FORTISALBERTA INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2022

July 28, 2022

The following Management's Discussion and Analysis ("MD&A") of FortisAlberta Inc. (the "Corporation" or "FortisAlberta") has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations and should be read in conjunction with the following: (i) the unaudited condensed interim financial statements and notes thereto for the three and six months ended June 30, 2022; (ii) the audited financial statements and notes thereto for the year ended December 31, 2021; and (iii) the MD&A for the year ended December 31, 2021. Financial information for 2022 and comparative periods contained in this MD&A have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In May 2022, the Alberta Securities Commission ("ASC") approved the extension of the Corporation's exemptive relief to continue reporting under US GAAP rather than International Financial Reporting Standards ("IFRS") until the earlier of January 1, 2027 and the later of (i) the effective date prescribed by the International Accounting Standards Board ("IASB") for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation and (ii) two years after the IASB publishes the final version of a Mandatory Rate-regulated Standard. All financial information presented in this MD&A has been derived from the unaudited condensed interim financial statements for the three and six months ended June 30, 2022, and is expressed in Canadian dollars unless otherwise indicated.

In this MD&A, FAHI refers to the Corporation's parent, FortisAlberta Holdings Inc. and Fortis refers to the Corporation's ultimate parent, Fortis Inc.

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 this 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 2022.

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, financial impact of regulatory decisions for future periods not currently in effect 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 system to ensure its continued performance; no severe and prolonged economic downturn; no significant variability in interest rates; sufficient liquidity and capital resources; maintenance of adequate insurance coverage; the ability to obtain licenses and permits; retention of existing service areas; continued maintenance of information and operations technology infrastructure; global supply chain shortages and rising inflation; no material impacts related to future processes unfolding with the tax authorities; 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. Risk factors that could cause results or events to differ from current expectations are detailed in the "Business Risk and Risk Management" section of the Corporation's MD&A for the year ended December 31, 2021 and in continuous disclosure materials filed from time to time with Canadian securities regulatory authorities. Key risk factors include, but are not limited to: regulatory approval and rate orders; utility asset disposition risk; a downturn in economic conditions including the strength and operations of the oil and natural gas production industry and related commodity prices; risks relating to a public health crisis, or pandemic outbreak; supply chain risk; loss of service areas; change in government policies; capital resources and liquidity risks; interest and inflation risk; insurance coverage risk; continued reporting in accordance with US GAAP risk; operating and maintenance risks; risk of loss of permits and rights-of-way; environmental; weather conditions and climate-change; wildfire risks; risk of failure of information and operations technology infrastructure; cybersecurity risk; labour relations risk; human resources risk; and other risks described in the Corporation's most recent Annual Information Form.

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 because of new information, future events or otherwise after the date hereof.

CORPORATE OVERVIEW

The Corporation is a regulated electric distribution utility in the Province of Alberta. Its business is the ownership and operation of electric facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Corporation does not own or operate generation or transmission assets and is not involved in the direct sale of electricity.

The Corporation operates a largely rural and suburban low-voltage distribution network of approximately 128,000 kilometres in central and southern Alberta, which serves approximately 579,000 residential, commercial, farm, oil and gas, and industrial sites.

The Corporation is an indirect, wholly-owned subsidiary of Fortis, a leader in the North American electric and natural gas utility business. Fortis shares are listed on the Toronto Stock Exchange and the New York Stock Exchange.

The Corporation is regulated by the Alberta Utilities Commission ("AUC") pursuant to the *Alberta Utilities Commission Act* ("*AUCA*"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act ("EUA")*, the *Public Utilities Act ("PUA")*, the *Hydro and Electric Energy Act ("HEEA")* and the *AUCA*, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation, including the rates and terms and conditions on which service is to be provided by those utilities. The Corporation recognizes amounts to be recovered from, or refunded to, customers in those periods in which related applications are filed with, or decisions are received from, the AUC. 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.

