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

For the three months ended March 31, 2012
April 24, 2012

The following discussion and analysis of financial condition and results of operations of FortisAlberta Inc. (the "Corporation") has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations and should be read in conjunction with the following: (i) the interim unaudited financial statements and notes thereto for the three months ended March 31, 2012 prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP" or "US GAAP"); (ii) the audited financial statements and notes thereto for the year ended December 31, 2011, with 2010 comparatives, prepared in accordance with US GAAP and voluntarily filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") by the Corporation on March 22, 2012; (iii) the "FortisAlberta Inc. Supplementary Interim Financial Statements (Unaudited)" contained in the above-noted voluntary filing which provides a detailed reconciliation between the Corporation's interim unaudited 2011 Canadian generally accepted accounting principles and interim unaudited 2011 US GAAP financial statements; and (iv) the Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2011.

FORWARD-LOOKING STATEMENTS

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

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

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

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

THE CORPORATION

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

The Corporation operates a largely rural, approximately 114,000 kilometre, low-voltage distribution network in central and southern Alberta, which serves approximately 501,000 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers of electricity.

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

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

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

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

REGULATORY MATTERS

2012/2013 Distribution Tariff Application

In March 2011, the Corporation filed a 2012 and 2013 Phase I Distribution Tariff Application ("DTA") under the uniform system of accounts format for rates to be in place prior to any transition to performance based regulation ("PBR"). In Decision 2011-369, the AUC approved commencement of a negotiated settlement process for that matter, but limited the process to considering Phase I matters for 2012 only, in light of the AUC's target of 2013 being the initial year of PBR-based rates. The Corporation's 2012 rates are, subject to any adjustments determined to be appropriate, to be the going-in rates for the PBR plan commencing in 2013.

On December 21, 2011, the AUC approved an application for an interim average rate increase for 2012 of 5.0% which reflected the parameters of the 2012 Negotiated Settlement Agreement ("NSA") discussed below.

2012 NSA

In April 2012, the AUC approved, substantially as filed on November 8, 2011, the NSA pertaining to the Corporation's 2012 distribution revenue requirement. The 2012 revenue requirement results in an average rate increase of 5%, which is currently being collected under interim rates. Final rates will be determined after the completion of a Phase II proceeding, which is expected to be filed in the fourth quarter of 2012. The increase in revenue requirement was driven primarily by ongoing investment in energy infrastructure, including increased amortization and financing costs. The NSA provides for a forecast midyear rate base of $2,025.4 million. The AUC did not approve the continuation of the deferral of volume variances associated with the Corporation's Alberta Electric System Operator ("AESO") charges deferral account. This issue is to be examined by the AUC in a future proceeding.

Generic Cost of Capital Hearing

On December 8, 2011, the AUC issued Decision 2011-474 in respect of its 2011 Generic Cost of Capital Proceeding ("2011 GCOC Decision"). That decision established a return on equity ("ROE") for ratemaking purposes of 8.75% for both 2011 and 2012, and an interim ROE of 8.75% for 2013. The impact of this decision on the financial statements was the recognition of a $0.5 million decrease in electric rate revenue in the three month period ended March 31, 2012 and an associated regulatory liability as at March 31, 2012. The Corporation's deemed equity capitalization was maintained at 41%, to be in place until any future order of the AUC may alter it. The AUC concluded that it would not return to a formula-based ROE adjustment mechanism at this time, and that it would initiate a proceeding in due course to establish a final ROE for 2013 and to revisit the matter of a return to a formula for establishing ROE on a go forward basis.

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

RESULTS OF OPERATIONS

Highlights

	Three Months Ended March 31		
($ thousands)	2012	2011	Increase / (Decrease)
Revenues	108,247	100,461	7,786
Operating costs	38,679	35,491	3,188
Depreciation	31,407	29,606	1,801
Amortization	3,499	3,317	182
Other income	1,763	3,031	(1,268)
Income before interest and income taxes	36,425	35,078	1,347
Interest expense	15,131	13,604	1,527
Income before income taxes	21,294	21,474	(180)
Income tax (recovery) expense	(213)	516	729
Net income	21,507	20,958	549

The following table outlines the significant increases/(decreases) in the Results of Operations for the three months ended March 31, 2012 as compared to March 31, 2011:

