FORTIS ALBERTA

Annual Information Form
Year Ended December 31, 2012

April 8, 2013

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GLOSSARY

Except as otherwise defined, or unless the context otherwise requires, the following terms have the meanings set forth below:

"ABCA" means the *Business Corporations Act* (Alberta);

"AESO" means the Alberta Electric System Operator;

"AIES" means the Alberta Interconnected Electric System;

"AUC" means the Alberta Utilities Commission;

"AUC Act" means the *Alberta Utilities Commission Act*;

"Balancing Pool" means an independent government agency set up to manage the transition to a competitive generation market and administer the Power Purchase Arrangements;

"Board" means the Board of Directors of FortisAlberta Inc.;

"**CAREA"** means Central Alberta Rural Electrification Association;

"Corporation" or **"FortisAlberta"** means FortisAlberta Inc.;

"DBRS" means DBRS Limited;

"Debentures" means, collectively, the Series 04-1 Debentures, Series 04-2 Debentures, Series 06-1 Debentures, Series 07-1 Debentures, Series 08-1 Debentures, Series 09-1 Debentures, Series 09-2 Debentures, Series 10-1 Debentures, Series 11-1 Debentures; and Series 12-1 Debentures;

"EMS" means the Environmental Management System;

"EPCOR" means EPCOR Energy Alberta Inc.;

"ERCB" means the Energy Resources Conservation Board;

"EUA" means the *Electric Utilities Act* (Alberta);

"EUB" means the Alberta Energy and Utilities Board;

"Fortis" means Fortis Inc.;

"Fortis Shares" means the common shares of Fortis;

"GAAP" means, at the option of the Corporation, the generally accepted accounting principles (including International Financial Reporting Standards, as applicable) as in effect from time to time, in either Canada or in the United States of America, and applied to the financial statements most recently publicly filed by the Corporation in accordance with Canadian securities laws;

"GHR Committee" means the Governance and Human Resources Committee of the Board;

"GWh" means a gigawatt hour, which is a measure of energy used over a one-hour period that is equal to 1,000,000,000 watts;

"Hydro Act" means the *Hydro and Electric Energy Act* (Alberta);

“Indentures” means, collectively, the trust indentures respectively dated October 25, 2004 and September 7, 2011 between the Corporation and the Trustee, as each may be amended or supplemented from time to time, which trust indentures collectively provide for the issuance of the Debentures;

“kWh” means a kilowatt-hour, which is a measure of energy used over a one-hour period that is equal to 1,000 watts;

“MGA” means the *Municipal Government Act* (Alberta);

“Moody’s” means Moody’s Investors Service;

“MSA” means the Market Surveillance Administrator;

“NSA” means Negotiated Settlement Agreement;

“PBR” means Performance Based Regulation;

“Power Pool” means the power pool of Alberta;

“Power Purchase Arrangements” means the legislated commercial arrangements known as power purchase arrangements;

“rate base assets” means all distribution utility assets in which the Corporation has invested to provide service to distribution utility customers, which are included in the determination of the Corporation’s revenue requirement and are subject to a regulated rate of return;

“ROE” means Return on Equity;

“RRO” means Regulated Rate Option;

“RRO Customers” means certain small and medium-sized customers that distribution utilities are required to continue to arrange for or provide retail services;

“S&P” means Standard and Poor’s, a Division of The McGraw-Hill Companies, Inc.;

“TFOs” means Transmission Facility Owners;

“TransAlta” means TransAlta Utilities Corporation;

“Trustee” means Computershare Trust Company of Canada, in its capacity as trustee under the Indentures; and

“UUWA” means the United Utility Workers’ Association of Canada.

All dollar amounts in this Annual Information Form are expressed in Canadian dollars unless otherwise noted. Readers are directed to consider all forward looking information in this Annual Information Form with the qualifications contained in the section entitled “Forward Looking Statements” in this document.

THE CORPORATION

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

FortisAlberta is the owner and operator of a regulated electricity distribution business in the Province of Alberta and was incorporated under the *ABCA* on January 1, 2000. The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc., a diversified, international electricity and gas distribution utility holding company having investments in distribution, transmission and generation utilities, real estate and hotel operations. FortisAlberta's head and registered office is located at 320 – 17th Avenue S.W., Calgary, Alberta, T2S 2V1. The Corporation has no subsidiaries.

The Corporation was incorporated for the initial purpose of acquiring the distribution and retail operations of TransAlta, pursuant to an asset transfer agreement, which had an effective closing date of August 31, 2000. The Corporation was acquired by an indirect, wholly-owned subsidiary of Aquila Inc., a U.S. public company, on August 31, 2000.

Effective January 1, 2001, the Corporation disposed of its retail operations and related assets and began operating solely as an owner and operator of distribution assets. As a distribution company, the Corporation invoices retail energy companies for the distribution and transmission portions of electricity rates. In turn, the Corporation is invoiced by the AESO for the transmission services.

On May 31, 2004, all of the issued and outstanding shares of the Corporation were acquired from Aquila Inc. by an indirect, wholly-owned subsidiary of Fortis. On June 1, 2004, the name of the Corporation was changed to FortisAlberta Inc.

BUSINESS OF FORTISALBERTA

FortisAlberta 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. 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.

FortisAlberta operates a predominantly rural and suburban, low-voltage distribution network in central and southern Alberta, totaling approximately 116,000 kilometers of wires. The Corporation's distribution network serves approximately 508,000 electricity customers comprised of residential, commercial, farm, oil and gas and industrial consumers of electricity. In 2012, FortisAlberta distributed approximately 24,000 gigawatt hours of electricity. This includes those to customers within its service area that are connected directly to the transmission grid.

The Corporation is regulated by the AUC pursuant to the *AUC Act*. The AUC's jurisdiction, pursuant to the *EUA*, the *Public Utilities Act*, the *Hydro 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.

Up until January 1, 2013, the Corporation has operated under a traditional form of cost of service regulation as prescribed by the AUC. Under this form or regulation, rate orders issued by the AUC establish the Corporation's revenue requirements, being those revenues corresponding to the costs associated with the distribution business, and provide a rate of return on a deemed capital structure applied to approved rate base assets. The approved ROE on equity was 8.75% for 2012 (2011 – 8.75%). Under the traditional form of cost of service regulation the Corporation applied for the revenue based on estimated costs of service. Once the revenue requirement is approved, it is not adjusted if actual costs of service are different from what 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. Starting

January 1, 2013, the Corporation began operating under a new form of cost of service regulation known as performance based regulation, or PBR, which is discussed further under "Performance Based Regulation" on page 16. The implementation of PBR should not alter the basis for cost of service regulation, being the Corporation's right, under the *EUA*, to a reasonable opportunity to recover the prudent costs of service and the right to earn a reasonable return on equity. The transition to PBR is discussed below under the "Regulatory Process".

FRANCHISES

FortisAlberta's customers, located within a city, town, or village boundary, are served through franchise agreements between the Corporation and the respective customers' municipality of residence. To ensure the exclusive right to own and operate the electrical distribution system within municipal boundaries, FortisAlberta maintains standard franchise agreements with municipalities. Under section 47 of the *MGA*, municipal governments in Alberta have, upon termination of a franchise agreement, the right to own electric distribution utilities by purchasing the assets of FortisAlberta that are located in their municipal boundaries. In Alberta, the standard franchise agreement is generally for ten years and may be renewed for five years upon mutual consent of the parties. Any franchise agreement that is not renewed at the expiry of the term, continues in effect until either the Corporation or the municipality terminates it with the approval of the AUC. If a franchise agreement is terminated and the municipality subsequently exercises its right under the *MGA* to purchase FortisAlberta's distribution network within the municipality's boundaries, the Corporation must be compensated. Compensation would include payment for FortisAlberta's assets on the basis of a methodology approved by the AUC.

FortisAlberta holds franchise agreements with 141 municipalities within its service area. In the fourth quarter of 2012, FortisAlberta received approval of a new franchise agreement template from the AUC. The new template was filed with the AUC following negotiations with the Alberta Urban Municipalities Association and consultation with municipalities. The new franchise agreement template includes a 10 year term with an option which will permit the agreement to automatically renew for a further five years. In 2013, FortisAlberta will begin the process to move all 141 municipalities to the new form of agreement.

MARKET AND SALES

The following tables compare 2012 and 2011 distribution revenues and energy deliveries by rate class:

Rate Class	Revenue (1) (2) 2012		2011	
	($000)	%	($000)	%
Residential	136,710	32.1	128,114	32.3
Large Commercial, Industrial and Oilfield	93,755	22.0	85,587	21.6
Farm	55,835	13.1	53,003	13.4
Small Commercial	49,193	11.6	45,928	11.6
Small Oilfield	39,364	9.2	37,025	9.4
Other	20,678	4.9	19,109	4.8
Transmission Connected	1,137	0.3	1,107	0.3
Total Energy Revenue	396,672	93.2	369,873	93.4
Rate Riders, Deferrals and Adjustments	28,781	6.8	26,272	6.6
	425,453	100.0	396,145	100.0

(1) Includes customers within FortisAlberta's service area that are connected directly to the transmission grid.

(2) 2011 Revenue restated under United States GAAP.

Rate Class	GWh Deliveries (1) (2) 2012		2011	
	GWh	%	GWh	%
Residential	2,800	11.7	2,777	11.8
Large Commercial, Industrial and Oilfield	10,392	43.3	9,987	42.5
Farm	1,271	5.3	1,287	5.5
Small Commercial	1,308	5.5	1,294	5.5
Small Oilfield	956	4.0	952	4.1
Other	72	0.3	71	0.3
Transmission Connected(3)	7,195	30.0	7,100	30.3
Total Energy Deliveries	23,994	100.0	23,468	100.0

(1) Includes customers within FortisAlberta's service area that are connected directly to the transmission grid
(2) Energy deliveries include adjustments to prior periods which have been reflected in the financial statements during the current period.
(3) Transmission Connected energy is based on interim settlement that is expected be finalized in May, 2013.

The revenue and energy delivery tables above align with the rate classes on which FortisAlberta's tariff billing is based. These rate classes span industry classifications (also referred to as industry codes) and are grouped in broader categories for regulatory filings (as illustrated in Schedule 13-1 of the 2012/2013 Distribution Tariff Application - Application No. 1607159) and available online at the AUC website at www.auc.ab.ca.

While FortisAlberta does not forecast or record revenue by industry classification, the Corporation does forecast and record distribution energy (GWh) by both industry classification and rate class. The following table provides a mapping for distribution from rate class by industry classification.