REGULATORY MATTERS

Performance-Based Regulation

Since January 1, 2018, the Corporation has operated under a second performance-based regulation ("PBR") rate plan approved by the AUC for a five-year term from 2018 to 2022, inclusive. The PBR plan adjusts FortisAlberta's distribution rates annually using an "I-X" escalation formula (the "formula"), that incorporates an inflation factor ("I") and a productivity factor ("X"). Each year this formula is applied to the preceding year's distribution rates.

The Corporation's base distribution rates, subject to escalation by the formula, for the second PBR term are based on a notional 2017 revenue requirement approved by the AUC. The impact of changes to return on equity ("ROE"), cost of debt and capital structure during the PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from going-in rates escalated by the formula; any change in these items are recoverable through annual true-ups associated with these mechanisms. For 2022 and 2021, the Corporation's ROE was approved at 8.50%, with a capital structure of 37% equity and 63% debt.

In the second PBR term, incremental capital funding to recover costs related to capital expenditures that are not recovered through going-in rates escalated by the formula is available through two mechanisms. A capital tracker mechanism, similar to that made available during the first 2013-2017 PBR term, provides funding for capital expenditures identified as "Type 1". Type 1 capital must be extraordinary, not previously included in the utility's rate base, and required by a third party. All capital in the notional going-in rate base with a provision for a prescribed level of annual capital additions is classified as "Type 2" capital and is funded through a K-Bar mechanism. A K-Bar amount is established for each year of the PBR term based on the revenue requirement associated with this projected notional rate base for Type 2 capital programs. The notional 2017 rate base and the level of annual capital additions were calculated using an AUC prescribed methodology, including both actuals and historical averages.

The second PBR term also includes mechanisms for the recovery or settlement of items determined to flow through directly to customers ("Y factor"). The AUC also approved a Z factor, a PBR re-opener, and an 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 efficiency carry-over mechanism provides an incentive by permitting a utility to continue to benefit from efficiency gains achieved during the PBR term. If a utility achieves a ROE over the PBR term greater than the approved ROE for ratemaking purposes by prescribed parameters, the utility is eligible to collect additional PBR revenue for the two years after the end of the PBR term.

2023 Cost-of-Service Application

In 2022, the Corporation entered into the final year of its second five-year PBR term. In June 2021, the AUC issued Decision 26354-D01-2021 confirming that the Alberta distribution utilities will be rebased in 2023 using a cost-of-service ("COS") methodology. The completion of rebasing at the transition point from one ratemaking term into another, re-aligns a utility's reasonable costs to provide service with the revenues it is permitted to collect in customer rates. This re-aligned revenue requirement forms a starting point for setting rates in future periods. The AUC prescribed a minimum level of detail each utility must include in its application to support its respective 2023 revenue requirement forecasts.

The Corporation filed its one-year 2023 COS Application in November 2021, which requested approval of an overall revenue requirement of approximately $660.0 million and an average rate base of approximately $4.1 billion. The Corporation's 2023 COS Application included customer driven and recurring expenditures to update its Advanced Metering Infrastructure, accommodate integration of distributed energy resources, implement a distribution voltage management program driven by increased renewable generation, enhance wildfire mitigation programs, establish demand-side management programs, enable battery project solutions for remote community reliability, and further information technology investments.

In early April 2022, the Corporation filed supplemental financial information, including updated economic factors reflecting increases to inflation, material prices and interest rates compared to the Corporation's original Application. At the end of April 2022, FortisAlberta participated in an oral hearing to support its 2023 COS Application and a decision on this matter is expected in the third quarter of 2022.

Third PBR Term

In July 2021, the AUC issued Decision 26356-D01-2021 confirming that the Alberta distribution utilities will return to a third PBR term commencing in 2024 upon completion of the 2023 COS year. In May 2022, Proceeding 27388 was commenced to establish the parameters of the PBR plans that will be effective in the third PBR Term. In June 2022, the AUC identified the following main issues to be reviewed: (i) incremental capital funding provisions; (ii) the inflation factor; (iii) the productivity factor; (iv) an earnings sharing mechanism; and (v) the length of the next PBR term. The Corporation will submit evidence in the third and fourth quarters of 2022 with respect to these matters. An oral hearing is expected to be scheduled in the first six months of 2023 and a decision on this matter is expected in the third quarter of 2023.

