FORTISALBERTA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2015

July 22, 2015

The following Management's Discussion and Analysis ("MD&A") of FortisAlberta Inc. (the "Corporation") should be read in conjunction with the following: (i) the unaudited interim financial statements and notes thereto for the three and six months ended June 30, 2015, prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"); (ii) the audited financial statements and notes thereto for the year ended December 31, 2014, prepared in accordance with US GAAP; and (iii) the MD&A for the year ended December 31, 2014. All financial information presented in this MD&A has been prepared in accordance with US GAAP and is expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

The forward-looking information in the MD&A includes, but is not limited to, statements regarding: the expected timing of filing of regulatory applications and receipt of regulatory decisions; the expectation that sufficient cash will be generated to pay all operating costs and interest expense from internally generated funds; the expectation that sufficient cash to finance ongoing capital expenditures will be generated from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; the expectation that the Corporation will continue to have access to the required capital on reasonable market terms; and the Corporation's forecast gross capital expenditures for 2015. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the electricity systems to ensure their continued performance; favourable economic conditions; no significant variability in interest rates; sufficient liquidity and capital resources; maintenance of adequate insurance coverage; the ability to obtain licences and permits; retention of existing service areas; continued maintenance of information technology infrastructure; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors that could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; loss of service areas; political risk; a severe and prolonged economic downturn; environmental risks; capital resources and liquidity risks; operating and maintenance risks; weather conditions in geographic areas where the Corporation operates; risk of failure of information technology infrastructure; cyber-security risk; insurance coverage risk; risk of loss of permits and rights-of-way; labour relations risk; human resources risk; adverse results from litigation; and the ability to report under US GAAP beyond 2018.

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

THE CORPORATION

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

The Corporation operates a largely rural, approximately 120,000 kilometre, low-voltage distribution network in central and southern Alberta, which serves approximately 534,000 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers.

The Corporation is regulated by the Alberta Utilities Commission (the "AUC") pursuant to the *Alberta Utilities Commission Act* (the "*AUC Act*"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act* (the "*EUA*"), the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*, includes the approval of distribution tariffs for regulated distribution utilities, such as the Corporation, including the rates and terms and conditions on which service is to be provided by those utilities. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using US GAAP for entities not subject to rate regulation.

Effective January 1, 2013, the AUC prescribed that distribution utilities in Alberta, including the Corporation, move to a form of rate regulation referred to as performance-based regulation ("PBR") for a five-year term. Under PBR, a formula that estimates inflation annually and assumes productivity improvements ("I-X") is used to determine distribution rates on an annual basis. Each year this formula is applied to the preceding year's distribution rates. The 2012 distribution rates are the base rates upon which the formula was first applied and they were set using a traditional cost-of-service model whereby the AUC established the Corporation's revenue requirements, being those revenues corresponding to the costs associated with the distribution business, and provided a rate of return on a deemed equity component of capital structure ("ROE") applied to rate base assets. The Corporation's ROE for ratemaking purposes was 8.75% for 2012 with a deemed equity ratio of 41%. For 2013, 2014 and 2015, the Corporation's ROE has been set at 8.30% with a deemed equity ratio of 40%. The impact of changes to ROE and capital structure during the PBR term apply only to the portion of rate base that is funded by capital tracker revenue.

The PBR plan includes mechanisms for the recovery or settlement of items determined to flow through directly to customers ("Y factor") and the recovery of costs related to capital expenditures that are not being recovered through the formula ("K factor" or "capital tracker"). The AUC also approved a Z factor, a PBR re-opener and an ROE efficiency carry-over mechanism. The Z factor permits an application for recovery of costs related to significant unforeseen events. The PBR re-opener permits an application to re-open and review the PBR plan to address specific problems with the design or operation of the PBR plan. The use of the Z factor and PBR re-opener mechanisms is associated with certain thresholds. The ROE efficiency carry-over mechanism provides an efficiency incentive by permitting a utility to continue to benefit from any efficiency gains achieved during the PBR term for two years following the end of that term.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. (''Fortis''). Fortis is a leader in the North American electric and gas utility business, serving customers across Canada and in the United States and the Caribbean.

REGULATORY MATTERS

Generic Cost of Capital

In March 2015, the AUC issued Decision 2191-D01-2015 (the "2015 GCOC Decision") related to the Generic Cost of Capital ("GCOC") proceeding. In this decision, the AUC set the Corporation's allowed ROE for 2013 to 2015 at 8.30%, down from the interim allowed ROE of 8.75%, and set the deemed equity ratio at 40%, down from 41%.