Mapping for Rate Class by Industry Classification

Category	Rate Class / Industry Code	Res	Farm					Other		Small Commercial	Small Oil and Gas	Large Commercial, Industrial and Oil and Gas	
		Rate 11 Residential	Rate 21 FAI Farm (1)	Rate 23 FAI Grain Drying (1)	Rate 24 REA Farm (2)	Rate 26 FAI Irrigation (1)	Rate 28-29 REA Irrigation (2)	Rate 31-33 Street Lights	Rate 38 Yard Lights	Rate 41 Small General Service	Rate 44-45 Oil & Gas Service	Rate 61 General Service	Rate 63 Large General Service
Retail	Residential	•								•		•	
	Commercial									•		•	•
	Outdoor Lighting							•	•				
Wholesale	Small Wholesale											•	•
Farm	FAI Farm (1)		•	•						•		•	
	FAI Irrigation (1)					•							
	REA Irrigation (2)						•						
	REA Farm (2)				•								
Oil and Gas	Oilfield									•	•	•	•
	Cavern Storage									•		•	•
	Pipelines									•		•	•
	Refineries											•	
	Gas Processing									•		•	•
Other Industrial	Misc. Industrial									•		•	•
	Chemical Plants									•		•	•
	Cement Plants									•		•	
	Food and Beverage									•		•	•
	Metal Products									•		•	•
	Coal Mines											•	
	Forest Products									•		•	•
Interchange	Interchange									•		•	•

Footnotes:

1. FAI refers to FortisAlberta Inc.
2. REA refers to Rural Electrification Association.

HUMAN RESOURCES

At December 31, 2012, FortisAlberta had 1,065 full-time employees, 26 part-time employees and 30 temporary and term employees. Approximately 75% of the employees of the Corporation are members of the UUWA. The current three year collective agreement with the UUWA will expire on December 31, 2013.

ENVIRONMENTAL MATTERS

Canadian federal, provincial and municipal governments share jurisdiction over environmental matters affecting the Corporation. As a result, the Corporation is subject to numerous acts, regulations and guidelines relating to the protection, preservation and enhancement of the natural environment. This includes air, water and soil, flora and fauna and natural resources including forests, grasslands, surface waters, species at risk and migratory birds. The environmental matters with the most significant impact to the Corporation are those associated with wildfires, spills, waste management, and wildlife and natural resources.

Environmental considerations associated with operational activities are best addressed within the context of a formal system. The Corporation continues to implement programs and procedures within the context of its EMS. The EMS is consistent with the guidelines of ISO 14001, an international standard for environmental management systems. The Corporation is not seeking certification under ISO 14001 given the nature of its business in Alberta. The EMS provides a framework that allows for the identification of potential environmental impacts, the establishment of processes and programs to mitigate those impacts and the monitoring of performance to aid in the continual improvement of the Corporation's environmental performance. The EMS is an adaptive system that continually adapts to the changing nature of the Corporation's business risks and priorities and the needs of its people. The annual operating cost is approximately $0.3 million.

In 2012, the costs associated with adhering to environmental protection requirements were approximately $1.0 million in the aggregate, with $0.8 million relating to electrical insulating oil spill cleanup and $0.2 million relating to fire suppression.

ALBERTA'S ELECTRICITY INDUSTRY

The electricity industry in Alberta consists of four principal segments:

- *Generation* — Generation is the production of electric power. Generators in Alberta include both power producers and companies that have purchased the rights to the output of formerly regulated Alberta generators. Generators sell wholesale power into the Alberta Power Pool spot market or through direct contractual arrangements. Most of the power generated in Alberta is generated using coal or natural gas as the fuel source with hydro and wind power comprising the majority of the remaining supply.
- *Transmission* — Transmission is the conveyance of electricity at higher voltages. Alberta's transmission system or grid is composed of high voltage power lines and related facilities, which convey electricity from generation facilities to distribution networks and directly connected end-users. The Alberta transmission grid is interconnected with the transmission system in British Columbia which is also connected to the transmission system in the Pacific Northwest of the United States. The Alberta transmission grid is also connected to that of Saskatchewan via a smaller, direct current link. Where the transmission system connects to a distribution network, transmission substations step-down the voltage to distribution level voltages. Transmission facilities are owned by TFOs who are regulated under the jurisdiction of the AUC. The approved costs of the TFOs are paid by the AESO, and the AESO funds these and other costs of its operations through a regulated system access tariff, with charges thereunder paid by users of the electric system, including FortisAlberta.

- *Distribution* — Distribution is the conveyance of electricity at lower voltages. Distribution networks are composed of low voltage power lines and related facilities, which convey electricity from transmission systems to end-use customers.

  The companies that own distribution networks are responsible for constructing, operating and maintaining the distribution network, providing non-discriminatory electric distribution service and arranging for system access service (i.e. transmission access) through the AESO for the end-use customers to whom they distribute electricity. Distribution wire owners are also responsible for metering, meter data management, wholesale billing, customer enrolment services and load settlement, and for arranging for or providing regulated rate and regulated default retail electricity supply services under the *EUA*. Load settlement is the process whereby hourly consumption is calculated for each site in Alberta, in support of the Alberta competitive electricity marketplace. The major distribution companies are regulated under the jurisdiction of the AUC.

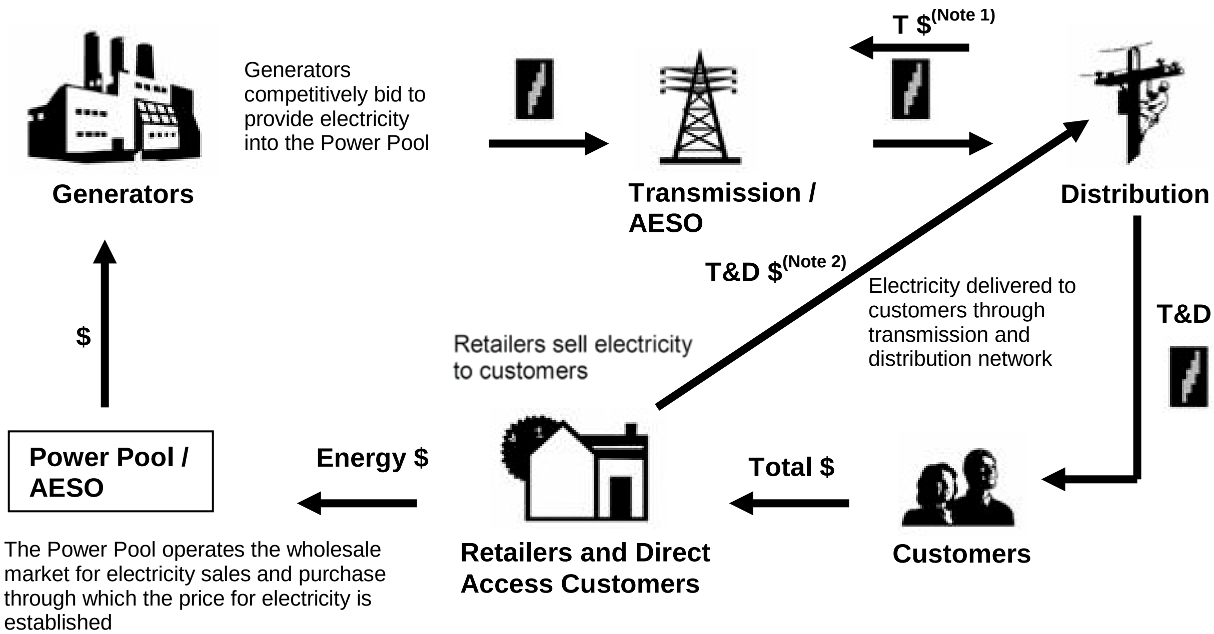
  The distribution network in Alberta is comprised of the networks owned by FortisAlberta, ATCO Electric Ltd. and multiple local distribution utilities, including companies owned by the cities of Calgary and Edmonton, rural electrification associations and a number of smaller municipalities. As of January 1, 2001, all electricity customers were given the right to choose their electricity retailer, with the distribution utility continuing to provide distribution services. While electricity distribution networks continue to be regulated, independent retailers sell electricity to end-use customers on a competitive basis.

  Distribution utilities are required to continue to provide or arrange for retail services to RRO Customers that are eligible for the RRO. RRO Customers can choose to continue to purchase electricity from the regulated distribution utility or from its appointed regulated retailer at the RRO rate.

  Electricity distribution utilities such as FortisAlberta collect their distribution revenues from retailers (including self-retailers as defined below) that sell electricity to, and collect payment from, end-use customers. The credit risk associated with a retailer's payment obligations to a distribution utility is mitigated by regulatory provisions that require the retailer to support its payment obligations by way of prudential measures if certain criteria are met. These prudential measures generally involve a distribution utility obtaining security from a retailer, often in the form of a letter of credit, a third party guarantee from an entity that has an investment grade rating or cash deposit. In the event that a distribution utility incurs credit losses, such utility may apply to the regulator to recover these bad debts in rates, but there is no guarantee that this will be approved by the regulator.

- *Retail* — Retailing is the selling or offering for sale of electricity to the end-use customers. In Alberta, retailers purchase power through the Power Pool operated by the AESO or through direct supply contracts, arrange for distribution and sell electricity and other services directly to end-use customers. Retailers are not limited in the design of rate packages offered to customers and may combine the provision of electricity with virtually any other service. Service providers are registered as electricity retailers in Alberta, most of which are registered to provide service only to large commercial and industrial customers. There are also end-use customers who act as their own retailer. These "self-retailers" are typically large commercial or industrial entities. Self-retailers interact with other participants in the Alberta electricity industry, such as distribution utilities, in the same manner as other retailers.

In Alberta's electricity marketplace, these segments and their respective market participants interact in a number of ways. The following diagram represents an overview of this interaction:



Note 1: "T $" represents the cost of transmission services paid by distribution companies to the AESO.

Note 2: "T&D $" represents the cost of transmission and distribution wire services that are charged to customers and collected from retailers and direct access customers.

REGULATION OF ALBERTA'S ELECTRICITY INDUSTRY

BACKGROUND

Historically, Alberta's electricity industry consisted of a mix of private and municipally owned utilities. Three vertically integrated utilities involved in the generation, transmission, distribution and retail sale of electricity supplied more than 90% of the electricity to Alberta's integrated power grid, also known as the AIES. Other municipal utilities and small independent power producers provided the remainder. Within this structure, a utility would enter into a series of contracts with its larger distribution customers in its service area, with rates for different customer classes set by the regulator. Under applicable industry regulation, utilities were generally permitted to recover their investments and operating costs and to earn a reasonable return on investment.

Commencing in 1996, Alberta restructured its electricity industry. Alberta's historical system of vertically-integrated, fully-regulated utilities has been replaced with a competitive market in the generation and retail sale of electricity, while the distribution and transmission sectors continue to be regulated.

