level 1: Fair value determined using unadjusted quoted prices in active markets

Level 2: Fair value determined using pricing inputs that are observable

Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Corporation's financial instruments reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment; therefore, may not be relevant in predicting the Corporation's future earnings or cash flows.

The following table represents the fair value measurements of the Corporation's financial instruments as they relate to the fair value hierarchy, the corresponding financial instruments carrying value and how the Corporation has designated its financial instruments:

December 31, 2011 ($ thousands)	**Carrying Value**	**Level 1 Fair Value**	**Level 2 Fair Value**	**Level 3 Fair Value**	**Estimated Fair Value**
Other financial liabilities					
Long-term debt[(a)]	1,213,192	–	1,495,107	–	1,495,107

December 31, 2010 ($ thousands)	**Carrying Value**	**Level 1 Fair Value**	**Level 2 Fair Value**	**Level 3 Fair Value**	**Estimated Fair Value**
Other financial liabilities					
Long-term debt[(a)]	1,082,207	–	1,223,015	–	1,223,015

Notes:

a. *The December 31, 2011 balance does not include transaction costs of $9.8 million (December 31, 2010 - $8.7 million).*

The fair value of the long-term debt is estimated based on the quoted market prices for the same or similarly rated issues for debt of the same remaining maturities.

Derivatives

The Corporation currently does not have any stand-alone derivative instruments as defined under Section 3855.

The Corporation conducted a review of contractual agreements for embedded derivatives. Under Section 3855, a derivative must meet three specific criteria to be accounted for under the Section. For contracts entered into by the Corporation, all potential embedded derivatives reviewed by the Corporation were closely related with the economic characteristics and risks of the underlying contract, had no notional amount that could be used to measure the instrument, or had no value.

Risk Management

Exposure to counterparty credit risk, interest rate risk and liquidity risk arises in the normal course of the Corporation's business. The Corporation currently does not enter into derivative financial instruments to reduce exposure to any of the risks impacting the Corporation's operations. The Corporation enters into financial instruments to finance the Corporation's operations in the normal course of business.

Counterparty Credit Risk

The Corporation defines counterparty credit risk as the financial risk associated with the non-performance of contractual obligations by counterparties. The Corporation extends credit to select counterparties in its role as an electrical system distribution provider.

The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The following table provides information on the counterparties that the Corporation extends credit to with respect to its distribution tariff billings as at December 31, 2011.

Credit Rating	Number of Counterparties	Gross Exposure ($ thousands)	Exposure ($ thousands)
AAA to AA (low)	1	2,369	–
A (high) to A (low)	8	5,290	–
BBB (high) to BBB (low)	9	14,977	–
Not rated	33	127,694	2,735
Total	51	150,330	2,735

Gross exposure represents the projected value of retailer billings over a 60-day period. As outlined in the Terms and Conditions of Distribution Access Service, the Corporation is required to minimize its gross exposure to retailer billings by obtaining an acceptable form of prudential. These acceptable forms of prudential include a cash deposit, bond, letter of credit, an investment grade credit rating from a major rating agency, or a financial guarantee from an entity with an investment grade credit rating.

Retailers with investment grade credit ratings have the exposure shown as nil since the rating serves to reduce the amount of prudential required under the Terms and Conditions of Distribution Access Service. For retailers that do not have an investment grade credit rating, the exposure is calculated as the projected value of billings over a 60-day period less the prudential held by the Corporation. Of the total exposure associated with retailer balances, the Corporation is subject to a concentration of credit risk whereby two retailers consist of approximately 51% of billings as at December 31, 2011. The Corporation assesses non-retailer billings on an individual basis for collectability and these billings are not subject to obtaining an acceptable form of prudential.

Factors such as volatility in the global capital markets and a slowdown in the Alberta economy could cause the credit quality of some of the Corporation's customers to decrease. In the event that the prudential obtained by the Corporation under the Terms and Conditions of Distribution Access Service is not sufficient to cover a loss due to non-payment from the Corporation's counterparties, the Corporation would review all other options available to collect the non-payment. However, these options would not ensure that a loss could be avoided by the Corporation.

The accounts receivable of the Corporation are not impaired and the aging analysis of the Corporation's accounts receivable is as follows:

($ thousands)	December 31, 2011
Not past due	139,930
Past due 0-60 days	3,711
Past due 61 days and over	258
Total[a]	143,899

Notes:

a. *Balance does not include goods and services tax receivable.*

Interest Rate Risk

The Corporation defines interest rate risk as the financial risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's debentures bear fixed interest rates, thereby minimizing cash flow variability due to interest rate exposures. The fair value of the fixed rate debentures fluctuates as market interest rates change. However, the Corporation plans to hold these debentures until maturity and applies in its rate applications to recover the actual interest rates on the debentures, thereby mitigating the risk of these fluctuations. The drawings under the Corporation's syndicated credit facility are at current market short-term interest rates, exposing the Corporation to some cash flow risk, but minimal fluctuations in fair value.