Phase II Distribution Tariff Application

A Phase II Distribution Tariff Application ("DTA") is undertaken periodically to propose revisions to rate design and rate class cost allocations that will determine how much of the Corporation's revenue requirement will be recovered from each customer rate class. The DTA also establishes the billing determinants that will apply to each rate class. The Corporation filed a Phase II DTA in October 2020, which proposed a revised rate design intended to achieve improved alignment between revenues collected from, and costs assigned to, specific rate classes. During this process, the AUC considered issues outside of traditional rate design, including (i) the continued application of Payment in Lieu of Notice ("PILON") system exit charges, and (ii) the recovery methodology for certain distribution costs attributable to Rural Electrification Associations ("REA"), which are currently collected from other load customers under the Corporation's regulated tariff.

In July 2021, the AUC issued Decision 25916-D01-2021 in which it directed the Corporation to update certain aspects of its cost allocation study, rate calculations, customer and retailer terms and conditions, and billing determinant forecast methodology in a compliance filing, which was filed in September 2021. The AUC also approved in Decision 25916-D01-2021 changes to the Corporation's applied-for rate design but subject to a requirement to manage 2022 inter-rate class impacts to "nil", to the extent possible, and to incorporate the associated rate adjustments in the Corporation's 2023 COS Application.

In this decision, the AUC also directed the Corporation to cease applying PILON system exit charges, effective January 1, 2022. These PILON exit charge provisions, which were originally intended to provide the Corporation with revenue support following downward adjustments to large customers' minimum demand requirements or, alternatively, the departure of large customers, were found by the AUC to be largely ineffective under, and incompatible with, the Corporation's PBR plan. This has not resulted in any material impact to the Corporation's financial statements.

Finally, the AUC directed the Corporation to remove amounts attributable to system costs incurred by REAs from the Corporation's regulated revenue requirement in its 2023 COS Application. This determination follows an earlier AUC ruling in 2020 that held that REAs were not customers of the Corporation and, therefore, cannot be charged amounts under the Corporation's regulated tariff. Consistent with prior approvals, the Corporation is permitted, until the end of 2022, to recover the costs that would otherwise be attributable to REAs from its other load customers. The Corporation has incorporated the financial impact of this decision in its 2023 COS Application, reducing the forecast 2023 COS revenue requirement by a placeholder amount of approximately $10.0 million.

In February 2022, the Court of Appeal of Alberta granted the Corporation permission to appeal the REA cost recovery aspect of the AUC's 2022 Phase II DTA decision to a full panel of the Court. The subject of this appeal will be whether the AUC erred in preventing the Company from recovering upstream distribution costs properly allocatable to REAs from its own ratepayers to the extent that these costs cannot be recovered directly from REAs. This appeal is scheduled to be heard in December 2022.

2022 Annual Rates Application

In December 2021, the AUC issued Decision 26817-D01-2021 approving the Corporation's 2022 rates and riders, effective on an interim basis for January 1, 2022, including an increase of approximately 6.6% to the distribution component of customer rates. The increase in the distribution component of customer rates reflected: (i) an I-X of 1.46%; (ii) a refund of $4.6 million for the true-up of the 2020 and 2021 K-Bar amounts; (iii) a 2022 K-Bar placeholder of $89.1 million; (iv) a net collection of $32.8 thousand for the true-up of the 2020 and 2021 Alberta Electric System Operator ("AESO") contributions hybrid deferral; (v) a placeholder refund of $13.2 million for the 2022 AESO contributions hybrid deferral; and (vi) a net collection of Y factor amounts of $0.8 million.

