



**Annual Information Form  
Year Ended December 31, 2014**

March 3, 2015

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## GLOSSARY

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

“**ABCA**” means the *Business Corporations Act* (Alberta);

“**AESO**” means the Alberta Electric System Operator;

“**AIES**” means the Alberta Interconnected Electric System;

“**AUC**” means the Alberta Utilities Commission;

“**AUC Act**” means the *Alberta Utilities Commission Act*;

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

“**Board**” means the Board of Directors of FortisAlberta Inc.;

“**Corporation**” means FortisAlberta Inc.;

“**DBRS**” means DBRS Limited;

“**DC SERP**” means the FortisAlberta Defined Contribution Supplemental Employee Retirement Plan;

“**Debentures**” means, collectively, the Series 04-2 Debentures, Series 06-1 Debentures, Series 07-1 Debentures, Series 08-1 Debentures, Series 09-1 Debentures, Series 09-2 Debentures, Series 10-1 Debentures, Series 11-1 Debentures, Series 12-1 Debentures, Series 13-1 Debentures, Series 14-1 Debentures and Series 14-2 Debentures;

“**EMS**” means the Environmental Management System;

“**EPCOR**” means EPCOR Energy Alberta GP Inc.;

“**EUA**” means the *Electric Utilities Act* (Alberta);

“**Fortis**” means Fortis Inc.;

“**FortisAlberta**” means FortisAlberta Inc.;

“**FPA**” means forest protection area as defined by the *Alberta Forest and Prairie Protection Act*;

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

“**GHR Committee**” means the Governance and Human Resources Committee of the Board;

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

“**HEEA**” means the *Hydro and Electric Energy Act* (Alberta);

“**Hay Group**” means Hay Group Ltd;

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

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

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

**“MSA”** means the Market Surveillance Administrator;

**“NEO”** means Named Executive Officer;

**“PBR”** means Performance Based Regulation;

**“Power Pool”** means the power pool of Alberta;

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

**“PSU”** means performance share unit;

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

**“ROE”** means Return on Equity;

**“RRO”** means Regulated Rate Option;

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

**“RRSP”** means registered retirement savings plan;

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

**“TFOs”** means Transmission Facility Owners;

**“TransAlta”** means TransAlta Utilities Corporation;

**“Towers Watson”** means Towers Watson & Co.;

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

**“TSX”** means Toronto Stock Exchange; and

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

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

## **THE CORPORATION**

### HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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

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

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

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

### **BUSINESS OF FORTISALBERTA**

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

FortisAlberta operates a predominantly rural and suburban, low-voltage distribution network in central and southern Alberta, totaling approximately 120,000 kilometers of wires. The Corporation's distribution network serves approximately 530,000 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers of electricity. In 2014, FortisAlberta distributed approximately 24,000 GWh of electricity. This includes electricity to those customers within its service area that are connected directly to the transmission grid.

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

Up until January 1, 2013, the Corporation operated under a traditional form of cost-of-service regulation as prescribed by the AUC. Under this form of regulation, rate orders issued by the AUC established the Corporation's revenue requirements, being those revenues corresponding to the costs associated with the distribution business, and provided a rate of return on a deemed capital structure applied to approved rate base assets. Under the traditional form of cost-of-service regulation the Corporation applied for the revenue requirement based on estimated costs of service. Once the revenue requirement was approved, it was not adjusted if actual costs of service were different from what was estimated, other than for certain prescribed costs that were eligible for deferral treatment and were either collected or refunded in future rates. Starting January 1, 2013, the Corporation began operating under a new form of cost-of-service regulation known as performance based regulation, or PBR, which is discussed further under "Performance Based Regulation"

on page 14. The implementation of PBR is not intended to alter the basis for cost-of-service regulation, being the Corporation's right, under the *EUA*, to a reasonable opportunity to recover the prudent costs of service and the right to earn a reasonable return on equity.

#### FRANCHISES

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

FortisAlberta holds franchise agreements with 140 municipalities within its service area. As of December 31, 2014, the Corporation had converted 95 of these municipalities to new franchise agreements based on a template that was approved by the AUC. The new franchise agreement includes a ten-year term with an option which will permit the agreement to be renewed for up to two subsequent five-year terms. The Corporation intends to convert 90% of the remaining municipalities to the new franchise agreement by the end of 2015.

## MARKET AND SALES

The following tables compare 2014 and 2013 distribution revenues and energy deliveries by rate class:

Rate Class	Revenue <sup>(1)</sup>			
	2014		2013	
	(\$000)	%	(\$000)	%
Residential	157,968	31.6	146,197	31.9
Large Commercial, Industrial and Oilfield	111,126	22.2	102,551	22.3
Farm	61,003	12.2	58,119	12.7
Small Commercial	55,890	11.2	51,974	11.3
Small Oilfield	42,177	8.4	41,061	8.9
Other	23,946	4.8	22,009	4.8
Transmission Connected	1,183	0.2	1,159	0.3
<b>Total Energy Revenue</b>	<b>453,293</b>	<b>90.6</b>	<b>423,070</b>	<b>92.2</b>
Rate Riders, Deferrals and Adjustments	46,786	9.4	36,027	7.8
	<u>500,079</u>	<u>100.0</u>	<u>459,097</u>	<u>100.0</u>

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

Rate Class	GWh Deliveries <sup>(1)(2)</sup>			
	2014		2013	
	GWh	%	GWh	%
Residential	2,979	12.2	2,873	12.0
Large Commercial, Industrial and Oilfield	10,646	43.6	10,388	43.6
Farm	1,302	5.3	1,286	5.4
Small Commercial	1,387	5.7	1,339	5.6
Small Oilfield	984	4.0	976	4.1
Other	73	0.3	72	0.3
Transmission Connected <sup>(3)</sup>	7,076	28.9	6,919	29.0
<b>Total Energy Deliveries</b>	<b>24,447</b>	<b>100.0</b>	<b>23,853</b>	<b>100.0</b>

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

(2) Energy deliveries include adjustments to prior periods which have been reflected in the financial statements during the current period.

(3) Transmission Connected energy is based on interim settlement that is expected to be finalized in May 2015.

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

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

### Mapping for Rate Class by Industry Classification

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

**Footnotes:**

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

## HUMAN RESOURCES

At December 31, 2014, FortisAlberta had 1,125 full-time employees, 35 part-time employees and 19 temporary and term employees. Approximately 76% of the employees of the Corporation are members of the UUWA. In December, 2013, the Corporation reached an agreement on a new four-year collective agreement with the UUWA which was ratified by approximately 80% of the voting members. The collective agreement will expire on December 31, 2017.

## ENVIRONMENTAL MATTERS

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

Environmental considerations associated with operational activities are best addressed within the context of a formal system. The Corporation has implemented programs and procedures within the context of its EMS. The EMS is consistent with the guidelines of ISO 14001, an international standard for environmental management systems. The EMS provides a framework that allows for the identification of potential environmental impacts, the establishment of processes and programs to mitigate those impacts and the monitoring of performance to aid in the continual improvement of the Corporation's environmental performance. The EMS is an adaptive system that evolves to the changing nature of the Corporation's business risks and objectives.

In 2014, the costs associated with adhering to environmental protection requirements were approximately \$0.6 million relating to electrical insulating oil spill cleanup.

## ALBERTA'S ELECTRICITY INDUSTRY

The electricity industry in Alberta consists of four principal segments:

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

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

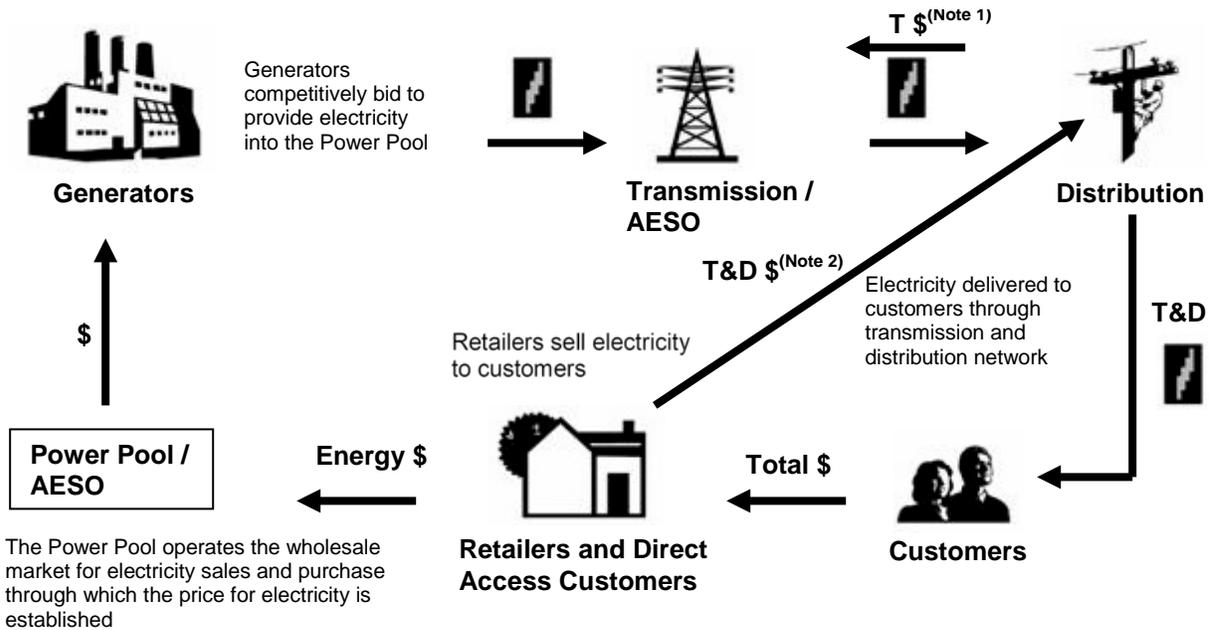
The distribution network in Alberta is comprised of the networks owned by FortisAlberta, ATCO Electric Ltd. and multiple local distribution utilities, including companies owned by the cities of Calgary and Edmonton, rural electrification associations and a number of smaller municipalities. As of January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

