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

For the three and twelve months ended December 31, 2010
February 8, 2011

The following discussion and analysis of financial condition and results of operations of FortisAlberta Inc. (the "Corporation") should be read in conjunction with the Corporation's audited financial statements for the twelve months ended December 31, 2010. The financial information presented in this document has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP" or "Canadian GAAP") and is in Canadian dollars unless otherwise specified.

FORWARD-LOOKING STATEMENTS

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

The forward-looking information in the MD&A includes, but is not limited to, statements regarding: the Corporation's expectation to generate sufficient cash required to complete planned capital programs from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; the Corporation's belief that it does not anticipate any difficulties in accessing the required capital on reasonable market terms; and the Corporation's forecast gross capital expenditures for 2011. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its electricity systems to ensure their continued performance; the commercial development of alternative sources of energy; favourable economic conditions; the level of interest rates; access to capital; maintenance of adequate insurance coverage; the ability to obtain licences and permits; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

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

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

THE CORPORATION

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

The Corporation operates a largely rural, approximately 112,000 kilometre, low-voltage distribution network in central and southern Alberta, which serves approximately 491,000 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers of electricity.

Prior to January 1, 2008, the Alberta Energy and Utilities Board ("EUB") was the chief provincial regulator of the Alberta energy industry. Effective January 1, 2008, the *Alberta Utilities Commission Act* ("*AUC Act*") separated the EUB into two separate regulatory bodies: the Energy Resources and Conservation Board ("ERCB") and the Alberta Utilities Commission ("AUC").

The ERCB regulates the safe, responsible and efficient development of Alberta's energy resources including oil, natural gas and coal.

The AUC's jurisdiction, pursuant to the *Electric Utilities Act* ("EUA"), the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation, including the rates and terms and conditions on which service is to be provided by those utilities. Hereafter, any use of the term AUC will refer to the EUB prior to January 1, 2008 and the AUC subsequently.

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

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

REGULATORY MATTERS

2010/2011 Distribution Tariff Application

On June 16, 2009, the Corporation filed a comprehensive Phase I and II application for 2010 and 2011 electric distribution service rates with the AUC. On July 6, 2010, the AUC issued Decision 2010-309 (the "Decision") on the Corporation's 2010 and 2011 Phase 1 Distribution Tariff Application. The Corporation submitted a compliance filing for its 2010 and 2011 Phase 1 Distribution Tariff Application (the "Compliance Filing") on August 30, 2010 that incorporated Decision 2010-309. On December 6, 2010, the AUC issued Decision 2010-560 approving the 2010 and 2011 Distribution Revenue Requirement amounts of $346.0 million and $368.3 million respectively. The regulated return on equity ("ROE") was 9.0% for 2010.

On July 22, 2010, the AUC released Decision 2010-329 regarding the Corporation's Phase II Distribution Tariff Application. The Corporation's Phase II, rate design, proposals were all effectively approved as filed. The Corporation submitted a Phase II Compliance Filing, rates by customer class, to the AUC on September 10, 2010 based on the Phase I Compliance Filing with an effective date for new final rates and riders of January 1, 2011. On December 14, 2010, the Phase II Compliance Filing was approved in Decision 2010-576. This decision limited the increase to any one rate class to 20%, consistent with the Phase I Decision.

In the Corporation's 2010 and 2011 Phase I Distribution Tariff Application, the Corporation requested to update the 2010/2011 forecast for the capital cost of the automated metering project, bringing the total project forecast to $125.7 million. The AUC concluded that an amount of $104.3 million for the metering project formed part of the 2008/2009 Negotiated Settlement Agreement ("NSA") approved in Decision 2008-011 and therefore did not approve the updated forecast. The Corporation filed a Review and Variance Application with the AUC and a Leave to Appeal with the Alberta Court of Appeal regarding the AUC's reading of Decision 2008-011, the interpretation thereof and the NSA included therein. The AUC issued Decision 2010-554 regarding the Review and Variance Application approving a hearing into the prudency of the capital expenditures above $104.3 million. The Corporation's Leave to Appeal of Decision 2010-309 has been adjourned pending determination of the Review and Variance. The Utilities Consumer Advocate filed with the Alberta Court of Appeal a Leave to Appeal request in respect of Decision 2010-554, which has been similarly adjourned.

Central Alberta Rural Electrification Association ("CAREA") Application
On October 1, 2010, the CAREA filed an application with the AUC seeking a declaration that, effective January 1, 2012, CAREA be entitled to serve any new customer wishing to obtain electricity for use on property within their service area and that the Corporation be restricted to serving only those that are not being served by the CAREA. The Corporation has intervened in the proceeding.

RESULTS OF OPERATIONS

Highlights

	Three Months Ended December 31			Twelve Months Ended December 31		
	2010	2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
($ thousands)						
Revenues	99,452	86,326	13,126	388,462	330,845	57,617
Operating costs	37,560	33,537	4,023	141,472	131,286	10,186
Depreciation	28,769	21,460	7,309	113,334	81,903	31,431
Amortization	3,069	3,133	(64)	12,564	12,482	82
Income before interest and income taxes	30,054	28,196	1,858	121,092	105,174	15,918
Interest expense	13,082	13,495	(413)	53,525	49,537	3,988
Income before income taxes	16,972	14,701	2,271	67,567	55,637	11,930
Income tax recovery	(213)	(672)	(459)	(655)	(4,691)	(4,036)
Net income	17,185	15,373	1,812	68,222	60,328	7,894

The following table outlines the significant increases/(decreases) in the Results of Operations for the three months ended December 31, 2010 as compared to December 31, 2009:

Item	Increase/ (Decrease) ($ millions)	Explanation
Net Income	1.8	The higher net income for the three months ended December 31, 2010 was primarily related to an increase in revenues and a decrease in interest expense, partially offset by increases in operating costs, and depreciation and amortization, as well as a decrease in income tax recovery as described in further detail below.
Revenues	13.1	Electric revenue increased by 14.4 for the three months ended December 31, 2010. Of this increase 14.8 was attributable to distribution rate increases and customer growth. In addition, franchise fee revenue, A-1 rider revenue, farm transmission credit and various revenue deferrals resulted in a net decrease of 0.4. Other revenue decreased by 1.3 for the three months ended December 31, 2010. Net transmission revenue decreased by 0.6 primarily due to the Decision which resulted in the full deferral of transmission costs. The remaining decrease in other revenue is due to a 0.7 decrease in miscellaneous revenue.
Operating Costs	4.0	Operating costs for the three months ended December 31, 2010 were higher than the same period in 2009 due to higher contracted manpower costs and general operating costs. Contracted manpower costs were higher due primarily to higher brushing and meter reading costs. General operating costs were higher due primarily to higher hearing costs and self-insurance reserve costs, settlement system code costs, professional development and training costs, and franchise fee costs, partially offset by a reduction in telecommunications, vehicle and materials costs. Labour and benefit costs and contracted manpower costs comprised approximately 64% of total operating costs for the three months ended December 31, 2010.
Depreciation and Amortization	7.2	The increase for the three months ended December 31, 2010 was due to higher overall depreciation and amortization rates as approved by the Decision. In addition, there was an increase in capital assets related to system growth, as well as upgrades and replacement of assets within the Corporation's service territory. The increase was partially offset by the commencement of capitalization of depreciation for vehicles and tools used in the construction of other assets in 2010.
Interest Expense	(0.4)	The decrease for the three months ended December 31, 2010 was attributable to allowance for funds used during construction ("AFUDC") and lower average drawings under the syndicated credit facility. This was partially offset by higher debt levels arising from the issuance of long-term debt Series 09-2 and Series 10-1 that took place in October of 2009 and October of 2010 respectively to finance increased capital assets, and an increase in interest rates charged on the syndicated credit facility.
Income Tax Recovery	(0.5)	The decrease in income tax recovery for the three months ended December 31, 2010 was primarily due to the change in net customer deferrals subject to future income tax recoveries without an offsetting regulatory liability or asset, resulting in a lower future income tax recovery compared to the same period in 2009.