A change in the Corporation's interest rates results in interest rate exposure for drawings under the syndicated credit facility. The Corporation has determined that a change in interest rates of an increase of 200 basis points and a decrease of 25 basis points represents a reasonably possible financial risk, and has prepared the following sensitivity analysis to represent the impacts of a change on net income for the year ended December 31, 2011:

($ thousands)	Year ended December 31, 2011	
	25 basis point decrease	200 basis point increase
Increase (decrease) in net income	107	(867)

Further, changes to the credit rating of the Corporation also represents a financial risk whereby changes in the credit rating could affect the costs of financing and access to sources of liquidity and capital. The Corporation has debt facilities, which have interest rate and fee components that are sensitive to the credit rating of the Corporation. The Corporation is rated by Moody's, DBRS and S&P and a change in rating by any of these rating agencies could potentially increase or decrease the interest expense of the Corporation.

As at December 31, 2011, the Corporation was rated by Moody's at Baa1, by S&P at A-, and by DBRS at A (low). A downward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2011 could potentially have increased interest expense under these debt facilities by approximately $120 thousand for the year ended December 31, 2011. An upward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2011 could potentially have decreased interest expense under these debt facilities by approximately $64 thousand for the year ended December 31, 2011.

Liquidity Risk

The Corporation defines liquidity risk as the financial risk that the Corporation will encounter challenges in meeting obligations associated with financial liabilities. The Corporation anticipates it will be able to meet interest payments on outstanding indebtedness from internally generated funds but expects to rely upon the proceeds of new indebtedness to meet the principal obligations when due.

Factors such as volatility experienced in the global capital markets may increase the cost of issuance of long-term capital by the Corporation. Capital market volatility may also impact the Corporation's future funding obligations and/or pension expense associated with its defined benefit pension plan. There are a number of risks associated with the Corporation's defined benefit pension plan including: 1) there is no assurance that the Corporation's defined benefit pension plan will earn the assumed rate of return, 2) market driven changes may result in changes in the discount rates and other variables, which would result in the Corporation being required to make contributions in the future that differ from the estimates, and 3) there is measurement uncertainty incorporated into the actuarial valuation process. These risks are expected to be mitigated as the Corporation makes application in rates to collect from customers the actual cash payments into the Corporation's defined benefit pension plan and defined contribution pension plans. Therefore, an increase or decrease in the Corporation's future funding obligations and/or pension expense associated with either plan is expected to be collected or refunded in future rates, subject to forecast risk. The defined benefit assets are invested in a 100% long-term bond fund, which reduces the forecast risk on future defined benefit funding obligations.

The Corporation's outstanding financial liabilities as at December 31, 2011, include short-term debt, accounts payable and accrued liabilities, and long-term debt. The Corporation expects to settle its financial liabilities relating to short-term debt and accounts payable and accrued liabilities in accordance with their contractual terms of repayment, which are generally within one year. The following table summarizes the number of years to maturity of the principal outstanding and interest payments on the Corporation's long-term debt, which is composed of drawings on the syndicated credit facility and senior unsecured debentures, as at December 31, 2011:

($ thousands)	1–5 Years	6–10 Years	> 10 Years	Total
Drawings on the syndicated credit facility [(a)(c)]	29,000	–	–	29,000
Senior unsecured debentures [(b)(c)]				
- Principal payments	200,000	–	985,000	1,185,000
- Interest payments	305,113	273,133	1,008,390	1,586,636
Total	534,113	273,133	1,993,390	2,800,636

Notes:

a. *The Corporation's syndicated credit facility has a maturity date of September 2015. The drawings under the syndicated credit facility as at December 31, 2011 are bankers' acceptances, which have their own contractual maturity dates. The amounts shown above reflect the principal and interest due when the current bankers' acceptances mature. This balance will fluctuate between December 31, 2011 and the maturity date of the syndicated credit facility.*

b. *The December 31, 2011 balance does not include transaction costs of $9.8 million.*

c. *Payments are shown after amortization of discounts.*

SIGNIFICANT ACCOUNTING ESTIMATES

Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. In addition, certain estimates not associated with regulatory decisions are also subject to finalization and adjustments.