The AUC also decided that it will not re-establish a formula-based approach to setting annual ROE at this time. Instead, the allowed ROE of 8.30% and deemed equity ratio of 40% would remain in effect for 2016 and beyond, on an interim basis. Refer to the 2016 and 2017 Generic Cost of Capital Proceeding section below.

For Alberta utilities under PBR, including FortisAlberta, the impact of the changes to the allowed ROE and capital structure resulting from the 2015 GCOC Decision applies to the portion of rate base that is funded by capital tracker revenue only. For assets not being funded by capital tracker revenue, no revenue adjustment is required for the change in allowed ROE or capital structure from those set in an earlier GCOC decision, which had set the allowed ROE at 8.75% and deemed equity ratio of 41%.

In April 2015, the Corporation filed an application with the Alberta Court of Appeal (the "Court") for permission to appeal aspects of the 2015 GCOC Decision that related to cost responsibility for stranded assets and retrospective ratemaking. This leave to appeal has been adjourned until a decision is rendered on earlier appeals. The earlier appeals had been filed related to the GCOC Decision issued in 2011 and the Utility Asset Disposition Decision issued in 2013, similarly pertaining to cost responsibility for stranded assets. An appeal hearing with respect to these earlier appeals was heard in June 2015 and the Court reserved its decision. Given the nature of the case and extent of materials filed with the Court, a decision is expected before the end of 2015.

Capital Tracker Applications

In March 2015, the AUC issued Decision 3220-D01-2015 (the "2015 Capital Tracker Decision") related to the Corporation's 2013, 2014 and 2015 capital tracker application. The 2015 Capital Tracker Decision: (i) indicated that the majority of the Corporation's applied for capital trackers met the criteria established in the original PBR decision and were, therefore, approved for collection from customers as a K factor; (ii) approved the Corporation's accounting test; and (iii) confirmed certain inputs to be used in the accounting test, including the conclusion that the weighted average cost of capital used in the accounting test is to be based on actual debt rates and the allowed ROE and capital structure approved in the 2015 GCOC Decision.

While the majority of the Corporation's capital trackers were approved as filed, certain capital trackers were only partially approved. The AUC indicated that additional evidence supporting these capital trackers can be provided as part of a later filing.

The Corporation filed the required Compliance Filing in April 2015. In the Compliance Filing, the Corporation requested that the adjustments to capital tracker revenue be considered in the 2016 Annual Rates Application, to be filed in September 2015, and reflected in customer rates effective January 1, 2016. A decision on the Compliance Filing is expected in the second half of 2015.

Additional capital tracker revenue of $8.7 million was recognized in the first half of 2015 related to 2013 and 2014 capital tracker expenditures. This capital tracker revenue adjustment reflects the impacts of the 2015 Capital Tracker Decision and the 2015 GCOC Decision, taking into consideration the revenue already collected from customers via the 60% capital tracker placeholders for 2013 and 2014.

The recognition of capital tracker revenue for 2015 reflects the impact of the 2015 Capital Tracker Decision and the 2015 GCOC Decision, taking into consideration the estimated 2015 capital tracker expenditures reflected in current customer rates.

The funding of capital expenditures during the PBR term is a material aspect of the PBR plan for the Corporation. The PBR plan provides the capital tracker mechanism to fund the recovery of costs associated with certain qualifying capital tracker expenditures; however, how that mechanism would be interpreted and applied to the Corporation had been uncertain. As a result of receiving the 2015 Capital Tracker Decision, the appeal application related to the PBR plan, which had been filed in late 2012, was withdrawn during the first quarter of 2015.

2016 and 2017 Capital Tracker Application

In May 2015, the Corporation filed an application with the AUC seeking capital tracker revenue for 2016 and 2017, as well as a true-up to the 2014 capital tracker revenue for actual capital expenditures. As part of this application, the Corporation provided additional information on the capital tracker components that were not fully approved in the 2015 Capital Tracker Decision, seeking approval of the related capital expenditures incurred in 2013 and 2014, and forecast for 2015. A hearing related to this proceeding is scheduled for October 2015 with a decision from the AUC expected in the first quarter of 2016.