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

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

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

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



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

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

## REGULATION OF ALBERTA'S ELECTRICITY INDUSTRY

### BACKGROUND

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

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

### KEY ENTITIES

#### Alberta Utilities Commission (AUC)

The AUC is the chief provincial regulator of the natural gas, electric, and water utilities operating in the Alberta, including FortisAlberta. It is an independent, quasi-judicial agency of the Government of Alberta. The principal responsibility of the AUC is to regulate and adjudicate on matters related to utilities within Alberta and to ensure that the delivery of Alberta's utility services takes place in a manner that is fair,

responsible and in the public interest. In order to ensure that customers receive safe and reliable service at fair and reasonable rates, the AUC regulates both rates and terms and conditions of service of natural gas, electric, and water utility services. This regulation includes the transmission and distribution sectors of Alberta's electricity industry, the major intra-Alberta gas transmission system and major municipal electricity distributors. Through regulation, the AUC seeks to balance the interests of customers and utilities in establishing rates and terms and conditions of service. The AUC provides this oversight through the application and hearing process, standards setting and regulation, monitoring and surveillance and enforcement.

### **Alberta Electric System Operator (AESO)**

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

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

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

### **Market Surveillance Administrator (MSA)**

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

### **Balancing Pool**

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

#### **REGULATORY PROCESS**

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

The AUC's jurisdiction includes the approval of distribution tariffs for regulated distribution utilities, including the rates and terms and conditions on which service is to be provided by those utilities. The AUC's objective is to approve a fair and reasonable tariff that is not unduly preferential or arbitrarily or unjustly discriminatory. The *EUA* requires regulated distribution utilities, such as FortisAlberta, to file a distribution tariff for approval by the AUC.

Until January 1, 2013, the AUC - approved distribution tariffs, including those of FortisAlberta, were based on a cost-of-service regulatory model. Under this model, distribution utilities applied for recovery of prudently incurred expenditures. These expenditures included:

- *Depreciation and Amortization* - an allowance for a return of capital and the depreciation or amortization on the rate base assets that is approved by the AUC, net of any customer contribution amortization.
- *Income Taxes* - the allowance for the recovery of deemed income taxes in respect of the regulated operations of the distribution utility.
- *Operating Expense* - the prudent operating costs associated with operating a distribution utility; and
- *Total Return* - the return on capital invested by the distribution utility in its approved rate base assets, net of customer contributions, and financed through a capital structure comprised of debt and equity.

As of January 1, 2013, all distribution utilities in Alberta are regulated under PBR for a five-year term. The PBR model of rate-making employs a formula to determine customer rates on an annual basis. The customer, or base, rates for each class were derived from the 2012 approved revenue requirement. Base rates are adjusted annually by a PBR formula approved by the AUC.

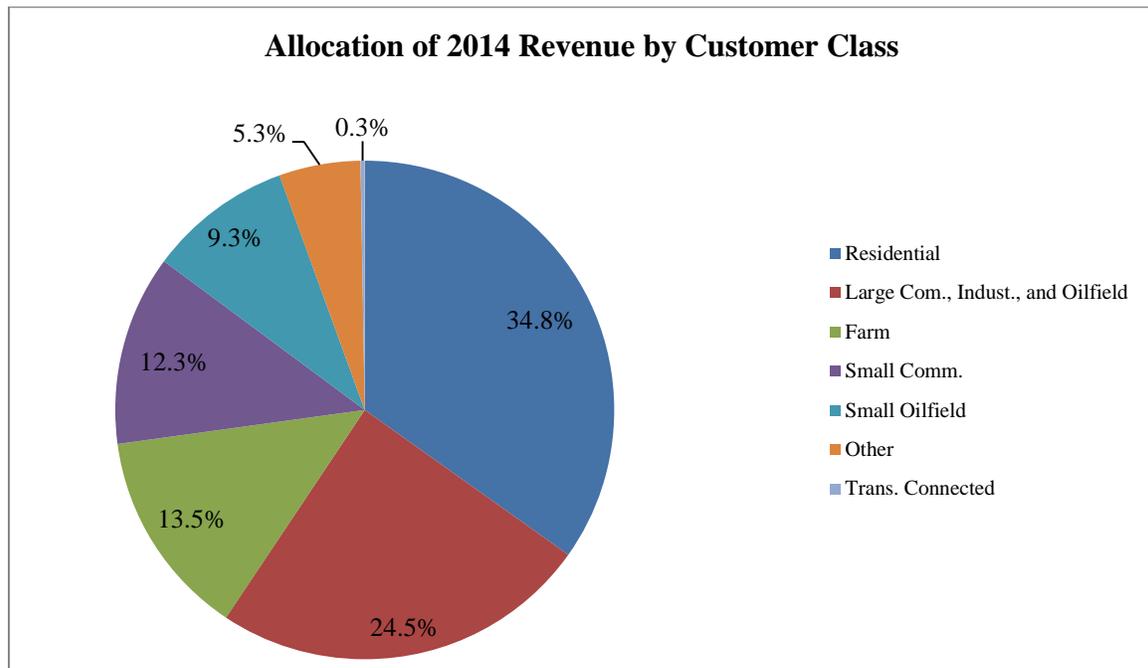
Under the PBR model prescribed by the AUC, each year during the five-year PBR term, customer rates are determined by applying a multiplier, which is equivalent to an inflation factor less a productivity factor (I-X), to the prior year's rates. Each year's inflation factor (I) is determined using Statistics Canada indices while the productivity factor (X) is set at 1.16% for each year of the five-year PBR term. Other components of the formula to determine customer rates include amounts to be collected in customer rates for approved: (i) flow-through items to be collected, or refunded, annually (Y factor); (ii) capital expenditures that qualify as a capital tracker (K factor); and (iii) exogenous costs outside of the control of the utility (Z factor).

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

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

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

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



## Recent Regulatory Proceedings

### *Performance Based Regulation (PBR)*

In early 2010, the AUC initiated a Rate Regulation Initiative to reform utility rate regulation for distribution utilities in Alberta. The AUC indicated its intention to transition from the traditional form of cost-of-service regulation to PBR. In September 2012, the AUC issued Decision 2012-237 (the PBR Decision) which approved the transition to PBR for a five-year term beginning January 2013. The PBR model of rate-making employs a formula to determine customer rates on an annual basis. The formula is premised on adjusting rates by an inflation factor less a productivity factor (I-X). Also, certain prescribed costs are eligible for deferral treatment, and are either collected or refunded in future customer rates.

The formula established by the AUC in the PBR Decision raised concerns and uncertainty for the Corporation regarding the treatment of certain capital expenditures. While the PBR Decision did provide a capital tracker mechanism for the recovery of costs related to these capital expenditures, the Corporation sought further clarification regarding this mechanism in various subsequent proceedings including: its PBR Compliance Application filed in November 2012; a Review and Variance Application also filed in November 2012; and an application for leave to appeal with the Alberta Court of Appeal. In addition, the Corporation also filed a 2013 Capital Tracker Application for specific categories of capital expenditures as it was directed to do by the AUC in the PBR Decision.

In December 2013, the AUC issued Decision 2013-435 (the Capital Tracker Decision). In the Capital Tracker Decision, the AUC prescribed an approach by which distribution utilities are required to apply for capital tracker revenue. The Capital Tracker Decision also directed that certain utilities, including FortisAlberta, refile their 2013 Capital Tracker Application in accordance with this newly prescribed approach.

#### *2013, 2014 and 2015 Capital Tracker Application*

In May 2014, the Corporation submitted a combined application for the 2013, 2014, and 2015 capital trackers using the approach prescribed by the AUC. The Corporation applied for capital tracker revenue of \$23.2 million, \$48.1 million, and \$68.9 million for 2013, 2014 and 2015, respectively. Capital tracker revenue for each of the three years will be subject to change based on the categories to be approved for capital tracker treatment by the AUC, the actual cost of debt used to finance the capital expenditures, and the final allowed ROE and capital structure to be determined in a Generic Cost of Capital proceeding. Capital tracker revenue for 2014 and 2015 will also be subject to change based on the true-up to actual capital expenditures. For 2013, the Corporation's actual capital tracker revenue was based on a placeholder equal to 60% of the then applied for capital tracker amounts, which resulted in the recognition of \$14.6 million of capital tracker revenue in 2013. For 2014, the Corporation's actual capital tracker revenue was based on the continuation of the placeholder and resulted in the recognition of \$29.5 million of capital tracker revenue.

A hearing related to the combined capital tracker application was held in October 2014, with an AUC decision expected during the first quarter of 2015. The AUC approved placeholders for capital tracker revenue for each of 2013, 2014, and 2015, which will be updated once the decision is received.