Item	Increase/ (Decrease) ($ millions)	Explanation
Revenues	7.8	Electric rate revenue increased by a total of $7.5. Of this increase $6.2 was attributable to distribution rate increases and customer growth. In addition, franchise fee revenue, A-1 rider revenue, farm transmission and various revenue deferrals resulted in a net increase of $1.3. Other revenue increased by a total of $0.3.
Operating Costs	3.2	Operating costs were higher as a result of higher general operating costs and labour costs partially offset by lower contracted manpower costs. General operating costs were higher due primarily to higher franchise fees, self-insurance costs, computer equipment and servicing costs and intervener costs. These were partially offset by decreases in office related expenditures, material costs and professional development and training costs. Labour costs increased mainly due to higher salaries and wages. Contracted manpower decreased mainly due to lower meter reading contractor services as a result of the completion of the automated metering project. These were partially offset by an increase in brushing activities. Labour and benefit costs and contracted manpower costs comprised approximately 61.5% of total operating costs.
Depreciation and Amortization	2.0	The increase was due to an increase in capital assets related to system growth, as well as upgrades and replacement of assets within the Corporation's service territory. The increase was partially offset by an increase in capitalized depreciation.
Other income	(1.3)	Other income decreased primarily due to the $1.3 gain on sale of property in 2011 with no property sales in 2012.
Interest Expense	1.5	The increase was attributable to higher debt levels arising from the issuance of long-term debt Series 11-1 that took place in October 2011 to finance increased capital assets, and by an increase in interest rates charged on the syndicated credit facility. This was partially offset by lower average drawings under the syndicated credit facility.

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	Revenues	Net Income
March 31, 2012	108,247	21,507
December 31, 2011	102,149	16,571
September 30, 2011	102,660	17,931
June 30, 2011	103,009	18,119
March 31, 2011	100,461	20,958
December 31, 2010	97,862	17,000
September 30, 2010	108,928	18,969
June 30, 2010	90,669	17,181

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

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

- Net income increased for the three months ended March 31, 2012 compared to the three months ended December 31, 2011 by $4.9 million. Revenues increased by $6.1 million for the three months ended March 31, 2012 compared to the three months ended December 31, 2011 primarily as a result of an increase in rates and customer growth. There was an increase in tax recovery of $0.1 million. These were partially offset by an increase in depreciation and amortization of $0.7 million due to an increase in capital assets, an increase in interest expense of $0.3 million and an increase in operating costs of $0.3 million.

- Net income decreased for the three months ended December 31, 2011 compared to the three months ended September 30, 2011 by $1.4 million. Revenues decreased by $0.5 million for the three months ended December 31, 2011 compared to the three months ended September 30, 2011 primarily as a lower demand and recording the impact of the 2011 GCOC Decision in the fourth quarter partially offset by an increase in customer growth. Other income increased by $1.7 million as a result of AFUDC being recorded in the fourth quarter. There was an increase in operating costs of $2.8 million which was primarily due to an increase in labour and general operating costs. The increase in depreciation and amortization of $0.6 million was due to an increase in capital assets. The decrease in interest expense of $0.4 million was as result of recording the AFUDC in the fourth quarter which was partially offset by interest on the long-term debt Series 11-1 issued in October 2011. There was also a $0.4 million decrease in tax expense.

- Revenues decreased by $0.4 million for the three months ended September 30, 2011 compared to the three months ended June 30, 2011 due mainly to the effects of the Review and Variance Decision. Net income decreased for the three months ended September 30, 2011 compared to the three months ended June 30, 2011 by $0.2 million primarily as a result of the decrease in revenue by $0.4 million. This was partially offset by a decrease in operating costs of $0.1 million and a decrease in income tax expense of $0.1 million.

- Revenues increased by $2.5 million for the three months ended June 30, 2011 compared to the three months ended March 31, 2011 primarily due to the effects of the Review and Variance Decision. Net income decreased for the three months ended June 30, 2011 compared to the three months ended March 31, 2011 by $2.8 million primarily as a result of higher depreciation and amortization charges of $0.5 million due to an increase in the depreciable base of assets during the current quarter compared to the prior quarter, a decrease in other income of $3.1 million as a result of the gain on sale of property and AFUDC being recorded in the prior quarter, as well as an increase in interest costs of $1.7 million which was primarily due to higher drawings on the syndicated credit facility.