Alberta Utilities Commission / Alberta Energy and Utilities Board

Until the end of 2007, the EUB was the chief provincial regulator of the Alberta energy industry. It was an independent, quasi-judicial agency of the Government of Alberta. The principal responsibility of the EUB was to regulate and adjudicate on matters related to energy and utilities within Alberta to ensure that the development, transportation and monitoring of the province's energy resources were in the public interest. In order to ensure that customers received safe and reliable service at fair and reasonable rates, the EUB regulated both rates and terms and conditions of service of investor-owned natural gas, electric, and water utility services. This regulation included the transmission and distribution sectors of Alberta's electricity industry, the major intra-Alberta gas transmission system and major municipal electricity distributors. Through regulation, the EUB sought to balance the interests of customers and utilities in establishing rates and terms and conditions of service. The EUB provided this service through the application and hearing process, standards setting and regulation, monitoring and surveillance and enforcement.

Effective January 1, 2008, the *AUC Act* created two new regulators, the ERCB and the AUC, as successors to the jurisdiction formerly exercised by the EUB. The ERCB regulates the development of Alberta's resources including oil, gas, oil sands and coalbed methane. The ERCB's functions are being further reorganized, in a manner which is not expected to materially impact the activities of FortisAlberta. The AUC oversees the transmission, distribution and sale of electricity and retail of natural gas to Alberta consumers. The AUC also makes decisions on new transmission facilities and on service areas for distribution utilities. Decisions and orders of the EUB that were made prior to January 1, 2008 remain in force.

Alberta Electric System Operator

The AESO is a not-for-profit statutory corporation that is responsible for overseeing the safe, reliable and efficient operation of the AIES, and operating the Power Pool. The AESO is responsible for managing the transmission system and it recovers its costs through a tariff approved by the AUC. The AESO operates the Power Pool and recovers its costs through a surcharge on all electricity traded thereon. In addition, the AESO administers load settlement and it recovers the cost of this from charges levied on distribution network owners.

As operator of the hourly energy spot market, the AESO receives electricity supply offers and demand bids, sets the schedule for the dispatch of generating units, schedules generating units to provide system support services, carries out the financial settlement for electricity exchanged through the Power Pool and reports the hourly Power Pool price for electricity.

In its role as system operator, the AESO is responsible for maintaining the physical stability and balance of the electricity system by dispatching generation and import offers to match supply to provincial and export demand on a real-time basis. In addition, the AESO coordinates real-time operations with the owners of transmission facilities, and procures and coordinates required system support services, all with a view to ensuring the safe, reliable and efficient operation of the interconnected electricity system.

Market Surveillance Administrator

The MSA is an independent entity appointed by the provincial government that reports directly to the Chairman of the AUC in respect of budgetary matters. The MSA has a broad mandate to monitor market activity and investigate complaints in order to ensure that: market operations are efficient and equitable; market participants comply with relevant rules and regulations; the rules governing Alberta's electricity industry work to discourage anti-competitive practices; and electricity retail functions are competitive.

Balancing Pool

The Balancing Pool is an independent government agency set up to administer long-term power purchase arrangements that it holds, and is responsible for satisfying any obligations associated with such power purchase arrangements.

REGULATORY PROCESS

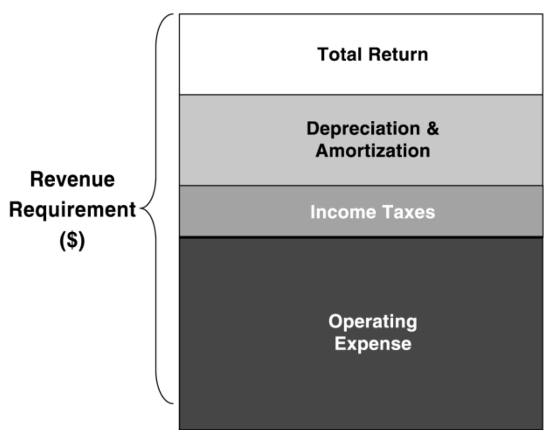
The distribution of electricity is regulated by the AUC, principally under the *EUA*. The Corporation's electricity distribution business and all of its distribution assets are regulated in their entirety by the AUC.

The AUC's jurisdiction includes the approval of distribution tariffs for regulated distribution utilities including the rates and terms and conditions on which service is to be provided by those utilities. The *EUA* requires regulated distribution utilities such as FortisAlberta to prepare and file a distribution tariff application for approval by the AUC.

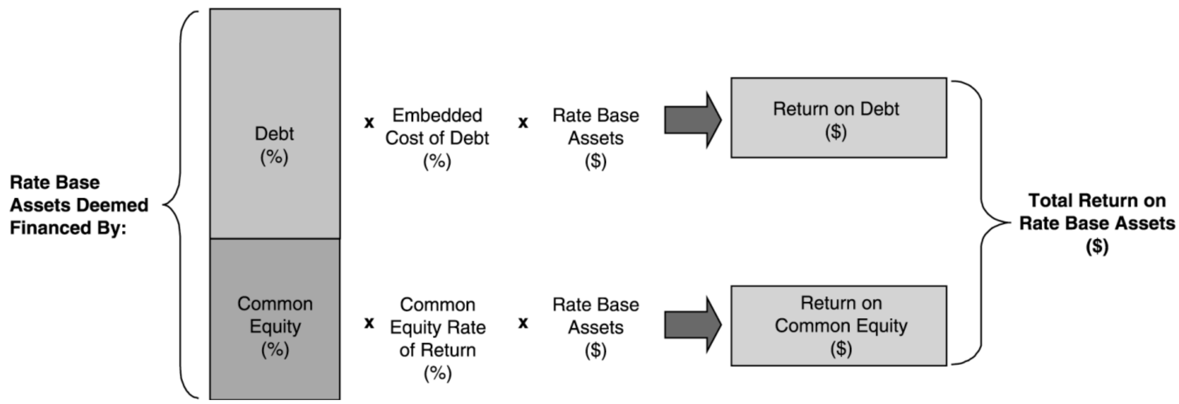
The AUC has generally approved distribution tariffs, including those of FortisAlberta, based on a cost of service regulatory model. Under this model, the AUC provided the distribution utility with an opportunity to recover all prudently incurred operating expenses, depreciation and amortization, income tax, interest on debt supporting regulated assets and a reasonable return on equity. The AUC's objective is to approve a fair and reasonable tariff that is not unduly preferential or arbitrarily or unjustly discriminatory. Approved tariffs for distribution utilities such as FortisAlberta are determined independently from the price of the electricity that they distribute. When operating under the traditional form of cost of service regulation FortisAlberta applies for approval of distribution tariffs based on forecast costs of service. Once a distribution tariff is approved for the Corporation, it is not adjusted as a result of the actual costs of service being different from those that were forecast, other than for certain prescribed costs that are eligible for deferral treatment, and are either collected or refunded in future customer rates.

The regulatory process for a distribution tariff application usually proceeds through two phases. In Phase I, the distribution utility's total revenue requirement is determined. In Phase II, specific rates to be charged to different classes of consumers are determined, thereby establishing the rate structure. Phase I and Phase II may be applied for in a single application or in separate applications at different times.

The principal components of an approved Phase I revenue requirement have been as follows (the diagram does not necessarily represent the relative size of such principal components within an approved revenue requirement):



- *Total Return* is the return on capital invested by the distribution utility in its approved rate base assets, net of customer contributions, and financed through a deemed capital structure comprised of debt and equity, calculated, as a matter of general practice, on the following basis (the diagram does not necessarily represent all the components, or the relative size of such components, within an approved revenue requirement total return on rate base assets).



- *Depreciation and Amortization* is an allowance for a return of capital and is the depreciation or amortization on the rate base assets that is approved by the AUC, and is net of any customer contribution amortization.
- *Income Taxes* is the allowance for the recovery of deemed income taxes in respect of the regulated operations of the distribution utility.
- *Operating Expense* is determined to be the prudent operating costs associated with operating a distribution utility.

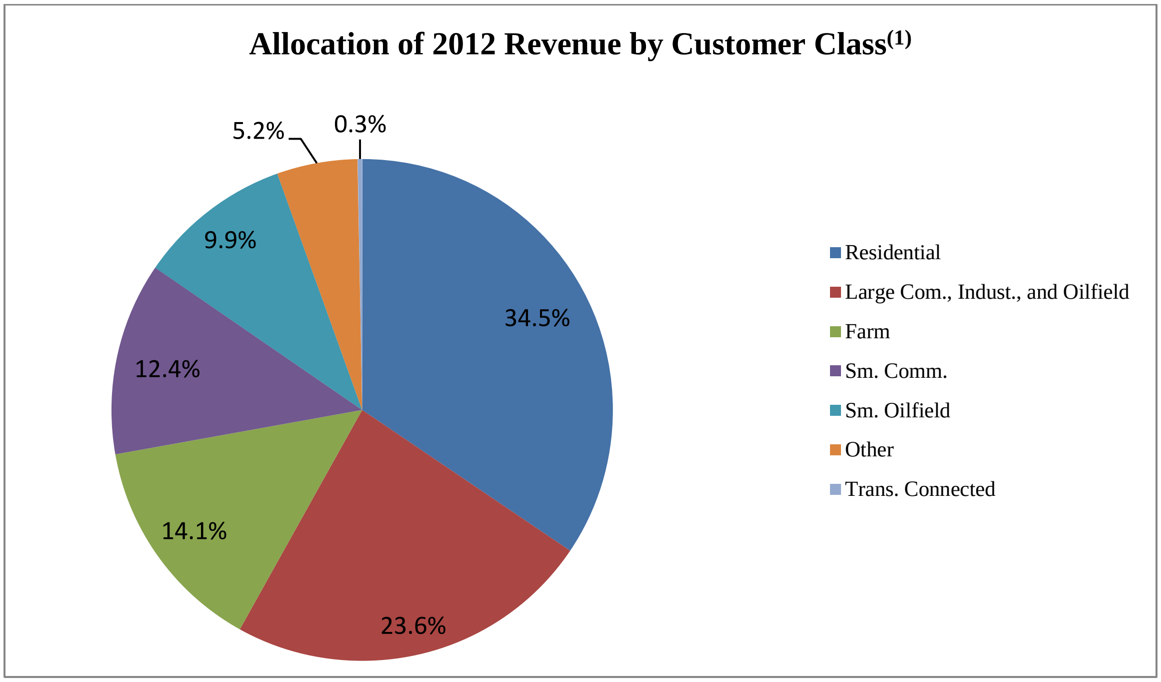
Any miscellaneous revenue generated by the distribution utility through its regulated operations is reflected in the determination of the total regulated revenue requirement.

An approved Phase II rate structure results in rate schedules applicable to different customer classes as well as terms and conditions that govern the services provided to customers. The determination of rate structure is complex, typically involving the allocation of the Phase I revenue requirement to customer classes based on various class characteristics, followed by the design of specific rates to recover the allocated costs in a reasonable and equitable manner. Rates are designed based on a set of rate design principles, with the primary principle being to collect revenue from a particular customer class based on the costs that have been allocated to that class. The revenue by customer class is determined by multiplying the approved rates by billing determinants, which are structured and applied differently to each customer class in order to reflect the major cost drivers associated with them or to recognize other rate design criteria such as simplicity and rate stability.