The following table outlines the significant increases/(decreases) in the Results of Operations for the twelve months ended December 31, 2010 as compared to December 31, 2009:

Item	Increase/ (Decrease) ($ millions)	Explanation
Net Income	7.9	The higher net income for the twelve months ended December 31, 2010 was primarily related to an increase in revenues, partially offset by increases in operating costs, depreciation and amortization and interest expense, as well as a decrease in income tax recovery as described in further detail below.
Revenues	57.6	Electric revenue increased by a total of 65.2 for the twelve months ended December 31, 2010. Of this increase 60.4 was attributable to distribution rate increases and customer growth. In addition, franchise fee revenue, A-1 rider revenue, farm transmission credit and various revenue deferrals resulted in a net increase of 4.8. Other revenue decreased by 7.6 for the twelve months ended December 31, 2010. Net transmission revenue decreased by 4.7, primarily due to the Decision which resulted in the full deferral of transmission costs. The remaining decrease in other revenue is due to a 2.9 decrease in miscellaneous revenue.
Operating Costs	10.2	Operating costs for the twelve months ended December 31, 2010 were higher than the same period in 2009 due to higher labour and general operating costs. Labour costs were higher due to the recognition of the prior years' deferred labour costs in 2010 and an increase in salaries and benefits. General operating costs were higher due primarily to higher hearing costs and self-insurance reserve costs, settlement system code costs, franchise fee costs, information technology costs, and advertising costs, partially offset by a reduction in linear taxes, telecommunication and material costs. Labour and benefit costs and contracted manpower costs comprised approximately 66% of total operating costs for the twelve months ended December 31, 2010.
Depreciation and Amortization	31.5	The increase for the twelve months ended December 31, 2010 was due to higher overall depreciation and amortization rates as approved by the Decision. In addition, there was an increase in capital assets related to system growth, as well as upgrades and replacement of assets within the Corporation's service territory. The increase was partially offset by the commencement of capitalization of depreciation for vehicles and tools used in the construction of other assets in 2010.
Interest Expense	4.0	The increase for the twelve months ended December 31, 2010 was attributable to higher debt levels arising from the issuances of long-term debt Series 09-1, Series 09-2 and Series 10-1 that took place in February 2009, October 2009 and October 2010 respectively to finance increased capital assets, and by an increase in interest rates charged on the syndicated credit facility. This was partially offset by AFUDC and lower average drawings under the syndicated credit facility.
Income Tax Recovery	(4.0)	The decrease in income tax recovery for the twelve months ended December 31, 2010 was primarily due to the change in net customer deferrals subject to future income tax recoveries without an offsetting regulatory liability or asset, resulting in a lower future income tax recovery compared to the same period in 2009. In addition, there was current income tax expense in 2010 and a current income tax recovery in 2009.

Current Economic Conditions
If the Corporation issues new long-term debt and the interest rates are higher than what is approved in its rates, the additional interest costs incurred on long-term debt will not be recovered from customers in rates during the period that is covered by the approved rates. When the Corporation files its next distribution tariff application, it will include the actual interest cost of the long-term debt in its applied for rates with the expectation that the approved distribution rates would allow for the recovery of the actual interest costs. Other costs are similarly subject to change relative to what may be included in customer rates.

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	Revenues	Net Income
December 31, 2010	99,452	17,185
September 30, 2010	109,911	19,180
June 30, 2010	91,243	17,396
March 31, 2010	87,856	14,461
December 31, 2009	86,326	15,373
September 30, 2009	84,015	15,458
June 30, 2009	81,004	17,204
March 31, 2009	79,500	12,293

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

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

- Revenues decreased by $10.5 million for the three months ended December 31, 2010 compared to the three months ended September 30, 2010 primarily as a result of the Decision being recorded in the third quarter of 2010. Net income decreased for the three months ended December 31, 2010 compared to the three months ended September 30, 2010 by $2.0 million due to the decrease in revenues of $10.5 million, an increase in operating costs of $4.7 million, an increase in interest expense of $0.3 million and a decrease in income tax recovery of $0.1 million. This was partially offset by a net decrease in depreciation and amortization of $13.6 million as a result of the Decision being recorded in the third quarter of 2010.

- Revenues increased by $18.7 million for the three months ended September 30, 2010 compared to the three months ended June 30, 2010 primarily as a result of the Decision. Net income increased for the three months ended September 30, 2010 compared to the three months ended June 30, 2010 by $1.8 million due to the increase in revenues of $18.7 million, a decrease in operating costs of $2.7 million, a decrease in interest expense of $1.0 million primarily due to AFUDC and an increase in income tax recovery of $0.4 million. This was partially offset by a net increase in depreciation and amortization of $21.1 million as a result of the Decision.

- Revenues increased by $3.4 million for the three months ended June 30, 2010 compared to the three months ended March 31, 2010. Net income increased for the three months ended June 30, 2010 compared to the three months ended March 31, 2010 by $2.9 million due to the increase in revenues of $3.4 million and decreased interest expense of $0.2 million due to the timing of drawings on the syndicated credit facility. This was partially offset by an increase in operating costs of $0.1 million, an increase in depreciation and amortization of $0.2 million primarily due to the increase in capital assets, and a decreased tax recovery of $0.4 million.

- Revenues increased by $1.5 million for the three months ended March 31, 2010 compared to the three months ended December 31, 2009. Net income decreased for the three months ended March 31, 2010 compared to the three months ended December 31, 2009 by $0.9 million, due to increases in operating costs of $1.9 million, increased interest expense of $0.5 million due to the issuance of the Series 09-2 debentures in October 2009 and a decreased tax recovery of $0.4 million due to the reversal of deferrals in the first quarter of 2010. This was partially offset by a decrease in depreciation and amortization of $0.4 million primarily due to the capitalization of depreciation on vehicles and tools used in the construction of other assets, which offset the effect of the increase in capital assets.