Income Taxes

Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of future income taxes resulting from temporary differences between the carrying value of asset and liabilities in the financial statements and their tax values. A future income tax asset or liability is determined for each temporary difference based on the future tax rates that are expected to be in effect and management's assumptions regarding the expected timing of the reversal of such temporary differences. Future income tax assets are assessed for the likelihood that they will be recovered from future taxable income. To the extent recovery is not considered more likely than not, a valuation allowance is recorded and charged against income in the period that the allowance is created or revised.

General Litigation

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations. The Corporation periodically reviews these claims to determine if amounts should be accrued in the financial statements or if specific note disclosure is warranted.

Depreciation and Amortization

Depreciation and amortization are estimates based primarily on the service life of assets. The Corporation records depreciation and amortization expense based on the rates approved by the AUC. These rates are updated based on depreciation studies that are filed by the Corporation and are subject to change.

Employee Future Benefits

The Corporation's defined benefit pension plan expense and other post-retirement benefit expense are subject to judgments utilized in the actuarial determination of the expense. Some of the assumptions utilized by management in determining this expense were the discount rate for the accrued benefit obligation and the expected long-term rate of return on plan assets. Other assumptions applied were average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates. The defined benefit pension plan and other post-retirement plan assumptions are assessed and concluded in consultation with the Corporation's external actuarial advisor.

Discount rates, which are used to determine the accrued benefit obligation, reflect market interest rates on high quality bonds with cash flows that match the timing and amount of expected pension benefit payments. This methodology is consistent with that used to determine the discount rate in the previous year.

As in previous years, the Corporation's actuary provides a range of expected long-term pension asset returns based on the actuary's internal modeling. The expected long-term return on pension plan assets of 4.20% falls within the conservative to normal range as indicated by the actuary.

As described in Note 10(b) of the Corporation's audited financial statements for the twelve months ended December 31, 2011, the Corporation recovered in rates other post-retirement benefits, supplemental pension plan costs, defined benefit and defined contribution costs based on the estimated cash payments included in the 10/11 DTA Decision. Any difference between the expense recognized under GAAP for pension and other post-retirement plans and that recovered in current rates, that is expected to be recovered or refunded in future rates, is subject to deferral treatment.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any previous amortization and write-down for impairment. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its fair market value. During each fiscal year and as economic events dictate, management reviews the valuation of the goodwill, taking into consideration any events or circumstances that might have impaired the fair value.

Revenue Recognition

Revenues are recognized as earned, at AUC approved rates where applicable, including amounts recognized on an accrual basis for services rendered, but not yet billed. The unbilled revenue accrual at the end of each period is based on the difference between the forecast revenue and the actual amounts billed. The development of the revenue forecast is based upon numerous assumptions such as energy deliveries, customer growth, economic activity and weather conditions.

Expense Accruals

Costs and liabilities are recognized as incurred, including amounts recognized on an accrual basis for expenses or liabilities incurred but not yet invoiced. These accruals are made based upon estimates of the value of services rendered or goods received that are not yet invoiced or for liabilities incurred.

Regulation

All amounts deferred as regulatory assets and liabilities are subject to AUC approval. As such, subject to the provisions of the *EUA*, the AUC could alter the amounts subject to deferral at which time the change would be reflected in the financial statements. Based on regulatory decisions, the Corporation records the amount expected to be recovered or refunded.

FUTURE CHANGES IN ACCOUNTING POLICIES

Adoption of New Accounting Standards

Due to the continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the International Accounting Standards Board (the "IASB"), the Corporation is adopting generally accepted accounting principles in the United States ("US GAAP") effective January 1, 2012. For purposes of reporting under the Trust Indenture, on October 19, 2011, the Corporation received approval from its Bondholders to adopt US GAAP for the reporting period beginning January 1, 2012.

Canadian securities rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as a Securities and Exchange Commission ("SEC") Issuer. An SEC Issuer is defined under the Canadian rules as an issuer that: (i) has a class of securities registered with the SEC under Section 12 of the U.S. *Securities Exchange Act of 1934*, as amended (the "*Exchange Act*"); or (ii) is required to file reports under Section 15(d) of the *Exchange Act*. The Corporation is currently not an SEC Issuer. Therefore, on June 6, 2011, Fortis filed an application with the Ontario Securities Commission (the "OSC") seeking relief, pursuant to National Policy 11-203 – *Process for Exemptive Relief Applications in Multiple Jurisdictions*, to permit the Corporation to prepare its financial statements in accordance with US GAAP without qualifying as a SEC Issuer (the "Exemption"). On June 9, 2011, the OSC issued its decision and granted the Exemption for financial years commencing on or after January 1, 2012, but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Corporation ceases to have activities subject to rate regulation.