Billing determinants are either fixed or variable, with fixed billing determinants providing more revenue stability and minimizing the impact of fluctuations in the volume of electricity distributed. FortisAlberta's distribution revenue, based on 2011 rates, can be considered stable as approximately 85% of distribution revenue is derived from fixed or largely fixed billing determinants. FortisAlberta's billing determinants include:

- energy (variable charges);
- demand (largely fixed charges);
- basic monthly charges (fixed charges); and
- contract kilometers (fixed distance-based charges).

For example, monthly distribution charges to residential customers are based on a basic monthly charge ($/month) plus all energy (¢/kWh) delivered, whereas distribution charges to large industrial customers are based on monthly peak demand ($/kW/month) and the length of conductor required for each customer ($/km/month). The chart below provides an illustrative example of how cost allocation in Phase II results in recovery of the revenue requirement from customer classes (the chart does not necessarily represent all the customer classes, or the relative size of such customer classes, involved in recovery of the revenue requirement).



(1) Based on 2012 total billed revenue of $396.7 million which excludes rate riders, deferrals and adjustments.

In general, a full Phase I and Phase II process takes approximately one year from the submission of the original application to the release of a final decision by the AUC. The distribution utility may also negotiate Phase I and Phase II components with stakeholders as an alternative to the regulatory quasi-judicial process. Negotiated settlements still require review and final approval by the AUC.

Recent Regulatory Proceedings

Generic Cost of Capital and Utility Asset Disposition Proceedings

In 2012, the ROE for ratemaking purposes was 8.75%. This ROE was determined by the AUC on December 8, 2011 in Decision 2011 – 474, a proceeding in respect of the generic cost of capital for Alberta utilities. That decision established an 8.75% ROE for ratemaking purposes for both 2011 and 2012, and an interim ROE of 8.75% for 2013. In Decision 2011-474, FortisAlberta's deemed equity capitalization was maintained at 41%, to be in place until any future order of the Commission may alter it. The AUC also decided that in due course it would initiate a proceeding to establish a final ROE for 2013 and to revisit the question of a return to a formula for establishing ROE on a go-forward basis. That proceeding has been announced by the AUC, and is expected to become active later in 2013.

The Corporation and other utilities have sought leave to appeal Decision 2011-474 with Alberta Court of Appeal on matters relating to statements made by the AUC in the decision regarding cost responsibility for stranded assets. The Corporation is seeking leave to appeal the decision to the Alberta Court of Appeal on the basis that the conclusions reached by the AUC on the subject of stranded assets were incorrectly made. The Corporation has also filed a Review and Variance application with the AUC that addresses these same issues.

Subsequently, in Decision 2012-154, the AUC has held that the statements made in Decision 2011-474 relating to the treatment of stranded assets costs were *obiter dicta* and not intended to extend to the Corporation's activities. (An asset could become stranded under any circumstances where its prudently-incurred net book value is not recoverable through normal utility ratemaking practices.) The AUC further stated that the matters relating to the treatment of stranded assets would be included in a separate proceeding called the Utility Asset Disposition Proceeding (UAD Proceeding).

The UAD Proceeding was a pre-existing regulatory proceeding which had been placed in abeyance by the AUC. During 2012, the AUC revived the UAD Proceeding and determined a revised list of issues to define the scope of the UAD Proceeding. The UAD Proceeding will address questions on matters related to utility asset dispositions, as well as a series of questions regarding assets in rate base, used or required to be used considerations, and stranded assets. The UAD Proceeding will continue into 2013 for determination.

Distribution Tariff Applications

The Corporation filed a 2012 and 2013 Phase I Distribution Tariff Application in the first quarter of 2011 for rates to be in place prior to any transition to Performance Based Regulation. In Decision 2011-369, the AUC approved commencement of a negotiated settlement process for the Distribution Tariff Application, but, in light of the AUC's intent to have 2013 rates determined under the new PBR, it limited the settlement process to considering Phase I matters in respect of the 2012 year only. Moreover, the AUC determined that the rates approved for 2012 were to 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 in respect of rates for 2012 for approval by the AUC. Approval of the NSA was granted by the AUC in Decision 2012-108. The NSA established a 2012 distribution revenue requirement of $398.2 million, representing an average rate increase of approximately 5.0%.

When FortisAlberta filed for approval of its 2012 NSA with the AUC, the Corporation also requested approval to include transmission volume variances in its 2012 AESO charges deferral account ("ACDA"), consistent with the existing deferral structure approved for the 2010/2011 ACDA. That approval was not granted in respect of 2012, but was granted commencing with the 2013 year as part of Decision 2012-237 discussed below.

On October 28, 2011, the Corporation filed an application for interim 2012 rates, reflecting the parameters of the NSA, which was approved December 21, 2011. These same interim rates levels were subsequently approved as interim rates for the period beginning January 1, 2013.

A Phase II application for final rates was filed with the AUC in January of 2013.

Performance Based Regulation

In early 2010, the AUC initiated a Rate Regulation Initiative ("RRI") to reform utility rate regulation for distribution utilities in Alberta. During the RRI proceeding, the AUC indicated its intention to transition from the traditional form of cost of service regulation to performance based regulation and that it intended to approve PBR-based distribution service rates for a five year term beginning January 1, 2013. The RRI proceeding continued through 2011 and 2012, culminating in Decision 2012-237 ("PBR Decision") on September 12, 2012. In the PBR Decision, the AUC determined that beginning in 2013 the distribution tariff rate for Alberta distribution utilities were to be determined by PBR formula. That formula will use the 2012 revenue requirement as the going-in rates and apply annual escalations for an inflation factor ("I") less a productivity factor ("X") to determine rates for 2013. In addition to the I-X escalation in rates, the AUC made provision for consideration of a capital tracker mechanism to allow for the recognition of capital investment required to provide service, but which is not adequately covered by the I-X formula.

In response to the PBR Decision, the Corporation commenced three further AUC proceedings: the Compliance Proceeding, the Capital Tracker Proceeding and the PBR Review and Variance (R&V) Proceeding. As well, FortisAlberta and other utilities have filed applications for leave to appeal the PBR Decision with the Alberta Court of Appeal, the subject matter of which overlap the issues raised in the PBR R&V Proceeding.

The Compliance Proceeding filings were required by the AUC to implement the I-X adjustment for 2013 and to provide further information to the AUC. The Capital Tracker Proceeding invited utilities to apply for capital tracker mechanisms for capital programs identified and justified by each utility. FortisAlberta has applied for its externally driven and its customer growth capital programs to be subject to capital tracker treatment. Both the Compliance Proceeding and the Capital Tracker Proceeding are continuing into 2013 for determinations.

In the PBR R&V application the Corporation is seeking the review and variance of certain determinations by the AUC in PBR Decision, including what the Corporation believes to be the inadequate recognition of its capital investment obligations in PBR rates. In addition, the Corporation has asked the AUC to address certain transition matters with respect to going-in rates, and other shortcomings of the PBR Decision. The AUC is dealing with this and other utility PBR R&V applications in a two-step manner, the first step of which is assessment by the AUC of whether the matters raised warrant a review and reconsideration, and if so warranted, a second step to consider substantive variance matters. The R&V Proceeding is continuing into 2013 for determination. Further statements relating to the risks associated with such regulatory matters are found herein under “Risk Factors - Regulatory and Rate Approvals” on page 20.

Maintaining Electricity Rates

In March 2012, the AUC issued Bulletin 2012-03 regarding maintaining regulated electricity rates. This bulletin addressed the Government of Alberta’s letter requesting that regulated electricity rates be maintained until the Government responds to the recommendations of the Retail Market Review Committee (the “RMR Committee”), announced in February 2012. The RMR Committee’s mandate includes the review of the default electricity rate charged to customers who do not obtain retail service from a retailer. The AUC will continue processing applications before them and may approve applications that maintain existing rates or propose rate reductions; however, the AUC will not issue decisions that result in rate increases. In September 2012, the RMR Committee’s recommendations were provided to the Alberta Minister of Energy for review. Further process has yet to be established and the government-sanctioned rate freeze has not been lifted.

Central Alberta Rural Electrification Association Proceedings

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. On July 4, 2012, the CAREA application was denied by the AUC in Decision 2012-181.

MARKET FOR SECURITIES

None of the issued and outstanding shares of the Corporation, nor any of the Debentures are listed on any exchange.

DIVIDEND POLICY

Dividends on Class “A” Common Shares of FortisAlberta are declared at the discretion of the Board. In 2010, dividends totaling $35.0 million were paid to Fortis on the Corporation’s Class “A” Common Shares, consisting of payments of $8.75 million in each of February, May, August and November. In 2011, dividends totaling $40.0 million were paid to Fortis on the Corporation's Class "A" Common Shares, consisting of payments of $10.0 million in each of February, May, August and November. In 2012, dividends totaling $45.0 million were paid to Fortis on the Corporation's Class "A" Common Shares, consisting of payments of $11.25 million in each of February, May, August and November.

Certain of the Corporation's debt covenants contain restrictions on the payment of dividends if consolidated debt exceeds 75% of consolidated capitalization. Certain further restrictions apply on dividends which are not in the ordinary course of business. The Corporation remains in compliance with these covenants.

DESCRIPTION OF CAPITAL STRUCTURE

GENERAL DESCRIPTION

The Corporation has authorized share capital consisting of an unlimited number of Common Shares, Class "A" Common Shares and First Preferred Shares. The holders of the Common Shares are entitled to receive notice of, and to attend, all annual and special meetings of the shareholders of the Corporation and to one vote in respect of each Common Share held at all such meetings. The holders of the Class "A" Common Shares are entitled to receive notice of, and to attend, all annual and special meetings of the shareholders of the Corporation and to one vote in respect of each Class "A" Common Share held at all such meetings (other than a meeting of the First Preferred Shares, as a class). The holders of the First Preferred Shares as a class are not entitled to receive notice of, to attend nor to vote at any meeting of the shareholders of the Corporation, other than those meetings called for the purpose of authorizing the voluntary liquidation and dissolution of the Corporation.

The issued and outstanding capital of FortisAlberta consists of 63 Class "A" Common Shares with no par value. There are no Common Shares or First Preferred Shares outstanding. Fortis Alberta Holdings Inc. (the Corporation's parent company and an indirect, wholly-owned subsidiary of Fortis) owns all the issued and outstanding Class "A" Common Shares of the Corporation.