2023 and Beyond Generic Cost of Capital

In January 2022, the AUC initiated a two-stage Generic Cost of Capital ("GCOC") proceeding to establish the cost of capital parameters for (i) 2023, and (ii) 2024 and beyond. In March 2022, the AUC issued Decision 27084-D01-2022 confirming that the 8.50% ROE and 37% equity thickness approved for 2022 will be extended on a final basis for the duration of 2023.

In June 2022, the AUC commenced the second stage of the GCOC proceeding, which will explore a formula-based approach to cost of capital for 2024 and beyond. Specifically, the AUC has identified the following topics to be explored: (i) a formula based approach to determine ROE, (ii) the initial numerical variables to be used in the formula, (iii) the process to calculate ROE in future test years, and (iv) the future process or threshold which would trigger a review of the approach if necessary. Initial stakeholder comments on the aforementioned topics are due in the third quarter of 2022. The AUC will use these comments to determine the scope for a subsequent proceeding, with parties submitting evidence on final issues in the fourth quarter of 2022. This proceeding is anticipated to conclude with an oral hearing in the first quarter of 2023 and a decision is expected in the second quarter of 2023.

Alberta Electricity Rebate Program

In April 2022, the Government of Alberta passed the Utility Commodity Rebate Regulation, under the Utility Commodity Rebate Act, whereby an electricity rebate program will provide monthly rebates of $50 to all qualifying residential, farm and small business customers who consume less than 250 megawatt-hours per year. The program was in response to increased electricity commodity costs and was initially expected to end in September 2022, however recent announcements have suggested that the program will extend to the end of December 2022. While the rebates are to be administered by the Distribution Facility Owner ("DFO") from July to December 2022, the program is fully funded by the Government of Alberta with no adverse impact to FortisAlberta's financial results.

The Corporation expects to flow through the electricity rebates to customers in an amount aggregating between $170 and $190 million during this period. Funding for the electricity rebates will be provided in advance and will be processed as billing deductions thus mitigating negative working capital impacts to the Corporation and its customers. As identified, costs to administer the program by the DFOs are eligible for reimbursement by the Alberta government in the first quarter of 2023.

RESULTS OF OPERATIONS

	Three months ended June 30,			Six months ended June 30,		
($ thousands)	2022	2021	Variance	2022	2021	Variance
Total revenues	$ 184,633	$ 176,598	$ 8,035	369,802	350,623	19,179
Cost of sales	(58,097)	(54,198)	(3,899)	(118,252)	(108,892)	(9,360)
Depreciation	(56,242)	(53,586)	(2,656)	(111,901)	(106,625)	(5,276)
Amortization	(4,576)	(4,101)	(475)	(9,021)	(8,115)	(906)
Other (expense) income	(161)	(132)	(29)	1,188	821	367
Income before interest expense and income tax	65,557	64,581	976	131,816	127,812	4,004
Interest expense	(27,659)	(26,990)	(669)	(54,104)	(53,147)	(957)
Income before income tax	37,898	37,591	307	77,712	74,665	3,047
Income tax expense	(3,106)	(1,598)	(1,508)	(6,995)	(3,463)	(3,532)
Net income	$ 34,792	$ 35,993	$ (1,201)	70,717	71,202	(485)

The following table outlines net income and significant variances in the Results of Operations for the three months ended June 30, 2022 as compared to June 30, 2021:

Item	Variance ($ millions)	Explanation
Net income	(1.2)	The decrease was primarily due to: • higher cost of sales, primarily due to the timing of incurring certain operating costs, higher consulting costs, an increase in fleet operating costs and inflationary increases; and • an increase in income tax expense that is not recoverable in customer rates; • partially offset by rate base growth.
Total revenues	8.0	The increase was primarily due to higher electric rate revenue associated with rate base growth and customer additions.
Cost of sales	3.9	The increase was primarily due to inflationary increases, higher labour and consulting expenses, and higher fleet costs due to fuel prices and operating vehicle usage, as well as the timing of certain operating expenses during the quarter.
Depreciation	2.7	The increase was primarily due to a higher depreciable asset base compared to the prior period driven by continued rate base investment.
Income tax expense	1.5	The increase was primarily due to an increase in income tax expense that was not recoverable in customer rates due to differences in statutory and regulatory balances.