#### *2015 Annual Rates Application*

In September 2014, the Corporation filed its 2015 Annual Rates Application. The rates and riders, proposed to be effective on an interim basis for January 1, 2015, included an increase of approximately 10% to the distribution component of customer rates. This increase reflected: a combined inflation and productivity factor of 1.49%; a K factor placeholder of \$68.9 million, which was 100% of the 2015 capital tracker revenue applied for in the May 2014 Capital Tracker Application; and a net refund of Y factor balances of \$1.3 million. In November 2014, the Corporation filed an amendment to its Application in order to: (i) retain existing rate structures for certain rate classes; (ii) amend the K factor placeholder from 100% to 90%; and (iii) incorporate current transmission rates.

In December, 2014, the AUC issued Decision 2014-351, approving FortisAlberta's 2015 Annual Rates Application with an increase of approximately 8.5% to the distribution component of customer rates. Rates were approved on an interim basis until a decision on the 2013, 2014 and 2015 Capital Tracker Application is received in the first quarter of 2015.

#### *Phase II Distribution Tariff Application*

In January 2013, the Corporation filed a Phase II Distribution Tariff application (the Phase II DTA) which proposed rates by customer class based on a cost allocation study. The Phase II DTA requested that the 2012 interim distribution rates by customer class be made final for 2012 and 2013, subject to further adjustments as a result of a final PBR Decision and determinations in outstanding PBR-related proceedings. A decision from the AUC was received on January 27, 2014 approving the application substantially as filed.

#### *Generic Cost of Capital and Utility Asset Disposition Proceedings*

The AUC's Decision 2011-474, regarding the 2011 Generic Cost of Capital Proceeding, established an 8.75% ROE for ratemaking purposes for both 2011 and 2012, and an interim ROE of 8.75% for 2013. In addition, FortisAlberta's deemed equity capitalization was maintained at 41%.

The Corporation and other utilities have sought leave to appeal Decision 2011-474 with the Alberta Court of Appeal on matters relating to statements made by the AUC in the decision regarding cost responsibility for stranded assets.

Subsequently, in its Decision 2012-154, the AUC held that the statements made in Decision 2011-474 relating to the treatment of stranded assets costs were *obiter dicta* and not intended to extend to the Corporation's activities. The AUC further stated that the matters relating to the treatment of stranded assets would be included in a separate proceeding called the Utility Asset Disposition Proceeding (the UAD Proceeding).

The UAD Proceeding concluded in August 2013 and, in November 2013, the AUC issued Decision 2013-417. The decision confirmed that no changes to existing regulations, rules and practices relative to the recovery of utility asset costs in the ordinary course of business are required. The decision indicated, however, that utilities will be responsible for the gains or losses related to any extraordinary retirement of utility assets. The decision was not clear as to how the AUC will determine those types of retirements. The AUC directed that each utility review its rate base and confirm that all assets continue to be used, or required to be used, to provide utility service and to provide a description of any assets that were removed from rate base as a result of this review. The Corporation believes that the UAD Decision does not provide sufficient certainty to conclude that the AUC has properly interpreted and applied the Corporation's statutory rights under the *EUA* to recover the prudently incurred costs and expenses of its capital investment in the electric utility. The Corporation and other Alberta utilities applied for leave to appeal the UAD Decision with the Alberta Court of Appeal on April 17, 2014. Leave was granted in August 2014 and the appeal is scheduled to be heard by the Court in June 2015.

In October 2012, the AUC initiated a 2013 Generic Cost of Capital proceeding (the 2013 GCOC Proceeding) to consider the ROE and capital structure for the Alberta utilities for 2013 and 2014, and possibly for 2015. The 2013 GCOC Proceeding also considered the possibility of re-establishing a formula-based approach to setting annual ROE. This proceeding concluded in November 2014. A decision is expected in the first quarter of 2015.

## **MARKET FOR SECURITIES**

None of the issued and outstanding securities of the Corporation, including the Debentures, are listed on any exchange.

## **DIVIDEND POLICY**

The following table summarizes the cash dividends declared at the discretion of the Board for the past three years on the Corporation's Class "A" Common Shares. Dividends were paid in four equal instalments in February, May, August and November of each of the past three years.

Share Capital	Dividends Declared		
	2014	2013	2012
Class "A" Common Shares	55,000,000	50,000,000	45,000,000

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

## DESCRIPTION OF CAPITAL STRUCTURE

### GENERAL DESCRIPTION

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

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

### RATINGS

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

The Corporation’s credit ratings as at March 3, 2015 are set out in the following table:

Rating Agency	Rating
DBRS	A (low), Positive Trend
S&P	A-, Stable Outlook

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

DBRS’ long-term debt ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities. DBRS states that its long-term debt ratings are meant to give an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. DBRS ratings do not take factors such as pricing or market risk into consideration and the ratings are expected to be used by purchasers as one part of their investment decision. Every DBRS rating is based on quantitative and qualitative considerations that are relevant for the borrowing entity. According to DBRS, a rating of A by DBRS is in the middle of three

subcategories within the third highest of ten major categories; such rating is assigned to debt instruments considered to be of satisfactory credit quality and for which protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. Entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated entities. The assignment of a “(high)” or “(low)” modifier within each rating category indicates relative standing within such category. DBRS ratings trends provide guidance regarding the outlook for the rating. A Positive Trend represents an indication that there is a greater likelihood that the rating could change in the future than would be the case if a Stable Trend was assigned.

S&P’s long-term debt ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities. S&P states that its long-term debt rating evaluates the obligor’s capacity and willingness to meet its financial commitments as they come due. Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. According to S&P, a rating of A by S&P is the third highest of ten major categories. An obligor rated 'A' has strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories. The assignment of a “(+)” or “(-)” modifier within each rating category indicates relative standing within such category. S&P’s rating outlook assesses the potential direction of a long-term credit rating over the intermediate term, typically six months to two years. In determining a rating outlook, consideration is given to any changes in the economic or fundamental business conditions.

FortisAlberta has paid each of DBRS and S&P their customary fees in connection with the provisions of the above ratings. FortisAlberta has not made any payment to DBRS or S&P in the past two years for services unrelated to the provision of such ratings.

## **RISK FACTORS**

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

### **REGULATORY APPROVAL AND RATE ORDERS**

The regulated operations of the Corporation are subject to the uncertainties normally faced by regulated utility companies. Those uncertainties include approval by the AUC of customer rates that provide a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on the portion of approved rate base funded by the equity component of capital structure. The ability of the Corporation to recover the actual costs of providing services and to earn the approved ROE depends on achieving the forecasts established in the rate-setting process.

Through the regulatory process, the AUC approves the allowed ROE for rate-making purposes and capital structure. Regulatory treatment that allows the Corporation to earn a fair risk-adjusted rate of return, comparable to that available on alternative investments of similar risk, is essential for maintaining access to capital.

Effective January 1, 2013 and continuing for a five-year term, distribution utilities in Alberta, including the Corporation, are regulated under a PBR form of rate regulation. During each year of the five-year PBR term, the PBR formula is applied to determine the annual revenue requirement for the Corporation and to establish the base customer rates. The application of the PBR formula exposes the Corporation to the following specific risks: (i) that the Corporation will experience inflationary increases in excess of the inflationary factor set by the AUC in the formula; (ii) that the Corporation will be unable to achieve the productivity improvements expected over the PBR term; (iii) that the costs related to the Corporation’s capital expenditures will be in excess of that provided for in the base formula (I-X) and that those excess capital expenditures will not qualify, or be approved, as a capital tracker; and (iv) that material unforeseen and uncontrollable costs will be incurred and that they will not qualify, or be approved, as a Z factor. After the PBR term, there is uncertainty as to whether the PBR regulatory model will continue or whether there will be a return to traditional cost-of-service regulation.

Capital expenditures, including the cost of upgrades to existing facilities and the addition of new facilities, require the approval of the AUC for inclusion in rate base. A failure to obtain acceptable rate orders, approval of capital expenditures, or appropriate ROE and capital structure may adversely affect the business of the Corporation. The undertaking or timing of proposed capital expenditures, the issue of long-term debt, ratings assigned by rating agencies and other matters may, in turn, negatively impact the Corporation's results of operations or financial position. In addition, there is no assurance that the Corporation will receive regulatory orders in a timely manner. Therefore, the Corporation may incur costs prior to having approved rates.

In the interest of regulatory efficiency, the AUC can employ generic proceedings to address regulatory matters that impact multiple utilities. While generic proceedings allow for regulatory efficiencies, there is the risk that a collective result will not adequately address individual utility circumstances.

As an owner of an electricity distribution network under the *EUA*, the Corporation is required to act, or to authorize a substitute party to act, as a provider of electricity services, including the sale of electricity, to eligible customers under a regulated rate and to appoint a retailer as default supplier to provide electricity services to customers otherwise unable to obtain electricity services. In order to remain solely a distribution utility, the Corporation appointed EPCOR as its regulated-rate provider. As a result of this appointment, EPCOR assumed all of the Corporation's rights and obligations in respect of these services. In the unlikely event that EPCOR is unable or unwilling to act as regulated-rate provider or as default supplier, and no other party is willing to act as regulated-rate provider or as default supplier, the Corporation would be required under the *EUA* to act as a provider of electricity services to eligible customers under a regulated rate or to provide electricity services to customers otherwise unable to obtain electricity services. If the Corporation could not secure outsourcing for these functions, the Corporation would need to administer these retail responsibilities by adding necessary staff, facilities or equipment.

#### LOSS OF SERVICE AREAS

The Corporation serves customers residing within various municipalities throughout its service areas. From time to time, municipal governments in Alberta give consideration to creating their own electricity distribution utilities by purchasing the assets of FortisAlberta located within their municipal boundaries. Upon the termination, or in the absence of a franchise agreement, a municipality has the right, subject to AUC approval, to purchase the Corporation's assets within its municipal boundaries pursuant to the MGA with the price to be as agreed by the Corporation and the municipality, failing which it is to be determined by the AUC.