RATINGS

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

FortisAlberta has long-term debt ratings on its senior unsecured debt comprised of $200.0 million Series 04–1 Debentures, maturing October 2014; $200.0 million Series 04-2 Debentures, maturing October 2034; $100.0 million Series 06-1 Debentures, maturing April 2036; $110.0 million Series 07-1 Debentures, maturing January 2047; $100.0 million Series 08-1 Debentures, maturing April 2038; $100.0 million Series 09-1 Debentures, maturing February 2039; $125.0 million Series 09-2 Debentures, maturing October 2039; $125.0 million Series 10-1 Debentures, maturing October 2050; $125.0 million Series 11-1 Debentures, issued on October 19, 2011 and maturing October 2041; and $125.0 million Series 12-1 Debentures, issued on October 23, 2012 and maturing October 2052. The ratings are set out in the following table:

Rating Agency	Rating
DBRS	A (low), Stable Outlook
S&P	A-, Watch Negative
Moody's	Baa1, Stable Outlook

The ratings are not recommendations to purchase, hold or sell Debentures, because ratings do not comment on the Corporation's Debentures market price or suitability for a particular investor. The Corporation understands that ratings are based on, among other things, information furnished to the rating agencies by the Corporation and information obtained by the rating agencies from public sources. Ratings may be changed, suspended or withdrawn at any time by the rating agencies. Payments have been made to the rating agencies for the purpose of assigning ratings to the Corporation's Debentures and the annual maintenance associated with these ratings.

DBRS's long-term debt ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities. DBRS states that its long-term debt ratings are meant to give an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. DBRS ratings do not take factors such as pricing or market risk into consideration and the ratings are expected to be used by purchasers as one part of their investment decision. Every DBRS rating is based on quantitative and qualitative considerations that are relevant for the borrowing entity. According to DBRS, a rating of A by DBRS is in the middle of three subcategories within the third highest of ten major categories; such rating is assigned to debt instruments considered to be of satisfactory credit quality and for which protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. Entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated entities. The assignment of a "(high)" or "(low)" modifier within each rating category indicates relative standing within such category.

S&P's long-term debt ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities. S&P states that its long-term debt rating evaluates the obligor's capacity and willingness to meet its financial commitments as they come due. Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. According to S&P, a rating of A by S&P is the third highest of ten major categories. An obligor rated 'A' has strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories. S&P's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. Stable means that a rating is not likely to change. The assignment of a "(+)" or "(-)" modifier within each rating category indicates relative standing within such category.

Moody's long-term debt ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities. In addition, Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa to Caa to indicate relative standing within such classification. The modifier 1 indicates that the security ranks at the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the security ranks in the lower end of its generic rating category. Moody's long-term debt ratings are opinions of relative risk of fixed-income obligations with an original maturity of one year or more. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default. According to Moody's, a rating of Baa is the fourth highest of nine major categories; such a debt rating is assigned to debt instruments considered to be of medium grade quality. Debt instruments rated Baa are subject to moderate credit risk and may possess certain speculative characteristics.

RISK FACTORS

The Corporation is subject to a variety of risks and uncertainties that may have material and adverse effects, financial or otherwise, on the results of the Corporation's operations.

REGULATORY AND RATE APPROVALS

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 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 the rate base. There is no assurance that the cost of capital projects perceived as required by the management of the Corporation will be approved for inclusion in the rate base or that conditions to such approval will not be imposed. Capital cost overruns might not be recoverable in rates.

Rate applications that seek to 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.

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 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 *MGA* with the price therefore to be agreed or failing an agreement, set by the AUC.

Additionally, under the *Hydro 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 Act* provides that the AUC may determine that the municipality should pay compensation to the Corporation for any facilities transferred on the basis of replacement cost 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 *MGA* 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 Act*, given the historical growth of Alberta and its municipalities, the Corporation is affected by transactions of this type from time to time.

Environmental risk

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, such unrecovered costs may have a material effect on the results of operations and financial position 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 waste, 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 financial position 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 $0.1 million. The agreement allows the Corporation to reduce its liability to 25% of the fire suppression costs to a maximum of $0.05 million following the 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 "Insurance Coverage Risk".

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 financial position.

CAPITAL RESOURCES AND LIQUIDITY

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, 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.

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 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 capital 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 position and results of operations of the Corporation.

WEATHER

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 make 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.

INFORMATION TECHNOLOGY INFRASTRUCTURE

The Corporation's ability to operate effectively 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.

INSURANCE COVERAGE RISK

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. However, the Corporation's total insurable values continue to exclude distribution line assets for which full coverage remains either unavailable or uneconomical due to extremely low market capacity for this class of risk exposure.

It is anticipated that existing 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, and financial position.

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, and financial position.

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. In order for the Corporation to acquire these access permits, both the Department of Aboriginal Affairs and Northern Development 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.

LABOUR RELATIONS

Approximately 75% of the employees of the Corporation are members of the UUWA. The current three year collective agreement with UUWA will expire on December 31, 2013. 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 at all or on terms favourable to the Corporation. 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 financial position of the Corporation.

HUMAN RESOURCES

The Corporation is exposed to risk surrounding upcoming retirements and 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 requirements of the capital program and customer expectations could be more challenging if the Corporation does not continue to attract and retain qualified personnel in a competitive labour market.

INTEREST RATES

Any reductions in the Corporation's credit ratings or increases in interest rates could adversely affect the interest rate exposures for drawings under the syndicated credit facility. Additionally, a decrease in the credit ratings of the Corporation could result in higher interest rates associated with future bond issuances.

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.

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.

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.

PROVINCIAL ECONOMY

A general and extended decline in Alberta's economy would be expected to have the effect of reducing demand for electric energy over time. Such a decrease in demand could potentially reduce the revenues of the Corporation despite the possibility of AUC-approved means to compensate for reduced business volumes. Also, an economic downturn could impair the ability of some end-use customers to pay for electricity received. Any such prolonged downturn in Alberta's economy could have a material adverse effect on the business, results of operations, and financial position of the Corporation.

DIRECTORS AND OFFICERS

DIRECTORS

The following table sets out the name, municipality of residence, term of office and number of Fortis Shares beneficially owned, directly or indirectly, or controlled or directed, for each of the directors of FortisAlberta as at December 31, 2012. Also included are principal occupations within the five preceding years from the date hereof. All directors are elected annually.

Name and Municipality of Residence	Director Since	Fortis Shares beneficially owned, directly or indirectly, or controlled or directed	Principal Occupation or Employment for Past 5 years	
Judith J. Athaide Calgary, AB	2008	1,225 Fortis Shares	***The Cogent Group Inc.*** *(An independent energy consulting company)* *1999 to present*	President and Chief Executive Officer
Tracey C. Ball Edmonton, AB	2011	500 Fortis Shares	***Canadian Western Bank*** *(A chartered bank, insurance and trust company)* *June 2004 to present*	Executive Vice President and Chief Financial Officer
Mary Cameron Edmonton, AB	2009	981 Fortis Shares	***Cameron and Company*** *(An investment management company)* *April 2002 to present*	Partner
William J. Daley Crystal Beach, ON	2010	40,306 Fortis Shares	***FortisOntario Inc.*** *(An electric utility company)* *July 2002 to present*	President and Chief Executive Officer
Al H. Duerr Calgary, AB	2006	Nil	***FortisAlberta Inc.*** *(An electric utility company)* *April 2012 to present* ***General Magnetic International Inc.*** *(A motor and generator production company)* *2008 to present* ***Al Duerr and Associates*** *(A technology consulting company)* *2001 to present*	Chairman of the Board Chief Executive Officer Chief Executive Officer

Name and Municipality of Residence	Director Since	Fortis Shares beneficially owned, directly or indirectly, or controlled or directed	Principal Occupation or Employment for Past 5 years	
Douglas J. Haughey Calgary, AB	2010	9,000 Fortis Shares 5,900 Fortis Deferred Share Units	***The Churchill Corporation*** *(A construction and industrial services company)* *August 2012 to present*	Chief Executive Officer
			Provident Energy Ltd. *(A midstream natural gas liquids (NGL) company)* *April 2010 to April 2012*	President and Chief Executive Officer
			Windshift Capital Corp. *(An energy infrastructure investment company)* *December 2008 to April 2010*	President and Chief Executive Officer
Joanne R. Lemke Airdrie, AB	2006	200 Fortis Shares	***Joanne R Lemke & Associates Ltd.*** *(A communications consulting company)* *2003 to present*	President
Barry V. Perry Mount Pearl, NL	2011	115,546 Fortis Shares	***Fortis Inc.*** *(A gas and electric distribution utility company)* *January 2004* to present	Vice President, Finance and Chief Financial Officer
Donald J. (Jim) Turner Cochrane, AB	2011	Nil	***Rancher*** *1978 to present*	Rancher
			Natural Resources Conservation Board *(A regulatory agency)* *July 2002 to present*	Board Member
Karl W. Smith Calgary, AB	2007	81,023 Fortis Shares	***FortisAlberta*** *(An electric utility company)* *May 2007 to present*	President and Chief Executive Officer
			Newfoundland Power Inc. *(An electric utility company)* *January 2004 to April 2007*	President and Chief Executive Officer
John C. Walker Kelowna, BC	2005	136,715 Fortis Shares	***FortisBC Holdings Inc. and FortisBC Energy Inc.*** *(A gas distribution utility company)* *July 2010 to present*	President and Chief Executive Officer
			FortisBC Inc. *(An electric utility company)* *April 2005 to present*	President and Chief Executive Officer

OFFICERS

The following table sets out the name and municipality of residence of each of the officers of FortisAlberta as at December 31, 2012 and indicates the office(s) held and principal occupations within the five preceding years from the date hereof.

Name and Municipality of Residence	Office Held	Principal Occupation or Employment for Past 5 years	
Karl W. Smith Calgary, AB	President and Chief Executive Officer	***FortisAlberta*** *May 2007 to present*	President and Chief Executive Officer
Cam Aplin Calgary, AB	Vice President, Field Operations	***FortisAlberta*** *May 2011 to present*	Vice President, Field Operations
		FortisAlberta *May 2010 to May 2011*	Director, Project Management
		FortisAlberta *January 2008 to May 2010*	Regional Director, North
		FortisAlberta *October 2005 to December 2007*	Manager, Work Methods and Training
Phonse Delaney Calgary, AB	Executive Vice President, Operations, Engineering and Information Technology	***FortisAlberta*** *May 2011 to present*	Executive Vice President, Operations, Engineering and Information Technology
		FortisAlberta *June 2008 to May 2011*	Vice President, Operations and Engineering
		Newfoundland Power Inc. *October 2003 to June 2008*	Vice President, Operations and Engineering
Annette Iwasaki Calgary, AB	Vice President, Human Resources and Corporate Communications	***FortisAlberta*** *July 2008 to present*	Vice President, Human Resources and Corporate Communications
		FortisAlberta *September 2004 to July 2008*	Director, Human Resources and Corporate Communications
Ian Lorimer Calgary, AB	Vice President, Finance and Chief Financial Officer	***FortisAlberta*** *September 2008 to present*	Vice President, Finance and Chief Financial Officer
		FortisBC Inc. *June 2004 to August 2008*	Manager, Treasury and Corporate Reporting
Mike Pashak [1] Calgary, AB	Vice President, Customer Service	***FortisAlberta*** *February 2012 to present*	Vice President, Customer Service
		FortisAlberta *September 2004 to February 2012*	Director, Operations
Karl Bomhof Calgary, AB	General Counsel and Corporate Secretary	***FortisAlberta*** *July 2010 to present*	General Counsel and Corporate Secretary
		FortisAlberta *September 2008 to July 2010*	Director, Human Resources
		FortisAlberta *November 2006 to September 2008*	Senior Legal Counsel and Assistant Secretary

[1] Mr. Pashak was appointed as Vice President, Customer Service effective February 15, 2012.