- Revenues increased by $2.6 million for the three months ended March 31, 2011 compared to the three months ended December 31, 2010 primarily due to distribution rate increases and customer growth. Net income increased for the three months ended March 31, 2011 compared to the three months ended December 31, 2010 by $4.0 million, due to the increase in revenues of $2.6 million, an increase in other income of $1.4 million as a result of the gain on sale of property and a decrease in operating costs of $2.3 million resulting from decreases of $3.9 million in contracted manpower and $0.6 million in other operating expenditures, partially offset by an increase of $2.2 million in salaries and wages. This is partially offset by an increase of $1.1 million in depreciation and amortization due to an increase in the depreciable base of assets, an increase of $0.5 million of interest expense and an increase of $0.7 million in income tax expense.

- Revenues decreased by $11.1 million for the three months ended December 31, 2010 compared to the three months ended September 30, 2010 primarily as a result of AUC Decision 2010-309 being recorded in the third quarter of 2010. Net income decreased for the three months ended December 31, 2010 compared to the three months ended September 30, 2010 by $2.0 million due to the decrease in revenues of $11.1 million, an increase in operating costs of $4.7 million, an increase in interest expense of $0.3 million and a decrease in income tax recovery of $0.1 million. This was partially offset by a net decrease in depreciation and amortization of $13.6 million as a result of AUC Decision 2010-309 being recorded in the third quarter of 2010 and an increase in other income of $0.6 million.

- Revenues increased by $18.3 million for the three months ended September 30, 2010 compared to the three months ended June 30, 2010 primarily as a result of AUC Decision 2010-309. Net income increased for the three months ended September 30, 2010 compared to the three months ended June 30, 2010 by $1.8 million due to the increase in revenues of $18.3 million, an increase of $0.4 million in other income, a decrease in operating costs of $2.8 million, a decrease in interest expense of $1.0 million primarily due to the AFUDC and an increase in income tax recovery of $0.4 million. This was partially offset by a net increase in depreciation and amortization of $21.1 million as a result of AUC Decision 2010-309.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheets as at March 31, 2012 as compared to December 31, 2011:

Item	Increase/ (Decrease) ($ millions)	Explanation
Assets:		
Accounts Receivable	2.4	The increase in accounts receivable was due to an increase in trade accounts receivable of $9.2 primarily due to receivables for transmission related projects which was partially offset by decreases in distribution and transmission revenue accruals of $5.5, customer contributions accruals of $1.1 and other revenue accruals of $0.2.
Property, Plant and Equipment	41.5	Property, plant and equipment were comprised of net additions of $61.1, adjusted for proceeds on retired assets, less depreciation of $19.6. The depreciation of $31.4 reported in the statements of income and comprehensive income includes $11.8 for future removal and site restoration costs recovered through depreciation.
Regulatory Assets	(23.1)	The decrease in regulatory assets was largely due to a decrease in the AESO charges deferral of $33.5, a decrease in the Review and Variance Decision deferral of $0.6, a decrease in the hearing costs deferral of $0.5 and net decreases in other regulatory deferrals of $0.1. These were partially offset by an $8.7 increase in the deferred income tax deferral and a $2.9 increase in deferred overhead costs.
Liabilities:		
Accounts payable, accrued and other liabilities	38.4	The increase in accounts payable, accrued and other liabilities was largely due to an increase in payables of $41.1 for transmission connected projects and net increases in trade and other accounts payable of $5.3. These increases were partially offset by a decrease in the transmission cost accrual of $8.0.
Short-term Debt	(5.6)	The decrease in short-term debt was due to decreased drawings on the short term bank facility.
Deferred Income Taxes	8.6	Deferred income taxes increased due to an increase in temporary differences between the carrying value of assets and liabilities and their values for income tax purposes.
Long-term Debt	(29.0)	The decrease was primarily due to a decrease of $29.0 in drawings under the syndicated credit facility.