Additionally, under *HEEA*, if a municipality that owns an electric distribution system expands its boundaries, the municipality can apply to acquire the Corporation's assets in the annexed area. In such circumstances, the *HEEA* provides that the AUC may determine that the municipality should pay compensation to the Corporation for any facilities transferred on the basis of replacement cost less depreciation. Given the historical population and economic growth of Alberta and its municipalities, the Corporation is affected by transactions of this type from time to time.

The consequence to the Corporation of a municipality purchasing its distribution assets would be an erosion of its rate base, which would reduce the capital upon which the Corporation could earn a regulated return. A significant reduction of rate base could have a materially adverse effect on the Corporation's financial position.

#### ENVIRONMENTAL RISKS

The Corporation is subject to numerous laws, regulations and guidelines governing the generation, management, storage, transportation, recycling and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment. Environmental damages and associated costs could arise due to a variety of events, including the impact of severe weather on the Corporation's facilities, human error or misconduct, or equipment failure. Costs arising from compliance

with such environmental laws, regulations and guidelines may become material to the Corporation. In addition, the process of obtaining environmental permits and approvals, including any necessary environmental assessments, can be lengthy, contentious and expensive. The Corporation would seek to recover in customer rates the costs associated with environmental protection, compliance and damage; however, there is no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs may have a material adverse effect on the Corporation's results of operations, cash flow and financial position.

The Corporation is also subject to the risk of contamination of air, soil and water primarily related to the use or disposal of petroleum-based products, mainly transformer and lubricating oil, in the Corporation's day-to-day operating and maintenance activities. Contamination typically occurs through the accidental release of transformer or lubricating oils either through human error or equipment failure. The Corporation could be found to be responsible for remediation of contaminated properties, whether or not such contamination was actually caused by FortisAlberta. Environmental laws make owners, operators and persons in management and control of facilities and substances subject to prosecution or administrative action for breaches of environmental laws, including the failure to obtain regulatory approvals. Changes in environmental laws governing contamination could lead to significant increases in costs to the Corporation. To identify, mitigate and monitor environmental performance the Corporation has established an Environmental Management System. The Corporation's EMS is consistent with the principles of the International Organization for Standardization 14001 standard.

Electricity distribution facilities have the potential to cause fires mainly as a result of equipment failure, falling trees and lightning strikes to distribution lines or equipment and other causes. Risks associated with fire damage are related to weather, the extent of forestation and grassland cover, habitation, and third-party facilities located on or near the land on which the facilities are situated. The Corporation may become liable for fire suppression costs, regeneration and timber value costs and third-party claims in connection with fires on lands on which its facilities are located if it is found that such facilities were the cause of a fire, and such claims, if successful, could be material.

The Corporation's wildfire agreement with the Government of Alberta, which limits the Corporation's liability for the Crown's forest fire suppression costs, will expire on April 30, 2015. The agreement limits FortisAlberta's statutory liability under the *Forest and Prairie Protection Act* to pay for the provincial government's fire suppression costs for fires resulting from the Corporation's facilities and which occur in the FPA. This agreement allows the Corporation to limit its liability to 25% of the fire suppression costs to a maximum of \$50,000 per incident following approval by the Provincial government of the Corporation's annual wildfire management plan for wildfire prevention. Absent this approval, the Corporation's liability is limited to 50% of the fire suppression costs to a maximum of \$100,000 per incident. The Corporation's wildfire management plan is presented annually, prior to the wildfire season, with the most recent approval received in the second quarter of 2014. A new agreement is being negotiated with the provincial government, and once concluded, is expected to provide similar liability protection as the current agreement. Liability limits may be subject to increase in the new agreement. In the event a new agreement cannot be negotiated, the Corporation will be subject to the terms of the *Forest and Prairie Protection Act* that requires full indemnity for all fire suppression costs incurred by the provincial government for fires in the FPA that are caused by FortisAlberta's facilities.

While the Corporation maintains insurance for costs associated with fires, including fire suppression costs and liability for third-party claims, the insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there can be no assurance that the liabilities that may be incurred by the Corporation will be covered by its insurance.

## CAPITAL RESOURCES AND LIQUIDITY

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. Funds generated from operations after payment of expected expenses, including interest payments on any outstanding debt, will not be sufficient to fund the repayment of all outstanding liabilities when due and all anticipated capital expenditures. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including regulatory approval or exemption, the regulatory environment in Alberta, the results of operations and financial position of the Corporation and Fortis, conditions in the capital and bank credit markets, the ratings assigned by rating agencies, and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to fund capital expenditures and repay existing debt.

## OPERATING AND MAINTENANCE RISK

The Corporation's distribution assets require maintenance, improvement and replacement. Accordingly, to ensure the continued performance of the physical assets, the Corporation determines expenditures that must be made to maintain and replace the assets. The Corporation could experience service disruptions and increased costs if it is unable to maintain its asset base. The inability to obtain AUC approval to include in rates the capital expenditures that the Corporation believes are necessary to maintain, improve and replace its distribution assets, the failure by the Corporation to properly implement or complete approved expenditure programs, or the occurrence of significant unforeseen equipment failures despite the maintenance program could have a material adverse effect on the Corporation.

The Corporation is responsible for operating and maintaining its assets in a safe manner, including the development and application of appropriate standards, processes and procedures to ensure the safety of the Corporation's employees, contractors, and the general public. The failure to do so may disrupt the Corporation's ability to safely distribute electricity, which could have a material adverse effect on the Corporation.

The Corporation continually develops expenditure programs and assesses current and future operating and maintenance expenses that will be incurred in the ongoing operation of its distribution assets. Such analysis is based on assumptions as to costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters which are uncertain. If actual costs exceed AUC approved expenditures, it is uncertain as to whether any additional costs will be approved by the AUC and recovered through rates. The inability to recover these additional costs could have a material adverse effect on the financial condition and results of operations of the Corporation.

## WEATHER

The Corporation's physical assets are exposed to the effects of severe weather conditions and other acts of nature. Although the physical assets have been constructed and are operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. In addition, many of the physical assets are located in remote areas which make it more difficult to perform maintenance and repairs if such assets are damaged. Losses resulting from repair costs and lost revenues could substantially exceed insurance coverage. Furthermore, the Corporation could be subject to claims from its customers for damages caused by the failure to transmit or distribute electricity to them in accordance with the Corporation's contractual obligations.

In the event of a material uninsured loss caused by severe weather conditions or other acts of nature, the Corporation would likely apply to the AUC to recover such losses through rates. However, there can be no assurance that the AUC will approve any such application, in whole or in part. Any major damage to the Corporation's physical assets could result in lost revenues, repair costs and customer claims that are substantial in amount, which could have a material adverse effect on the Corporation.

#### INFORMATION TECHNOLOGY AND CYBER-SECURITY RISK

The Corporation's ability to operate effectively is dependent upon developing and maintaining information systems and infrastructure that support the operation of its distribution facilities, provide the electricity market with billing and load settlement information, and support the financial and general operating aspects of the business.

Exposure of the Corporation's information technology systems to external threats poses a risk to the security of these systems. Such cyber-security threats include unauthorized access to information technology systems due to hacking, viruses and other causes that can result in service disruptions, system failures and the disclosure, deliberate or inadvertent, of confidential business and customer information.

The Corporation is required to protect information technology systems, and to safeguard the confidentiality of customer information in order to operate effectively and to comply with regulatory and legal requirements. The Corporation has security measures, policies and controls designed to protect and secure the integrity of its information technology systems; however, cyber-security threats frequently change and require ongoing monitoring and detection capabilities. In the event the Corporation's information technology security measures are breached it could experience service disruptions, property damage, corruption or unavailability of critical data or confidential customer information. If the breach is material in nature it could adversely affect the financial performance of the Corporation, its reputation and standing with customers and the regulator and expose it to claims of third party damage, all of which could adversely affect the Corporation if the situation is not resolved in a timely manner, or if the financial impact of such adverse effects is not alleviated through insurance policies or through recovery from customers in future rates.

#### INSURANCE COVERAGE RISK

The Corporation maintains insurance coverage at all times with respect to certain potential liabilities and the accidental loss of value of certain of its assets, in amounts and with such insurers, as it considers appropriate, taking into account relevant factors, including the practices of owners of similar assets and operations. However, as is customary in North America, the Corporation's distribution assets are not covered by insurance, as the coverage is not readily available nor is the cost of the coverage considered economically viable.

It is anticipated that existing insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available on terms as favourable as the Corporation's existing arrangements, or that insurance companies will meet their obligation to pay claims. Further, there can be no assurance that available insurance will cover all losses or liabilities that may arise in the conduct of the Corporation's business. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by the Corporation, or a claim that falls within a significant self-insured retention could have a material adverse effect on the Corporation's results of operations, cash flow, and financial position.

In the event of material uninsured loss or liability, the Corporation would likely apply to the AUC to recover the loss or liability through increased rates. However, there can be no assurance that the AUC would approve any such application, in whole or in part. The inability to recover these additional costs could have a material adverse effect on the Corporation's results of operations, cash flow and financial position.

#### PERMITS AND RIGHTS-OF-WAY

The acquisition, ownership and operation of distribution assets requires numerous permits, approvals and certificates from federal, provincial and municipal government agencies and from First Nations. The Corporation may not be able to obtain or maintain all required approvals. If there is a delay in obtaining

any required approval, or if the Corporation fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the operation of its assets and the distribution of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation.