The directors and officers of FortisAlberta, as a group, do not beneficially own, directly or indirectly, or exercise control or direction over any issued and outstanding shares of the Corporation. The directors and officers of FortisAlberta, as a group, beneficially own, directly or indirectly, or exercise control or direction less than 1% of the issued and outstanding Fortis Shares.

COMMITTEES

The Board has two standing committees: the Audit, Risk and Environment Committee and the Governance and Human Resources Committee.

Audit, Risk and Environment Committee – The Audit, Risk and Environment Committee's mandate is to assist the Board in discharging its fiduciary duties to the Corporation relating to financial reporting and disclosure. The Committee is charged with: (i) reviewing all published financial statements and reports that require Board approval; (ii) the operation of the pension plan and the financial performance of the pension plan assets; (iii) the adequacy of the Corporation's internal control systems, and corporate policies relating to code of conduct; (iv) the environment and risk/insurance management; and (v) the preservation of assets.

The members of the Audit, Risk and Environment Committee as at December 31, 2012 were Judith J. Athaide (Chair), Tracey C. Ball, Al H. Duerr and Douglas J. Haughey.

Governance and Human Resources Committee **–** The GHR Committee's mandate is to review, report and make recommendations to the Board on: (i) corporate governance policies; (ii) compensation, benefits and perquisites of senior officers of the Corporation; (iii) the respective duties of the Chair of the Board, the Chief Executive Officer, the Board and other senior officers of the Corporation; (iv) assessing the effectiveness of the Board and proposing new nominees for election or appointment to the Board; and (v) reporting to the Corporation's shareholders regarding corporate governance and executive compensation matters.

The Corporation recognizes the importance of appointing knowledgeable and experienced individuals to the GHR Committee. Committee composition includes members that have the necessary background and skills to provide effective oversight of corporate governance and executive compensation, including adherence with sound risk management principles. All Committee members have significant senior leadership experience. More specifically, Mr. Daley, Mr. Perry, Ms. Cameron and Mr. Walker each have direct operational or functional experience overseeing compensation at organizations similar in complexity to FortisAlberta.

In fulfilling its duties and responsibilities with respect to executive compensation, the GHR Committee seeks periodic input, advice, and recommendations from various sources, including the Board, executive officers, and the executive compensation consultants. The GHR Committee retains discretion in its executive compensation decisions and is not bound by the input, advice, and/or recommendations received from the external independent consultants.

The members of the GHR Committee as at December 31, 2012 were Mary Cameron (Chair), William J. Daley, Joanne R. Lemke, Barry V. Perry, Donald J. (Jim) Turner and John C. Walker.

CONFLICTS OF INTEREST

The directors and officers of Corporation are engaged in, and will continue to engage in, other activities in the industries in which the Corporation operates and, as a result of these and other activities, the directors and officers of the Corporation may become subject to conflicts of interest. The *ABCA* provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his or her interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the *ABCA*. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the *ABCA*. As at the date hereof and other than as described herein, the Corporation is not aware of any existing or potential material conflicts of interest between the Corporation and any director or officer of the Corporation.

REPORT ON EXECUTIVE COMPENSATION

It is the responsibility of the GHR Committee to review, recommend and administer the compensation policies in respect of the Corporation's executive officers. The GHR Committee's recommendations as to annual base salary and short term incentives are submitted to the Board for approval. Proposed grants of options to the Corporation's executive officers under the Stock Option Plan of Fortis are submitted by the Corporation's Board to the Human Resources Committee of the Board of Directors of Fortis for approval.

The Corporation's executive compensation policies are designed to provide competitive levels of compensation, a significant portion of which is dependent upon individual and corporate performance. The GHR Committee recognizes the need to provide a total compensation package that will attract and retain qualified and experienced executive officers as well as align the compensation level of each executive officer to that officer's level of responsibility. The GHR Committee regularly reviews survey data gathered by independent professional compensation consultants in respect of a wide group of comparable Canadian commercial industrial companies.

The Corporation has a policy of compensating executive officers at approximately the median (50th percentile) of comparable Canadian commercial industrial companies. For clarity, this reference group does not include organizations in the financial service and broader public sectors, and includes organizations from the energy, mining and manufacturing sectors. Annually, the GHR Committee uses the compensation data from this reference group to compare each executive officer to corresponding positions within the reference group. This framework serves as a guide for the GHR Committee's deliberations. The actual total compensation and/or amount of each compensation component for an individual executive officer may be more or less than the median amount.

Total annual compensation for the executive officers is composed primarily of four main components:

- annual base salary;
- short-term incentive in the form of an annual cash bonus;
- long-term incentive in the form of options to purchase Fortis Shares; and
- pension arrangements.

Total annual compensation for the executive officers involves a significant proportion that is at-risk due to the use of short-term and long-term incentive components. In 2012, approximately 50% of the President and Chief Executive Officer's total annual compensation, 40% of the Executive Vice President, Operations, Engineering and Information Technology, 35% of the Vice President, Finance and Chief Financial Officer and approximately 30% of the Vice Presidents' total annual compensation was to be at-risk. Total annual compensation includes both the cash compensation paid to the executive officers in the year and the estimated compensation for the long-term incentive components.

The executive compensation regime is structured in a manner that recognizes the greater ability of the President and Chief Executive Officer to affect corporate performance by making a greater portion of that individual's compensation dependent upon corporate performance.

COMPENSATION REVIEW FRAMEWORK

Annual Review

FortisAlberta monitors, reviews, and evaluates its executive compensation program annually to ensure that it provides reasonable compensation ranges at appropriate levels and remains competitive and effective.

As part of the annual review process, the Corporation engages Hay Group Ltd., its primary compensation consultant, to provide comparative analyses of market compensation data reflecting the pay levels and practices of Canadian commercial industrial companies. Using this data, a review of FortisAlberta's competitive compensation positioning against its peer group is undertaken. Hay Group provides preliminary recommendations to management on the basis of pay competitiveness, emerging market trends and best practices. The Corporation also receives general market and job specific compensation data from Towers Watson for the Executive group, as well as recommendations from Towers Watson on executive compensation.

Management then takes into account the corporate performance against pre-determined objectives and together with the Chief Executive Officer, recommends a set of new performance objectives for the following year. Individual performance reviews, incentive award payouts, and compensation adjustments, if any, are also determined at this stage. The Chief Executive Officer does not make recommendations to the GHR Committee with respect to his own compensation.

In the final step, the GHR Committee reviews the recommendations set forward by management and the compensation consultants prior to seeking approval from the Board regarding the current year's compensation payouts and the succeeding year's performance objectives. The GHR Committee and the Board may exercise discretion when making compensation decisions in appropriate circumstances and make deviations from the prescribed incentive award formulas, if necessary.

COMPENSATION RISK CONSIDERATIONS

Risk is considered throughout FortisAlberta's annual compensation review processes to ensure that effective control systems are in place to mitigate the perceived risks inherent in the compensation structure. The GHR Committee has identified the following external and internal risk controls within the Corporation's executive compensation program:

External Compensation Risk Mitigating Controls

With respect to the Corporation's regulatory environment, there exists an extensive regulatory framework as well as reporting and approval mechanisms. FortisAlberta's ongoing compliance with existing regulatory requirements and emerging best practices ensure that risks within its compensation program are being continually monitored and controlled.

Internal Compensation Risk Mitigating Controls

The compensation program is designed such that risk is taken into consideration throughout the compensation review process:

Annual Salary	Annual salaries are targeted approximately at market median levels and, as such, do not encourage excessive risk-taking.
Short-Term Incentives	*Board Discretion:* The GHR Committee retains the discretion to make upwards or downwards adjustments to the prescribed incentive payout formulas and actual payouts based on its assessment of the risk assumed to generate financial results, circumstances that may have influenced individual performance, as well as external factors that may have impacted

the Corporation’s financial performance.

Award Cap: Short-term incentives awarded to executives are capped at 150% of target; however, the GHR Committee retains the discretion to award up to a maximum of 200% of target in recognition of individual response to exceptional challenges or opportunities and may make deviations in appropriate circumstances.

Long-Term Compensation

Stock Option Grants linked directly to Stock Ownership Requirements: Share ownership for executives, including the NEOs, is encouraged through Fortis’ Executive Compensation Policy, whereby the options granted each year to any executive are limited to the lesser of the number of options prescribed to that particular position and the minimum number of shares actually owned by the individual since the beginning of the previous calendar year.

While minimum share holdings are not formally prescribed by policy, tying the number of stock options grants to the executive’s share holdings has achieved high levels of executive ownership.

Anti-Hedging Policy: The Corporation’s executive officers are not permitted to hedge against declines in the market value of equity securities received as compensation.

COMPENSATION CONSULTANTS

The Corporation currently engages Hay Group Ltd. as its primary consultant on matters relating to executive compensation. Hay Group has served as the primary external independent advisor since 2004.

The Corporation also engages Towers Watson to consult on certain compensation issues and to perform certain administrative functions related the Corporation's compensation program. The Corporation also engages Towers Watson for compensation consulting services related to regulatory rate applications and submissions.