The Corporation's application of Canadian GAAP currently is based on principles generally consistent with US GAAP for guidance on accounting for rate-regulated activities, which allows the economic impact of rate-regulated activities to be recognized in the financial statements in a manner consistent with the timing by which amounts are reflected in customer rates.

The Corporation has developed a three-phase plan to adopt US GAAP effective January 1, 2012. The following is an overview of the activities under each phase, and their current status.

<u>Phase I - Scoping and Diagnostics:</u> This phase consisted of project initiation and awareness; project planning and resourcing; identification of high-level differences between US GAAP and Canadian GAAP to highlight areas where detailed analysis was needed to determine and conclude as to the nature and extent of impacts. External accounting and legal advisors were engaged during this phase to assist the Corporation's internal US GAAP conversion team and to provide technical input and expertise as required. Phase I is complete.

<u>Phase II - Analysis and Development:</u> This phase consisted of detailed diagnostics and evaluation of the financial impacts of adopting US GAAP based on the high-level assessment conducted under Phase I; identification and design of any new operational or financial business processes; initial staff training and audit committee orientation; and development of required solutions to address identified issues. Phase II of the plan is complete.

<u>Phase III - Implementation and Review:</u> This phase consists of implementation of the changes required by the Corporation to prepare and file its financial statements based on US GAAP beginning in 2012 and communication of the associated impacts.

The Corporation will prepare and file its audited Canadian GAAP financial statements for the year ending December 31, 2011 in the usual manner. The Corporation then intends to voluntarily prepare and file audited US GAAP financial statements for the year ending December 31, 2011, with 2010 comparatives. The Corporation's voluntary filing of audited US GAAP financial statements for the year ending December 31, 2011, subsequent to the filing of its audited Canadian GAAP financial statements for the year ending December 31, 2011, has been approved by the OSC and is expected to be completed by March 31, 2012. Beginning with the first quarter of 2012, the Corporation's unaudited interim financial statements will be prepared and filed in accordance with US GAAP.

Phase III will conclude when the Corporation files its audited financial statements for the year ending December 31, 2012 prepared in accordance with US GAAP.

Financial Statement Impacts

The areas identified to date where differences between US GAAP and Canadian GAAP are expected to have the most significant financial statement impacts are outlined below. The identified impacts are unaudited and are subject to change based on further analysis.

Employee future benefits: Under Canadian GAAP, the accrued benefit asset or liability associated with defined benefit and other post-retirement plans are recognized on the balance sheet with a reconciliation of the recognized asset or liability to the funded or unfunded status being disclosed in the notes to the financial statements. The accrued benefit asset or liability excludes unamortized balances related to past service costs, actuarial gains or losses and transitional obligations which have not yet been expensed.

US GAAP requires recognition of the funded or unfunded status of defined benefit and other post-retirement plans on the balance sheet, with the unamortized balances related to past service costs, actuarial gains or losses and transitional obligations recognized on the balance sheet as a component of accumulated other comprehensive income. Changes to past service costs, actuarial gains or losses and transitional obligations which are not immediately recognized as components of net pension expense are required to be recognized in other comprehensive income. For defined benefit plans, entities with activities subject to rate regulation would recognize the unamortized balances as regulatory assets or liabilities for recovery from or refund to customers in future rates, with subsequent changes to these balances recognized as net pension expense, where required by the regulator, or otherwise as a change in the regulatory asset or liability. For other post-retirement plans, other than pensions, entities with activities subject to rate regulation who fail to meet certain criteria would recognize the unamortized balances as accumulated other comprehensive income, net of taxes, with subsequent changes to these balances recognized through the statement of other comprehensive income. Therefore, upon adoption of US GAAP, the Corporation will recognize the unfunded or funded status of its defined benefit, supplemental and other post-retirement plans on the balance sheet. The Corporation will recognize the unamortized balances as regulatory assets or liabilities for its defined benefit and supplemental plans and as accumulated other comprehensive income for other post-retirement benefits.

The following table summarizes additional differences between Canadian GAAP and US GAAP in the accounting for defined benefit plans.

	Canadian GAAP	US GAAP
Measurement Date	Allows the use of a measurement date up to three months prior to the date of an entity's fiscal year end.	Only allows the use of a measurement date equal to the date of an entity's fiscal year end.
Attribution Period	Allows the use of an attribution period that extends beyond the date when the credited service period ends, under specific circumstances.	Only allows the use of an attribution period up to the date when credited service ends.