It is frequently necessary for portions of the Corporation's power lines to cross certain private and public lands. In those cases, the Corporation must secure permission to cross such lands through easements or rights-of-way. The inability to secure such easements or rights-of-way could increase the costs to provide distribution service beyond amounts forecast in customer rates.

Certain of the Corporation's distribution assets may be located on land that is not known to be deeded and for which it has not acquired appropriate rights. In addition, the Corporation has distribution assets on First Nations' lands, for which access permits are held by TransAlta. In order for the Corporation to acquire these access permits, both the individual First Nations and the Department of Aboriginal Affairs and Northern Development Canada must grant approval. The Corporation may not be able to acquire the access permits from TransAlta and may be unable to negotiate land usage agreements with property owners or, if negotiated, such agreements may be on terms that are less than favourable to the Corporation and, therefore, may have a material adverse effect on the Corporation.

#### LABOUR RELATIONS

Approximately 76% of the employees of the Corporation are members of the UUWA. The Corporation is party to a four-year collective agreement with the UUWA which expires on December 31, 2017.

The Corporation considers its relationships with the UUWA to be satisfactory, but there can be no assurance that current relations will continue in future negotiations or that the terms under the new agreement will, upon its expiry, be renewed at all or on terms favourable to the Corporation. The inability to maintain a collective bargaining agreement on acceptable terms could result in increased labour costs or costs associated with service interruptions arising from labour disputes not provided for in customer rates, which could have a material adverse effect on the Corporation's results of operations, cash flow and financial position.

#### HUMAN RESOURCES

The Corporation's ability to deliver service in a cost-effective manner is dependent on the ability of the Corporation to attract, develop and retain a skilled workforce. Given the demographics of the Corporation's workforce, there will likely be an increase in retirement from the critical workforce segments in future years. In addition, it is expected that the skilled labour market for the industry will remain competitive in the future. Meeting the capital program and customer expectations could be more challenging if the Corporation does not continue to attract and retain qualified personnel.

#### POLITICAL RISK

The regulatory framework under which the Corporation operates is impacted by significant shifts in government policy or changes in government, which create uncertainty about public policy priorities and directions, particularly around electricity and environmental issues. The regulations that govern the competitive wholesale and retail electricity markets in Alberta continue to evolve and the extent to which the Government of Alberta may participate in, and make adjustments to, the regulations cannot be foreseen. If significant changes were to occur in these regulations it could adversely affect the ability of the Corporation to recover its costs or to earn a reasonable return on its capital.

#### ECONOMIC CONDITIONS

Alberta's economy is impacted by a number of factors including the level of oil and gas activity in the province, which is influenced by the market prices of oil and gas. A general and extended decline in

Alberta's economy, or in the Corporation's service areas in particular, would be expected to have the effect of reducing demand for electricity over time. Significantly reduced electricity demand in the Corporation's service areas could materially reduce growth related capital spending forecast, which would, in turn, affect the Corporation's rate base and earnings growth.

## DIRECTORS AND OFFICERS

### DIRECTORS

The following table sets out the name, municipality of residence, term of office and number of Fortis shares beneficially owned, directly or indirectly, or controlled or directed, for each of the directors of FortisAlberta as at December 31, 2014. Also included are principal occupations within the five preceding years from the date hereof. All directors are elected annually.

Name and Municipality of Residence	Director Since	Fortis shares beneficially owned, directly or indirectly, or controlled or directed	Principal Occupation or Employment for Past five years	
Tracey C. Ball Edmonton, AB	2011	350 shares	<p><i>Corporate Director</i> <i>September 2014 to present</i></p> <p><i>Canadian Western Bank</i> <i>(A chartered bank, insurance and trust company)</i> <i>June 2004 to September 2014</i></p>	Executive Vice President and Chief Financial Officer
Mary Cameron Edmonton, AB	2009	1,152 shares	<p><i>Cameron and Company</i> <i>(An investment management company)</i> <i>April 2002 to present</i></p>	Partner
Phonse Delaney Calgary, AB	2014	51,259 shares	<p><i>FortisAlberta</i> <i>June 30, 2014 to present</i></p> <p><i>FortisAlberta</i> <i>May 2011 to June 29, 2014</i></p> <p><i>FortisAlberta</i> <i>June 2008 to May 2011</i></p>	<p>President and Chief Executive Officer</p> <p>Executive Vice President, Operations, Engineering and Information Technology</p> <p>Vice President, Operations and Engineering</p>
William J. Daley Crystal Beach, ON	2010	40,306 shares	<p><i>FortisOntario Inc.</i> <i>(An electric utility company)</i> <i>July 2002 to present</i></p>	President and Chief Executive Officer
Bill H. Giebelhaus Sherwood Park, AB	2013	1,200 shares	<p><i>Clark Builders</i> <i>(An international construction services company)</i> <i>1978 to present</i></p>	Chief Operating Officer

Name and Municipality of Residence	Director Since	Fortis shares beneficially owned, directly or indirectly, or controlled or directed	Principal Occupation or Employment for Past five years	
Douglas J. Haughey Calgary, AB	2010	10,000 shares	<p><b>Corporate Director</b> <i>June 1, 2013 to present</i></p> <p><b>The Churchill Corporation</b> <i>(A construction and industrial services company)</i> <i>August 2012 to June 1, 2013</i></p> <p><b>Provident Energy Ltd.</b> <i>(A midstream natural gas liquids (NGL) company)</i> <i>April 2010 to April 2012</i></p> <p><b>Windshift Capital Corp.</b> <i>(An energy infrastructure investment company)</i> <i>December 2008 to April 2010</i></p>	<p>Chief Executive Officer</p> <p>President and Chief Executive Officer</p> <p>President and Chief Executive Officer</p>
Susan M. MacKenzie Calgary, AB	2014	1,000 shares	<p><b>Corporate Director</b> <i>2011 to present</i></p> <p><b>Independent Consultant</b> <i>September 2010 to present</i></p> <p><b>Oilsands Quest Inc.</b> <i>(An independent development-stage company)</i> <i>April 2010 to September 2010</i></p> <p><b>Petro-Canada</b> <i>(An independent energy oil and gas company)</i> <i>July 2007 to August 2009</i></p>	<p>Chief Operating Officer</p> <p>Vice President, Human Resources</p>
Barry V. Perry Mount Pearl, NL	2011	169,353 shares	<p><b>Fortis Inc.</b> <i>(A gas and electric distribution utility holding company)</i> <i>December 31, 2004 to present</i></p> <p><b>Fortis Inc.</b> <i>(A gas and electric distribution utility holding company)</i> <i>June 30, 2014 to December 31, 2014</i></p> <p><b>Fortis Inc.</b> <i>(A gas and electric distribution utility holding company)</i> <i>January 2004 to June 30, 2014</i></p>	<p>President and Chief Executive Officer</p> <p>President</p> <p>Vice President, Finance and Chief Financial Officer</p>
Roger D. Thomas Calgary, AB	2013	Nil	<p><b>Corporate Director</b> <i>July, 2009 to present</i></p>	

Name and Municipality of Residence	Director Since	Fortis shares beneficially owned, directly or indirectly, or controlled or directed	Principal Occupation or Employment for Past five years	
Donald J. (Jim) Turner Cochrane, AB	2011	Nil	<b>Rancher</b> <i>1978 to present</i>  <b>Natural Resources Conservation Board</b> <i>(A regulatory agency)</i> <i>July 2002 to present</i>	Rancher  Board Member
John C. Walker Kelowna, BC	2005	160,036 shares	<b>Fortis Inc.</b> <i>(A gas and distribution electric utility holding company)</i> <i>August 1, 2014 to present</i>  <b>FortisBC Holdings Inc.</b> <i>(An integrated energy and gas utility company)</i> <i>July 2010 to present</i>  <b>FortisBC Energy Inc.</b> <i>(A gas distribution utility company)</i> <i>July 2010 to July 2014</i>  <b>FortisBC Inc.</b> <i>(An electric utility company)</i> <i>April 2005 to July 2014</i>	Executive Vice President, Western Canadian Operations  President and Chief Executive Officer  President and Chief Executive Officer  President and Chief Executive Officer

OFFICERS

The following table sets out the name and municipality of residence of each of the officers of FortisAlberta as at December 31, 2014 and indicates the office(s) held and principal occupations within the five preceding years from the date hereof.