The following table sets forth information concerning fees paid by the Corporation to compensation consultants in 2011 and 2012:

Type of Fee by Consultant	2012 Consultant Fees ($)	2011 Consultant Fees ($)
Executive Compensation Consulting	8,908	8,576
All Other Fees	-	126,571

The elements of executive compensation and their respective compensation objectives are set out below:

Compensation Element *(Eligibility)*	**Description**	**Compensation Objectives**
Annual Salary & Annual Incentive		
Annual Base Salary *(all executive officers)*	- Salary is a market-competitive, fixed level of compensation.	- Retain and attract highly qualified leaders.
Annual Incentive *(all executive officers)*	- Combined with salary, the target level of annual incentive provides a market-competitive total cash opportunity. - Annual incentive payout depends on individual and corporate performance.	- Retain and attract highly qualified leaders. - Motivate strong business performance through achievement of short-term objectives. - Simple to communicate and administer. - Compensation dependent on individual and corporate performance.
Stock Options		
Stock Options *(all executive officers)*	- Annual equity grants are made in the form of stock options to purchase Fortis Shares. - The amount of annual grant is dependent on the organizational level of the officer and their recent share ownership levels. - Planned grant value is converted to the number of shares granted by dividing the planned value by the pre-determined, formulaic planning price. - Options vest over a four year period and expire after either seven or ten years, dependent on the Stock Option Plan in place at the time of issuance.	- Retain and attract highly qualified leaders. - Motivate strong business performance. - Align long-term interests of officers with those of Fortis shareholders. - Simple to communicate and administer. - Balance compensation for short and long-term strategic results.
Pension Arrangements		
Registered Retirement Savings Plan *(all executive officers)*	- Contribution to a registered retirement savings plan equal to 6.5% of a participant's annual base salary and annual incentive which is matched by the participant up to the maximum annual contribution limit allowed by the Canada Revenue Agency.	- Retain highly qualified leaders. - Simple to communicate and administer.
Defined Contribution Pension Plan (SERP) *(all executive officers)*	- Accrual of 13% of annual base salary and annual incentive in excess of the allowed Canada Revenue Agency annual limit. - At time of retirement, paid in one lump sum or in equal payments over a period not greater than 15 years.	- Retain highly qualified leaders. - Simple to communicate and administer.

Annual Base Salary: Base salaries for the Executive Officers are established annually by reference to the range of salaries paid generally by comparable Canadian commercial industrial companies and are targeted to the median of the comparator group.

Annual Incentive Plan: The Executive Officers of the Corporation participate in a short-term incentive plan which provides for annual cash bonuses. The amount of each bonus is determined by way of an annual assessment of corporate and personal performance in relation to targets approved by the Board and is expressed as a percentage of each executive officer's base salary. The Corporation's annual net earnings must reach a minimum threshold level before any payout is made under the plan. For competitive reasons the minimum threshold level is not disclosed.

Corporate performance is determined with reference to the performance of the Corporation relative to weighted targets in respect of customer satisfaction, productivity, reliability and safety. For 2012, there were six corporate targets. They included: (i) a customer satisfaction index of 85% as measured by quarterly customer surveys (30% weighting); (ii) controllable operating costs per customer of $207 (30% weighting); (iii) electrical system average interruption duration index of 1.70 hours calculated in accordance with national industry standards (10% weighting); (iv) electrical system average interruption frequency index of 1.04 hours calculated in accordance with national industry standards (10% weighting); (v) number of preventable injuries of 13 (10% weighting); and (vi) days lost due to preventable injuries of 25 (10% weighting).

Personal performance is determined with reference to individual contribution to corporate objectives. For the President and Chief Executive Officer, 70% of the annual cash bonus is based on corporate targets and 30% is based upon personal targets. For each of the other executive officers, 50% of the annual cash bonus is based upon corporate targets and 50% is based upon personal targets.

In 2012, the target cash bonus, which is payable upon the achievement of 100% of corporate and personal targets, was 50% of base salary for the President and Chief Executive Officer, 40% for Executive Vice President, Operations, Engineering and Information Technology, 35% for Vice President, Finance and Chief Financial Officer and 30% of base salary for all other executive officers. Exceeding corporate and personal targets will result in a higher cash bonus, the maximum of which is 75% of base salary for the President and Chief Executive Officer, 60% for Executive Vice President, Operations, Engineering and Information Technology, 52.5% for Vice President, Finance and Chief Financial Officer and 45% of base salary for all other executive officers. Additionally, the Board may award discretionary cash bonuses, the maximum of which is 25% of base salary for the President and Chief Executive Officer, 20% for Executive Vice President, Operations, Engineering and Information Technology, 17.5% for Vice President, Finance and Chief Financial Officer and 15% of base salary for all other executive officers. In total, the maximum cash bonus is therefore 100% of base salary for the President and Chief Executive Officer, 80% for Executive Vice President, Operations, Engineering and Information Technology, 70% for Vice President, Finance and Chief Financial Officer and 60% of base salary for all other executive officers.

Stock Options: Long-term incentives take the form of grants of options under the Stock Option Plan of Fortis, pursuant to which options to acquire Fortis Shares may be granted to executives and key employees of Fortis and its subsidiaries, including the Corporation, as part of a competitive compensation package and in order to encourage increased Fortis Share ownership by key employees. Grants of options are dependent upon the optionee's salary level. The President and Chief Executive Officer of the Corporation was granted an option entitling him to purchase that number of Fortis Shares having a market value at the time of grant equal to 400% of his base salary. The other executive officers were granted options entitling the officers to purchase that number of Fortis Shares having a market value at the time of grant equal to 100% or 150% of such officer's base salary. Grants of stock options in prior years are not considered in the Corporation's request to Fortis for a grant of options under the Stock Option Plan of Fortis.

The stock option plan in place for 2012 was the 2012 Stock Option Plan of Fortis which became effective May 4, 2012. Under this plan, options are exercisable for ten years from the date of the option grant subject to a vesting requirement whereby options vest at a rate of 25% per year over the four year period commencing on the first anniversary of the date of grant. Under the terms of this plan, all options granted, vesting rights, and financing provisions under previous plans will continue to exist and remain in force as long as any options granted under former plans are outstanding. No consolidation of options already granted will be made into the 2012 Stock Option Plan of Fortis and Fortis has ceased to grant options under previous stock option plans.

Effective January 1, 2009, where an executive officer or key employee has been granted options for five or more prior years, the maximum number of Fortis Shares for which options will be granted in any calendar year will not exceed the minimum number of Fortis Shares held by the executive officer or the key employee since the beginning of the previous calendar year.

Pension Arrangements: Executive officers also participate in various pension arrangements as outlined on page 37 of this Annual Information Form.

The GHR Committee believes that the Corporation's compensation regime appropriately takes into account the performance of the Corporation and the contribution of the President and Chief Executive Officer and other executive officers of the Corporation toward that performance.

COMPENSATION OF NAMED EXECUTIVE OFFICERS

The following table sets forth information concerning the annual and long-term compensation earned for services rendered in respect of each of the individuals who were, for the year ended December 31, 2012, the President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer and the Corporation's three other most highly paid executive officers (collectively the "Named Executive Officers", each an "Executive").

Name and Principal Position	**Year**	**Salary ($)**	**Option-based Awards ($)** (1)	**Non-equity Incentive Plan Compensation Annual Incentive Plan ($)** (2)	**Pension Value ($)** (3)	**All Other Compensation ($)** (4)	**Total Compensation ($)**
Karl W. Smith (5) President and Chief Executive Officer	2012	460,000	226,043	322,000	115,327	38,812	1,162,182
	2011	445,000	246,890	335,000	94,660	47,972	1,169,522
	2010	430,000	162,288	225,000	99,188	36,083	952,559
Ian Lorimer Vice President, Finance and Chief Financial Officer	2012	235,000	43,312	116,000	25,745	44,619	464,676
	2011	223,000	46,395	120,000	19,302	38,869	447,566
	2010	210,000	50,786	85,000	20,398	29,180	395,364
Phonse Delaney Executive Vice President, Operations, Engineering and Information Technology	2012	304,000	56,027	171,000	53,224	22,054	606,305
	2011	286,828	56,174	175,000	39,506	22,040	579,548
	2010	260,000	62,869	100,000	38,118	22,821	483,808
Annette Iwasaki Vice President, Human Resources and Communications	2012	206,000	25,311	87,000	18,588	17,661	354,560
	2011	200,000	27,749	90,000	15,430	30,862	364,041
	2010	190,000	30,623	72,500	15,386	20,624	329,133
Cameron Aplin (6) Vice President, Field Operations	2012	187,200	23,003	79,000	10,772	26,547	326,522
	2011	174,835	N/A	65,000	6,901	21,720	268,456
	2010	145,900	N/A	46,975	2,805	31,992	227,672

Footnotes to Compensation Table:

(1) Represents the fair value of stock options to acquire Fortis Shares pursuant to the Stock Option Plan of Fortis. See REPORT ON EXECUTIVE COMPENSATION – Stock Options. The fair values of $4.10 per option for 2009 options, $4.41 for 2010 options, $4.57 for 2011 options and $4.21 for 2012 options were determined at the date of grant using the Black-Scholes option pricing model. Options granted to respective Named Executive Officers are detailed in the table on page 36.

(2) Represents amounts earned under the Corporation's short-term incentive program and any other discretionary award in the form of a cash bonus. See REPORT ON EXECUTIVE COMPENSATION – Annual Incentive Plan.

(3) Represents all compensation paid or accrued to Named Executive Officers relating to the defined contribution supplemental employee retirement plan. See REPORT ON EXECUTIVE COMPENSATION – Pension Arrangements.

(4) Includes (i) the dollar value on imputed interest benefits from loans provided to the Named Executive Officers and the dollar value of insurance premiums paid by the Corporation with respect to term life insurance; (ii) 10% match by the Corporation on contributions made to purchase Fortis Shares through the Employee Share Purchase Plan; (iii) contributions made by the Corporation to registered retirement savings plan for the Named Executive Officers. Perquisites are not disclosed as they did not exceed the minimum disclosure threshold of the lesser of $50,000 or 10% of the total annual salary and bonus of the Named Executive Officer.

(5) All of Mr. Smith's compensation is received in his capacity as an officer of the Corporation. Mr. Smith is not compensated for also serving as a director of the Corporation.

(6) Mr. Aplin joined the Corporation effective February 1, 1990. Effective May 2, 2011, Mr. Aplin was named Vice President, Field Operations.

STOCK OPTIONS

The following table sets forth details of all outstanding options held by each Named Executive Officer, at December 31, 2012 for respective stock option grants. Each grant is detailed by the total value of "in-the-money" options that are unexercised, both the portions which have vested to respective Named Executive Officers and those portions which remained unvested at December 31, 2012.