Deferred Financing Fees: Under Canadian GAAP, transaction costs arising from the issuance of debt are recorded in long-term debt. Under US GAAP, these costs are reclassified as deferred amounts in other assets. The amortization of debt issuance costs remains unchanged; therefore, no income impacts will affect the Corporation as a result of this difference.

<u>Push-down Accounting:</u> Under Canadian GAAP, the Corporation applied push-down accounting with respect to the August 31, 2000 acquisition by Aquila Inc. Under US GAAP the Corporation will apply push-down accounting with respect to the May 31, 2004 acquisition by Fortis. Therefore, upon adoption of US GAAP, the Corporation's separate financial statements will reflect the new basis of accounting recorded by Fortis upon acquisition (i.e., "pushed down" basis) such that the basis of accounting for purchased assets and liabilities would be the same regardless of whether the Corporation continued to exist or was merged into the Fortis operations.

The above items do not represent a complete list of expected differences between US GAAP and Canadian GAAP, and are subject to change. Other less significant differences have also been identified. Analysis also remains on-going and additional areas where the Corporation's financial statements may be materially impacted could be identified prior to the Corporation's voluntary preparation and filing of its annual audited US GAAP financial statements for the year ending December 31, 2011. A detailed reconciliation between the Corporation's audited Canadian GAAP and US GAAP financial statements for 2011, including 2010 comparatives, and any additional areas where significant adjustments may be required will be disclosed as part of that voluntary filing. These changes do not address certain income statement classification changes which do not impact the overall net income for the periods presented.

The quantification and reconciliation of the Corporation's financial statements from Canadian GAAP to US GAAP for 2011 interim and annual reporting periods is scheduled for completion prior to the filing of the Corporation's unaudited interim financial statements for the first quarter of 2012.

BUSINESS RISK

Legal Proceedings

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations.

Regulatory Approval and Rate Orders

The regulated operations of the Corporation are subject to the normal uncertainties faced by regulated companies. These uncertainties include approval by the AUC of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on rate base. The ability of the Corporation to recover the actual costs of providing services and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process. The cost of upgrades to existing facilities and the addition of new facilities require the approval of the AUC for inclusion in rate base. There is no assurance that capital projects perceived as required by the management of the Corporation will be approved or that conditions to such approval will not be imposed. Capital cost overruns might not be recoverable in rates.

Rate applications that establish revenue requirements may be subject to negotiated settlement procedures in Alberta. Failing a negotiated settlement, rate applications may be pursued through public hearing processes. There can be no assurance that the rate orders issued or negotiated settlements approved by the AUC will permit the Corporation to recover all costs actually incurred and to earn the expected rate of return. A failure to obtain acceptable rate orders may adversely affect the business carried on by the Corporation, the undertaking or timing of proposed expansion projects, the issue and sale of securities, ratings assigned by rating agencies and other matters which may, in turn, negatively impact the Corporation's results of operations or financial position. In addition, there is no assurance that the Corporation will receive regulatory decisions in a timely manner and, therefore, may incur costs prior to having an approved revenue requirement.

If the Corporation's actual costs exceed allowed costs, and such excess costs are not recoverable through the rate-setting process, the Corporation's financial performance could be adversely affected. Actual costs could exceed allowed costs if, for example, the Corporation incurs operational, maintenance or administrative costs above those included in the Corporation's approved revenue requirement, higher expenses due to capital expenditures being at levels above those provided for in the rate orders, additional financing charges because of increased debt balances, or interest rates being higher than those included in the approved revenue requirement.

If the Corporation issues new long-term debt and the interest rates are higher than what is approved in its rates, the additional interest costs incurred on long-term debt will not be recovered from customers in rates during the period that is covered by the approved rates.

The restructuring of the power industry in Alberta continues to create uncertainty for the Corporation and its business. While restructuring of the power industry in Alberta officially commenced on January 1, 1996, the underlying legislation and regulations pursuant to which such restructuring was implemented continue to evolve. Changes in such legislation may have a retroactive effect. The extent to which the Government of Alberta may participate in, and make adjustments to, the market cannot be foreseen. The regulations and market rules that govern the competitive wholesale and retail electricity markets in Alberta continue to evolve and there may be significant changes in these regulations and market rules that could adversely affect the ability of the Corporation to recover its costs or to earn a reasonable return on its capital.

