MANAGEMENT'S REPORT

The accompanying financial statements of FortisAlberta Inc. (the "Corporation") have been prepared by management, who are responsible for the integrity of the information presented. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP" or "Canadian GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

In meeting its responsibility for the reliability and integrity of the financial statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The systems of the Corporation focus on the need for training of qualified and professional staff and the effective communication of management guidelines and policies. The internal control system also includes an internal audit function and an established code of business conduct. The effectiveness of the internal controls of the Corporation is evaluated on an ongoing basis.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit, Risk and Environment Committee (the "Audit Committee"), which is composed of five members, all of which are independent. The Audit Committee oversees the external audit of the Corporation's annual financial statements and the accounting, financial reporting and disclosure processes and policies of the Corporation. The Audit Committee meets with management, the shareholder's auditors and the internal auditor to discuss the results of the audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Corporation's annual financial statements are reviewed by the Audit Committee with each of management and the shareholder's auditors before the statements are recommended to the Board of Directors for approval. The shareholder's auditors have full and free access to the Audit Committee.

The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices, which have a material effect on the Corporation's financial statements and to review and report to the Board of Directors on policies relating to the accounting, financial reporting and disclosure processes. The Audit Committee has the duty to review financial reports requiring the Board of Directors approval prior to the submission to securities commissions or other regulatory authorities, to assess and review management judgments material to reported financial information and to review shareholder's auditors' independence and auditors' fees.

The December 31, 2011 financial statements were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of FortisAlberta Inc. Ernst & Young LLP, independent auditors appointed by the shareholder of FortisAlberta Inc. upon recommendation of the Audit Committee, have performed an audit of the 2011 financial statements and their report follows.

(signed)
Ian Lorimer
Vice President, Finance and Chief Financial Officer

(signed)
Karl Smith
President and Chief Executive Officer

February 7, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholder of FortisAlberta Inc.,

We have audited the accompanying balance sheets of FortisAlberta Inc. as at December 31, 2011 and 2010 and the statements of income, comprehensive income and retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of FortisAlberta Inc. as at December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Ernst & Young LLP

Calgary, Canada
February 7, 2012

BALANCE SHEETS

As at December 31 (all amounts in thousands of Canadian dollars)	**2011**	2010
Assets		
Current assets		
Accounts receivable (notes 12 and 15)	144,170	114,187
Prepaids and deposits	4,731	3,772
Income taxes receivable	98	–
Future income taxes (note 13)	2,916	1,128
Regulatory assets (note 5)	48,830	56,336
	200,745	175,423
Accounts receivable (notes 12 and 15)	886	1,584
Property, plant and equipment (note 3)	2,135,182	1,874,741
Intangible assets (note 4)	61,386	65,455
Regulatory assets (note 5)	78,210	42,648
Investment tax credits receivable (note 13)	1,280	1,180
Accrued pension asset (note 10)	2,860	2,607
Goodwill	189,309	189,309
	2,669,858	2,352,947
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable, accrued and other liabilities (notes 12 and 15)	184,081	133,855
Short-term debt (notes 6 and 15)	5,568	9,352
Regulatory liabilities (note 5)	16,859	4,288
Income taxes payable	–	94
	206,508	147,589
Other liabilities (note 10)	7,434	6,406
Regulatory liabilities (note 5)	306,671	294,041
Future income taxes (note 13)	47,818	23,996
Long-term debt (notes 6 and 15)	1,203,438	1,073,465
	1,771,869	1,545,497
Shareholder's Equity		
Share capital (note 7)	173,848	173,848
Contributed surplus (note 8)	596,231	541,231
Retained earnings	127,910	92,371
	897,989	807,450
	2,669,858	2,352,947

Commitments and Contingencies (note 14)

Approved on behalf of the Board:

(signed)
Greg Conn
Director

(signed)
Judith Athaide
Director

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

Years ended December 31 (all amounts in thousands of Canadian dollars)	**2011**	2010
Revenues		
Electric rate revenue (note 5)	400,747	375,594
Other revenue (notes 5 and 12)	13,388	12,868
	414,135	388,462
Expenses		
Operating costs (notes 5, 10 and 12)	144,443	141,472
Depreciation (notes 3 and 5)	120,394	113,334
Amortization (note 4)	13,706	12,564
	278,543	267,370
Income before interest and income taxes	135,592	121,092
Interest		
Interest on short-term debt	257	21
Interest on long-term debt (note 6)	58,827	53,504
	59,084	53,525
Income before income taxes	76,508	67, 567
Income taxes		
Current income tax expense (note 13)	3,457	94
Future income tax recovery (note 13)	(2,488)	(749)
	969	(655)
Net income	75,539	68,222
Other comprehensive income	–	–
Net income and other comprehensive income	75,539	68,222
Retained earnings, beginning of period	92,371	59,149
Dividends (note 7)	(40,000)	(35,000)
Retained earnings, end of period	127,910	92, 371

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31 (all amounts in thousands of Canadian dollars)	**2011**	2010
Operating Activities		
Net income	75,539	68,222
Add (deduct) items not involving cash:		
Depreciation	120,394	113,334
Amortization	14,206	12,960
Future income taxes	(2,488)	(749)
Allowance for funds used during construction	(6,739)	(4,504)
Gain on sale of property, plant, and equipment	(1,254)	(544)
Changes in other non-cash items related to operations (note 16)	(19,939)	17,469
	179,719	206,188
Changes in non-cash working capital related to operations (note 16)	42,767	(10,476)
Cash from operating activities	222,486	195,712
Investing Activities		
Additions to property, plant and equipment	(405,341)	(369,978)
Customer contributions for property, plant and equipment	49,404	40,338
Additions to intangible assets	(10,732)	(9,272)
Proceeds from the sale of property, plant and equipment	2,870	4,122
Net change in employee loans	666	(34)
Cash used in investing activities	(363,133)	(334,824)
Financing Activities		
Increase in debt	277,530	260,508
Repayment of debt	(150,339)	(140,437)
Dividends paid (note 7)	(40,000)	(35,000)
Equity contributions (note 8)	55,000	55,000
Additions to transaction costs	(1,544)	(959)
Cash from financing activities	140,647	139,112
Change in cash and cash equivalents	–	–
Cash and cash equivalents, beginning of period	–	–
Cash and cash equivalents, end of period	–	–
Cash flows include the following elements:		
Interest paid	60,680	54,691
Income taxes paid	3,649	—

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

FortisAlberta Inc. (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, is not involved in the direct sale of electricity, and has limited exposure to exchange rate fluctuations on foreign currency transactions. It is intended that the Corporation remain a regulated electric utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The financial statements of the Corporation have been prepared by management in accordance with Canadian GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Significant accounting estimates made by management include income taxes, contingent liabilities due to general litigation, depreciation, amortization, employee future benefits, goodwill impairment, accrued revenue, expense accruals and items impacted by regulation. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated.