2016 and 2017 GCOC Proceeding

In April 2015, the AUC initiated a GCOC proceeding to set allowed ROE and capital structure for 2016 and 2017. The AUC will hold a pre-hearing conference in the third quarter of 2015 to establish scope and process matters.

Beyond the 2013-2017 PBR Term

With the current PBR term expiring in 2017, the AUC has initiated a generic proceeding to establish parameters for the next generation of PBR plans. Further information from the AUC with respect to this proceeding is expected in the second half of 2015.

RESULTS OF OPERATIONS

Highlights

	Three Months Ended June 30			Six Months Ended June 30		
($ thousands)	2015	2014	Variance	2015	2014	Variance
Revenues	135,484	128,113	7,371	282,134	254,958	27,176
Cost of sales	43,156	41,926	1,230	89,448	85,135	4,313
Depreciation	39,981	36,046	3,935	78,694	71,810	6,884
Amortization	2,495	4,981	(2,486)	4,886	9,877	(4,991)
Other income	442	53	389	1,307	1,410	(103)
Income before interest expense and income taxes	50,294	45,213	5,081	110,413	89,546	20,867
Interest expense	20,255	20,163	92	39,003	39,180	(177)
Income before income taxes	30,039	25,050	4,989	71,410	50,366	21,044
Income tax recovery	(378)	(302)	(76)	(390)	(407)	17
Net income	30,417	25,352	5,065	71,800	50,773	21,027

Net income for the three months ended June 30, 2015 increased $5.1 million compared to the same period last year. The increase was mainly due to rate base growth associated with capital expenditures funded by capital tracker revenue and growth in the number of customers, and the net impact of a technical update on depreciation and amortization. These increases were partially offset by the timing of certain operating costs and amendments to the 2013 and 2014 capital tracker revenue adjustment that was recognized in the first quarter of 2015.

Net income for the first half of 2015 increased $21.0 million compared to the same period in 2014. The increase was due to the recognition in 2015 of a capital tracker revenue adjustment of $8.7 million related to 2013 and 2014 as a result of the 2015 Capital Tracker and 2015 GCOC Decisions, the additional impact of rate base growth associated with capital expenditures funded by capital tracker revenue and growth in the number of customers, and the net impact of a technical update on depreciation and amortization. These increases were partially offset by the timing of certain operating costs.

The following table outlines the significant variances in the Results of Operations for the three months ended June 30, 2015 as compared to June 30, 2014:

Item	Variance ($ millions)	Explanation
Revenues	7.4	Electric rate revenue increased by $6.8 million primarily due to higher 2015 revenue resulting from the approved I-X increase of 1.49% and estimated capital tracker revenue based on the 2015 Capital Tracker and the 2015 GCOC Decisions. Growth in the number of customers also contributed to the increase in revenue, partially offset by amendments to the 2013 and 2014 capital tracker revenue adjustment that was recognized in the first quarter of 2015. Other revenue increased by $0.6 million primarily due to increases in various miscellaneous revenues.
Cost of sales	1.2	The increase was primarily driven by cyclical increases in vegetation management and additional costs that qualify as flow-through items that were fully offset in electric rate revenue. Labour and benefit costs and contracted manpower costs comprised approximately 60% of total cost of sales.
Depreciation	3.9	The increase was due to continued investment in capital assets and net increases in depreciation rates based on the results of a technical update to the depreciation study. Refer to the Significant Accounting Estimates section of this MD&A for further information.
Amortization	(2.5)	The decrease was primarily due to decreases in amortization rates based on the results of a technical update to the depreciation study. Refer to the Significant Accounting Estimates section of this MD&A for further information.

The following table outlines the significant variances in the Results of Operations for the six months ended June 30, 2015 as compared to June 30, 2014:

Item	Variance ($ millions)	Explanation
Revenues	27.2	Electric rate revenue increased by $26.1 million primarily due to higher 2015 revenue resulting from the approved I-X increase of 1.49% and estimated capital tracker revenue based on the 2015 Capital Tracker and the 2015 GCOC Decisions. Also contributing to the increase was: (i) the recognition of the capital tracker revenue adjustment related to 2013 and 2014 of $8.7 million in the first half of 2015; (ii) growth in the number of customers; and (iii) net increases in revenues related to flow-through items that were fully offset in cost of sales. Other revenue increased by $1.1 million primarily due to increases in various miscellaneous revenues.
Cost of sales	4.3	The increase was primarily driven by additional costs that qualify as flow-through items that were fully offset in electric rate revenue, cyclical increases in vegetation management, and higher labour and benefit costs driven by inflation and wage increases. Labour and benefit costs and contracted manpower costs comprised approximately 61% of total cost of sales.
Depreciation	6.9	The increase was due to continued investment in capital assets and net increases in depreciation rates based on the results of a technical update to the depreciation study. Refer to the Significant Accounting Estimates section of this MD&A for further information.
Amortization	(5.0)	The decrease was primarily due to decreases in amortization rates based on the results of a technical update to the depreciation study. Refer to the Significant Accounting Estimates section of this MD&A for further information.