As an owner of an electricity distribution network under the *EUA*, the Corporation is required to act, or to authorize a substitute party to act, as a provider of electricity services, including the sale of electricity, to eligible customers under a regulated rate and to appoint a retailer as default supplier to provide electricity services to customers otherwise unable to obtain electricity services. In order to remain solely a distribution utility, the Corporation appointed EPCOR Energy Services (Alberta) Inc. ("EPCOR") as its regulated-rate provider. As a result of this appointment, EPCOR assumed all of the Corporation's rights and obligations in respect of these services. In the unlikely event that EPCOR is unable or unwilling to act as regulated-rate provider or as default supplier, and no other party is willing to act as regulated-rate provider or as default supplier, the Corporation would be required under the *EUA* to act as a provider of electricity services to eligible customers under a regulated rate or to provide electricity services to customers otherwise unable to obtain electricity services. If the Corporation could not secure outsourcing for these functions, the Corporation would need to administer these retail responsibilities by adding necessary staff, facilities and/or equipment.

Loss of Service Areas

The Corporation serves customers that reside within various municipalities throughout its service areas. Upon the termination of its franchise agreement, a municipality has the right, subject to AUC approval, to purchase the Corporation's assets within its municipal boundaries pursuant to the *Municipal Government Act* with the price therefore to be agreed or failing an agreement, set by the AUC.

Additionally, under the *Hydro and Electric Energy Act*, if a municipality that owns an electric distribution system expands its boundaries the municipality can acquire the Corporation's assets in the annexed area. In such circumstances, the *Hydro and Electric Energy Act* provides that the AUC may determine that the municipality should pay compensation to the Corporation for any facilities transferred on the basis of "reproduction cost new less depreciation".

The consequence to the Corporation of a municipality purchasing its distribution assets would be an erosion of its rate base. This would reduce the capital upon which the Corporation could earn a regulated return. There are currently no transactions ongoing with municipalities pursuant to the *Municipal Government Act* that relate to the Corporation. However, upon expiration of franchise agreements, there is a risk that municipalities will opt to purchase the distribution assets existing within the boundaries of the municipality, the loss of which could have a material adverse effect on the financial position or results of operations of the Corporation. With respect to transactions under the *Hydro and Electric Energy Act*, given the historical growth of Alberta and its municipalities, the Corporation is affected by transactions of this type from time to time.

On October 1, 2010, the Central Alberta Rural Electrification Association ("CAREA") filed an Application with the AUC requesting that, for the purposes of Sections 25 and 26 of the *Hydro and Electric Energy Act*, regarding service areas, effective January 1, 2012, CAREA be entitled to serve any new customer in the overlapping CAREA service area that wishes to obtain electricity for use on such customer's property; and that the Corporation be restricted to providing electric distribution service in the CAREA service area only to a consumer in that service area who is not being provided service by CAREA. The Corporation has intervened in the proceedings to oppose the CAREA's request.

Environmental Matters

The Corporation is subject to numerous laws, regulations and guidelines governing the generation, management, storage, transportation, recycling and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment. The costs arising from compliance with such laws, regulations and guidelines may be material to the Corporation. The process of obtaining environmental regulatory approvals can be lengthy, contentious and expensive. Environmental damages and other costs could potentially arise due to a variety of events, including severe weather impacts to the Corporation's facilities, human error or misconduct, or equipment failure. However, there can be no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs may have a material effect on the business, results of operations, financial condition and prospects of the Corporation.

The Corporation is exposed to environmental risks as a property owner in Alberta. These risks include the responsibility of any property owner for the remediation of contaminated properties, whether or not such contamination was actually caused by the owner. In addition, environmental laws make owners, operators and persons in management and control of facilities and substances subject to prosecution or administrative action for breaches of environmental laws including the failure to obtain regulatory approvals. The Corporation has not been notified of any such regulatory action in regard to the occupation of its properties or the management and control of its facilities and substances.

These same laws governing lands owned by the Corporation apply to lands utilized by the Corporation through dispositions for its facilities or in the course of its business. Contamination of such property typically occurs through the accidental release of transformer oils either through human error or equipment failure. Environmental laws make owners, operators and persons in management and control of facilities and substances subject to prosecution or administrative action for breaches of environmental laws. Changes in environmental laws governing contamination could also lead to significant increases in costs to the Corporation.

The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including the generation and disposal of wastes, the use and handling of chemical substances, and the requirement for environmental impact assessments and remediation work. It is possible that other developments may lead to increasingly strict environmental laws and enforcement policies and claims for damages to property or persons resulting from the Corporation's operations, any one of which could result in substantial costs or liabilities to the Corporation.