(b) Regulation

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*. The AUC administers these acts and regulations covering such matters as tariffs, rates, construction, operations and financing. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using GAAP for entities not subject to rate regulation.

The Corporation operates under cost-of-service regulation as prescribed by the AUC. Rate orders issued by the AUC establish the Corporation's revenue requirements, being those revenues required to recover approved costs associated with the distribution business, and provide a rate of return on a deemed capital structure applied to approved rate base assets.

The Corporation applies for tariff revenue based on estimated costs-of-service. Once the tariff is approved, it is not adjusted as a result of actual costs-of-service being different from that which was estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. When the

AUC issues decisions affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received.

On July 6, 2010, the AUC issued Decision 2010-309 (the "10/11 DTA Decision") on the Corporation's 2010 and 2011 Phase 1 Distribution Tariff Application.

(c) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments with original maturities of three months or less.

(d) Income Taxes

The Corporation is following the liability method of accounting for income taxes in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3465, *Income Taxes*. As prescribed by the 10/11 DTA Decision, income tax expenses are recovered through customer rates based only on income taxes that are currently payable for regulatory purposes. Therefore, current customer rates do not include the recovery of future income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in rates when they become payable. The Corporation recognizes an offsetting regulatory asset for the amount of income taxes that are expected to be collected in rates once they become payable.

(e) Property, Plant and Equipment

Property, plant and equipment are carried at cost, which includes direct labour, allocated overhead, and a portion of the depreciation of assets, such as tools and vehicles, used in the construction of other assets, less depreciation. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. These contributions are disclosed on the balance sheet as a reduction of property, plant and equipment. Materials and supplies are included within property, plant and equipment and are carried at a moving average cost.

Depreciation is provided on a straight-line basis at various rates ranging from 2.42% to 33.36% as approved by the AUC, based on depreciation studies prepared by the Corporation. Depreciation rates include an amount allowed for regulatory purposes for future removal and site restoration costs. Changes to depreciation rates approved by the AUC are accounted for on a prospective basis. The AUC-approved rates are applied to the original historical capital costs reflected for regulatory rate setting purposes.

Generally, when a regulated asset is retired or disposed of, there is no gain or loss recorded in income. Any difference between the cost and accumulated depreciation of the asset, net of salvage proceeds, is charged to accumulated depreciation. It is expected that any gain or loss that is charged to accumulated depreciation will be reflected in future depreciation expense when it is refunded or collected in rates.

The Corporation capitalizes an allowance for funds used during Construction ("AFUDC"), which represents an amount allowed for regulatory purposes for financing costs during construction. The Corporation has included the AFUDC as part of the capital cost of the assets. The AFUDC is recovered in rates from customers over the life of the assets through recovery of depreciation expense. Pursuant to the 10/11 DTA Decision, the Corporation is calculating the AFUDC according to the methodology allowed by the AUC. The portion which is calculated by utilizing the deemed equity and return on equity is recorded in electric rate revenue. The portion which is calculated by utilizing the deemed debt and forecast interest rate is recorded in interest expense.

(f) Intangible Assets

Intangible assets subject to amortization are carried at cost, which includes direct labour and allocated overhead, less amortization. Intangible assets not subject to amortization are also carried at cost.

Amortization is provided on a straight-line basis at various rates ranging from 2.74% to 38.75% as approved by the AUC, based on amortization studies prepared by the Corporation. Changes to amortization rates approved by the

AUC are accounted for on a prospective basis. The AUC-approved rates are applied to the original historical capital costs reflected for regulatory rate setting purposes.

Generally, when a regulated asset is retired or disposed of, there is no gain or loss recorded in income. Any difference between the cost and accumulated amortization of the asset, net of salvage proceeds, is charged to accumulated amortization. It is expected that any gain or loss that is charged to accumulated amortization will be reflected in future amortization expense when it is refunded or collected in rates.

The Corporation capitalizes an AFUDC, which represents an amount allowed for regulatory purposes for financing costs during construction. The Corporation has included the AFUDC as part of the capital cost of the assets. The AFUDC is recovered in rates from customers over the life of the assets through recovery of amortization expense. Pursuant to the 10/11 DTA Decision, the Corporation is calculating the AFUDC according to the methodology allowed by the AUC. The portion which is calculated by utilizing the deemed equity and return on equity is recorded in electric rate revenue. The portion which is calculated by utilizing the deemed debt and forecast interest rate is recorded in interest expense.

(g) Impairment of Long-Lived Assets Subject to Amortization

The Corporation reviews the valuation of long-lived assets subject to amortization when events or changes in circumstances may indicate or cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss, if any, would be recorded as the excess of the carrying value of the asset over its fair value.

(h) Asset Retirement Obligations

The Corporation recognizes asset retirement obligations related to its distribution assets at fair value in the period in which they are incurred, unless the fair value cannot be reasonably determined. If a liability is recognized, a corresponding asset retirement cost is added to the carrying amount of the related long-lived asset, and is depreciated over the estimated useful life of the related asset. Accretion of the liability due to the passage of time is an operating expense, and is recorded over the estimated time period until settlement of the legal obligation. The asset retirement obligations that are not yet reasonably estimable are those associated with the removal of the distribution system from rights of way at the end of the life of the system. It is management's view that as the system will be in service indefinitely the assets to which an asset retirement obligation would apply are not yet constructed and as such an estimate of the fair value of these obligations cannot be made.

(i) Goodwill

Goodwill represents the excess, at the date of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to the business acquisition. Goodwill is carried at initial cost less any previous amortization and any write-down for impairment. The goodwill recognized in the financial statements results from push-down accounting applied when the Corporation was acquired by an indirectly wholly-owned subsidiary of Aquila Inc. ("Aquila"), a U.S. public company, on August 31, 2000.

The Corporation is required to perform an annual impairment test and any impairment provision is charged to net income. In addition to the annual impairment test, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value of a reporting unit was below its carrying value.

(j) Revenue Recognition

Revenues are recognized in the period services are provided, at AUC approved rates where applicable, and when collectability is reasonably assured.

According to the *EUA* the Corporation is required to arrange and pay for transmission service with the Alberta Electric System Operator ("AESO") and collect transmission revenue from its customers, which is done through invoicing the customers' retailers through the Corporation's transmission component of its AUC-approved rates. As the Corporation is solely a distribution company, and as such does not own or operate any transmission facilities, it is largely a conduit for the pass through of transmission costs to the end-use customers as the transmission facility owner does not have the direct relationship with the customers. As a result, the Corporation reports revenues and expenses related to transmission services on a net basis in other revenue. Differences between revenues and expenses related to transmission services, other than cancel/rebills relating to years prior to 2010, are subject to deferral treatment.