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	Revenues	Net Income
June 30, 2015	135,484	30,417
March 31, 2015	146,650	41,383
December 31, 2014	132,135	24,411
September 30, 2014	130,942	27,213
June 30, 2014	128,113	25,352
March 31, 2014	126,845	25,421
December 31, 2013	120,255	17,211
September 30, 2013	120,046	25,676

Changes in revenues and net income from quarter to quarter are a result of many factors including regulatory decisions, energy deliveries, number of customer sites, ongoing investment in energy infrastructure, and changes in income tax expense due to fluctuations in future income tax expenses and recoveries resulting from changes in deferral account balances, availability of tax recoveries and levels of taxable income. The quarterly information presented above has been impacted by specific regulatory decisions. As approved by the AUC, the allowance for funds used during construction ("AFUDC") is recognized in the first and fourth quarters of the year. There is no significant seasonality in the Corporation's operations.

June 30, 2015/March 31, 2015
Net income for the quarter ended June 30, 2015 decreased $11.0 million compared to the quarter ended March 31, 2015. Revenue decreased by $11.2 million mainly due to the recognition of the capital tracker revenue adjustment related to 2013 and 2014 in the first quarter of 2015, partially offset by an increase in the number of customers and higher demand relating to the start of irrigation season. Cost of sales decreased $3.1 million mainly due to the timing of benefit costs and a reduction in costs that qualify as flow-through items that were fully offset in electric rate revenue, partially offset by an increase in the use of contracted manpower due to the timing of contracted activities. Other income decreased $0.4 million and interest expense increased $1.3 million related to the equity and debt portions of the AFUDC, respectively. Depreciation increased $1.3 million due to net increases in depreciation rates based on the results of a technical update to the depreciation study.

March 31, 2015/December 31, 2014
Net income for the quarter ended March 31, 2015 increased $17.0 million compared to the quarter ended December 31, 2014. Revenue increased by $14.5 million primarily due to the recognition of the capital tracker revenue adjustment related to 2013 and 2014 of $10.3 million in the first quarter of 2015. The increase was also due to higher 2015 revenue resulting from the approved I-X increase of 1.49% and estimated capital tracker revenue based on the 2015 Capital Tracker and the 2015 GCOC Decisions, and net increases in revenues related to flow-through items that were fully offset in cost of sales. These increases were partially offset by $2.3 million lower revenue related to the timing of the provision of third-party services. Cost of sales decreased $1.6 million primarily due to the timing of general operating costs and use of contracted manpower, partially offset by net increases in costs that qualify as flow-through items that were fully offset in electric rate revenue and increases in labour and benefit costs. Interest expense decreased $1.4 million due to the repayment of $200.0 million senior unsecured debentures in October 2014 and lower carrying costs associated with lower Alberta Electric System Operator ("AESO") charges deferral account balances.

December 31, 2014/September 30, 2014
Net income for the quarter ended December 31, 2014 decreased $2.8 million compared to the quarter ended September 30, 2014. Revenue increased by $1.2 million mainly due to higher revenue related to the provision of third-party services and cost of sales increased $4.8 million primarily due to higher labour and benefit costs and timing of general operating costs. Interest expense increased $0.7 million due to the issuance of $275.0 million senior unsecured debentures in September 2014 and the repayment of $200.0 million senior unsecured debentures in October 2014. The decreases in net income were partially offset by an increase in other income of $1.5 million and a decrease in interest expense of $1.2 million related to the equity and debt portions of AFUDC, respectively.

September 30, 2014/June 30, 2014
Net income for the quarter ended September 30, 2014 increased $1.9 million compared to the quarter ended June 30, 2014. Revenue increased by $2.8 million mainly due to higher electric rate revenue as a result of customer growth, partially offset by net decreases in revenues related to flow-through items that were fully offset in cost of sales. Cost of sales increased $1.2 million primarily due to timing of expenses, partially offset by net decreases in costs that qualify as flow-through items that were fully offset in electric rate revenue.