- Revenues decreased by $1.8 million for the three months ended December 31, 2009 compared to the three months ended September 30, 2009, but were offset by the cumulative annual impact of $4.1 million from the Generic Cost of Capital Decision 2009-216, resulting in a net increase of $2.3 million in revenues. Despite this increase in revenue, net income decreased for the three months ended December 31, 2009 compared to the three months ended September 30, 2009 by $0.1 million, primarily as a result of an increase in interest expense of $1.3 million, operating costs of $0.7 million and depreciation and amortization of $0.3 million, as well as a decrease in income tax recovery of $0.1 million.

- Revenues increased for the three months ended September 30, 2009 compared to the three months ended June 30, 2009 by $3.0 million. However, net income decreased for the three months ended September 30, 2009 compared to the three months ended June 30, 2009 by $1.7 million, primarily as a result of an increase in operating costs of $1.6 million, an increase in depreciation and amortization of $1.2 million, and a decrease in income tax recovery of $1.9 million, partially offset by the increase in revenue.

- Revenues increased for the three months ended June 30, 2009 compared to the three months ended March 31, 2009 by $1.5 million. Net income increased for the three months ended June 30, 2009 compared to the three months ended March 31, 2009 by $4.9 million, primarily as a result of an increase in revenues and an increase in income tax recovery of $2.1 million, as well as a decrease in operating costs of $2.4 million. These increases were partially offset by an increase in depreciation, amortization and interest expense.

SUMMARY OF SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2010, 2009 and 2008:

($ thousands)	2010	2009	2008
Revenues [a]	388,462	330,845	299,733
Net income [a]	68,222	60,328	46,093
Assets [b]	2,352,947	2,097,288	1,779,421
Long-term debt [b]	1,073,465	948,154	823,770

Notes:

a. See Results of Operations for commentary on revenue and net income.

b. See Financial Position for a discussion of significant changes in asset and long-term debt balances.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheets as at December 31, 2010 as compared to December 31, 2009:

Item	Increase/ (Decrease) ($ millions)	Explanation
Assets:		
Accounts Receivable	34.0	The increase in accounts receivable was primarily due to increased revenue accruals and accruals for third-party work totaling 35.5, as well as a net increase in other receivables of 0.6, partially offset by a reduction of 1.6 in the receivable from Scotiabank related to the sale of the 2007 AESO deferral and a reduction of 0.5 in GST input tax credits.
Property, Plant and Equipment (net of accumulated depreciation and the regulatory tax basis adjustment)	223.3	The increase in property, plant and equipment was comprised of net additions (adjusted for cost of removal and proceeds on retired assets) to property, plant and equipment of 319.4, less depreciation of 113.3 (which includes the amount for future removal and site restoration costs recovered through depreciation and is net of regulatory tax basis adjustment amortization of 3.5) and an increase of 17.2 in the provision for future removal and site restoration.
Liabilities:		
Regulatory Liabilities	26.1	The increase in regulatory liabilities is primarily due to the increase of 17.2 in the provision for future removal and site restoration and a 9.3 increase in the 2010 AESO Charges Deferral partially offset by a net decrease of 0.4 in the remaining regulatory liabilities.
Future Income Taxes	22.2	Future income taxes increased due to an increase in temporary differences between the carrying value of assets and liabilities and their values for income tax purposes.
Long-term Debt	125.3	The increase was primarily due to the issuances of 125.0 in public debt on October 27, 2010, which was used to partially repay drawings under the syndicated credit facility. In addition, there was an increase of 1.0 in drawings under the syndicated credit facility. These increases were partially offset by a net increase to transaction costs of 0.6 and a discount on the new debt issued of 0.1.
Shareholder's Equity:		
Contributed Surplus	55.0	During the twelve months ended December 31, 2010, the Corporation received 55.0 in equity contributions from Fortis Alberta Holdings Inc. (the Corporation's parent and an indirectly wholly-owned subsidiary of Fortis). No additional shares were issued in connection with these contributions.

SOURCES AND USES OF LIQUIDITY AND CAPITAL RESOURCES

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

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

STATEMENT OF CASH FLOWS

	Three Months Ended December 31			Twelve Months Ended December 31		
($ thousands)	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Cash, beginning of period	–	–	–	–	–	–
Cash provided from (used in)						
Operating activities	61,846	23,425	38,421	195,712	134,795	60,917
Investing activities	(108,746)	(84,291)	(24,455)	(334,824)	(384,338)	49,514
Financing activities	46,900	60,866	(13,966)	139,112	249,543	(110,431)
Cash, end of period	–	–	–	–	–	–

Operating Activities

For the three months ended December 31, 2010, net cash provided from operating activities was $61.8 million, which was $38.4 million higher than the same period in 2009. Cash receipts were $42.8 million higher than the same period in 2009 primarily due to an increase in cash from net transmission receipts and payments, as well as an increase in distribution rates and customer counts. Cash payments were $8.7 million higher in 2010 compared to the same period in 2009. Cash interest paid was $3.4 million higher in 2010 than the same period in 2009 due to the issuance of long-term debt Series 09-2 that took place in October 2009 and an increase in interest rates charged on the syndicated credit facility. This was partially offset by lower average drawings under the syndicated credit facility. Further, there was an additional net increase of $7.7 million in cash from operating activities due to the changes in accounts receivable and accounts payable balances relating to transmission and distribution connected projects, GST and other receivables.

For the twelve months ended December 31, 2010, net cash provided from operating activities was $195.7 million, which was $60.9 million higher than the same period in 2009. Cash receipts were $84.7 million higher in 2010 than in 2009 primarily due to an increase in cash from net transmission receipts and payments, as well as an increase in distribution rates and customer counts. Cash payments were $15.3 million higher in 2010 compared to the same period in 2009. Cash interest paid was $9.6 million higher in 2010 than the same period in 2009 due to the issuance of long-term debt Series 09-1 and Series 09-2 that took place in February 2009 and October 2009 respectively, and an increase in interest rates charged on the syndicated credit facility. This was partially offset by lower average drawings under the syndicated credit facility. Cash taxes received were $2.0 million lower in 2010 compared to the same period in 2009. Further, there was an additional net increase of $3.1 million in cash from operating activities due to changes in accounts receivable and accounts payable balances relating to transmission and distribution connected projects, GST and other receivables, partially offset by the payment to Scotiabank in 2010 relating to the sale of the 2007 AESO deferral.

Management believes that the Corporation will continue to be a rate-regulated entity allowing for recovery of its prudently incurred regulated costs and a reasonable return on equity. In this environment the Corporation should be able to pay all operating costs and interest expense out of operating cash flows, with some residual available for dividend payments to the parent company and/or capital expenditures. If there is continued growth, the Corporation will require additional financing in the form of debt and equity to fund a portion of its capital expenditures. In addition, management expects that the Corporation will continue to provide these distribution services to the customers in its service territory for the foreseeable future and, as such, when the current debt instruments mature the Corporation would be required to issue new debt to repay the principal obligations, as there would still be a requirement for that capital to support the assets of the Corporation. There are no required long-term debt principal repayments in 2011.