(k) Employee Future Benefits

All accrued obligations for employee future benefit plans and post-retirement benefits are determined using the projected benefits method prorated on services. Future salary levels affect the amount of employee future benefits for the defined benefit plan. In valuing the cost of post-retirement benefits as well as the cost of pension benefits, the Corporation uses management's best estimate assumptions. For the liability discount rate, the Corporation uses the long-term market rate of high quality debt instruments at the measurement date. Cumulative net unamortized actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of the plan assets at the beginning of the fiscal year are amortized over the expected average remaining service period of the active employees receiving benefits under the plan. Unamortized past service costs are amortized over the expected average remaining service period of the active employees receiving benefits as at the date of amendment. The Corporation uses quoted market values to value pension assets. Any difference between the expense recognized under GAAP for pension and other post-retirement plans and that recovered in current rates, which is expected to be recovered or refunded in future rates, is subject to deferral treatment.

(l) Stock-Based Compensation

The Corporation calculates compensation expense upon the issuance of stock options to its employees under Fortis stock option plans using the fair value method. The compensation expense is amortized over the vesting period of the options.

(m) Other Comprehensive Income, Financial Instruments and Hedging

The Corporation has classified all financial instruments into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) held-for-trading assets and liabilities.

Financial instruments that are classified as held-for-trading or available-for-sale are re-measured each reporting period at fair value with the resulting gain or loss recognized immediately in net income and other comprehensive income, respectively. All other financial instruments are initially accounted for at fair value and subsequently at amortized cost using the effective interest method with foreign exchange gains and losses recognized immediately in net income.

The Corporation currently does not utilize hedges or other derivative financial instruments in its operations, and as a result CICA Handbook Section 3865, *Hedges* currently has no material impact on the financial statements of the Corporation.

It is the Corporation's policy to add transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability to its fair value. These transaction costs are recorded in income using the effective interest method over the life of the financial asset or liability.

(n) Future Changes in Accounting Policies

Adoption of New Accounting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises would be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011.

The pace and outcome of the International Accounting Standards Board's project on rate-regulated activities put Canadian rate-regulated entities at a significant disadvantage in terms of their ability to adopt IFRS as of January 1, 2011. Accordingly, the AcSB provided qualifying entities with an option to defer their changeover to IFRS by one year. The necessary amendments to the CICA Handbook were published by the AcSB in October 2010.

(All amounts in thousands of Canadian dollars unless otherwise noted)

While the Corporation's IFRS conversion project had proceeded as planned in preparation for the adoption of IFRS on January 1, 2011, the Corporation qualified for the optional one year deferral and, therefore, continued to prepare its financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

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

3. PROPERTY, PLANT AND EQUIPMENT

December 31, 2011	Cost	Accumulated Depreciation	Net Book Value
Distribution system	2,584,103	(529,756)	2,054,347
Land	13,236	–	13,236
Vehicles	72,687	(15,201)	57,486
Buildings and furniture	106,830	(22,335)	84,495
Tools and instruments	17,423	(7,642)	9,781
Computer hardware	23,347	(10,059)	13,288
Materials and supplies	37,578	–	37,578
AESO contributions	123,436	(10,285)	113,151
Construction in progress	153,972	–	153,972
Customer contributions	(584,289)	182,137	(402,152)
	2,548,323	(413,141)	2,135,182

December 31, 2010	Cost	Accumulated Depreciation	Net Book Value
Distribution system	2,346,501	(485,050)	1,861,451
Land	11,856	–	11,856
Vehicles	69,336	(13,404)	55,932
Buildings and furniture	92,272	(16,400)	75,872
Tools and instruments	16,287	(6,697)	9,590
Computer hardware	24,051	(9,694)	14,357
Materials and supplies	33,323	–	33,323
AESO contributions	101,751	(7,031)	94,720
Construction in progress	85,002	–	85,002
Customer contributions	(538,771)	171,409	(367,362)
	2,241,608	(366,867)	1,874,741

(All amounts in thousands of Canadian dollars unless otherwise noted)

Depreciation rates are a composite rate based upon the weighted average of the individual rates for each class of asset within the group, and are as follows:

December 31		2011		2010
	Regulated Depreciation Rates	Effective Depreciation Rates	Regulated Depreciation Rates	Effective Depreciation Rates
	%	%	%	%
Distribution system	3.97	4.77	4.00	4.90
Vehicles	9.70	9.79	9.83	9.93
Buildings and furniture	4.58	5.62	4.52	5.75
Tools and instruments	10.45	9.97	10.32	9.82
Computer hardware	25.71	26.18	25.75	26.17
AESO contributions	2.89	2.89	2.69	2.69
Customer contributions	2.75	3.46	2.73	3.50

Distribution system assets are those used to distribute electricity at lower voltages (generally below 25 kilovolts). These assets include poles, towers and fixtures, low-voltage wires, transformers, underground conductors, street lighting, meters, metering equipment and other related equipment.

The regulated depreciation rates are applied to the original historical costs reflected for regulatory rate setting purposes, which overall are greater than those reflected in these financial statements. As such, the effective depreciation rates under GAAP are usually higher. The reason that the original historical costs for regulatory rate setting purposes are higher than those reflected in these financial statements results from recording the property, plant and equipment acquired from TransAlta Utilities Corporation ("TransAlta") at its fair value at the time of acquisition using push-down accounting, which would not necessarily be the same as the original historical cost. There is no depreciation expense recognized on materials and supplies, assets under construction and land.

When the business was acquired by Aquila from TransAlta on August 31, 2000, the property, plant and equipment acquired had a deemed tax basis for regulatory purposes that was higher than that available to the Corporation for legal entity tax filing purposes. As such the corresponding tax deductions available for regulatory purposes exceeds that available for legal entity tax filing purposes and over time, the tax expense for the Corporation will exceed that which is expected to be included in rates for regulatory purposes, although in any one year the opposite situation could take place due to the timing of certain deductions. If the Corporation incurs tax expense that is not included in rates then net income is reduced. For all assets acquired or constructed subsequent to August 31, 2000, the initial tax basis has generally been the same for regulatory and legal entity tax filing purposes. This excess of the deemed tax basis of the Corporation's property, plant and equipment for regulatory rate making purposes as compared to the Corporation's tax basis for income tax purposes resulted in a fair value adjustment. This fair value adjustment is recorded in distribution system and is being amortized on a straight line basis over the estimated service lives of the Corporation's distribution system by an offset against the provision for depreciation.

As indicated in Note 2(e), generally when a regulated asset is retired or disposed of, there is no gain or loss recorded in income as this amount is charged to accumulated depreciation. The net loss due to asset retirement or disposal for the year ended December 31, 2011, that would have been recognized in the absence of rate regulation is $5.4 million (2010 - $3.2 million).