June 30, 2014/March 31, 2014
Net income for the quarter ended June 30, 2014 was comparable to the quarter ended March 31, 2014. Revenue increased by $1.3 million mainly due to an increase in the number of customers and higher demand relating to the start of irrigation season, partially offset by net decreases in revenues related to flow-through items that were fully offset in cost of sales. Cost of sales decreased $1.3 million primarily due to timing of expenses and net decreases in costs that qualify as flow-through items that were fully offset in electric rate revenue. Other income decreased $1.3 million and interest expense increased $1.2 million related to the equity and debt portions of the AFUDC, respectively.

March 31, 2014/December 31, 2013
Net income for the quarter ended March 31, 2014 increased $8.2 million compared to the quarter ended December 31, 2013. Revenue increased by $6.6 million primarily driven by net increases in revenues related to flow-through items that were fully offset in cost of sales, the interim distribution rate increase of approximately 5.36% and growth in the number of customers. Cost of sales decreased $0.3 million primarily due to the timing of general operating costs and use of contracted manpower, partially offset by increases in labour and benefit costs due to inflation and wage increases and net increases in costs that qualify as flow-through items that were fully offset in electric rate revenue. Depreciation decreased $1.2 million due to timing of depreciation expense, partially offset by an increase in capital assets.

December 31, 2013/September 30, 2013
Net income for the quarter ended December 31, 2013 decreased $8.5 million compared to the quarter ended September 30, 2013. Revenue was comparable quarter over quarter. Cost of sales increased $4.5 million primarily due to higher labour and benefit costs, and timing of general operating costs, partially offset by incremental restoration costs related to the southern Alberta flooding in the third quarter. Depreciation increased $4.9 million primarily due to an increase in capital assets and timing of depreciation expense. Interest expense increased $1.5 million due to the issuance of $150.0 million senior unsecured debentures in September 2013. The decreases in net income were partially offset by an increase in other income of $1.4 million and a decrease in interest expense of $1.2 million related to the equity and debt portions of AFUDC, respectively.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheet as at June 30, 2015 as compared to December 31, 2014:

Item	Variance ($ millions)	Explanation
Assets:		
Accounts receivable	15.0	The increase was primarily driven by higher transmission riders, increased base rates for distribution and transmission services and growth in the number of customers.
Income tax receivable	5.0	The increase was mainly due to an expected income tax recovery for 2015.
Regulatory assets (current and long-term)	47.9	The increase was primarily due to increases in the deferred income tax regulatory deferral, deferred overhead costs and the K factor deferral representing 2013 and 2014 capital tracker revenue to be collected in future rates.
Property, plant and equipment	118.5	The increase was due to continued investment in energy infrastructure, partially offset by depreciation and customer contributions.
Liabilities and Shareholder's equity:		
Deferred income tax (long-term deferred income tax liabilities net of current deferred income tax assets)	41.0	The increase was primarily due to higher temporary differences relating to capital assets and an increase in the Alberta provincial statutory rate to 12% from 10%, effective July 1, 2015.
Debt (including short-term borrowings)	97.5	The increase was primarily related to $82.0 million higher drawings on the Corporation's committed credit facility and an increase of $15.5 million in short-term borrowings.
Shareholder's equity	51.9	The increase was due to net income and equity injections received from Fortis in 2015, less dividends paid.

SOURCES AND USES OF LIQUIDITY AND CAPITAL RESOURCES

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

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

STATEMENTS OF CASH FLOWS

	Three Months Ended June 30			Six Months Ended June 30		
($ thousands)	2015	2014	Variance	2015	2014	Variance
Cash, beginning of period	-	-	-	-	-	-
Cash from (used in):						
Operating activities	59,220	57,237	1,983	113,151	160,198	(47,047)
Investing activities	(94,718)	(76,112)	(18,606)	(190,586)	(143,111)	(47,475)
Financing activities	35,498	18,875	16,623	77,435	(17,087)	94,522
Cash, end of period	-	-	-	-	-	-

Operating Activities

For the three months ended June 30, 2015, net cash provided from operating activities was $2.0 million higher than for the same period in 2014. The increase was primarily due to cash receipts related to increased revenues, lower cash interest paid as a result of repayment of $200.0 million senior unsecured debentures that matured in October 2014, and the timing of the flow through of transmission costs as revenue was collected from customers on a different timeline than costs were paid to the AESO. The increases were partially offset by the timing of collection of accounts receivable balances.