Name and Principal Position	Year in Which Options Were Granted	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price ($)(1)	Option Expiration Date	Value of Unexercised in-the Money Options ($)(2)
Karl W. Smith	2005	40,748	18.405	March 1, 2015	644,430
President and Chief	2006	34,329	22.940	February 28, 2016	387,231
Executive Officer	2007	38,312	28.190	May 7, 2014	231,021
	2008	40,856	28.270	February 26, 2015	243,093
	2009	32,280	22.290	March 11, 2016	385,100
	2010	36,800	27.360	March 1, 2017	252,448
	2011	54,024	32.950	March 2, 2018	68,610
	2012	53,692	34.270	May 4, 2022	0
		331,041			**2,209,250**
Ian Lorimer	2009	13,460	22.290	March 11, 2016	160,578
Vice President, Finance and	2010	11,516	27.360	March 1, 2017	79,000
Chief Financial Officer	2011	10,152	32.950	March 2, 2018	12,893
	2012	10,288	34.270	May 4, 2022	0
		45,416			**251,956**
Phonse Delaney	2005	15,892	18.405	March 1, 2015	251,332
Executive Vice President, Operations, Engineering	2006	13,535	22.940	February 28, 2016	152,675
and Information Technology	2007	11,972	28.190	May 7, 2014	72,191
	2008	12,524	28.270	February 26, 2015	74,518
	2009	12,048	22.290	March 11, 2016	143,733
	2010	14,256	27.360	March 1, 2017	97,796
	2011	12,292	32.950	March 2, 2018	15,611
	2012	13,308	34.270	May 4, 2022	0
		105,827			**807,190**
Annette Iwasaki	2006	790	22.940	February 28, 2016	8,911
Vice President, Human	2007	2,728	28.190	May 7, 2014	16,450
Resources and Corporate	2008	2,912	28.270	February 26, 2015	17,326
Communications	2009	8,524	22.290	March 11, 2016	101,691
	2010	6,944	27.360	March 1, 2017	47,636
	2011	6,072	32.950	March 2, 2018	7,711
	2012	6,012	34.270	May 4, 2022	0
		33,982			**199,425**
Cameron Aplin	2012	5,464	34.270	May 4, 2022	0
Vice President, Field Operations					
		5,464			**0**

Notes to Stock Options Table:

(1) Exercise price is the volume weighted average prices of the Fortis Shares traded on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant of the options.

(2) The value of unexercised in-the-money options at December 31, 2012 is the difference between the option exercise price and the closing value of Fortis Shares. The closing price of Fortis Shares on the Toronto Stock Exchange at December 31, 2012 (last trading day) was $34.22.

INCENTIVE PLAN AWARDS

The following table sets forth details of incentive plan awards for all Named Executive Officers for the year ended December 31, 2012.

Name and Principal Position	Option-based Awards Value Vested During the Year ($) (1)	Non-equity Incentive Plan Compensation Value Earned During the Year ($) (2)
Karl W. Smith President and Chief Executive Officer	226,345	322,000
Ian Lorimer Vice President, Finance and Chief Financial Officer	49,253	116,000
Phonse Delaney Executive Vice President, Operations, Engineering and Information Technology	79,156	171,000
Annette Iwasaki Vice President, Human Resources and Corporate Communications	52,081	87,000
Cameron Aplin Vice President, Field Operations	0	79,000

Footnotes:

(1) Represents the aggregate value that would have been realized if options that vested during the year had been exercised on the vesting date. The value is calculated as the difference between the market price on the vesting date and the grant price of the respective option grants.

(2) Represents short-term incentive in the form of cash bonus award earned for 2012. See REPORT ON EXECUTIVE COMPENSATION - Annual Incentive Plan.

PENSION ARRANGEMENTS

In 2012, the Corporation contributed to a registered retirement savings plan (“RRSP”) for all of the Named Executive Officers at an amount equal to 6.5% of their annual base salary, which contributions were matched by the Named Executive Officers up to a maximum RRSP contribution limit of $22,970 as allowed by the Canada Revenue Agency. In 2012, the Corporation contributed $11,485 for each of Mr. Smith, Mr. Lorimer, Mr. Delaney, Mr. Cameron Aplin and Ms. Iwasaki.

All of the Named Executive Officers participate in a non-contributory defined contribution supplemental employee retirement plan (“DC SERP”) of the Corporation. In 2012, the DC SERP provided for the contribution by the Corporation of an amount equal to 13% of the annual base salary plus annual paid cash bonus of Mr. Smith, Mr. Lorimer, Mr. Delaney and Ms. Iwasaki in excess of $176,692 to a notional account upon which interest will accrue at the interest rate of a 10-year Government of Canada bond, plus a premium of 0% to 3%, dependent upon years of service.

Prior to joining the Corporation, Mr. Delaney participated in a defined benefit pension plan with Newfoundland Power. To avoid a disincentive to Mr. Delaney's acceptance of employment, the Corporation agreed to compensate him for loss of benefits forfeited upon termination from the Newfoundland Power defined benefit plan. Under the agreement, the Corporation will contribute an amount equivalent to his pension loss to Mr. Delaney's DC SERP after his retirement from the Corporation. This SERP benefit payable to Mr. Delaney varies by his age at retirement or termination, starting at nil, increasing in steps to $747,000, and decreasing back to nil. The benefit payable to Mr. Delaney with respect to this payment is required to be paid over a period of 10 years or longer in equal monthly installments.

The following table sets forth details of the balances accrued due to the Named Executive Officers pursuant to the DC SERP for the year ended December 31, 2012.

Name and Principal Position	Accumulated Value at Start of Year ($)	Compensatory ($)	Accumulated Value at Year-end ($)
Karl W. Smith President and Chief Executive Officer	714,616	115,327	829,943
Ian Lorimer Vice President, Finance and Chief Financial Officer	53,889	25,745	79,634
Phonse Delaney Executive Vice President, Operations, Engineering and Information Technology	278,386	53,224	331,610
Annette Iwasaki Vice President, Human Resources and Corporate Communications	74,354	18,588	92,942
Cameron Aplin Vice President, Field Operations	12,118	10,772	22,890

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As of December 31, 2012, Karl Smith was indebted to the Corporation in respect of a housing loan provided to him on his transfer and relocation to the Corporation. On June 20, 2007, the Corporation provided a housing and relocation loan of $1,222,850 to Mr. Smith that is interest free for a period of three years from the loan date. Subsequent to that date, Mr. Smith has reduced the amount of the loan to $600,000. In 2010, the Board of Directors extended the interest free period for another three years, after which interest will accrue at the rate of prime plus 0.5%. The total amount of the loan must be repaid within 10 years of the loan grant date. The loan is secured by a mortgage on the residence purchased by Mr. Smith.

As of December 31, 2012, Phonse Delaney was indebted to the Corporation in respect of a housing loan provided to him on his transfer and relocation to the Corporation. On May 30, 2008, the Corporation provided a housing and relocation loan of $810,000 to Mr. Delaney that was interest free for a period of three years from the loan date. The loan was secured by a mortgage on the residence purchased by Mr. Delaney. The total amount of the loan was repaid on February 20, 2013.

On May 25, 2009, Ms. Iwasaki acquired 2,370 Fortis Shares with a loan of $54,368 provided by the Corporation. The total amount of the loan was repaid on December 7th, 2012.

The loan balances outstanding at April 8, 2013 are outlined in the table below:

Name and Principal Position	Date Provided	Amount Outstanding at April 8, 2013 ($)	Largest Amount Outstanding in 2012 ($)	Security for Indebtedness	Date Full Repayment Due
Karl Smith President and Chief Executive Officer	June 20, 2007	600,000	600,000	A mortgage on the residence	July 1, 2017

A number of the Corporation's officers are indebted to the Corporation in non-material amounts relating to the employee share purchase plan, and computer loans under the employee personal computer purchase program, which are available to all employees.

TERMINATION OF EMPLOYMENT, CHANGE IN RESPONSIBILITIES AND EMPLOYMENT CONTRACTS

Other than the agreement for Mr. Delaney, disclosed in this document under pension arrangements, there are no employment contracts between the Corporation and its Named Executive Officers that provide for payments at, following or in connection with any termination, resignation, retirement, change in control of the Corporation or a change in the Named Executive Officers' responsibilities.

COMPENSATION OF DIRECTORS

The Corporation pays an annual retainer to each of its directors of $20,000. In addition to the annual retainer, each director receives remuneration of $1,250 for each director's meeting attended, $1,250 for each committee meeting attended, and each director that was not resident in the community in which a meeting is held receives an additional $1,250 of remuneration if they travel to the community to attend the meeting.

The Chairman of the Board is not entitled to receive the annual retainer paid to directors as described above. Instead, the Chairman receives a separate annual retainer of $50,000. The Chairpersons of each Board Committee receive remuneration in addition to the annual retainer paid to directors described above. The Chairperson of the GHR Committee receives an additional annual retainer of $2,500. The Chairperson of the Audit, Risk and Environment Committee receives an additional annual retainer of $5,000.

The directors are also reimbursed for miscellaneous out-of-pocket expenses incurred in carrying out their duties as directors of the Corporation. Mr. Smith was not paid any remuneration for services rendered in his capacity as a director in accordance with the Corporation's policy of not compensating a director that is also a member of the management of the Corporation.

The following table details individual director compensation for 2012.

Name	Annual Retainer ($)	Meeting Fees ($)	All Other Compensation (1) ($)	Total ($)
Al Duerr (Chair)	43,125	15,000	1,250	59,375
Gregory E. Conn (previous Chair) (2)	12,500	3,750	2,500	18,750
Judith J. Athaide	25,000	13,750	1,250	40,000
Tracey C. Ball	20,000	12,500	8,750	41,250
Mary Cameron	21,875	11,250	6,250	39,375
William J. Daley	20,000	12,500	5,000	37,500
Douglas J. Haughey	20,000	13,750	1,250	35,000
Joanne Lemke	20,000	12,500	5,000	37,500
Barry V. Perry	20,000	12,500	5,000	37,500
Donald J. (Jim) Turner	20,000	12,500	1,250	33,750
John C. Walker	20,000	12,500	5,000	37,500

Footnotes:

(1) All Other Compensation denotes the director's compensation for travel time to meetings located in a city outside of the location of their primary residence, if applicable.

(2) Mr. Conn left the Board of Directors effective April 1, 2012.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, there are no material contracts which have been entered into by the Corporation.

LEGAL PROCEEDINGS

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations, none of which are currently material to the Corporation.

FORWARD-LOOKING STATEMENTS

The Corporation includes forward-looking information in the Annual Information Form 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 Annual Information Form includes, but is not limited to statements regarding: the Corporation’s expectation on remaining a regulated electric utility; the Corporation’s expectations relating to the conduct, outcome and timing of regulatory hearings and other litigation matters; 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. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the Corporation's current business plans; the Corporation's understanding of the regulatory environment; the advice provided to the Corporation by its advisors; 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 licenses 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 which 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 Annual Information Form 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.

TRANSFER AGENTS AND REGISTRARS

Computershare Trust Company of Canada, at its office located at Calgary, Alberta, is the Trustee under the Corporation's Indentures. Registers for the registration and transfer of the Debentures will be kept at the offices of the Trustee in Calgary, Alberta. The Trustee is also the paying agent for the Debentures.

AUDITORS

The Corporation's financial statements for the year ended December 31, 2012 have been audited by Ernst & Young LLP, which was first appointed by the shareholders of the Corporation on March 31, 2005. Ernst & Young LLP has confirmed that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information related to FortisAlberta may be found on SEDAR at www.sedar.com. Financial information is provided in the December 31, 2012 audited Financial Statements and Management Discussion and Analysis, which can also be found on SEDAR.