SOURCES AND USES OF LIQUIDITY AND CAPITAL RESOURCES

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

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

STATEMENT OF CASH FLOWS

	Three Months Ended March 31		
($ thousands)	2012	2011	Increase/ (Decrease)
Cash, beginning of period	–	–	–
Cash provided from (used in):			
Operating activities	119,710	70,164	49,546
Investing activities	(68,420)	(74,084)	5,664
Financing activities	(45,805)	3,920	(49,725)
Cash, end of period	5,485	–	5,485

Operating Activities

For the three months ended March 31, 2012, net cash provided from operating activities was $119.7 million, which was $49.5 million higher than the same period in 2011. Cash receipts were $17.4 million higher than the same period in 2011 primarily due to an increase in cash receipts due to an increase in distribution rates and customer counts. Changes in other receivables and payables resulted in net cash inflows of approximately $33.6 million, which consisted of $32.9 million due to changes in accounts payables relating to transmission connected projects and an increase in other net changes of $0.7 million. These were partially offset by an increase in cash payments relating to operating expenditures of $1.4 million and interest paid of $0.1 million.

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

Investing Activities

($ thousands)	2012	2011	Increase/ (Decrease)
	Three Months ended March 31		
Capital expenditures			
New customers	50,547	35,667	14,880
Capital upgrades and replacements	21,627	19,013	2,614
Facilities, vehicles and other	3,659	14,281	(10,622)
Information technology	3,050	3,462	(412)
AESO contributions	(825)	9,988	(10,813)
Gross capital expenditures	78,058	82,411	(4,353)
Less: customer contributions	(9,004)	(10,520)	1,516
Net capital expenditures	69,054	71,891	(2,837)

The Corporation's utility operations are capital intensive. For the three months ended March 31, 2012, the Corporation had gross capital expenditures of approximately $78.1 million compared to $82.4 million for the same period in 2011. Capital expenditures related to new customers increased by $14.9 million compared to the same period in 2011, primarily as a result of favorable weather permitting increased construction in the winter months coupled with increased demand for oil, gas and general service connections. Capital expenditures related to capital upgrades and replacements increased by $2.6 million compared to the same period in 2011, primarily as a result of an increase in capacity increases and planned maintenance. Capital expenditures related to facilities, vehicles and other decreased by $10.6 million compared to the same period in 2011, primarily as a result of a decrease of $3.9 million related to facilities. The main driver of the decreased facilities expenditures was the purchase of land and a building in Fort Saskatchewan, as well as the construction of a building in High River that occurred in 2011. In addition, metering costs are down $3.4 million from prior year as the automated metering infrastructure project entered the completion phase. Vehicle expenditures are down $1.3 million from the first quarter of 2011 due to a change in requirements. Capital expenditures related to information technology decreased by $0.4 million compared to the same period in 2011. Capital expenditures related to AESO contributions decreased by $10.8 million as 2012 expenditures are not expected until the second quarter based on AESO project schedules.

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

Capital Expenditures

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

Cash used in investing activities was $0.6 million lower than net capital expenditures for the three months ended March 31, 2012 as illustrated by the following table:

($ thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net capital expenditures	69,054	71,891
Changes in:		
Non-cash working capital	2,993	6,766
Costs of removal, net of salvage proceeds, from the sale of property, plant and equipment and AFUDC	817	134
Capitalized depreciation	(1,626)	(1,139)
Materials and supplies	(3,161)	(3,211)
Change in employee loans	343	(357)
Cash used in investing activities	68,420	74,084

Financing Activities

For the three months ended March 31, 2012, net cash used in financing activities was $45.8 million, compared to net cash provided from financing activities of $3.9 million during the same period in 2011. This increase in net cash used was primarily due to a $48.4 million decrease in net debt issuances. In addition, dividends paid to Fortis Alberta Holdings Inc. for the three months ended March 31, 2012 were $11.3 million compared to $10.0 million for the same period in 2011.

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

COMMITMENTS

Pension Contribution Obligations

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

CAPITAL MANAGEMENT

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

Summary of Long-term Capital Structure

	March 31, 2012		December 31, 2011	
	$ millions	%	$ millions	%
Long-term debt	1,184.2	55.9	1,213.2	56.8
Shareholder's equity	934.6	44.1	924.3	43.2
Total	2,118.8	100.0	2,137.5	100.0

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 March 31, 2012, 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 as at March 31, 2012.