For the six months ended June 30, 2015, net cash provided from operating activities was $47.0 million lower than for the same period in 2014. The decrease was primarily attributable to the timing of collection of accounts receivable balances, timing of the flow through of transmission costs, lower cash expenses related to cost of sales, and timing of payment of accounts payable balances. The decreases were partially offset by higher cash receipts related to increased revenues and lower cash taxes paid.

The Corporation expects to be able to pay all operating costs and interest expense out of operating cash flows, with some residual available for dividend payments to the parent company and/or capital expenditures.

Investing Activities

	Three Months Ended June 30			Six Months Ended June 30		
($ thousands)	2015	2014	Variance	2015	2014	Variance
Capital expenditures:						
Customer growth [(1)]	43,908	39,433	4,475	87,563	78,500	9,063
Externally driven and other [(2)]	11,865	12,321	(456)	21,657	22,028	(371)
Sustainment [(3)]	42,113	29,338	12,775	66,980	46,959	20,021
AESO contributions [(4)]	12,881	9,634	3,247	28,800	10,894	17,906
Gross capital expenditures	110,767	90,726	20,041	205,000	158,381	46,619
Less: customer contributions	(5,741)	(4,076)	(1,665)	(13,917)	(11,490)	(2,427)
Net capital expenditures	105,026	86,650	18,376	191,083	146,891	44,192
Adjustment to net capital expenditures for:						
Non-cash working capital	(15,471)	(8,964)	(6,507)	(3,589)	(2,107)	(1,482)
Costs of removal, net of salvage proceeds	5,113	2,855	2,258	8,446	5,736	2,710
Capitalized depreciation, capital inventory, AFUDC, and other	50	(4,429)	4,479	(5,354)	(7,409)	2,055
Cash used in investing activities	94,718	76,112	18,606	190,586	143,111	47,475

(1) *Includes new customer connections*
(2) *Includes upgrades associated with substations, line moves, new connections for independent power producers and the distribution control centre*
(3) *Includes planned maintenance, capacity increases, facilities, vehicles and information technology*
(4) *Reflects the Corporation's required contributions towards transmission projects as determined by the AUC approved investment levels and paid when transmission projects are approved*

For the three months ended June 30, 2015, the Corporation's gross capital expenditures were $110.8 million, compared to $90.7 million for the same period in 2014. Expenditures related to customer growth increased $4.5 million due to higher expenditures for residential and commercial customers, partially offset by lower expenditures for oil and gas customers. Sustainment expenditures were $12.8 million higher due to increased planned maintenance activities for the pole management and cable injection programs. AESO contributions increased $3.2 million due to the volume and timing of AUC approvals for transmission upgrade projects in the second quarter of 2015 compared to the same period in 2014.

For the six months ended June 30, 2015, the Corporation's gross capital expenditures were $205.0 million, compared to $158.4 million for the same period in 2014. Expenditures related to customer growth increased $9.1 million mainly due to higher expenditures for residential and commercial customers. Sustainment expenditures increased $20.0 million due to increased planned maintenance activities as noted above for the quarter and expenditures for new facilities. AESO contributions increased $17.9 million due to the volume and timing of AUC approvals for transmission upgrade projects in 2015 compared to 2014.

It is expected that ongoing capital expenditures will be financed from funds generated by operating activities, drawings on the committed credit facility, proceeds from the issuance of debt, and equity contributions from Fortis via Fortis Alberta Holdings Inc., the Corporation's parent and an indirectly wholly owned subsidiary of Fortis.

Capital Expenditures Forecast

The Corporation has forecast gross capital expenditures for 2015 of approximately $400.0 million, down $16.6 million from the $416.6 million disclosed in the MD&A for the year ended December 31, 2014. The decrease was due to lower AESO contributions as a result of lower transmission expenditures forecast by the AESO and an expected decrease in customer growth capital expenditures as a result of a decline in economic activity, partially offset by an expected increase in sustainment capital expenditures.