Name and Municipality of Residence	Office Held	Principal Occupation or Employment for Past five years	
Phonse Delaney Calgary, AB	President and Chief Executive Officer	<p><i>FortisAlberta</i> June 2014 to present</p> <p><i>FortisAlberta</i> May 2011 to June 2014</p> <p><i>FortisAlberta</i> June 2008 to May 2011</p>	<p>President and Chief Executive Officer</p> <p>Executive Vice President, Operations, Engineering and Information Technology</p> <p>Vice President, Operations and Engineering</p>
Ian Lorimer Calgary, AB	Vice President, Finance and Chief Financial Officer	<p><i>FortisAlberta</i> September 2008 to present</p>	<p>Vice President, Finance and Chief Financial Officer</p>
Cam Aplin Calgary, AB	Vice President, Field Operations	<p><i>FortisAlberta</i> May 2011 to present</p> <p><i>FortisAlberta</i> May 2010 to May 2011</p> <p><i>FortisAlberta</i> January 2008 to May 2010</p>	<p>Vice President, Field Operations</p> <p>Director, Project Management</p> <p>Regional Director Operations, North</p>
Karl Bomhof Calgary, AB	Vice President, General Counsel and Corporate Secretary	<p><i>FortisAlberta</i> April 2013 to present</p> <p><i>FortisAlberta</i> July 2010 to April 2013</p> <p><i>FortisAlberta</i> September 2008 to July 2010</p>	<p>Vice President, General Counsel and Corporate Secretary</p> <p>General Counsel and Corporate Secretary</p> <p>Director, Human Resources</p>
Annette Iwasaki Calgary, AB	Vice President, Human Resources and Corporate Communications	<p><i>FortisAlberta</i> July 2008 to present</p>	<p>Vice President, Human Resources and Corporate Communications</p>
Mike Pashak Calgary, AB	Vice President, Customer Service	<p><i>FortisAlberta</i> February 2012 to present</p> <p><i>FortisAlberta</i> September 2004 to February 2012</p>	<p>Vice President, Customer Service</p> <p>Director, Operations</p>
Curtis Eck Calgary, AB	Vice President, Engineering	<p><i>FortisAlberta</i> July 2014 to present</p> <p><i>FortisAlberta</i> April 2014 to June 2014</p> <p><i>FortisAlberta</i> January 2012 to March 2014</p> <p><i>Belize Electric Company Limited</i> July 2011 to December 2011</p> <p><i>Belize Electricity Limited</i> October 2007 to June 2011</p>	<p>Vice President, Engineering</p> <p>Director, Engineering</p> <p>Director, Operations</p> <p>Manager, Operations</p> <p>Vice President, Customer Care and Operations</p>

Name and Municipality of Residence	Office Held	Principal Occupation or Employment for Past five years	
Rob Tisdale Calgary, AB	Vice President, Information Technology	<i>FortisAlberta</i> <i>July 2014 to present</i>  <i>FortisAlberta</i> <i>December 2008 to July 2014</i>	Vice President, Information Technology  Director, Information Technology

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

#### COMMITTEES

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

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

The members of the Audit, Risk and Environment Committee as at December 31, 2014 were Tracey Ball (Chair), Douglas Haughey, Roger Thomas and Susan MacKenzie.

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

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

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

The members of the GHR Committee as at December 31, 2014 were Mary Cameron (Chair), William Daley, Barry Perry, Donald (Jim) Turner, John Walker and Bill Giebelhaus.

## CONFLICTS OF INTEREST

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

## REPORT ON EXECUTIVE COMPENSATION

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

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

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

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

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

Total annual compensation for the executive officers involves a significant proportion that is at-risk due to the use of short-term, medium-term and long-term incentive components. In 2014, approximately 60% of the President and Chief Executive Officer's total annual compensation, 45% of the Executive Vice President, Operations, Engineering and Information Technology, 40% of the Vice President, Finance and Chief Financial Officer and approximately 35% of the other Vice Presidents' total annual compensation was to be at-risk. Total annual compensation includes both the cash compensation paid to the executive officers in the year and the estimated compensation for the medium and long-term incentive components.

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

#### COMPENSATION REVIEW FRAMEWORK

##### *Annual Review*

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

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

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

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

#### COMPENSATION RISK CONSIDERATIONS

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

##### *External Compensation Risk Mitigating Controls*

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

### *Internal Compensation Risk Mitigating Controls*

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

<i>Annual Salary</i>	Annual salaries are targeted approximately at market median levels and, as such, do not encourage excessive risk-taking.
<i>Short-Term Incentives</i>	<p><i>Board Discretion:</i> The GHR Committee retains the discretion to make upward or downward adjustments to the prescribed incentive payout formulas and actual payouts based on its assessment of the risk assumed to generate financial results, circumstances that may have influenced individual performance, as well as external factors that may have impacted the Corporation's financial performance.</p> <p><i>Award Cap:</i> Short-term incentives awarded to executives are capped at 150% of target; however, the GHR Committee retains the discretion to award up to a maximum of 200% of target in recognition of individual response to exceptional challenges or opportunities and may make deviations in appropriate circumstances.</p>
<i>Medium-Term Compensation</i>	<p><i>Performance Share Units:</i> PSUs are granted to participants (Participants), as defined in the 2013 PSU Plan. Participants, including NEOs, are awarded PSUs to promote a greater alignment of interests between the senior management of the Corporation and the shareholders of Fortis, foster the growth and success of the business of the Corporation and Fortis in accordance with the vision of both the Corporation and Fortis, and ensure that management is focused on both the Corporation's and Fortis' business objectives. Awarding PSUs to NEOs also strengthens the proportion of total deferred compensation to cash compensation in the overall pay mix. The value of each grant is determined using a formula composed of base salary, salary level and market price of the Fortis common shares.</p>
<i>Long-Term Compensation</i>	<p><i>Stock Option Grants linked directly to Stock Ownership Requirements:</i> Share ownership for executives, including the NEOs, is encouraged through Fortis' Executive Compensation Policy, whereby the options granted each year to any executive are limited to the lesser of the number of options prescribed to that particular position and the minimum number of shares actually owned by the individual since the beginning of the previous calendar year.</p> <p>While minimum share holdings are not formally prescribed by policy, tying the number of stock options grants to the executive's share holdings has achieved high levels of executive ownership.</p> <p><i>Anti-Hedging Policy:</i> The Corporation's executive officers are not permitted to hedge against declines in the market value of equity securities received as compensation.</p>

COMPENSATION CONSULTANTS

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

The Corporation also engages Towers Watson to consult on certain compensation issues and to perform certain administrative functions related the Corporation's compensation program. The Corporation also engages Towers Watson for compensation consulting services related to regulatory rate applications and submissions. The Corporation has engaged Towers Watson for such services since 2006.

The following table sets forth information concerning fees paid by the Corporation to compensation consultants in 2013 and 2014:

Type of Fee by Consultant	2014 Consultant Fees (\$)	2013 Consultant Fees (\$)
Executive Compensation Consulting <sup>(1)</sup>	2,016	17,847
All Other Fees	0	0

(1) Amounts are inclusive of payments to the Hay Group of \$2,016 (2014) and \$12,766 (2013) and payments to Towers Watson of \$5,082 (2013).

The elements of executive compensation, for which all executive officers are eligible, and their respective compensation objectives are set out below:

Compensation Element	Description	Compensation Objectives
<b>Annual Base Salary &amp; Annual Incentive</b>		
Annual Base Salary	- Salary is a market-competitive, fixed level of compensation.	- Retain and attract highly qualified leaders
Annual Incentive	- Combined with salary, the target level of annual incentive provides a market-competitive total cash opportunity. - Annual incentive payout depends on individual and corporate performance.	- Retain and attract highly qualified leaders - Motivate strong business performance through achievement of short-term objectives - Simple to communicate and administer - Compensation dependent on individual and corporate performance

<b>Performance Share Units</b>		
Performance Share Units (PSUs)	<ul style="list-style-type: none"> <li>- Equity grant value is based on performance and retention objectives.</li> <li>- Grant value is converted to the number of units granted by dividing the planned value by the predetermined, formulaic planning price.</li> <li>- At the end of the three-year performance period, performance is assessed against the pre-defined objectives. Payment of the accumulated PSU balance, inclusive of notional dividends, at the price determined pursuant to the plan.</li> <li>- Paid in cash upon completion of the three-year performance period.</li> </ul>	<ul style="list-style-type: none"> <li>- Align executive and shareholder interests</li> <li>- Attract and retain highly qualified executives</li> <li>- Encourage strong long-term business performance</li> <li>- Balance compensation for short and long-term strategic results</li> <li>- Compensation dependent on corporate performance</li> <li>- Encourages sustained, mid-term growth by linking a portion of compensation to mid-term performance</li> <li>- Simple to communicate and administer</li> </ul>
<b>Stock Options</b>		
Stock Options	<ul style="list-style-type: none"> <li>- Annual equity grants are made in the form of stock options to purchase Fortis shares.</li> <li>- The amount of annual grant is dependent on the organizational level of the officer and their recent share ownership levels.</li> <li>- Planned grant value is converted to the number of shares granted by dividing the planned value by the pre-determined, formulaic planning price.</li> <li>- Options vest over a four-year period and expire after either seven or ten years, dependent on the Stock Option Plan in place at the time of issuance.</li> </ul>	<ul style="list-style-type: none"> <li>- Retain and attract highly qualified leaders</li> <li>- Motivate strong business performance</li> <li>- Align long-term interests of officers with those of Fortis shareholders</li> <li>- Simple to communicate and administer</li> </ul>
<b>Pension Arrangements</b>		
Registered Retirement Savings Plan	<ul style="list-style-type: none"> <li>- Contribution to a registered retirement savings plan equal to 6.5% of a participant's annual base salary and annual incentive which is matched by the participant up to the maximum annual contribution limit allowed by the Canada Revenue Agency.</li> </ul>	<ul style="list-style-type: none"> <li>- Retain highly qualified leaders.</li> <li>- Simple to communicate and administer</li> </ul>
Defined Contribution Pension Plan (DC SERP)	<ul style="list-style-type: none"> <li>- Accrual of 13% of annual base salary and annual incentive in excess of the allowed Canada Revenue Agency annual limit.</li> <li>- At time of retirement, paid in one lump sum or in equal payments over a period not greater than 15 years.</li> </ul>	<ul style="list-style-type: none"> <li>- Retain highly qualified leaders.</li> <li>- Simple to communicate and administer</li> </ul>

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

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

Corporate performance is determined with reference to the performance of the Corporation relative to weighted targets in respect of customer satisfaction, productivity, reliability and safety. For 2014, there were five corporate targets: (i) a customer satisfaction index as measured by quarterly customer surveys (25% weighting); (ii) a measure of annual net income (35% weighting); (iii) a measure of pre-planned customer outage hours (10% weighting); (iv) the number of preventable injuries (15% weighting); and (v) the number of days lost due to preventable injuries (15% weighting).