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 three months ended March 31, 2012 on the syndicated credit facility was 2.3% (three months ended March 31, 2011 – 1.6%). As at March 31, 2012, there were no drawings under the facility for banker's acceptances (December 31, 2011- $29.0 million), and there was $0.8 million drawn in letters of credit (December 31, 2011 - $0.8 million).

An unsecured demand facility of $10.0 million was available to the Corporation as at March 31, 2012. This facility bears an interest rate on all drawings equal to prime. There were no drawings on this facility as at March 31, 2012 or December 31, 2011.

OUTSTANDING SHARES

Authorized – unlimited number of:

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

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

RELATED PARTY TRANSACTIONS

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

($ thousands)	Included in Accounts Receivable		Included in Accounts Payable	
	March 31, 2012	**December 31, 2011**	**March 31, 2012**	**December 31, 2011**
FortisBC Inc.	5	1	–	–
Fortis	–	–	781	6
FortisBC Pacific Holdings Inc.	–	3	–	–
FortisBC Holdings Inc.	–	–	–	2
Housing loans to officers of the Corporation[a]	700	700	–	–
Stock option loans to officers of the Corporation[b]	54	167	–	–
Employee share purchase plan loans to officers of the Corporation[c]	46	17	–	–
Employee computer loans to officers of the Corporation[d]	–	1	–	–
Total	805	889	781	8
Less: current portion	51	21	781	8
Long-term portion	754	868	–	–

Notes:

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

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

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

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

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

The amounts included in other revenue and operating costs for related parties for the three months ended March 31, 2012 and 2011 were measured at the exchange amount and are as follows:

($ thousands)	Included in Other Revenue		Included in Operating Costs	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
FortisBC Inc.	32	43	6	8
Fortis	–	–	792	740
FortisBC Pacific Holdings Inc.	1	3	–	–
Newfoundland Power Inc.	5	–	–	
Fortis Turks and Caicos Inc.	–	380	–	–
FortisBC Holdings Inc.	1	–	1	1
FortisOntario Inc.	–	–	–	4
Total	39	426	799	753

FortisBC Inc. – billed the Corporation in 2012 for charges consisting of pension costs. In 2012, the Corporation provided metering services, employee services, information technology services and material sales to FortisBC Inc.

Fortis – billed the Corporation in 2012 for charges relating to corporate governance expenses, stock-based compensation costs and travel and accommodation expenses.

FortisBC Pacific Holdings Inc. – received metering services from the Corporation in 2012.

Newfoundland Power Inc. – in 2012, the Corporation provided employee services to Newfoundland Power Inc.

FortisBC Holdings Inc. – billed the Corporation in 2012 for consulting costs. In 2012 the Corporation provided employee services to FortisBC Holdings Inc.

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

FINANCIAL INSTRUMENTS

Designation and Valuation of 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, as well as the corresponding financial instruments carrying value.

March 31, 2012					
($ thousands)	**Carrying Value**	**Level 1 Fair Value**	**Level 2 Fair Value**	**Level 3 Fair Value**	**Estimated Fair Value**
Other financial liabilities					
Long-term debt	1,184,217	–	1,462,898	–	1,462,898

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

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

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.

Derivatives

The Corporation currently does not have any stand-alone derivative instruments as defined under ASC 815.

The Corporation conducted a review of contractual agreements for embedded derivatives. Under ASC 815, a derivative must meet three specific criteria to be accounted for under this standards codification. For contracts entered into by the Corporation, all potential embedded derivatives reviewed by the Corporation were closely related with the economic characteristics and risks of the underlying contract, had no notional amount that could be used to measure the instrument, or had no value.

Risk Management

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

Counterparty Credit Risk

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

The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The following table provides information on the counterparties that the Corporation extends credit to with respect to its distribution tariff billings as at March 31, 2012.

Credit Rating	Number of Counterparties	Gross Exposure ($ thousands)	Exposure ($ thousands)
AAA to AA (low)	1	2,429	–
A (high) to A (low)	8	5,550	–
BBB (high) to BBB (low)	10	67,341	–
Not rated	33	80,795	8,937
Total	52	156,115	8,937

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. The Corporation assesses non-retailer billings on an individual basis for collectability and these billings are not subject to obtaining an acceptable form of prudential.