The 2015 capital expenditures are based on detailed forecasts, which include numerous assumptions such as customer demand, projected growth in the number of customer sites, weather, cost of labour and material and other factors that could cause actual results to differ from forecast. A general or extended decline in Alberta's economy, or in the Corporation's service areas in particular, would be expected to have the effect of reducing demand for electricity over time. Significantly reduced electricity demand in the Corporation's service areas could materially reduce capital spending, specifically capital spending related to customer growth, externally driven and AESO contributions.

Financing Activities

For the three months ended June 30, 2015, cash from financing activities increased $16.6 million compared to the same period in 2014. This increase was primarily due to a $36.0 million increase in net borrowings under the committed credit facility and an increase in short-term borrowings of $6.9 million, partially offset by a $25.0 million reduction in equity injections received from Fortis.

For the six months ended June 30, 2015, cash from financing activities increased $94.5 million compared to the same period in 2014. This increase was primarily due to a $102.0 million increase in net borrowings under the committed credit facility and an increase in short-term borrowings of $20.0 million, partially offset by a $25.0 million reduction in equity injections received from Fortis.

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

CONTRACTUAL OBLIGATIONS

The Corporation's contractual obligations have not changed materially from those disclosed in the MD&A for the year ended December 31, 2014.

CAPITAL MANAGEMENT

The Corporation's objective when managing capital is to ensure ongoing access to capital to allow it to build and maintain the electricity distribution facilities within the Corporation's service territory. To ensure this access to capital, the Corporation targets a capital structure that includes approximately 60% debt and 40% equity. This targeted capital structure excludes the effects of goodwill and other items that do not impact the deemed regulatory capital structure. This ratio is maintained by the Corporation through the issuance of debentures or other debt and/or equity contributions by Fortis via Fortis Alberta Holdings Inc.

Summary of Capital Structure

As at:	June 30, 2015		December 31, 2014	
	$ millions	%	$ millions	%
Total debt	1,654.9	56.9	1,557.4	56.4
Shareholder's equity	1,254.7	43.1	1,202.8	43.6
	2,909.6	100.0	2,760.2	100.0

The Corporation has externally imposed capital requirements by virtue of its Trust Indenture and committed credit facility that limit the amount of debt that can be incurred relative to equity. As at June 30, 2015, the Corporation was in compliance with these externally imposed capital requirements.

As at June 30, 2015, the Corporation had an unsecured committed credit facility with an available amount of $250.0 million maturing in August 2019. Drawings under the committed credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans bear an interest rate of prime and bankers' acceptances are issued at the applicable bankers' acceptance discount rate plus a stamping fee of 1.0%. The weighted average effective interest rate for the six months ended June 30, 2015 on the committed credit facility was 2.3% (2014 - 2.9%). As at June 30, 2015, there were $105.0 million in drawings under the committed credit facility (December 31, 2014 - $23.0 million).

In July 2015, the Corporation renegotiated and amended its syndicated credit facility, extending the maturity date of the facility to August 2020 from August 2019. The amended agreement contains substantially similar terms and conditions as the previous agreement.

CREDIT RATINGS

As at June 30, 2015, the Corporation's debentures were rated by DBRS at A (low) and by Standard and Poor's at A-. In February 2015, DBRS confirmed the Corporation's credit rating of A (low) with a Positive trend.

OUTSTANDING SHARES

Authorized – unlimited number of:

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

Issued:

- 63 Class A common shares, with no par value

OFF-BALANCE SHEET ARRANGEMENTS

With the exception of letters of credit outstanding of $0.4 million as at June 30, 2015 (December 31, 2014 - $0.4 million), the Corporation had no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with Fortis and other subsidiaries of Fortis. Amounts due from or to related parties were measured at the exchange amount and were as follows:

As at: ($ thousands)	June 30, 2015	December 31, 2014
Accounts receivable		
Loans [(1)]	30	20
Related parties	65	58
	95	78
Accounts payable and other current liabilities		
Related parties	72	1,451

[(1)] *These loans are to officers of the Corporation and may include stock option loans, employee share purchase plan loans and employee personal computer purchase program loans.*

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

Related party transactions included in other revenue, cost of sales and interest expense were measured at the exchange amount and were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
($ thousands)	2015	2014	2015	2014
Included in other revenue [(1)]	120	37	353	145
Included in cost of sales [(2)]	793	887	1,893	1,809
Included in interest expense [(3)]	-	-	-	32