The following table outlines net income and significant variances in the Results of Operations for the six months ended June 30, 2022 as compared to June 30, 2021:

Item	Variance ($ millions)	Explanation
Net income	(0.5)	The decrease was primarily due to: • an increase in cost of sales primarily due to inflationary increases, higher consulting, labour and fleet operating costs, as well as variances associated with the timing of certain operating expenses; and • an increase in income tax expense that is not recoverable in customer rates; • partially offset by rate base growth.
Total revenues	19.2	The increase was primarily due to higher electric rate revenue associated with rate base growth and customer additions.
Cost of sales	9.4	The increase was primarily due to inflationary increases, higher consulting and labour expenses, and higher fleet costs due to fuel prices and operating vehicle usage, as well as the timing of certain operating expenses.
Depreciation	5.3	The increase was primarily due to a higher depreciable asset base compared to the prior period driven by continued rate base investment.
Income tax expense	3.5	The increase was primarily due to an increase in income tax expense that was not recoverable in customer rates due to differences in statutory and regulatory balances.

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	**Total Revenues**	**Net Income**
June 30, 2022	184,633	34,792
March 31, 2022	185,169	35,925
December 31, 2021	172,185	22,953
September 30, 2021	184,927	46,546
June 30, 2021	176,598	35,993
March 31, 2021	174,025	35,209
December 31, 2020	153,379	33,145
September 30, 2020	168,976	35,271

Changes in total revenues and net income quarter over quarter are a result of many factors including: electricity deliveries, number of customer sites, regulatory decisions, ongoing investment in the distribution grid, inflation and changes in income tax. While approximately 85% of the Corporation's distribution revenue is derived from largely fixed non-energy billing determinants, seasonality can affect the revenue recognized in the Corporation's quarterly operations. As approved by the AUC, the allowance for funds used during construction ("AFUDC") is recognized in the first and fourth quarters of the year.

June 30, 2022 / 2021
Net income for the three months ended June 30, 2022, decreased $1.2 million compared to the same period in 2021 primarily due to an increase in cost of sales primarily due to the timing of incurring certain operating costs, higher consulting costs, an increase in fleet operating costs, inflationary increases, and an increase in income taxes not recoverable in customer rates, partially offset by rate base growth.

March 31, 2022 / 2021
Net income for the three months ended March 31, 2022, increased $0.7 million compared to the same period in 2021 primarily due to an increase in electric rate revenue associated with an increase in average electricity deliveries from residential primarily due to favourable weather variances and higher customer additions, and rate base growth, partially offset by an increase in cost of sales primarily due to higher consulting costs, fleet costs, as well as the timing of incurring operating expenses, and an increase in income taxes not recoverable in customer rates.

December 31, 2021 / 2020

Net income for the three months ended December 31, 2021, decreased $10.2 million compared to the same period in 2020 primarily due to an increase in income tax expense due to the timing and reduction of available tax deductions during the fourth quarter of 2021; and an increase in cost of sales primarily due to higher material costs associated with inventory obsolescence, higher labour costs, and higher fleet operating costs, as well as the timing of incurring expenditures. The decrease in net income was partially offset by an increase in electric rate revenue compared to the same period of 2020 when there was a decrease in revenue associated with the effects of a regulatory decision; higher other revenue related to the Customer Rights Agreement with the Corporation's regulated rate option ("RRO") retailer, and rate base growth.