Investing Activities

	Three Months ended December 31			Twelve Months ended December 31		
($ thousands)	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Capital expenditures						
New customers	43,476	41,086	2,390	166,831	188,183	(21,352)
Capital upgrades and replacements	23,036	18,561	4,475	69,875	64,761	5,114
Facilities, vehicles and other	16,244	20,921	(4,677)	65,793	92,088	(26,295)
Information technology	5,480	2,020	3,460	13,706	10,289	3,417
AESO contributions	10,768	10,107	661	33,091	35,889	(2,798)
Gross capital expenditures	99,004	92,695	6,309	349,296	391,210	(41,914)
Less: customer contributions	(13,105)	(5,820)	(7,285)	(41,505)	(25,282)	(16,223)
Net capital expenditures	85,899	86,875	(976)	307,791	365,928	(58,137)

The Corporation's utility operations are capital intensive. For the three months ended December 31, 2010, the Corporation had gross capital expenditures of approximately $99.0 million compared to $92.7 million for the same period in 2009. Capital expenditures related to new customers increased by $2.4 million compared to the same period in 2009, primarily as a result of an increase in demand for new residential services, farm services, oil and gas, and general service. This increase was partially offset by a decrease in irrigation services. Capital expenditures related to capital upgrades and replacements increased by $4.5 million compared to the same period in 2009, primarily as a result of AFUDC and an increase in substation upgrades, efficient operations and planned maintenance. This increase is partially offset by a decrease in capacity upgrades and system improvements. Capital expenditures related to facilities, vehicles and other decreased by $4.7 million compared to the same period in 2009, primarily as a result of decreases of $7.5 million related to meters and meter equipment, offset by an increase of $2.3 million related to buildings, the majority due to the High River field office construction project, and an increase of $0.9 million related to vehicles. Capital expenditures related to information technology increased by $3.5 million compared to the same period in 2009 as a result of increased spending in 2010 on hardware purchases and the increased spending in 2010 to meet the business requirements of the engineering, procurement and construction project which looks to increase the efficiency by which the Corporation undertakes these functions. Capital expenditures related to AESO Contributions increased by $0.7 million.

For the twelve months ended December 31, 2010, the Corporation had gross capital expenditures of approximately $349.3 million, compared to $391.2 million for the same period in 2009. Capital expenditures related to new customers decreased by $21.4 million compared to the same period in 2009, primarily as a result of a decrease in residential and irrigation services, partially offset by an increase in oil and gas, and general service. Capital expenditures related to capital upgrades and replacements increased by $5.1 million compared to the same period in 2009, primarily as a result of AFUDC as well as an increase in planned maintenance. This increase is partially offset by a decrease in substation upgrades and efficient operations. Capital expenditures related to facilities, vehicles and other decreased by $26.3 million compared to the same period in 2009, primarily as a result of a decrease related to meters and meter equipment, system purchases and changes in transformers. This decrease is partially offset by an increase related to buildings. Capital expenditures related to information technology increased by $3.4 million, primarily as a result of increased spending on hardware and software. Capital expenditures related to AESO Contributions decreased by $2.8 million.

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

Cash used in investing activities was $22.8 million higher than net capital expenditures for the three months ended December 31, 2010 and $27.0 million higher than net capital expenditures for the twelve months ended December 31, 2010 as illustrated by the following table:

($ thousands)	Three Months Ended December 31, 2010	Twelve Months Ended December 31, 2010
Net capital expenditures	85,899	307,791
Changes in:		
Non-cash working capital	8,293	10,827
Costs of removal, net of salvage proceeds, from the sale of property, plant and equipment and AFUDC	908	11,378
Capitalized depreciation	(1,152)	(4,733)
Materials and supplies	14,826	885
December 31, 2009 transformer accumulated depreciation refunded to customers in 2010 per the Decision	–	8,642
Change in employee loans	(28)	34
Cash used in investing activities	108,746	334,824

Financing Activities

For the three months ended December 31, 2010, net cash provided from financing activities was $46.9 million, compared to $60.9 million during the same period in 2009. This decrease was primarily due to a $55.0 million decrease in equity contributions received. In addition, dividends paid to Fortis Alberta Holdings Inc. for the three months ended December 31, 2010 were $8.8 million compared to $7.5 million for the same period in 2009. There was also an increase of $0.1 million in transaction costs. These reductions were partially offset by an increase for the three months ended December 31, 2010 of $42.3 million in net debt issuances as compared to the same period in 2009.

For the twelve months ended December 31, 2010, net cash provided from financing activities was $139.1 million, compared to $249.5 million during the same period in 2009. This decrease was primarily due to a decrease in equity contributions received of $92.5 million and a $14.1 million decrease in the net issuance of debt and as compared to the twelve months ended December 31, 2009. In addition, dividends paid to Fortis Alberta Holdings Inc. for the twelve months ended December 31, 2010 were $35.0 million compared to $30.0 million for the same period in 2009. This decrease in cash was partially offset by lower cash expenditures on transaction costs of $1.1 million compared to the same period in 2009.

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

Capital Expenditures

As an electric utility, the Corporation is obligated to provide a safe and reliable service to its customers. The Corporation has forecast total gross capital expenditures for 2011 of approximately $394.7 million including $169.1 million for customer requested capital, $86.9 million for capital upgrades and improvements, $17.7 million for metering, and $121.0 million for other capital. Included in other capital is $14.4 million for information technology, $11.3 million for facilities and $83.7 million for contributions to AESO projects, and $11.6 million relating to other capital projects. In addition, the Corporation expects to receive forecast customer contributions of approximately $29.5 million. These estimates are based upon detailed forecasts, which include numerous assumptions such as customer demand, weather, cost of labour and material, as well as other factors that could change and cause actual results to differ from these forecasts.

COMMITMENTS

Operating Leases and Other Contractual Obligations

The Corporation has operating leases for facilities, office premises and joint use agreements for electric system assets. Future minimum annual lease payments and debt repayments are as follows:

($ thousands)	Total	2011	2012-13	2014-15	Thereafter
Debt[a]	1,091,559	9,352	22,984	200,000	859,223
Joint use agreements[b]	61,040	3,052	6,104	6,104	45,780
Shared services agreements[c]	3,439	737	1,474	1,228	–
Office leases	2,145	726	897	522	–
Total contractual obligations	1,158,183	13,867	31,459	207,854	905,003

Notes:

a. *The debt balance does not include transaction costs of $8.7 million.*

b. *The Corporation and an Alberta transmission service provider have entered into an agreement to allow for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Corporation no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after year 2015 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time.*

c. *The Corporation and an Alberta transmission service provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of five years from September 1, 2010 and are subject to extension based on mutually agreeable terms.*

Pension Contribution Obligations

The Corporation makes minimum pension contributions into a defined benefit component of the Corporation's pension plan for certain employees. Future actuarial valuations will establish the funding obligations for 2011 and subsequent years, which could be materially different from prior years depending upon market conditions. The next required funding valuation is expected to be completed as at December 31, 2010 and will be filed in 2011.

CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are to ensure ongoing access to capital to allow it to build and maintain the electrical distribution system within the Corporation's service territory. To ensure this access to capital, the Corporation targets a long-term capital structure that includes approximately 59% long-term debt and 41% equity, which is consistent with the Generic Cost of Capital Decision 2009-216. This targeted capital structure is after eliminating the effects of goodwill and the regulatory tax basis adjustment. This ratio is maintained by the Corporation through the issuance from time to time of bonds or other evidences of indebtedness, and/or equity contributions by Fortis Alberta Holdings Inc.

Summary of Long-term Capital Structure

December 31	2010		2009	
	$ millions	%	$ millions	%
Total long-term debt[a]	1,082.2	57.3	956.3	57.1
Shareholder's equity	807.5	42.7	719.2	42.9
Total	1,889.7	100.0	1,675.5	100.0

Note:

a. *The December 31, 2010, balance does not include transaction costs of $8.7 million (December 31, 2009 – $8.1 million).*

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

As at December 31, 2010, the Corporation has externally imposed capital requirements by virtue of the Trust Indenture and the syndicated credit facility to which it is subject that limit the amount of debt that can be incurred relative to equity. The Corporation is in compliance with these externally imposed capital requirements for the year ended December 31, 2010.

As at December 31, 2010, the Corporation's credit ratings were as follows:

Dominion Bond Rating Service Limited ("DBRS")	A (low), stable outlook
Moody's Investors Service ("Moody's")	Baa1, stable outlook
Standard and Poor's ("S&P")	A-, stable outlook

On October 22, 2010 the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation agreed to sell $125.0 million of senior unsecured debentures. The debentures bear interest at a rate of 4.80%, to be paid semi-annually, and mature on October 27, 2050. The transaction closed on October 27, 2010, and the proceeds of the issue were used to repay existing indebtedness incurred under the syndicated credit facility, and for general corporate purposes.

As at December 31, 2010, the Corporation's outstanding long-term debt of $1,082.2 million was made up of public debt of $400.0 million issued October 25, 2004, $100.0 million issued April 21, 2006, $109.9 million (net of discount of $0.1 million) issued January 3, 2007, $99.5 million (net of discount of $0.5 million) issued April 15, 2008, $100.0 million (net of discount of $13 thousand) issued February 13, 2009, $124.9 million (net of discount of $0.1 million) issued October 30, 2009, and $124.9 million (net of discount of $0.1 million) issued October 27, 2010. In addition, the Corporation had $23.0 million outstanding under its syndicated credit facility.

The Corporation has an unsecured syndicated credit facility with an amount available of $200.0 million, and with the consent of the lenders, the amount can be increased to $250.0 million. The maturity date of this facility is May 2012. Drawings under the syndicated credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans issued under the syndicated credit facility bear an interest rate of prime. Bankers' acceptances issued under the syndicated credit facility are issued at the applicable bankers' acceptance discount rate plus a stamping fee calculated at 0.375%. The average interest rate for the year ended December 31, 2010 on the syndicated credit facility was 1.1% (year ended December 31, 2009 – 1.0%). As at December 31, 2010, there were $23.0 million in drawings under the facility for banker's acceptances (December 31, 2009 – $22.0 million), and there was $56.6 million drawn in letters of credit (December 31, 2009 – $23.4 million).

An unsecured demand facility of $10.0 million was available to the Corporation as at December 31, 2010. This facility bears an interest rate on all drawings equal to prime. There were $1.9 million in drawings on this facility as at December 31, 2010 (December 31, 2009 – $1.7 million), which was included in short-term debt.

OUTSTANDING SHARES

Authorized – unlimited number of:

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

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

For the year ended December 31, 2010, the Corporation declared and paid dividends totaling $35.0 million (year ended December 31, 2009 – $30.0 million) to Fortis Alberta Holdings Inc. (the Corporation's parent and an indirectly wholly owned subsidiary of Fortis).

RELATED PARTY TRANSACTIONS

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

($ thousands)	Included in Accounts Receivable		Included in Accounts Payable	
December 31	2010	2009	2010	2009
FortisBC Inc.	76	10	7	–
Fortis	12	–	594	272
Fortis Turks and Caicos Inc.	15	17	–	–
Terasen Gas Inc.	–	–	–	5
Housing loans to officers of the Corporation[(a)]	750	750	–	–
Stock option loans to officers of the Corporation[(b)]	814	814	–	–
Employee share purchase plan loans to officers of the Corporation[(c)]	14	14	–	–
Employee computer loans to officers of the Corporation[(d)]	1	–	–	–
Total	1,682	1,605	601	277

Notes:

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

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

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

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

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

The amounts included in other revenue and operating costs for related parties for the years ended December 31, 2010 and 2009 were measured at the exchange amount and are as follows:

($ thousands)	Included in Other Revenue		Included in Operating Costs	
December 31	2010	2009	2010	2009
FortisBC Inc.	253	139	24	25
Fortis	72	57	2,453	1,755
Fortis Pacific Holdings Inc.	12	4	–	–
Fortis Properties Inc.	–	–	8	15
Fortis Turks and Caicos Inc.	27	17	–	–
Maritime Electric Company, Limited	12	12	–	–
Newfoundland Power Inc.	65	–	4	9
Terasen Gas Inc.	–	–	–	5
FortisOntario Inc.	–	–	4	–
Total	441	229	2,493	1,809

FortisBC Inc. is a regulated electric utility that generates, transmits and distributes electricity in the Province of British Columbia and is indirectly wholly owned by Fortis. FortisBC Inc. billed the Corporation in 2010 for charges consisting of pension costs, as well as travel and accommodation expenses for board meetings. In 2010, the Corporation provided metering services, employee services, information technology services and material sales to FortisBC Inc.

Fortis is a diversified, international electricity and gas distribution utility holding company having investments in distribution, transmission and generation utilities, real estate and hotel operations, and is the indirect parent of the Corporation. Fortis billed the Corporation in 2010 for charges relating to corporate governance expenses, stock-based compensation costs, pension costs, subscription expenses, meals, and travel and accommodation expenses for board meetings. In 2010, the Corporation provided employee services for board meetings.

Fortis Pacific Holdings Inc. ("Fortis Pacific") is an indirectly wholly-owned subsidiary of Fortis. Fortis Pacific is the parent company of FortisBC Inc. In 2010, the Corporation provided metering services to Fortis Pacific.

Fortis Properties Inc. is a wholly-owned subsidiary of Fortis. Fortis Properties Inc. is a diversified company with holdings in commercial real estate, hotels and hydroelectric generation. Fortis Properties Inc. billed the Corporation for travel and accommodation expense for board meetings in 2010.

Fortis Turks and Caicos Inc. is an indirectly wholly-owned subsidiary of Fortis. Fortis Turks and Caicos Inc. owns and operates a fully integrated system providing for the generation and distribution of energy on the Turks and Caicos Islands. Fortis Turks and Caicos Inc. received employee services, information technology services and material sales from the Corporation in 2010.