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

In 2014, the target cash bonus, which is payable upon the achievement of 100% of corporate and personal targets, was 50% of base salary for the President and Chief Executive Officer, 40% for Executive Vice President, Operations, Engineering and Information Technology, 35% for Vice President, Finance and Chief Financial Officer and 30% of base salary for all other executive officers. Exceeding corporate and personal targets will result in a higher cash bonus, the maximum of which is 75% of base salary for the President and Chief Executive Officer, 60% for Executive Vice President, Operations, Engineering and Information Technology, 52.5% for Vice President, Finance and Chief Financial Officer and 45% of base salary for all other executive officers. Additionally, the Board may award discretionary cash bonuses, the maximum of which is 25% of base salary for the President and Chief Executive Officer, 20% for Executive Vice President, Operations, Engineering and Information Technology, 17.5% for Vice President, Finance and Chief Financial Officer and 15% of base salary for all other executive officers. In total, the maximum cash bonus is therefore 100% of base salary for the President and Chief Executive Officer, 80% for Executive Vice President, Operations, Engineering and Information Technology, 70% for Vice President, Finance and Chief Financial Officer and 60% of base salary for all other executive officers.

*Performance Share Units:* The 2013 PSU Plan was established and adopted by the Corporation as of January 1, 2013. The PSU Plan is administered by the Corporation which grants PSUs, determined as a specified percentage of the Participant's annual base salary divided by the volume-weighted average trading price of Fortis common shares. Payment will be made three years after the grant date in an amount of 0-120% of the number of PSUs accumulated, including reinvestment of notional dividends, as determined appropriate by the Corporation upon measurement of Fortis' performance over such three year period in comparison to similar publicly traded industry participants. The payment is based on the number of PSUs outstanding, multiplied by the volume-weighted average trading price of the Fortis shares determined by dividing the total value of the Fortis shares traded on the Toronto Stock Exchange during the last five trading days immediately preceding the date of grant by the total volume of the Fortis shares traded on the Toronto Stock Exchange during such five trading days.

In 2014, the President and Chief Executive Officer of the Corporation was granted PSUs having a market value at the time of grant equal to 50% of his base salary. The Executive Vice President, Operations, Engineering and Information Technology, was granted PSUs having a market value at the time of grant equal to 20% of his base salary. Each of the other NEOs was granted PSUs having a market value at the time of grant equal to 10 per cent of such NEO's base salary. Each Participant's PSU account shall be credited with additional PSUs equal to the "dividend equivalent" when a cash dividend is paid on Fortis shares.

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

The Stock Option Plan in place for 2014 was the 2012 Stock Option Plan of Fortis which became effective May 4, 2012. Under this plan, options are exercisable for ten years from the date of the option grant subject to a vesting requirement whereby options vest at a rate of 25% per year over the four year period

commencing on the first anniversary of the date of grant. Under the terms of this plan, all options granted, vesting rights, and financing provisions under previous plans will continue to exist and remain in force as long as any options granted under former plans are outstanding. No consolidation of options already granted will be made into the 2012 Stock Option Plan of Fortis and Fortis has ceased to grant options under previous stock option plans.

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

*Pension Arrangements:* Executive officers also participate in various pension arrangements as outlined on pages 40-41 of this Annual Information Form.

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

COMPENSATION OF NAMED EXECUTIVE OFFICERS

The following table sets forth information concerning the annual and long-term compensation earned for services rendered in respect of each of the individuals who were, for the year ended December 31, 2014, the President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer and the Corporation's three other most highly paid executive officers (collectively the "Named Executive Officers", each an "Executive").

Name and Principal Position	Year	Salary (\$)	Share-based Awards (\$) <sup>(1)</sup>	Option-based Awards (\$) <sup>(2)</sup>	Non-equity Incentive Plan Annual Incentive Plan (\$) <sup>(3)</sup>	Pension Value (\$) <sup>(4)</sup>	All Other Compensation (\$) <sup>(4, 5)</sup>	Total Compensation (\$)
Karl W. Smith <sup>(6) (8)</sup> President and Chief Executive Officer	2014	247,346	247,500	227,445	179,500	143,353	52,421	1,097,565
	2013	475,000	237,500	221,243	350,000	135,463	55,617	1,474,823
	2012	460,000	-	226,043	322,000	115,327	38,812	1,162,182
Phonse Delaney <sup>(7), (9), (11)</sup> President and Chief Executive Officer	2014	354,600	65,800	56,692	233,500	68,386	24,631	803,609
	2013	316,000	63,200	55,194	185,000	62,144	28,249	709,787
	2012	304,000	-	56,027	171,000	53,244	22,054	606,305
Ian Lorimer Vice President, Finance and Chief Financial Officer	2014	250,000	25,000	41,146	125,800	27,936	43,555	513,437
	2013	242,500	24,250	42,353	120,000	26,974	37,111	493,188
	2012	235,000	-	43,312	116,000	25,745	44,619	464,676
Annette Iwasaki Vice President, Human Resources and Communications	2014	236,000	23,600	27,110	141,600	23,638	16,235	468,183
	2013	222,475	22,680	24,868	100,000	20,955	18,283	409,261
	2012	206,000	-	25,311	87,000	18,588	17,661	354,560
Cameron Aplin <sup>(10)</sup> Vice President, Field Operations	2014	218,681	21,000	25,275	91,900	22,080	29,574	408,510
	2013	198,500	19,850	23,166	120,000	14,048	27,828	403,342
	2012	187,200	-	23,003	79,000	10,772	26,547	326,522
Karl Bomhof Vice President, General Counsel and Corporate Secretary	2014	221,500	22,150	25,444	132,900	18,441	35,307	455,742
	2013	211,707	-	23,867	90,000	13,793	32,279	371,646
	2012	197,000	-	24,199	61,175	11,789	30,138	324,301

**Footnotes to Compensation Table:**

- (1) Represents the cash value of the 2014 PSUs granted in the year based on the volume-weighted average trading price of the Fortis common shares traded on the TSX during the last 5 trading days immediately preceding the date of grant.
- (2) Represents the fair value of stock options to acquire Fortis shares pursuant to the Stock Option Plan of Fortis. See REPORT ON EXECUTIVE COMPENSATION – Stock Options. The fair values of \$4.21 for 2012 options, \$3.91 for 2013 options and \$3.53 for 2014 options were determined at the date of grant using the Black-Scholes option pricing model. Options granted to respective Named Executive Officers are detailed in the table on page 42.
- (3) Represents amounts earned under the Corporation's short-term incentive program and any other discretionary award in the form of a cash bonus. See REPORT ON EXECUTIVE COMPENSATION – Annual Incentive Plan.
- (4) Represents all compensation paid or accrued to NEOs relating to the defined contribution supplemental employee retirement plan. See REPORT ON EXECUTIVE COMPENSATION – Pension Arrangements.
- (5) Includes (i) the dollar value on imputed interest benefits from loans provided to the NEO and the dollar value of insurance premiums paid by the Corporation with respect to term life insurance; (ii) 10% match by the Corporation on contributions made to purchase Fortis shares through the Employee Share Purchase Plan; (iii) contributions made by the Corporation to registered retirement savings plan for the NEO. Perquisites are not disclosed as they did not exceed the minimum disclosure threshold of the lesser of \$50,000 or 10% of the total annual salary and bonus of the NEO.
- (6) All of Mr. Smith's compensation is received in his capacity as an officer of the Corporation. Mr. Smith is not compensated for also serving as a director of the Corporation while he was President and CEO.

- (7) All of Mr. Delaney's compensation is received in his capacity as an officer of the Corporation. Mr. Delaney is not compensated for also service as a director of the Corporation.
- (8) Mr. Smith resigned as President and CEO effective June 30, 2014.
- (9) Effective June 30, 2014, Mr. Delaney was appointed President and Chief Executive Officer.
- (10) Mr. Aplin's base salary effective January 1, 2014 was \$210,000 and was increased to \$220,000 effective February 12, 2014.
- (11) Mr. Delaney's base salary effective January 1, 2014 was \$329,000 and was increased to \$380,400 effective June 30, 2014.

#### STOCK OPTIONS

The following table sets forth details of all outstanding options held by each NEO, at December 31, 2014 for respective stock option grants. Each grant is detailed by the total value of "in-the-money" options that are unexercised, both the portions which have vested to respective NEO and those portions which remained unvested at December 31, 2014.