September 30, 2021 / 2020

Net income for the three months ended September 30, 2021, increased $11.3 million compared to the same period in 2020 primarily due to: (i) an increase in electric rate revenue from residential and small commercial customers, primarily related to favourable weather variances and customer additions; (ii) rate base growth; and (iii) a reduction in cost of sales (before flow through items) due to a decrease in labour costs and vegetation management contractor costs. The increase in quarterly net income also accounts for the reversal of income tax expense that occurred in the fourth quarter of 2020.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheet between June 30, 2022 and December 31, 2021:

Item	Variance ($ millions)	Explanation
Assets:		
Accounts receivable	25.1	The increase was primarily driven by the volume and timing of collections of transmission-related amounts from customers that the Corporation administers on behalf of the AESO and flows through to customers.
Regulatory assets (current and long-term)	13.6	The increase was primarily due to a $14.3 million higher deferred income tax offset in regulatory assets related to higher deductible temporary differences associated with capital asset expenditures and changes in regulatory deferral accounts.
Property, plant and equipment, net	78.6	The increase was primarily due to continued investment associated with the Corporation's capital expenditure program, partially offset by depreciation and customer contributions.
Liabilities and Shareholder's Equity:		
Income tax payable	(9.8)	The decrease was primarily due to the payment of 2021 income taxes in the first quarter of 2022 and tax installments for 2022.
Regulatory liabilities (current and long-term)	40.7	The increase was primarily due to increases in the non-asset retirement obligation provision of $12.8 million and the AESO charges deferral of $29.6 million, partially offset by a decrease in the incremental capital deferral of $1.4 million.
Deferred income tax	14.4	The increase was primarily due to higher deductible temporary differences relating to capital asset expenditures and changes in regulatory deferral accounts.
Debt (including short-term borrowings)	60.6	The increase was primarily due to the issuance of $125.0 million of unsecured Medium Term Note Debentures ("MTN Debentures") during the second quarter of 2022, the proceeds of which were used to repay existing credit facilities in support of the debt component of the Corporation's capital program.
Total shareholder's equity	25.9	The increase was due to earnings of $70.7 million less dividends paid of $45.0 million.

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 credit facility; and
- equity contributions from the Corporation's parent company.

STATEMENTS OF CASH FLOWS

	Three months ended June 30,			Six months ended June 30,		
($ thousands)	2022	2021	Variance	2022	2021	Variance
Cash, beginning of period	—	—	—	—	611	(611)
Cash from (used in):						
Operating activities	114,516	85,008	29,508	188,055	160,274	27,781
Investing activities	(106,402)	(72,645)	(33,757)	(201,173)	(169,739)	(31,434)
Financing activities	(5,746)	(12,363)	6,617	15,486	8,854	6,632
Cash, end of period	2,368	—	2,368	2,368	—	2,368

Cash Flow Requirements and Liquidity

The Corporation expects that operating costs, interest expense, and other working capital will generally be paid out of operating cash flows. Cash flow is also required to fund capital expenditure programs and it is expected that these will be financed from a combination of cash flows from operations, borrowings under the committed credit facility, borrowing of demand notes from Fortis, equity injections from Fortis via FAHI, and long-term debenture issuances in accordance with the deemed regulatory capital structure approved by the AUC of 37% equity and 63% debt.

The Corporation has externally imposed capital requirements by virtue of its Trust Indenture and committed credit facility such that consolidated debt cannot exceed 75% of the Corporation's consolidated capitalization ratio, which is based on the Corporation's total capital structure. As at June 30, 2022, the Corporation was in compliance with these externally imposed capital requirements.

The Corporation's ability to service its debt obligations and pay dividends is dependent on the financial results of the Corporation. Depending on the timing of cash payments, borrowings under the Corporation's credit facility may be required from time to time to support the servicing of working capital deficiencies and payment of dividends. The Corporation may need to rely upon the proceeds of new debenture issuances to meet its principal obligations when they become due.

Operating Activities

For the three and six months ended June 30, 2022, net cash provided from operating activities was $29.5 million and $27.8 million higher compared to the same period in 2021. The increase was primarily due to differences in the timing of collection of accounts receivable balances from retailers for distribution revenue, and the timing of collection from customers and payment to the AESO for transmission-related amounts.