In the absence of rate regulation, AFUDC would not be recognized as a capital cost of constructing an asset. The cumulative impact on the financial statements is not determinable. In 2011, the AFUDC recorded by the Corporation was $6.5 million (2010 - 4.2 million).

(All amounts in thousands of Canadian dollars unless otherwise noted)

4. INTANGIBLE ASSETS

Cost as at:

December 31	2010	Acquisitions	Retirements	2011
Land rights	10,616	723	–	11,339
Computer software	84,140	8,914	(9,609)	83,445
Intangible assets	94,756	9,637	(9,609)	94,784

Accumulated amortization as at:

December 31	2010	Amortization	Retirements	2011
Land rights	(2,500)	(367)	–	(2,867)
Computer software	(26,801)	(13,339)	9,609	(30,531)
Intangible assets	(29,301)	(13,706)	9,609	(33,398)

Net book value as at:

December 31, 2011	Cost	Accumulated Amortization	Net Book Value
Land rights	11,339	(2,867)	8,472
Computer software	83,445	(30,531)	52,914
Intangible assets	94,784	(33,398)	61,386

Cost as at:

December 31	2009	Acquisitions	Retirements	2010
Land rights	9,524	1,092	–	10,616
Computer software	95,926	8,510	(20,296)	84,140
Intangible assets	105,450	9,602	(20,296)	94,756

Accumulated amortization as at:

December 31	2009	Amortization	Retirements	2010
Land rights	(2,157)	(343)	–	(2,500)
Computer software	(34,876)	(12,221)	20,296	(26,801)
Intangible assets	(37,033)	(12,564)	20,296	(29,301)

Net book value as at:

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Land rights	10,616	(2,500)	8,116
Computer software	84,140	(26,801)	57,339
Intangible assets	94,756	(29,301)	65,455

(All amounts in thousands of Canadian dollars unless otherwise noted)

Computer software is amortized using a composite rate based upon the weighted average of the individual rates for each class of asset within the group. The amortization rates of intangible assets are as follows:

December 31		**2011**		**2010**
	Regulated Amortization Rates	Effective Amortization Rates	Regulated Amortization Rates	Effective Amortization Rates
	%	%	%	%
Land rights	2.74	3.34	2.74	3.41
Computer software	16.18	16.40	13.81	14.00

The regulated amortization rates are applied to the original historical costs reflected for regulatory rate setting purposes, which overall are greater than those reflected in these financial statements. As such, the effective amortization rates under GAAP are usually higher. The reason that the original historical costs for regulatory rate setting purposes are higher than those reflected in these financial statements results from recording the intangible assets acquired from TransAlta at their fair value at the time of acquisition using push-down accounting, which would not necessarily be the same as the original historical cost.

As indicated in Note 2(f), generally when a regulated asset is retired or disposed of, there is no gain or loss recorded in income as this amount is charged to accumulated amortization. The net loss due to asset retirement or disposal for the year ended December 31, 2011, that would have been recognized in the absence of rate regulation is $0.1 million (2010 - $3.7 million).

In the absence of rate regulation, AFUDC would not be recognized as a capital cost of constructing an asset. The cumulative impact on the financial statements is not determinable. In 2011, the AFUDC recorded by the Corporation was $0.2 million (2010 - $0.3 million).

(All amounts in thousands of Canadian dollars unless otherwise noted)

5. REGULATORY ASSETS AND LIABILITIES

All amounts deferred as regulatory assets and liabilities are subject to AUC approval. As such, subject to the provisions of the *EUA*, the AUC could alter the amounts subject to deferral at which time the change would be reflected in the financial statements. Based on regulatory decisions, the Corporation records the amount expected to be recovered or refunded. The remaining recovery and settlement periods are those expected and the actual recovery or settlement period could differ based on AUC decisions. For information regarding the effects of rate regulation on property, plant and equipment, intangible assets and income taxes see Notes 3, 4 and 13 respectively.

(a) Regulatory assets

	2011	2010	Remaining Recovery Period
	$	$	Years
Hearing cost reserve	854	997	1
Self-insurance reserve	303	303	1
AESO charges deferral	44,164	19,319	1
Other post-retirement benefits and supplemental pension plan asset deferral	7,434	6,406	Benefit payment period to employees
Future income tax deferral	49,110	24,588	Life of the assets
2010 distribution adjustment rider	–	36,020	–
Deferred overhead	21,666	11,351	Life of the assets
Review and variance decision	3,509	–	1
	127,040	98,984	
Less: current portion	48,830	56,336	
Long-term portion	78,210	42,648	

(i) Hearing Cost Reserve

The AUC has the ability to allow costs of a proceeding to be borne by customers through a utility's hearing cost reserve account. The AUC will award participants in a utility proceeding the reasonable costs associated with their involvement and will allow the Corporation to collect these from customers. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, operating costs would have been $143 lower in 2011 (2010 - $434 lower).

(ii) Self-Insurance Reserve ("SIR")

The Corporation utilizes a combination of commercial insurance and a SIR to mitigate the risk inherent in the operation of its distribution network. The SIR is designed to provide coverage for perils where commercial insurance coverage is not readily available or not economically practical, and to provide the Corporation with the flexibility of accepting higher deductibles on its commercial insurance policies. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, operating costs would have been unchanged in 2011 (2010 - $966 lower).

(iii) AESO Charges Deferral

This balance represents the 2011 AESO charges deferral. It includes actual expenses incurred in excess of revenues collected for various items, such as transmission costs incurred and billed through to customers, that are subject to deferral. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability which would be refunded to customers through a reduction in future rates. These costs are expected to be recovered in 2012 through a quarterly transmission adjustment rider. During 2011, $20,364 of the 2009 AESO charges deferral was collected in rates through a transmission adjustment rider resulting in an over collection of $242 which is included in regulatory liabilities. In the absence of rate regulation, other revenue would have been $24,845 lower in 2011 (2010 - $60,870 higher).

(iv) Other Post-Retirement Benefits and Supplemental Pension Plan Asset Deferral

This balance represents the deferred portion of the expense relating to the other post-retirement benefits and the supplemental pension plan that is expected to be recovered from customers in future rates. Once recovered in rates, these deferred expenses will be recognized. As prescribed by the 10/11 DTA Decision, expenses were recovered in rates based on the cash payment method. Therefore, the Corporation's expense for other post-retirement benefits and the supplemental pension plan represents the cash payments made. In the absence of rate regulation, operating costs would be $1,028 higher in 2011 (2010 - $1,130 higher).

(v) Future Income Tax Deferral

This balance represents the amount of future income taxes expected to be refunded to or recovered from customers in future electricity rates. In the absence of rate regulation, the future income tax recovery would have been $24,522 lower in 2011 (2010 - $22,977 lower).