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

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

($ thousands)	March 31, 2012
Not past due	145,645
Past due 0-60 days	715
Past due 61 days and over	312
Total[(a)]	146,672

Notes:

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

Interest Rate Risk

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

A change in the Corporation's interest rates results in interest rate exposure for drawings under the syndicated credit facility. The Corporation has determined that a change in interest rates of an increase of 200 basis points and a decrease of 25 basis points represents a reasonably possible financial risk, and has prepared the following sensitivity analysis to represent the impacts of a change on net income for the three months ended March 31, 2012:

($ thousands)	Three months ended March 31, 2012	
	25 basis point decrease	200 basis point increase
Increase (decrease) in net income	14	(110)

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 March 31, 2012, 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, 2012 could potentially have increased interest expense under these debt facilities by approximately $42 thousand for the three months ended March 31, 2012. An upward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2012 could potentially have decreased interest expense under these debt facilities by approximately $17 thousand for the three months ended March 31, 2012.

In February 2012, S&P placed the Corporation's credit rating on credit watch with negative implications due to the credit watch placement on its parent company, Fortis. The S&P credit watch on the Corporation reflects the credit watch on Fortis, whose rating was placed under credit watch by S&P following the announcement by Fortis that it had entered into an agreement to acquire CH Energy Group Inc.

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 March 31, 2012, 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 senior unsecured debentures, as at March 31, 2012:

($ thousands)	1–5 Years	6–10 Years	> 10 Years	Total
Senior unsecured debentures [a]				
- Principal payments	200,000	–	985,000	1,185,000
- Interest payments	305,113	273,133	1,002,115	1,580,361
Total	505,113	273,133	1,987,115	2,765,361

Notes:

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

SIGNIFICANT ACCOUNTING ESTIMATES

Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. In addition, certain estimates not associated with regulatory decisions are also subject to finalization and adjustments. There were no material changes to the items that the Corporation's significant accounting estimates apply to during the period ended March 31, 2012 from those disclosed in the MD&A for the year ended December 31, 2011. Interim financial statements necessarily employ a greater use of estimates than the annual financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

Adoption of New Accounting Standards

In 2011, the FASB issued two Accounting Standards Updates ("ASU") which amend guidance for the presentation of comprehensive income. The amended guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The current option to report other comprehensive income and its components in the statement of shareholder's equity will be eliminated. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. The Corporation adopted these ASUs as at January 1, 2012 which did not change the Corporation's financial statement presentation of comprehensive income.

In 2011, the FASB issued an ASU which intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Corporation adopted this ASU as at January 1, 2012.

In 2011, the FASB issued an ASU which amends the wording used to describe many of the requirements for measuring fair value to achieve the objective of developing common fair value measurement and disclosure requirements, as well as improving consistency and understandability. Some of the requirements clarify the FASB's intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Corporation adopted this ASU as at January 1, 2012.

BUSINESS RISK

Legal Proceedings

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

OUTLOOK

Performance Based Regulation

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

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

Central Alberta Rural Electrification Association ("CAREA") Application

On October 1, 2010, the CAREA filed an Application with the AUC requesting that, for the purposes of Sections 25 and 26 of the *Hydro and Electric Energy Act*, regarding service areas, effective January 1, 2012, CAREA be entitled to serve any new customer in the overlapping CAREA service area that wishes to obtain electricity for use on such customer's property; and that the Corporation be restricted to providing electric distribution service in the CAREA service area only to a consumer in that service area who is not being provided service by CAREA. The Corporation has intervened in the proceeding to oppose the CAREA's request, with oral argument heard before the AUC on April 4, 2012. A decision on this matter is expected in the third quarter of 2012.

Maintaining Electricity Rates

On March 13, 2012, the AUC issued Bulletin 2012-03 regarding maintaining electricity rates. This bulletin addressed the Government of Alberta's letter of March 8, 2012, which requested that electricity rates be maintained until the Government responds to the recommendations of the Retail Market Review Committee, announced on February 23, 2012. The AUC will continue processing applications before them, but will not issue decisions that result in rate increases. However, the AUC will approve applications that maintain existing rates or result in rate reductions.

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