Electricity distribution facilities have the potential to cause fires mainly as a result of equipment failure, falling trees and lightning strikes to distribution lines or equipment and other causes. Risks associated with fire damage are related to the extent of forestation and grassland cover, habitation, and third-party facilities located on or near the land on which the facilities are situated. The Corporation may be liable for fire suppression costs, regeneration and timber value costs and third-party claims in connection with fires on lands on which its facilities are located and such claims, if successful, could have a material adverse effect on the business, results of operations and prospects of the Corporation. The Corporation has a wildfire agreement in place with the Government of Alberta for Crown lands in the forest protection area that limits the Corporation's liability for the Crown's forest fire suppression costs to 50% of the total cost to suppress the fire to a maximum of $100 thousand. The agreement allows the Corporation to reduce its liability to 25% of the fire suppression costs to a maximum of $50 thousand following approval by the Crown of the Corporation's annual wildfire management plan for wildfire prevention.

While the Corporation maintains insurance for fires, the insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there can be no assurance that the possible types of liabilities that may be incurred by the Corporation will be covered by its insurance. See "Underinsured and Uninsured Losses".

Electricity distribution has inherent potential risks and there can be no assurance that substantial costs and liabilities will not be incurred. Potential environmental damage and costs could materialize due to some type of severe weather event or major equipment failure and there can be no assurance that such costs would be recoverable. Unrecovered costs could have a material adverse effect on the Corporation's business, results of operations and prospects.

Capital Resources

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. Funds generated from operations after payment of expected expenses (including interest payments on any outstanding debt) will not be sufficient to fund the repayment of all outstanding liabilities when due and anticipated capital expenditures. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including regulatory approval or exemption, the regulatory environment in Alberta, the results of operations and financial position of the Corporation and Fortis, conditions in the capital and bank credit markets and the ratings assigned by rating agencies and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to fund such capital expenditures and to repay existing debt.

Labour Relations

Approximately 75% of the employees of the Corporation are members of the United Utility Workers' Association ("UUWA"). On December 14, 2010, the Corporation reached a three-year collective agreement with the UUWA, which was ratified by 86% of its membership. The Corporation considers its relationships with the UUWA to be satisfactory but there can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed. The inability to maintain or renew the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes for the Corporation that are not provided for in approved rate orders and that could have a material adverse effect on the results of operations, cash flow and net income of the Corporation.

Operating and Maintenance Risk

The Corporation's distribution assets require maintenance, improvement and replacement. Accordingly, to ensure the continued performance of the Corporation's physical distribution assets, the Corporation determines expenditures that must be made to maintain and replace assets. The Corporation could experience service disruptions and increased costs if it is unable to maintain its asset base. The inability to obtain AUC approval to include in rates the capital expenditures that the Corporation believes are necessary to maintain, improve and replace its distribution assets, the failure by the Corporation to properly implement or complete approved expenditure programs or the occurrence of significant unforeseen equipment failures despite the maintenance program could have a material adverse effect on the Corporation.

The Corporation is responsible for operating and maintaining its assets in a safe manner, including the development and/or application of appropriate standards, processes and procedures to ensure the safety of the Corporation's employees and contractors as well as the general public. The failure to do so may disrupt the Corporation's ability to safely distribute electricity, which could have a material adverse effect on the Corporation.

The Corporation continually develops expenditure programs and assesses current and future operating and maintenance expenses that will be incurred in the ongoing operation of its distribution business. Management's analysis is based on assumptions as to costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters, which are uncertain. If actual costs exceed AUC approved expenditures, it is uncertain as to whether any additional costs will be approved by the AUC and recovered through rates. The inability to recover these additional costs could have a material adverse effect on the financial condition and results of operations of the Corporation.

Permits

The acquisition, ownership and operation of electricity businesses and assets requires numerous permits, approvals and certificates from federal, provincial and municipal government agencies. The Corporation may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval or if the Corporation fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the operation of its assets and the sale of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation.

Certain of the Corporation's distribution assets may be located on land that is not known to be deeded and for which it has not acquired appropriate rights. In addition, the Corporation has distribution assets on First Nations' lands, for which access permits are held by TransAlta Utilities Corporation ("TransAlta"). In order for the Corporation to acquire these access permits, both the Ministry of Indian and Northern Affairs Canada and the individual Band council must grant approval. The Corporation may not be able to acquire the access permits from TransAlta and may be unable to negotiate land usage agreements with property owners or, if negotiated, such agreements may be on terms that are less than favourable to the Corporation. The failure to acquire access permits or negotiate land usage agreements may disrupt the Corporation's ability to reliably distribute electricity, which could have a material adverse effect on the Corporation.