(vi) 2010 Distribution Adjustment Rider

This balance represented the difference in the revenue requirement between the interim rates that were charged to customers in 2010 and those approved in the 10/11 DTA Decision. This balance was collected from customers in 2011. In the absence of rate regulation, electric rate revenue would have been $36,020 higher in 2011 (2010 - $36,020 lower).

(vii) Deferred Overhead

This balance represents deferred overhead. It is expected that this balance will be collected from customers over the life of the property, plant and equipment.

(viii) Review and Variance Decision

This balance represents depreciation and return on capital expenditures related to the automated metering project expenditures in excess of $104.3 million, additional meter reading costs and associated carrying costs, costs in respect of system settlement code changes, and costs arising from changes to AUC rules. It is expected that this balance will be collected from customers in 2012. In the absence of rate regulation, electric rate revenue would have been $3,509 lower in 2011.

(All amounts in thousands of Canadian dollars unless otherwise noted)

(b) Regulatory liabilities

	2011	2010	Remaining Settlement Period
	$	$	Years
Regulatory pension deferral	2,860	2,607	Benefit payment period to employees
A1 rider deferral	1,585	4,873	2
Provision for future removal and site restoration	301,731	279,528	Life of the assets
AESO contributions deferral	1,200	1,000	1
Load settlement charges deferral	2,108	985	1
Automated metering foreign exchange deferral	72	20	2
AESO charges deferral	12,216	9,316	2
2011 distribution adjustment rider deferral	1,758	–	2
	323,530	298,329	
Less: current portion	16,859	4,288	
Long-term portion	306,671	294,041	

(i) Regulatory Pension Deferral

This balance represents pension surplus that has not been reflected in rates and will result in a reduction of future rates when recognized. When future rates are reduced, this liability balance will be drawn down and reflected as a reduction of pension expense. As prescribed by the 10/11 DTA Decision, expenses were recovered in rates based on the cash payment method. Therefore, the Corporation's expense for the defined benefit pension plan represents the cash payments made. In the absence of rate regulation, operating costs would have been $253 lower in 2011 (2010 - $844 higher).

(ii) A1 Rider Deferral

The Corporation pays linear taxes and collects these linear taxes from the customers within the specific municipalities on a community specific basis. This regulatory deferral represents the difference between the A1 rider revenue and the linear tax expense. To the extent that actual costs incurred exceed the amount collected in revenue, these excess costs are deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, electric rate revenue would have been $3,288 lower in 2011 (2010 - $738 higher). This balance is not subject to regulatory return.

(iii) Provision for Future Removal and Site Restoration

Consistent with the Corporation's rate filing, this balance represents the amounts collected in rates over the life of certain assets attributable to removal and site restoration costs that are expected to be incurred in the future. Depreciation expense includes an amount allowed for regulatory purposes for these future removal and site restoration costs. Actual costs of removal and restoration incurred are recorded against this balance. Any difference between actual costs incurred and those assumed in the collected amounts are reflected in this balance. In the absence of regulation, removal costs would have been recognized as incurred rather than over the life of the asset through depreciation expense. The amount for future removal and site restoration costs included in the depreciation expense was $44,478 in 2011 (2010 - $40,146). Actual site restoration costs were $23,828 in 2011 (2010 - $22,955). In the absence of rate regulation, depreciation expense would have been $44,478 lower in 2011 (2010 - $40,146 lower) and operating expenses would have been $23,828 higher (2010 - $22,955 higher).

(iv) AESO Contributions Deferral
As prescribed by the 10/11 DTA Decision, a deferral account for the difference in the depreciation and return arising from any variance between the forecast and actual AESO contributions has been recorded. To the extent that current rates are based on a lower forecast AESO contributions balance, the difference in depreciation and return is deferred and will be recognized when collected in future rates. In the event that current rates are based on a higher forecast AESO contributions balance, the difference in depreciation and return is deferred as a regulatory liability. This liability will be refunded to customers through a reduction in future rates. In the absence of rate regulation, electric rate revenue would have been $200 higher in 2011 (2010 - $1,300 lower).

(v) Load Settlement Charges Deferral
The AESO invoices the Corporation for load settlement charges. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, electric rate revenue would have been $1,123 higher in 2011 (2010 - $985 higher).

(vi) Automated Metering Foreign Exchange Deferral
As prescribed by the 10/11 DTA Decision, a deferral account for the difference in the depreciation and return arising from the variance between the foreign exchange rate used in the distribution tariff application relating to automated metering capital expenditures and the actual foreign exchange rate, has been recorded. This liability will be refunded to customers through a reduction in future rates. In the absence of rate regulation, electric rate revenue would have been $52 higher in 2011 (2010 - $20 higher).

(vii) AESO Charges Deferral
This balance represents the over collection of the 2009 and 2010 AESO charges deferrals. It includes actual expenses and revenues collected for various items, such as transmission costs incurred and billed through to customers that are subject to deferral. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability which would be refunded to customers through a reduction in future rates. The $242 over collection of the 2009 AESO charges deferral will be included in the final 2011 AESO charges deferral application which is expected to be filed in the fourth quarter of 2012. The filing for the 2010 AESO charges deferral was approved through AUC Decision 2011-499 on December 20, 2011, in the amount of approximately $12,288, including carrying costs of $157, and will be refunded in rates through a transmission adjustment rider in 2012. In the absence of rate regulation, other revenue would have been $2,900 higher in 2011 (2011 - $9,316 higher).

(viii) 2011 Distribution Adjustment Rider
This balance represents the difference in the 2011 revenue requirement due to the difference in the 2011 placeholder return on equity of 9.0% included in the 10/11 DTA Decision and the 8.75% approved in AUC Decision 2011-474 on Generic Cost of Capital ("2011 GCOC Decision"). This balance is expected to be refunded to customers in 2013. In the absence of rate regulation, electric rate revenue would have been $1,758 higher in 2011. This balance is not subject to regulatory return.

(All amounts in thousands of Canadian dollars unless otherwise noted)

6. DEBT

	Coupon Rate	Payment Terms	Maturity Date	2011 Effective Rate	December 31, 2011	December 31, 2010
Senior unsecured debentures	%			%	$	$
Series 04-1	5.33	Semi-annual	2014	5.47	200,000	200,000
Series 04-2	6.22	Semi-annual	2034	6.31	200,000	200,000
Series 06-1	5.40	Semi-annual	2036	5.48	100,000	100,000
Series 07-1	4.99	Semi-annual	2047	5.04	109,892	109,891
Series 08-1	5.85	Semi-annual	2038	5.94	99,496	99,488
Series 09-1	7.06	Semi-annual	2039	7.15	99,987	99,987
Series 09-2	5.37	Semi-annual	2039	5.42	124,947	124,946
Series 10-1	4.80	Semi-annual	2050	4.85	124,912	124,911
Series 11-1	4.54	Semi-annual	2041	4.58	124,980	–
Drawing on the syndicated credit facility	Variable	Variable	2015	1.83	28,978	22,984
Cash balances in overdraft position	N/A	N/A	2012	–	5,568	9,352
Transaction costs	–	–	–	–	(9,754)	(8,742)
					1,209,006	1,082,817
Less: short-term debt					5,568	9,352
Long-term debt					1,203,438	1,073,465

In August 2011, the Corporation filed a short-form prospectus ("Shelf") with the security commissions or similar authorities in Canada. This Shelf contemplates the issuance of up to $500.0 million medium term note debentures, which would be senior unsecured obligations of the Corporation.