Investing Activities

For the three and six months ended June 30, 2022, net cash used in investing activities increased by $33.8 million and $31.4 million as compared to the same period in 2021, primarily due to an increase in customer growth-related capital projects, the timing of capital inventory issuance, offset by a decrease in non-cash working capital, and the timing of the collection of customer contributions.

Capital Expenditures Forecast

The Corporation's 2022 forecast of gross capital expenditures is approximately $445.0 million, inclusive of AFUDC and capitalized overheads, and excluding customer contributions in aid of construction. The 2022 projected capital expenditures are based on detailed forecasts, which include numerous assumptions such as projected growth in the number of customer sites, weather, cost of labour and materials, ability to procure materials and engage contractors, and other factors that could cause actual results to differ from forecast.

2022 Sustainable Investments

Included in the 2022 projected gross capital expenditures forecast are approximately (i) $7.0 million of expenditures to enable the integration and connection of renewable energy resources, including distributed energy resources and independent power producers, which enable the connection of wind and solar energy-producing facilities to the distribution system and support a reduction in carbon emissions; and (ii) $4.0 million related to wildfire mitigation in the Corporation's service territory. For the six months ended June 30, 2022, $3.4 million has been spent on distributed energy resources and independent power producers, and $0.7 million on wildfire mitigation.

Financing Activities

Debentures

On May 19, 2022, the Corporation filed a short form base shelf prospectus to establish an MTN Debentures Program and entered into a Dealers Agreement with certain affiliates of a group of Canadian Chartered Banks. The Corporation may from time to time, during the 25-month life of the shelf prospectus, issue MTN Debentures.

On May 26, 2022, the Corporation entered into an agreement to sell $125.0 million of senior unsecured debentures at a rate of 4.62%, to be paid semi-annually, and mature in 2052. The net proceeds of the issuances were used to repay existing credit facilities.

As at June 30, 2022, $200.0 million remains available under the MTN Debentures Program.

Credit Facilities

As at June 30, 2022, the Corporation had a $250.0 million unsecured committed credit facility which, in July 2022, was extended to mature in August 2027. As at June 30, 2022, the Corporation had $nil drawn on the committed credit facility (December 31, 2021 - $51.0 million).

For the three months ended June 30, 2022, cash used in financing activities decreased by $6.6 million compared to the same period in 2021. For the three months ended June 30, 2022, the Corporation paid dividends of $22.5 million (2021 - 21.3 million) to its parent company FAHI.

For the six months ended June 30, 2022, cash from financing activities increased by $6.6 million compared to the same period in 2021. For the six months ended June 30, 2022, the Corporation paid dividends of $45.0 million (2021 - $42.5 million) to its parent company FAHI.

In the second quarter of 2022, the credit facility was repaid using proceeds from the issuance of $125.0 million of unsecured MTN debentures with no similar issuance in the same period of 2021.

SIGNIFICANT CONTRACTS

The Corporation has not entered into any significant contracts during the three months and six months ended June 30, 2022.

CONTRACTUAL OBLIGATIONS

The Corporation's contractual obligations have not changed materially from those disclosed in the MD&A for the year ended December 31, 2021.

OFF-BALANCE SHEET ARRANGEMENTS

With the exception of letters of credit outstanding of $0.3 million as at June 30, 2022 (December 31, 2021 – $0.3 million), the Corporation had no off-balance sheet arrangements.

CREDIT RATINGS

Debentures issued by the Corporation are rated by DBRS Morningstar and Standard and Poor's ("S&P"). The ratings assigned to the debentures issued by the Corporation are reviewed by these agencies on an ongoing basis.

The table below summarizes the ratings assigned to the Corporation's debentures as at June 30, 2022:

Rating Agency	Credit Rating	Type of Rating	Outlook
DBRS Morningstar	A (low)	Senior Unsecured Debt	Stable
S&P	A-	Senior Unsecured Debt	Stable

As at June 30, 2022, DBRS Morningstar and S&P credit ratings remain unchanged compared to December 31, 2021.

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.

Issued:

- 63 Class A common shares, with no par value.