Weather Conditions and Other Acts of Nature

The facilities of the Corporation are exposed to the effects of severe weather conditions and other acts of nature. Although the Corporation's facilities have been constructed, operated and maintained to withstand a certain level of severe weather, there is no assurance that they will successfully do so in all circumstances. In addition, many of these facilities are located in remote areas, which makes it more difficult to perform maintenance and repairs if they are damaged by weather conditions or other acts of nature. In the event of a large uninsured loss caused by severe weather conditions or other natural disasters, application will likely be made to the AUC for the recovery of these costs through rates. However, there can be no assurance that the AUC will approve any such application. Losses resulting from repair costs and lost revenues could substantially exceed insurance coverage and any increased rates. Furthermore, the Corporation could be subject to claims from its customers for damages caused by the failure to transmit or distribute electricity to them in accordance with the Corporation's contractual obligations. The Terms and Conditions of Distribution Access Service of the Corporation include protection from damages or losses of an indirect or consequential nature, and specifically from liability of any kind arising from reasonable curtailment or interruption of distribution service. However, any major damage to the Corporation's facilities could result in lost revenues, repair costs and customer claims that are substantial in amount, which could have a material adverse effect on the Corporation.

Underinsured and Uninsured Losses

The Corporation maintains insurance coverage at all times in respect of certain potential liabilities and the accidental loss of value of certain of its assets, in amounts and with such insurers, as it considers appropriate, taking into account relevant factors, including the practices of owners of similar assets and operations. It is anticipated that such insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available on terms as favourable as the Corporation's existing arrangements. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Corporation's business. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by the Corporation, or a claim that falls within a significant self-insured retention could have a material adverse effect on the Corporation's business, results of operations, financial position and prospects.

In the event of an underinsured or uninsured loss or liability, the Corporation would likely apply to the AUC to recover the loss or liability through increased rates. However, there can be no assurance that the AUC would approve any such application, in whole or in part. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Corporation's business, results of operations, financial position and prospects.

Information Technology Infrastructure

The Corporation's ability to operate effectively in the Alberta electricity market is highly dependent upon it developing, managing and maintaining complex information systems and infrastructure that are employed to support the operation of its distribution facilities, provide the electricity market with billing and load settlement information, and support the financial and general operating aspects of the business. System failures could have a material adverse effect on the Corporation.

Workforce Demographics

The Corporation is exposed to some risk surrounding upcoming retirements and potential employee turnover. Given the demographics of the Corporation, there will likely be an increase in retirement from the critical workforce segments in future years. In addition, it is expected that the skilled labour market for the industry will remain competitive in the future. Meeting the capital program and customer expectations could be more challenging as the Corporation continues to attract and retain qualified personnel in a competitive labour market.

OUTLOOK

Performance Based Regulation

In early 2010, the AUC initiated a rate regulation initiative to reform utility rate regulation for distribution utilities in Alberta. The AUC intends to initiate PBR-based distribution service rates in 2013 for a five-year term. On July 22, 2011, the Corporation, along with other distribution utilities operating under the AUC's jurisdiction, submitted its PBR proposal to the AUC. The Corporation's submission outlines its view as to how PBR should be implemented for the Corporation.

Following the filing of the PBR proposal, the Corporation responded to information requests from the AUC and interveners on October 25, 2011. Intervener evidence was received on December 16, 2011 and a hearing is scheduled to commence April 16, 2012, with a decision expected in 2012.

2012 NSA

When the Corporation filed for approval of its 2012 NSA with the AUC, it also included for resolution of the DTA a request to continue to include volume variances in its 2012 AESO charges deferral account ("ACDA"), consistent with the existing deferral structure approved for the 2010/2011 ACDA. The process is ongoing and a determination has not yet been made on this matter by the AUC.

The Corporation anticipates filing a Phase II application in the third quarter of 2012. The Phase II application will determine specific rates to be charged to different classes of customers, thereby establishing the rate structure.

CAREA Application

On October 1, 2010, the CAREA filed an Application with the AUC requesting that, for the purposes of Sections 25 and 26 of the *Hydro and Electric Energy Act*, regarding service areas, effective January 1, 2012, CAREA be entitled to serve any new customer in the overlapping CAREA service area that wishes to obtain electricity for use on such customer's property; and that the Corporation be restricted to providing electric distribution service in the CAREA service area only to a consumer in that service area who is not being provided service by CAREA. The Corporation has intervened in the proceeding to oppose the CAREA's request. A decision on this matter is expected during 2012.

Note: Additional information concerning FortisAlberta Inc. including the Annual Information Form (AIF) is available on SEDAR at www.sedar.com.