Under the Terms and Conditions of the Trust Indenture, the Corporation has the option to call the outstanding debentures in whole or in part for early redemption for the principal amount redeemed plus a redemption premium if applicable.

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

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

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

(All amounts in thousands of Canadian dollars unless otherwise noted)

Transaction costs are amortized into income using the effective interest method over the life of the related senior unsecured debentures. Included in interest expense on long-term debt was $489 of amortization of transaction costs in 2011 (2010 - $386).

Scheduled principal repayments are as follows:

	$
2012	5,568
2013	–
2014	200,000
2015	28,978
2016	–
Thereafter	984,214
	1,218,760

7. SHARE CAPITAL

Authorized – unlimited number of:

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

Issued:

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

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

8. CONTRIBUTED SURPLUS

Contributed surplus relates to the pushdown of the excess purchase price paid over the carrying value paid by the Corporation's former parent on acquisition of the Corporation, and equity contributions from Fortis Alberta Holdings Inc. for which no additional shares were issued. During the year ended December 31, 2011, the Corporation received equity contributions from Fortis Alberta Holdings Inc. in the amount of $55.0 million (year ended December 31, 2010 - $55.0 million).

(All amounts in thousands of Canadian dollars unless otherwise noted)

9. CAPITAL MANAGEMENT

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

Summary of Long-term Capital Structure

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

Note:

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

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

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

10. EMPLOYEE FUTURE BENEFITS

(a) Description

The Corporation sponsors a pension plan with a defined contribution component for the majority of its employees. Certain other long-service employees accrue benefits under a defined benefit component of the pension plan. The defined contribution component of the plan is based on a percentage of pensionable earnings and the defined benefit component of the plan is based on final average pensionable earnings. Pensionable earnings include base pay and eligible bonuses. The Corporation also provides certain other post-retirement benefits including certain health and dental coverage provided to retired employees and a supplemental pension plan, both of which are unfunded.

The Corporation uses a measurement date that is three months prior to the reporting date for the actuarial valuation undertaken for expense calculation purposes for the defined benefit component of the pension plan. The most recent actuarial valuation of the plan for funding purposes was completed for the period ended December 31, 2010. Information from the funding valuation was used in the actuarial valuation completed for expense calculation purposes. The next actuarial valuation for funding purposes is required to be completed as of a date no later than December 31, 2013, which would be filed in 2014.

The net periodic cost for the defined benefit component of the pension plan for the year ended December 31, 2011 was determined based on the financial position of the plan at December 31, 2010 (using a measurement date of September 30, 2010). The net periodic cost for the year ended December 31, 2010 was determined based on the financial position of the plan at December 31, 2009 (using a measurement date of September 30, 2009).

(All amounts in thousands of Canadian dollars unless otherwise noted)

(b) Costs Recognized

In 2010 and 2011, the Corporation recovered in rates other post-retirement non-pension benefits, supplemental pension plan costs, defined benefit and defined contribution costs based on the estimated cash payments included in the 10/11 DTA Decision. Any difference between the expense recognized under GAAP for pension and other post-retirement plans and that recovered in current rates, which is expected to be recovered or refunded in future rates, is subject to deferral treatment.

Components of Net Periodic Costs

December 31, 2011	**Retirement Plan**	**Supplemental Plan**	**Non-Pension Benefits**	**All Benefits Covered**
Current service cost (employer portion) and expected expenses	732	243	472	1,447
Interest cost	1,463	77	426	1,966
Actual return on plan assets	(2,539)	–	–	(2,539)
Actuarial loss (gain)	2,619	(15)	(440)	2,164
Past service costs	–	–	991	991
Costs arising in the period	2,275	305	1,449	4,029
Differences between costs arising in the period and costs recognized in the period in respect of:				
- Return on plan assets	1,591	–	–	1,591
- Actuarial (gain) loss	(1,376)	–	556	(820)
- Past service costs	80	–	(855)	(775)
Net periodic pension cost recognized	2,570	305	1,150	4,025
Regulatory adjustment to net periodic pension cost	253	(218)	(810)	(775)
Net periodic pension cost recognized in financial statements	2,823	87	340	3,250
Defined contribution net benefit cost recognized in financial statements	6,833	–	–	6,833
Total recognized in financial statements	9,656	87	340	10,083

Components of Net Periodic Costs

December 31, 2010	**Retirement Plan**	**Supplemental Plan**	**Non-Pension Benefits**	**All Benefits Covered**
Current service cost (employer portion) and expected expenses	633	239	486	1,358
Past service costs	–	44	–	44
Interest cost	1,489	69	414	1,972
Actual return on plan assets	(2,586)	–	–	(2,586)
Actuarial loss (gain)	4,109	(29)	320	4,400
Costs arising in the period	3,645	323	1,220	5,188
Differences between costs arising in the period and costs recognized in the period in respect of:				
- Return on plan assets	1,676	–	–	1,676
- Actuarial gain	(3,082)	–	(182)	(3,264)
- Past service costs	80	–	75	155
Net periodic pension cost recognized	2,319	323	1,113	3,755
Regulatory adjustment to net periodic pension cost	(844)	(285)	(845)	(1,974)
Net periodic pension cost recognized in financial statements	1,475	38	268	1,781
Defined contribution net benefit cost recognized in financial statements	6,230	–	–	6,230
Total recognized in financial statements	7,705	38	268	8,011

(All amounts in thousands of Canadian dollars unless otherwise noted)

Composition of Accrued Benefit Asset (Liability)

December 31, 2011	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Fair value of assets	25,482	–	–	25,482
Accrued benefit obligation	(31,064)	(1,692)	(9,955)	(42,711)
Resulting plan deficit	(5,582)	(1,692)	(9,955)	(17,229)
Unamortized amounts:				
- Net actuarial losses	7,493	–	2,472	9,965
- Past service costs	189	–	1,619	1,808
Contributions after the measurement date	760	–	122	882
Total recognized in financial statements[(a)]	2,860	(1,692)	(5,742)	(4,574)