RELATED PARTY TRANSACTIONS

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

($ thousands)	June 30, 2022	December 31, 2021
Accounts receivable		
Loans [(1)]	10	37
Related parties	69	1
	79	38
Accounts payable and other current liabilities		
Related parties [(2)]	—	1,281

(1) *These loans are to officers of the Corporation for employee share purchase plan loans.*
(2) *This reflects charges from related parties associated with information technology services.*

The Corporation invoices related parties on terms and conditions consistent with invoices issued to third parties, which require amounts to be paid on a net 30 days basis with interest on overdue amounts. Terms and conditions on amounts invoiced 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)	2022	2021	2022	2021
Included in other revenue [(1)]	164	146	308	262
Included in cost of sales [(2)]	1,221	991	3,156	2,659
Included in interest expense [(3)]	—	62	—	62

(1) *Includes services provided to related parties for information technology, material sales and intercompany employee services.*
(2) *Includes charges from related parties for corporate governance expenses, information technology services, consulting services, travel and accommodation expenses, charitable donations, membership fees and professional development costs.*
(3) *Reflects interest expense paid on demand notes from Fortis.*

All services provided to or received from related parties are 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 ($ thousands)	**June 30, 2022**	**December 31, 2021**
Fair value [(1)]	2,395,784	2,873,390
Carrying value [(2)]	2,483,776	2,358,757

[(1)] *The fair value of the long-term debt was estimated using level 2 inputs. It is calculated using indicative prices provided by a third party for the same or similarly rated issues of debt with similar maturities.*
[(2)] *Carrying value is presented gross of debt issuance costs of $16,560 (December 31, 2021 – $15,959).*

The fair value of the Corporation's financial instruments reflects 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 and therefore, may not be relevant in predicting the Corporation's future earnings or cash flows. The changes in fair value of the long-term debt from December 31, 2021 are consistent with the general increase in interest rates that have occurred during the six month period and are not indicative of impairment.

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

CRITICAL ACCOUNTING ESTIMATES

In accordance with US GAAP, the preparation of the Corporation's financial statements 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 revenues 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 critical accounting estimates for the three and six months ended June 30, 2022, from those disclosed in the MD&A for the year ended December 31, 2021.

CHANGES IN ACCOUNTING POLICIES

There were no new significant accounting standards adopted for the three and six months ended June 30, 2022. This is consistent with note 3 of the audited financial statements for the year ended December 31, 2021.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Corporation considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board. The Corporation has assessed the ASUs issued and determined the ASUs to be either not applicable to the Corporation or not expected to have a material impact on the financial statements.

OTHER DEVELOPMENTS

Collective Agreement
In July 2021, the Corporation and the United Utility Workers' Association negotiated a two-year Collective Agreement, which the membership ratified in August 2021. The Collective Agreement expires on December 31, 2022.

Corporate Income Tax Audit
The Corporation is currently undergoing corporate income tax audits of its 2016, 2017 and 2018 tax years by the Canada Revenue Agency ("CRA"). The Corporation continues to work through certain tax matters with the CRA. At June 30, 2022, there are no changes to the Corporation's existing tax positions. The Corporation will continue to assess whether there are material impacts to the financial statements as future processes unfold with the tax authorities.

BUSINESS RISK MANAGEMENT

Other than the risks discussed below, the Corporation's business risks have not changed materially from those disclosed in the "Business Risk and Risk Management" section of the MD&A for the year ended December 31, 2021.

Interest Expense
The Corporation is exposed to interest expense risk associated with the volume of short-term and long-term debt issued as compared to the levels assumed in customer rates. Interest rate variances from forecast are recovered in future customer rates through an annual true-up. There can be no assurance that such an opportunity for true-up will exist in the future. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position.

Inflation Risk
The Corporation may be exposed to changes in inflation that may cause volatility in operating and capital expenditures compared to the funding provided by customer rates. Material unforeseen increases in costs that would not otherwise qualify for recovery through ratemaking could have a material adverse effect on the Corporation's results of operations and financial position.