Maritime Electric Company, Limited ("Maritime Electric") common shares are owned by FortisWest Inc., which is a holding company of Fortis. Maritime Electric is a principal distributor of electricity in the Province of Prince Edward Island. In 2010, the Corporation provided metering services to Maritime Electric.

Newfoundland Power Inc. is an electric utility that is a wholly-owned subsidiary of Fortis and owns and operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power Inc. billed the Corporation for staff expenses, consultant costs on risk management, pension and internal audit services in 2010. Newfoundland Power Inc. received employee services from the Corporation in 2010.

FortisOntario Inc. is a regulated electric utility that generates, transmits and distributes electricity in the Province of Ontario and is indirectly wholly owned by Fortis. FortisOntario Inc. billed the Corporation in 2010 for charges relating to travel and accommodation expenses for board meetings.

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

FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, requires an entity to designate its financial instruments into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) held-for-trading assets and liabilities. The Corporation did not designate any of its financial assets or liabilities as held-to-maturity, available-for-sale or held for trading as at December 31, 2010.

The Corporation has elected to designate its financial instruments as follows:

($ thousands)	December 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans and receivables				
Accounts receivable (short-term)[(a)(b)]	113,748	113,748	79,250	79,250
Accounts receivable (long-term)[(a)]	1,584	1,584	1,587	1,587
Other financial liabilities				
Accounts payable and accrued liabilities[(a)(c)]	133,760	133,760	136,048	136,048
Short-term debt[(a)]	9,352	9,352	15,176	15,176
Long-term debt[(d)]	1,082,207	1,223,015	956,297	1,008,455

Notes:

a. *Due to the nature and/or short maturity of these financial instruments, carrying value approximated fair value.*

b. *The December 31, 2010 balance does not include input tax credits receivable of $0.4 million (December 31, 2009 – $1.0 million).*

c. *Included within accounts payable, accrued and other liabilities in the Balance Sheet.*

d. *The December 31, 2010 balance does not include transaction costs of $8.7 million (December 31, 2009 – $8.1 million)*

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

Derivatives

The Corporation currently does not have any stand-alone derivative instruments as defined under Section 3855. The Corporation conducted a review of contractual agreements for embedded derivatives.

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

Risk Management

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

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

The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The following table provides information on the counterparties that the Corporation extends credit to with respect to its distribution tariff billings as at December 31, 2010.

Credit Rating	Number of Counterparties	Gross Exposure ($ thousands)	Exposure ($ thousands)
AAA to AA (low)	1	1,585	–
A (high) to A (low)	8	4,467	–
BBB (high) to BBB (low)	8	12,696	–
Not rated	33	96,195	2,369
Total	50	114,943	2,369

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

Retailers with investment grade credit ratings have the exposure shown as nil since the rating serves to reduce the amount of prudential required under the Terms and Conditions of Distribution Access Service. For retailers that do not have an investment grade credit rating, the exposure is calculated as the projected value of billings over a 60-day period less the prudential held by the Corporation.

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

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

($ thousands)	December 31, 2010
Not past due	111,831
Past due 0-60 days	1,682
Past due 61 days and over	235
	113,748

Interest Rate Risk

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

A change in the Corporation's interest rates results in interest rate exposure for drawings under the syndicated credit facility. The Corporation has determined that a change in interest rates of an increase of 200 basis points and a decrease of 25 basis points represents a reasonably possible financial risk, and has prepared the following sensitivity analysis to represent the impacts of a change on net income for the year ended December 31, 2010:

($ thousands)	Year ended December 31, 2010	
	25 basis point decrease	200 basis point increase
Increase (decrease) in net income	178	(1,423)

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

As at December 31, 2010, the Corporation was rated by Moody's at Baa1, by S&P at A-, and by DBRS at A (low). A downward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2010 could potentially have increased interest expense under these debt facilities by approximately $92 thousand for the year ended December 31, 2010. An upward one notch change in the rating by any of DBRS, Moody's or S&P on January 1, 2010 could potentially have decreased interest expense under these debt facilities by approximately $67 thousand for the year ended December 31, 2010.

Liquidity Risk

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

Volatility experienced in the global capital markets may increase the cost of issuance of long-term capital by the Corporation. Capital market volatility may also impact the Corporation's future funding obligations and/or pension expense associated with its defined benefit pension plan. There are a number of risks associated with the Corporation's defined benefit pension plan including: 1) there is no assurance that the Corporation's defined benefit pension plan will earn the assumed rate of return, 2) market driven changes may result in changes in the discount rates and other variables, which would result in the Corporation being required to make contributions in the future that differ from the estimates, and 3) there is measurement uncertainty incorporated into the actuarial valuation process. These risks are expected to be mitigated as the Corporation makes application in rates to collect from customers the actual cash payments into the Corporation's defined benefit pension plan and defined contribution pension plans. Therefore, an increase or decrease in the Corporation's future funding obligations and/or pension expense associated with either plan is expected to be collected or refunded in future rates, subject to forecast risk. In December 2009 the defined benefit assets were invested in a 100% long-term bond fund, which significantly reduces the forecast risk on future defined benefit funding obligations.

The Corporation's outstanding financial liabilities as at December 31, 2010, include short-term debt, accounts payable and accrued liabilities, and long-term debt. The Corporation expects to settle its financial liabilities relating to short-term debt and accounts payable and accrued liabilities in accordance with their contractual terms of repayment, which are generally within one year. The following table summarizes the number of years to maturity of the principal outstanding and interest payments on the Corporation's long-term debt, which is composed of drawings on the syndicated credit facility and senior unsecured debentures, as at December 31, 2010:

($ thousands)	1–5 Years	6–10 Years	> 10 Years	Total
Drawings on the syndicated credit facility [(a)(c)]	23,000	–	–	23,000
Senior unsecured debentures [(b)(c)]				
- Principal payments	200,000	–	860,000	1,060,000
- Interest payments	287,398	244,758	943,841	1,475,997
Total	510,398	244,758	1,803,841	2,558,997

Notes:

a. *The Corporation's syndicated credit facility has a maturity date of May 2012. The drawings under the syndicated credit facility as at December 31, 2010 are bankers' acceptances, which have their own contractual maturity dates. The amounts shown above reflect the principal and interest due when the current bankers' acceptances mature. This balance will fluctuate between December 31, 2010 and the maturity date of the syndicated credit facility.*

b. *The December 31, 2010 balance does not include transaction costs of $8.7million.*

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

SIGNIFICANT ACCOUNTING ESTIMATES

Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. In addition, certain estimates not associated with regulatory decisions are also subject to finalization and adjustments.

Income Taxes
Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of future income taxes resulting from temporary differences between the carrying value of asset and liabilities in the financial statements and their tax values. A future income tax asset or liability is determined for each temporary difference based on the future tax rates that are expected to be in effect and management's assumptions regarding the expected timing of the reversal of such temporary differences. Future income tax assets are assessed for the likelihood that they will be recovered from future taxable income. To the extent recovery is not considered more likely than not, a valuation allowance is recorded and charged against income in the period that the allowance is created or revised.