(1) *Includes services provided to Fortis and subsidiaries of Fortis related to metering, information technology, material sales and intercompany employee services*
(2) *Includes charges from Fortis and subsidiaries of Fortis related to corporate governance expenses, stock-based compensation costs, consulting services, travel and accommodation expenses, and pension costs*
(3) *Reflects interest expense paid on a demand note from Fortis which was borrowed and repaid during the first quarter of 2014*

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

FINANCIAL INSTRUMENTS

The following table represents the fair value measurements of the Corporation's financial instruments:

Long-term debt as at: ($ thousands)	June 30, 2015	December 31, 2014
Fair value [(1)]	1,828,382	1,856,403
Carrying value	1,533,992	1,533,982

(1) *The fair value of the long-term debt was estimated using level 2 inputs based on the indicative prices for the same or similarly rated issues for debt of the same remaining maturities.*

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

The carrying value of financial instruments included in current assets, long-term other assets, short-term borrowings and current liabilities on the balance sheets approximate their fair value, which reflects the short-term maturity, normal trade credit terms and/or nature of these financial instruments.

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Corporation's financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances.

Due to changes in facts and circumstances, and the inherent uncertainty in making estimates, actual results may differ materially from current estimates. Estimates and judgments are reviewed periodically and as adjustments become necessary they are recognized in the period they become known.

There were no material changes to the Corporation's significant accounting estimates during the three and six months ended June 30, 2015 from those disclosed in the MD&A for the year ended December 31, 2014.

Depreciation and Amortization

The depreciation and amortization rates used to record depreciation and amortization expense in 2014 were developed based on capital asset balances as at December 2010. Management reviewed these depreciation and amortization rates and determined that completion of a technical update to the depreciation study was appropriate given the change in capital asset balances since December 2010.

Depreciation and amortization estimates are based primarily on significant depreciation parameters, including the service life of assets and expected net salvage percentages, which are periodically calculated in a depreciation study and approved by the AUC. The depreciation and amortization rates are subject to change when a new depreciation study is completed by the Corporation and approved by the AUC or when a technical update to the depreciation study is completed. A technical update develops depreciation and amortization rates for the current capital asset balances based on the approved depreciation parameters.

Effective January 1, 2015, depreciation and amortization rates were changed based on the results of a technical update to the last approved depreciation study, and the impact to first half 2015 financial results was an increase to depreciation of approximately $2.3 million and a decrease to amortization of approximately $5.1 million.

Income Taxes

In the second quarter of 2015, the Corporation revised its estimated annual effective tax rate to reflect a change in the Alberta provincial statutory rate from 10% to 12%, effective July 1, 2015, resulting from legislation that was enacted on June 29, 2015. As a result, deferred income tax expense reported for the first six months was adjusted to reflect the effects of the change in the tax law and decreased by $0.2 million, and the total deferred income tax liability and corresponding deferred income tax regulatory asset increased by $11.7 million and $11.9 million, respectively. The current income tax recovery was not impacted by the change in rate.

CHANGES IN ACCOUNTING POLICIES

The Corporation's 2015 unaudited interim financial statements have been prepared following the same accounting policies as those used in preparing the Corporation's 2014 audited annual financial statements.

Future Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This update is to be applied on a full retrospective or modified retrospective basis. In July 2015, FASB decided to delay the effective date of this new revenue recognition standard to annual and interim periods beginning on or after December 15, 2017 and allow early adoption as of the original effective date, December 15, 2016. The Corporation is assessing the impact that the adoption of this standard will have on its financial statements and is in the process of identifying contracts with customers and performance obligations in contracts.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in this update are intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related disclosures. This update is effective for annual and interim periods beginning on or after December 15, 2016. Early adoption is permitted. The Corporation does not expect that the adoption of this update will have a material impact on its financial statements.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update require that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts or premiums. This update is effective for annual and interim periods beginning on or after December 15, 2015 and should be applied on a retrospective basis. Early adoption is permitted. The adoption of this update will result in the reclassification of debt issuance costs from long-term other assets to long-term debt on the Corporation's balance sheet. As at June 30, 2015, debt issuance costs included in long-term other assets were approximately $12.3 million (December 31, 2014 - $12.4 million).

BUSINESS RISK

The Corporation's business risks have not changed materially from those disclosed in the Business Risk section of the MD&A for the year ended December 31, 2014.

Note: Additional information, including the Corporation's 2014 Annual Information Form and Audited Annual Financial Statements, is available on SEDAR at www.sedar.com and on the Corporation's website at www.fortisalberta.com.