Note:

a. *The liabilities relating to the supplemental plan and the non-pension benefits plan are included in other long-term liabilities on the balance sheet.*

Composition of Accrued Benefit Asset (Liability)

December 31, 2010	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Fair value of assets	21,795	–	–	21,795
Accrued benefit obligation	(27,700)	(1,474)	(8,792)	(37,966)
Resulting plan deficit	(5,905)	(1,474)	(8,792)	(16,171)
Unamortized amounts:				
- Net actuarial losses	7,867	–	3,028	10,895
- Past service costs	269	–	764	1,033
Contributions after the measurement date	376	–	68	444
Total recognized in financial statements[(a)]	2,607	(1,474)	(4,932)	(3,799)

Note:

a. *The liabilities relating to the supplemental plan and the non-pension benefits plan are included in other long-term liabilities on the balance sheet.*

Plan Assets

December 31, 2011	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Fair value of assets at beginning of year	21,795	–	–	21,795
Employer contributions	2,439	87	286	2,812
Member contributions	46	–	–	46
Benefits paid	(1,146)	(87)	(286)	(1,519)
Actual return on plan assets	2,539	–	–	2,539
Actual plan expenses	(191)	–	–	(191)
Fair value of assets at end of year	25,482	–	–	25,482

Plan Assets

December 31, 2010	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Fair value of assets at beginning of year	19,010	–	–	19,010
Net transfer in	28	–	–	28
Employer contributions	1,439	38	255	1,732
Member contributions	49	–	–	49
Benefits paid	(988)	(38)	(255)	(1,281)
Actual return on plan assets	2,586	–	–	2,586
Actual plan expenses	(329)	–	–	(329)
Fair value of assets at end of year	21,795	–	–	21,795

(All amounts in thousands of Canadian dollars unless otherwise noted)

Reconciliation of Accrued Benefit Obligation

December 31, 2011	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Benefit obligations at beginning of year	27,700	1,474	8,792	37,966
Current service cost (employer portion)	382	243	472	1,097
Interest cost on accrued benefit obligation	1,463	77	426	1,966
Member contributions	46	–	–	46
Benefits paid	(1,146)	(87)	(286)	(1,519)
Actuarial loss (gain)	2,619	(15)	(440)	2,164
Past service costs	–	–	991	991
Benefit obligations at end of year	31,064	1,692	9,955	42,711

Reconciliation of Accrued Benefit Obligation

December 31, 2010	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Benefit obligations at beginning of year	22,730	1,189	7,827	31,746
Current service cost (employer portion)	283	239	486	1,008
Interest cost on accrued benefit obligation	1,489	69	414	1,972
Member contributions	49	–	–	49
Benefits paid	(988)	(38)	(255)	(1,281)
Net transfer in	28	–	–	28
Actuarial loss (gain)	4,109	(29)	320	4,400
Past service costs	–	44	–	44
Benefit obligations at end of year	27,700	1,474	8,792	37,966

Reconciliation of Accrued Benefit Asset (Liability)

December 31, 2011	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Accrued benefit asset (liability) at beginning of year	2,607	(1,474)	(4,932)	(3,799)
Net periodic cost	(2,570)	(305)	(1,150)	(4,025)
Employer contributions/benefits paid	2,823	87	340	3,250
Accrued benefit asset (liability) at end of year	2,860	(1,692)	(5,742)	(4,574)

Reconciliation of Accrued Benefit Asset (Liability)

December 31, 2010	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Accrued benefit asset (liability) at beginning of year	3,451	(1,189)	(4,087)	(1,825)
Net periodic cost	(2,319)	(323)	(1,113)	(3,755)
Employer contributions/benefits paid	1,475	38	268	1,781
Accrued benefit asset (liability) at end of year	2,607	(1,474)	(4,932)	(3,799)

As at September 30, the assets of the defined benefit plan were invested as follows:	2011	2010
	%	%
Debt securities	100.0	100.0
	100.0	100.0

(All amounts in thousands of Canadian dollars unless otherwise noted)

Included in the debt securities class of pension assets are $133 (December 31, 2010 - $55) of Fortis Alberta Inc. bonds and $155 (December 31, 2010 - $107) of other related party bonds.

For the year ended December 31, 2011, the expected average remaining service period for the non-pension benefits plan is 13 years (2010 - 15 years) and for the retirement plan is 4 years (2010 - 4 years).

Plan assumptions – the significant actuarial assumptions utilized in measuring the Corporation's accrued benefit obligations were as follows:	**Year Ended December 31, 2011**	**Year Ended December 31, 2010**
Accrued benefit obligations:		
- Liability discount rate retirement plan	4.70%	5.30%
- Liability discount rate non-pension benefits	4.10%	4.35%
- Rate of compensation increase for retirement plan[a]	3.25%	3.25%
- Health care trend rate:		
Weighted average rates	6.40%	7.30%
Ultimate rate to which the trend rate is assumed to decline	5.00%	5.00%
Year in which ultimate rate is reached	2027	2024
Net benefit cost during the period:		
- Liability discount rate retirement plan	5.30%	6.60%
- Liability discount rate non-pension benefits	4.35%	5.10%
- Rate of compensation increase[b]	3.25%	5.50%
- Expected long-term rate of return on assets	4.20%	4.75%
- Health care trend rate:		
Weighted average rates	7.30%	7.40%
Ultimate rate to which the trend rate is assumed to decline	5.00%	5.00%
Year in which ultimate rate is reached	2024	2024

a. 2011: 3.00% for 2011 and 2012, 4.00% in 2013, and 3.25% thereafter.

b. 2010: 5.50% in 2010, 3.25% thereafter.

The effects of changing the health care trend rate by a 1% increase and a 1% decrease are as follows:

	1% Increase in Rate	**1% Decrease in Rate**
Increase (decrease) in accrued benefit obligation	446	(420)
Increase (decrease) in combined interest cost plus current service costs	48	(44)

11. STOCK OPTIONS

Fortis is authorized to grant certain key employees and directors of Fortis and its subsidiaries options to purchase common shares of Fortis. The options are issued at the five-day average trading price immediately preceding the date of grant. Options vest evenly over a four-year period on each anniversary of the date of grant. The options expire seven to 10 years after the date of grant. At December 31, 2011, Fortis had approximately 6.3 million common shares in the reserve for issue under the terms of the stock-based compensation and share purchase plans. The following tables outline the options granted to employees of the Corporation.