General Litigation
The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations. The Corporation periodically reviews these claims to determine if amounts should be accrued in the financial statements or if specific note disclosure is warranted.

Depreciation and Amortization
Depreciation and amortization are estimates based primarily on the service life of assets. The Corporation records depreciation and amortization expense based on the rates approved by the AUC. These rates are updated based on depreciation studies that are filed by the Corporation and are subject to change.

Employee Future Benefits
The Corporation's defined benefit pension plan expense and other post-retirement benefit expense are subject to judgments utilized in the actuarial determination of the expense. Some of the assumptions utilized by management in determining this expense were the discount rate for the accrued benefit obligation and the expected long-term rate of return on plan assets. Other assumptions applied were average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates. The defined benefit pension plan and other post-retirement plan assumptions are assessed and concluded in consultation with the Corporation's external actuarial advisor.

Discount rates, which are used to determine the accrued benefit obligation, reflect market interest rates on high quality bonds with cash flows that match the timing and amount of expected pension benefit payments. This methodology is consistent with that used to determine the discount rate in the previous year.

As in previous years, the Corporation's actuary provides a range of expected long-term pension asset returns based on the actuary's internal modelling. The expected long-term return on pension plan assets of 4.75% falls within the conservative to normal range as indicated by the actuary.

As described in Note 10(b) of the Corporation's audited financial statements for the twelve months ended December 31, 2010, the Corporation recovered in rates other post-retirement benefits, supplemental pension plan costs, defined benefit and defined contribution costs based on the estimated cash payments included in the Decision. Any difference between the expense recognized under GAAP for pension and other post-retirement plans and that recovered in current rates, that is expected to be recovered or refunded in future rates, is subject to deferral treatment.

Goodwill
Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any previous amortization and write-down for impairment. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its fair market value. During each fiscal year and as economic events dictate, management reviews the valuation of the goodwill, taking into consideration any events or circumstances that might have impaired the fair value.

Revenue Recognition
Revenues are recognized as earned, at AUC approved rates where applicable, including amounts recognized on an accrual basis for services rendered, but not yet billed. The unbilled revenue accrual at the end of each period is based on the difference between the forecast revenue and the actual amounts billed. The development of the revenue forecast is based upon numerous assumptions such as energy deliveries, customer growth, economic activity and weather conditions.

Expense Accruals
Costs and liabilities are recognized as incurred, including amounts recognized on an accrual basis for expenses or liabilities incurred but not yet invoiced. These accruals are made based upon estimates of the value of services rendered or goods received that are not yet invoiced or for liabilities incurred.

Regulation
All amounts deferred as regulatory assets and liabilities are subject to AUC approval. As such, subject to the provisions of the EUA, the AUC could alter the amounts subject to deferral at which time the change would be reflected in the financial statements. Based on regulatory decisions, the Corporation records the amount expected to be recovered or refunded.

CHANGES IN ACCOUNTING POLICIES AND PRESENTATION

Changes in Items Capitalized
In accordance with AUC Rule 026, effective January 1, 2010 the Corporation capitalizes a portion of the depreciation of assets, such as tools and vehicles, used in the construction of other assets as well as the cost of line patrols.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

The Corporation commenced its IFRS conversion project in 2007 and in conjunction with Fortis established a formal project governance structure which included the Fortis Audit Committee, senior management and project teams from Fortis and each of the Fortis subsidiaries. Overall project governance, management and support have been coordinated by Fortis, with an independent external advisor engaged to assist in the IFRS conversion.

IFRS does not currently provide specific guidance with respect to accounting for rate-regulated activities. Over the past two to three years, the International Accounting Standards Board ("IASB") discussed and deliberated on the subject of accounting for rate-regulated activities, but did not issue a standard specifically addressing accounting for rate-regulated activities. In September 2010, the IASB reconfirmed its earlier view that matters associated with rate-regulated accounting could not be resolved quickly. The IASB, therefore, decided to defer any further discussion on accounting for rate-regulated activities until public consultation on its future agenda is held, and views are obtained as to what form, if any, a future project might take to address accounting for the effects of rate-regulated activities are obtained. Without specific guidance on accounting for rate-regulated activities by the IASB, a transition to IFRS could result in the derecognition of some, or perhaps all, of the Corporation's regulatory assets and liabilities, and net earnings may, as a result, be subject to greater volatility going forward.

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

While the Corporation's IFRS Conversion Project has proceeded as planned in preparation for the adoption of IFRS on January 1, 2011, the Corporation qualifies for the optional one year deferral and, therefore, will continue to prepare their financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

Due to the continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the IASB, the Corporation is evaluating the option of adopting United States Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012. Canadian rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as a Securities Exchange Commission ("SEC") Issuer. An SEC Issuer, as defined under the Canadian rules, is an issuer that: (i) has a class of securities registered with the US Securities and Exchange Commission under Section 12 of the US Securities Exchange Act of 1934, as amended (the "Exchange Act"), or (ii) is required to file reports under Section 15(d) of the Exchange Act. The Corporation has developed and initiated a plan to evaluate this possibility. As an SEC Issuer, the Corporation would then be permitted to prepare and file its financial statements in accordance with US GAAP for all interim and annual periods beginning on or after January 1, 2012.

The Corporation's application of Canadian GAAP currently is based on principles generally consistent with US GAAP for guidance on accounting for rate-regulated activities which allows the economic impact of rate-regulated activities to be recognized in the financial statements in a manner consistent with the timing by which amounts are reflected in customer rates.

The Corporation's plan to evaluate US GAAP effective January 1, 2012 consists of the following three phases:

Phase I, Scoping and Diagnostics: this phase consists of project initiation and awareness, identification of high level differences between US GAAP and Canadian GAAP and project planning and resourcing. The Corporation has commenced work on Phase I and is scheduled for completion by mid-year 2011.

Phase II, Analysis and Development: this phase consists of detailed diagnostics and evaluation of the financial impacts of adopting US GAAP, identification and design of operational and financial business processes, and development of required solutions to address identified issues. Phase II of the plan is scheduled for completion by the third quarter of 2011.

Phase III, Implementation and Review: this phase consists of implementation of the changes required by the Corporation to prepare and file its financial statements based on US GAAP beginning in 2012, and communication of the associated impacts. Phase III is expected to commence in the second quarter of 2011 and would conclude if the Corporation pursues the plan and issues its first annual audited US GAAP financial statements for the year ending December 31, 2012. Commencing with the first quarter of 2012, the plan to evaluate this option would have the Corporation's unaudited interim financial statements prepared in accordance with US GAAP should it be pursued.

The Corporation's IFRS project advisors will continue to advise the Corporation on accounting related matters with respect to the adoption of US GAAP. Legal counsel has also been engaged to assist with securities filings and other legal matters associated with the adoption of US GAAP.