Name and Principal Position	Year in Which Options Were Granted	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$) <sup>(1)</sup>	Option Expiration Date	Value of Unexercised in-the Money Options (\$) <sup>(2)</sup>
Karl W. Smith <sup>(3)</sup> President and Chief Executive Officer	2006	34,329	22.940	February 28, 2016	\$549,951
	2009	32,280	22.290	March 11, 2016	\$538,108
	2010	36,800	27.360	March 1, 2017	\$426,880
	2011	54,024	32.950	March 2, 2018	\$324,684
	2012	53,692	34.270	May 4, 2022	\$251,815
	2013	56,584	33.580	May 19, 2023	\$304,422
	2014	64,432	30.730	February 24, 2024	\$530,275
		<b>332,141</b>			<b>\$2,926,135</b>
Ian Lorimer Vice President, Finance and Chief Financial Officer	2010	11,516	27.360	March 1, 2017	\$133,586
	2011	10,152	32.950	March 2, 2018	\$61,014
	2012	10,288	34.270	May 4, 2022	\$48,251
	2013	10,832	33.580	March 19, 2023	\$58,276
	2014	11,656	30.730	February 24, 2024	\$95,929
		<b>54,444</b>			<b>\$397,055</b>
Phonse Delaney <sup>(4)</sup> President and Chief Executive Officer	2009	12,048	22.290	March 11, 2016	\$200,840
	2010	14,256	27.360	March 1, 2017	\$165,370
	2011	12,292	32.950	March 2, 2018	\$73,875
	2012	13,308	34.270	May 4, 2022	\$62,415
	2013	14,116	33.580	March 19, 2023	\$75,944
	2014	16,060	30.730	February 24, 2024	\$132,174
		<b>82,080</b>			<b>\$710,617</b>
Annette Iwasaki Vice President, Human Resources and Corporate	2011	1,518	32.950	March 2, 2018	\$9,123
	2012	3,006	34.270	May 4, 2022	\$14,098
	2013	4,770	33.580	March 19, 2023	\$25,663
	2014	7,680	30.730	February 24, 2024	\$63,206
		<b>16,974</b>			<b>\$112,090</b>
Cameron Aplin Vice President, Field Operations	2012	2,732	34.270	May 4, 2022	\$12,813
	2013	4,434	33.580	March 19, 2023	\$23,855
	2014	7,160	30.730	February 24, 2024	\$58,927
		<b>14,326</b>			<b>\$95,595</b>
Karl Bomhof Vice President, General Counsel and Corporate Secretary	2011	3,892	32.950	March 2, 2018	\$23,391
	2012	5,748	34.270	May 2, 2022	\$26,958
	2013	6,104	33.580	March 19, 2013	\$32,840
	2014	7,208	30.730	February 24, 2024	\$59,322
		<b>22,952</b>			<b>\$142,510</b>

**Notes to Stock Options Table:**

- (1) Exercise price is the volume weighted average prices of the Fortis shares traded on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant of the options.
- (2) The value of unexercised in-the-money options at December 31, 2014 is the difference between the option exercise price and the closing value of Fortis shares. The closing price of Fortis shares on the TSX at December 31, 2014 (last trading day) was \$38.96.
- (3) Mr. Smith resigned as President and CEO effective June 30, 2014.
- (4) Mr. Delaney was appointed President and CEO effective June 30, 2014.

**INCENTIVE PLAN AWARDS**

The following table sets forth details of incentive plan awards for all NEOs for the year ended December 31, 2014.

<b>Name and Principal Position</b>	<b>Option-based Awards Value Vested During the Year (\$) <sup>(1)</sup></b>	<b>Non-equity Incentive Plan Compensation Value Earned During the Year (\$) <sup>(2)</sup></b>
Karl W. Smith President and Chief Executive Officer	0	179,500
Ian Lorimer Vice President, Finance and Chief Financial Officer	44,979	125,800
Phonse Delaney President and Chief Executive Officer	0	233,500
Annette Iwasaki Vice President, Human Resources and Corporate Communications	0	141,600
Cameron Aplin Vice President, Field Operations	0	91,900
Karl Bomhof Vice President, General Counsel and Corporate Secretary	0	132,900

**Footnotes:**

- (1) Represents the aggregate value that would have been realized if options that vested during the year had been exercised on the vesting date. The value is calculated as the difference between the market price on the vesting date and the grant price of the respective option grants.
- (2) Represents short-term incentive in the form of cash bonus award earned for 2014. See REPORT ON EXECUTIVE COMPENSATION - Annual Incentive Plan.

**PENSION ARRANGEMENTS**

In 2014, the Corporation contributed to an RRSP for all of the NEOs at an amount equal to 6.5% of their annual base salary, which contributions were matched by the Named Executive Officers up to a maximum RRSP contribution limit of \$24,270 as allowed by the Canada Revenue Agency. In 2014, the Corporation contributed \$12,135 for each of Mr. Smith, Mr. Lorimer, Mr. Delaney, Ms. Iwasaki, Mr. Bomhof and Mr. Aplin.

All of the NEOs participate in a non-contributory the DC SERP. In 2014, the DC SERP provided for the contribution by the Corporation of an amount equal to 13% of the annual base salary plus annual paid cash

bonus of Mr. Smith, Mr. Lorimer, Mr. Delaney, Ms. Iwasaki, Mr. Bomhof and Mr. Aplin in excess of \$186,692 to a notional account upon which interest will accrue at the interest rate of a 10-year Government of Canada bond, plus a premium of 0% to 3%, dependent upon years of service.

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

The following table sets forth details of the balances accrued due to the NEOs pursuant to the DC SERP for the year ended December 31, 2014.

<b>Name and Principal Position</b>	<b>Accumulated Value at Start of Year (\$)</b>	<b>Compensatory (\$)</b>	<b>Accumulated Value at Year-end (\$)</b>
Karl W. Smith President and Chief Executive Officer	965,406	143,353	1,108,759
Ian Lorimer Vice President, Finance and Chief Financial Officer	106,608	27,936	134,544
Phonse Delaney President and Chief Executive Officer	393,754	68,386	462,140
Annette Iwasaki Vice President, Human Resources and Corporate Communications	113,897	23,638	137,535
Cameron Aplin Vice President, Field Operations	36,938	22,080	59,018
Karl Bomhof Vice President, General Counsel and Corporate Secretary	54,214	18,441	72,655

#### INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Karl Smith was indebted to the Corporation in respect of a housing loan provided to him on his transfer and relocation to the Corporation. On June 20, 2007, the Corporation provided a housing and relocation loan of \$1,222,850 to Mr. Smith that was interest free for a period of three years from the loan date. Subsequent to that date, Mr. Smith reduced the amount of the loan to \$600,000. In 2010, the Board of Directors extended the interest free period for another three years and in 2013 the interest free period was extended by the Board of Directors for another three years, after which interest would accrue at the rate of prime plus 0.5%. The total amount of the loan was required to be repaid within ten years of the loan grant date. The loan was secured by a mortgage on the residence purchased by Mr. Smith. The loan was repaid in full effective September 11, 2014.

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

#### TERMINATION OF EMPLOYMENT, CHANGE IN RESPONSIBILITIES AND EMPLOYMENT CONTRACTS

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

#### COMPENSATION OF DIRECTORS

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

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

The directors are also reimbursed for miscellaneous out-of-pocket expenses incurred in carrying out their duties as directors of the Corporation. Mr. Smith was not paid any remuneration for services rendered in his capacity as a director in accordance with the Corporation's policy of not compensating a director that is also a member of the management of the Corporation. The following table details individual director compensation for 2014.

Name	Annual Retainer (\$)	Meeting Fees (\$)	All Other Compensation <sup>(1)</sup> (\$)	Total (\$)
Judith J. Athaide <sup>(2)</sup>	6,250	2,500	0	8,750
Tracey C. Ball	23,750	11,250	5,000	40,000
Mary Cameron	22,500	13,750	3,750	40,000
William J. Daley	20,000	13,750	3,750	37,500
Douglas J. Haughey	50,000	12,500	1,250	63,750
Barry V. Perry	20,000	15,000	5,000	40,000
Donald J. (Jim) Turner	20,000	15,000	1,250	36,250
John C. Walker	20,000	15,000	5,000	40,000
Bill H. Giebelhaus	20,000	15,000	5,000	40,000
Roger D. Thomas	20,000	12,500	1,250	33,750
Susan M. MacKenzie <sup>(3)</sup>	15,000	10,000	1,250	26,250

#### Footnotes:

- (1) All Other Compensation denotes the director's compensation for travel time to meetings located in a city outside of the location of their primary residence, if applicable.
- (2) Ms. Athaide left the Board of Directors effective April 7, 2014.
- (3) Ms. MacKenzie joined the Board of Directors effective April 7, 2014.

## **MATERIAL CONTRACTS**

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

## **LEGAL PROCEEDINGS**

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

## **FORWARD-LOOKING INFORMATION**

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

The forward-looking information in the Annual Information Form includes, but is not limited to statements regarding: the Corporation’s expectation on remaining a regulated electric utility; the Corporation’s expectations relating to the conduct, outcome and timing of regulatory hearings and other litigation matters; the Corporation’s expectation to generate sufficient cash required to complete planned capital programs from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; and the Corporation’s belief that it does not anticipate any difficulties in accessing the required capital on reasonable market terms. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the Corporation’s current business plans; the Corporation’s understanding of the regulatory environment; the advice provided to the Corporation by its advisors; the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation’s ability to maintain its electricity systems to ensure their continued performance; favourable economic conditions; the level of interest rates; access to capital; maintenance of adequate insurance coverage; the ability to obtain licenses and permits; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: legislative and regulatory developments that could affect costs, revenues and the speed and degree of competition entering the electricity distribution market; loss of service areas; costs associated with environmental compliance and liabilities; costs associated with labour disputes; adverse results from litigation; timing and extent of changes in prevailing interest rates; inflation levels; and weather and general economic conditions in geographic areas where the Corporation operates; results of financing efforts.

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

## **TRANSFER AGENTS AND REGISTRARS**

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

## **AUDITORS**

The Corporation's financial statements for the year ended December 31, 2014 have been audited by Ernst & Young LLP, which were first appointed by the shareholders of the Corporation on March 31, 2005. Ernst & Young LLP has confirmed that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

## **ADDITIONAL INFORMATION**

Additional information related to FortisAlberta may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information is provided in the December 31, 2014 audited Financial Statements and Management Discussion and Analysis, which can also be found on SEDAR.