	Number of Stock Options	**Weighted Average Exercise Price**
		$
Outstanding at December 31, 2010	352,302	25.75
Exercised	(38,646)	23.24

(All amounts in thousands of Canadian dollars unless otherwise noted)

Expired/Forfeited	(29,358)	28.16
Granted	104,956	27.36
Outstanding at December 31, 2011	389,254	27.76

Grant Date	Number Outstanding as at December 31, 2011	Exercise Price ($)	Number Vested as at December 31, 2011	Expiry
March 1, 2005	1,811	18.40	1,811	2015
February 28, 2006	9,027	22.94	9,027	2016
May 7, 2007	58,200	28.19	58,200	2014
February 26, 2008	65,608	28.27	49,206	2015
March 11, 2009	83,452	22.29	41,726	2016
March 1, 2010	76,672	27.36	19,168	2017
March 2, 2011	94,484	32.95	–	2018
Total	389,254		179,138	

Grant Date	Number of Options Granted	Exercise Price	Fair Market Value per Option
		$	$
March 2, 2011	104,956	32.95	4.57

The fair values of the options granted were estimated on the date of grant using the Black-Scholes fair value option-pricing model and the following assumptions:

Dividend yield (%)	3.68
Expected volatility (%)	23.10
Risk–free interest rate (%)	2.00
Weighted–average expected life (years)	4.50

Compensation expense was $409 for the year ended December 31, 2011 (2010 - $390).

(All amounts in thousands of Canadian dollars unless otherwise noted)

12. RELATED PARTY TRANSACTIONS

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

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

Notes:

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

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

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

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

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

(All amounts in thousands of Canadian dollars unless otherwise noted)

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

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

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

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

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

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

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

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

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

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

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

(All amounts in thousands of Canadian dollars unless otherwise noted)

13. INCOME TAXES

The provision for income taxes varies from the amount that would be expected if computed by applying the enacted Canadian federal and provincial statutory income tax rates to the income before income taxes as shown in the following table:

December 31	2011	2011	2010	2010
	$	%	$	%
Income before income taxes	76,508		67,567	
Expected provision for income taxes	20,275	26.5	18,919	28.0
Adjustments resulting from differences between income for accounting and income tax purposes	170	0.2	225	0.3
Future income tax rate changes and other	214	0.3	105	0.2
Provision for income taxes excluding regulatory adjustment	20,659	27.0	19,249	28.5
Regulatory adjustment	(19,690)	(25.7)	(19,904)	(29.5)
Provision for income taxes	969	1.3	(655)	(1.0)

Components of the income tax expense (recovery) are:

Year ended December 31	2011	2010
Current income tax expense	3,457	94
Future tax expense before regulatory adjustment	22,034	22,228
Regulatory adjustment for the recovery of future taxes in future customer rates	(24,522)	(22,977)
Future income tax recovery	(2,488)	(749)
Total income tax expense (recovery)	969	(655)

Future income tax liability is comprised of:

Year ended December 31	2011	2010
Regulatory assets and liabilities	302	1,615
Property, plant and equipment and intangible assets	(45,503)	(22,351)
Financing fees	(2,328)	(2,132)
AESO and distribution adjustment rider deferrals	(8,637)	(12,393)
Non-capital loss carry forwards	11,691	12,393
Investment tax credits	(427)	–
Total future income tax liability	(44,902)	(22,868)
Less: current portion	2,916	1,128
Long-term portion	(47,818)	(23,996)

As at December 31, 2011, the Corporation has approximately $46.8 million (December 31, 2010 - $46.8 million) in non-capital loss carry forwards that expire between 2028 and 2029.

Investment tax credit receivables are related to the acquisition of assets are deducted from the related assets with any depreciation or amortization calculated on the net amount.

(All amounts in thousands of Canadian dollars unless otherwise noted)

14. COMMITMENTS AND CONTINGENCIES

(a) Operating Leases and Other Contractual Obligations

The Corporation has operating leases for facilities and office premises. Also, the Corporation and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Corporation no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2016 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. In addition, the Corporation and an Alberta transmission service provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of five years from September 1, 2010, and are subject to extension based on mutually agreeable terms.

Future minimum payments are as follows:

	$
2012	4,539
2013	4,356
2014	4,267
2015	3,946
2016	3,162
Thereafter	45,780
	66,050

(b) Legal Proceedings

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations. The Corporation believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations.

(c) Capital Expenditures

As an electric utility, the Corporation is obligated to provide service to customers within its service territory. As such, the Corporation may be required to expend capital in excess of that which it has forecast in its distribution tariff application.

(d) Pension Contribution Obligations

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

(All amounts in thousands of Canadian dollars unless otherwise noted)

15. FINANCIAL INSTRUMENTS

(a) Designation and Valuation of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

(All amounts in thousands of Canadian dollars unless otherwise noted)

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

(b) Derivatives

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

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

(c) Risk Management

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

(i) Counterparty Credit Risk

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

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

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

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

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

Factors such as volatility in the global capital markets and a slowdown in the Alberta economy could cause the credit quality of some of the Corporation's customers to decrease. In the event that the prudential obtained by the

(All amounts in thousands of Canadian dollars unless otherwise noted)

Corporation under the Terms and Conditions of Distribution Access Service is not sufficient to cover a loss due to non-payment from the Corporation's counterparties, the Corporation would review all other options available to collect the non-payment. However, these options would not ensure that a loss could be avoided by the Corporation.

No allowance for doubtful accounts has been recorded by the Corporation. The aging analysis of the Corporation's accounts receivable is as follows:

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

Notes:

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

(ii) Interest Rate Risk

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

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

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

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

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

(All amounts in thousands of Canadian dollars unless otherwise noted)

(iii) Liquidity Risk

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

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

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

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

Notes:

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

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

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

(All amounts in thousands of Canadian dollars unless otherwise noted)

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Other Non-cash Items Related to Operations:

December 31	2011	2010
	$	$
Increase in investment tax credits receivable	(100)	(1,180)
(Increase) decrease in non-current regulatory assets	(11,040)	7,839
(Increase) decrease in accrued pension asset	(253)	844
Increase in long-term other liabilities	1,028	1,130
(Decrease) increase in long-term regulatory liabilities	(9,573)	8,829
(Decrease) increase in unamortized bankers acceptance discount	(1)	7
	(19,939)	17,469

Changes in Non-cash Working Capital Related to Operations:

December 31	2011	2010
	$	$
Increase in accounts receivable	(25,126)	(34,840)
Increase in prepaids and deposits	(959)	(905)
(Increase) decrease in income taxes receivable	(98)	1,122
Decrease in regulatory assets	7,506	14,622
Increase in accounts payable, accrued and other liabilities	48,967	9,345
(Decrease) increase in income taxes payable	(94)	94
Increase in regulatory liabilities	12,571	86
	42,767	(10,476)

FORTISALBERTA INC. SUPPLEMENTARY FINANCIAL INFORMATION COVERAGE RATIOS (UNAUDITED)

The following financial ratio is provided as additional supplementary information.

For the twelve months ended December 31	**2011**
Earnings coverage (times) [a]	2.295

Note:

a. Net income before interest expense and taxes divided by interest expense.