BUSINESS RISK

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

A Statement of Claim was filed on December 18, 2007 in which the Plaintiff, a minor, claims damages in excess of $4.5 million against the numerous defendants, including the Corporation. The Plaintiff's claim arises from personal injuries he suffered in August, 2006 as a result of a motorcycle accident. The Plaintiff alleges that the defendants or any of them, including the Corporation, negligently erected or failed to remove a wire that was strung between a sign and a power pole of the Corporation. While riding his motorcycle, the Plaintiff is alleged to have struck the wire causing his injuries. On August 27, 2008 the parents of the Plaintiff issued a Statement of Claim in the Court of Queen's Bench of Alberta, Judicial District of Edmonton claiming that they suffered damages arising from the mental distress they are alleged to have suffered as a result of witnessing the aftermath of their son's injuries. The combined value of the damages claimed in the action by the two parents is approximately $0.35 million. In addition, the Alberta Government has filed a claim for approximately $0.32 million to recover health care costs the Provincial Government has incurred in the treatment of the Plaintiff. The Corporation's insurer has agreed to extend coverage for the Plaintiff's claim as well as the claim of his parents. Based on a preliminary investigation of the claims, management believes that the accident was not caused by the Corporation's facilities and that the Corporation has no liability for either the Plaintiff's claim or that of his parents. However, it is too early in the proceedings to provide a definitive assessment of the Corporation's exposure.

Regulatory Approval and Rate Orders
The regulated operations of the Corporation are subject to the normal uncertainties faced by regulated companies. These uncertainties include approval by the AUC of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on rate base. The ability of the Corporation to recover the actual costs of providing services and to earn the approved rates of return depends on

achieving the forecasts established in the rate-setting process. The cost of upgrades to existing facilities and the addition of new facilities require the approval of the AUC for inclusion in rate base. There is no assurance that capital projects perceived as required by the management of the Corporation will be approved or that conditions to such approval will not be imposed. Capital cost overruns might not be recoverable in rates.

Rate applications that establish revenue requirements may be subject to negotiated settlement procedures in Alberta. Failing a negotiated settlement, rate applications may be pursued through public hearing processes. There can be no assurance that the rate orders issued or negotiated settlements approved by the AUC will permit the Corporation to recover all costs actually incurred and to earn the expected rate of return. A failure to obtain acceptable rate orders may adversely affect the business carried on by the Corporation, the undertaking or timing of proposed expansion projects, the issue and sale of securities, ratings assigned by rating agencies and other matters which 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 decisions in a timely manner and, therefore, may incur costs prior to having an approved revenue requirement.

If the Corporation's actual costs exceed allowed costs, and such excess costs are not recoverable through the rate-setting process, the Corporation's financial performance could be adversely affected. Actual costs could exceed allowed costs if, for example, the Corporation incurs operational, maintenance or administrative costs above those included in the Corporation's approved revenue requirement, higher expenses due to capital expenditures being at levels above those provided for in the rate orders, additional financing charges because of increased debt balances, or interest rates being higher than those included in the approved revenue requirement.

The restructuring of the power industry in Alberta continues to create uncertainty for the Corporation and its business. While restructuring of the power industry in Alberta officially commenced on January 1, 1996, the underlying legislation and regulations pursuant to which such restructuring was implemented continue to evolve. Changes in such legislation may have a retroactive effect. The extent to which the Government of Alberta may participate in, and make adjustments to, the market cannot be foreseen. The regulations and market rules that govern the competitive wholesale and retail electricity markets in Alberta continue to evolve and there may be significant changes in these regulations and market rules that could adversely affect the ability of the Corporation to recover its costs or to earn a reasonable return on its capital.

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 Energy Services (Alberta) Inc. ("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 and/or equipment.

Loss of Service Areas
The Corporation serves customers that reside within various municipalities throughout its service areas. From time to time, municipal governments in Alberta give consideration to municipalities creating their own electric distribution utility by purchasing the assets of the Corporation that are located within their municipal boundaries. Upon the termination of its franchise agreement, a municipality has the right, subject to AUC approval, to purchase the Corporation's assets within its municipal boundaries pursuant to the *Municipal Government Act* with the price therefore to be agreed or failing an agreement, set by the AUC.

Additionally, under the *Hydro and Electric Energy Act*, if a municipality that owns an electric distribution system expands its boundaries the municipality can acquire the Corporation's assets in the annexed area. In such circumstances, the *Hydro and Electric Energy Act* provides that the AUC may determine that the municipality should pay compensation to the Corporation for any facilities transferred on the basis of "reproduction cost new less depreciation".

The consequence to the Corporation of a municipality purchasing its distribution assets would be an erosion of its rate base. This would reduce the capital upon which the Corporation could earn a regulated return. There are currently no transactions ongoing with municipalities pursuant to the *Municipal Government Act* that relate to the Corporation. However, upon expiration of franchise agreements, there is a risk that municipalities will opt to purchase the distribution assets existing within the boundaries of the municipality, the loss of which could have a material adverse effect on the financial position or results of operations of the Corporation. With respect to transactions under the *Hydro and Electric Energy Act*, given the historical growth of Alberta and its municipalities, the Corporation is affected by transactions of this type from time to time.

On October 1, 2010, the CAREA filed an application with the AUC seeking a declaration that, effective January 1, 2012, CAREA be entitled to serve any new customer wishing to obtain electricity for use on property within their service area and that the Corporation be restricted to serving only those that are not being served by the CAREA.

Environmental Matters

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. The costs arising from compliance with such laws, regulations and guidelines may be material to the Corporation. The process of obtaining environmental regulatory approvals can be lengthy, contentious and expensive. Environmental damages and other costs could potentially arise due to a variety of events, including severe weather impacts to the Corporation's facilities, human error or misconduct, or equipment failure. However, there can be no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs may have a material effect on the business, results of operations, financial condition and prospects of the Corporation.

The Corporation is exposed to environmental risks as a property owner in Alberta. These risks include the responsibility of any property owner for the remediation of contaminated properties, whether or not such contamination was actually caused by the owner. In addition, 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. The Corporation has not been notified of any such regulatory action in regard to the occupation of its properties or the management and control of its facilities and substances.

These same laws governing lands owned by the Corporation apply to lands utilized by the Corporation through dispositions for its facilities or in the course of its business. Contamination of such property typically occurs through the accidental release of transformer oils either through human error or equipment failure. 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. Changes in environmental laws governing contamination could also lead to significant increases in costs to the Corporation.

The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including the generation and disposal of wastes, the use and handling of chemical substances, and the requirement for environmental impact assessments and remediation work. It is possible that other developments may lead to increasingly strict environmental laws and enforcement policies and claims for damages to property or persons resulting from the Corporation's operations, any one of which could result in substantial costs or liabilities to the Corporation.

Scientists and public health experts in Canada, the United States and other countries are studying the possibility that exposure to electric and magnetic fields from power lines, household appliances and other electricity sources may cause health problems. If it were to be concluded that electric and magnetic fields present a health hazard, litigation could result and the Corporation could be required to pay damages and take mitigation measures on its facilities. The costs of litigation, damages awarded and mitigation measures could have a material adverse effect on the Corporation's business, results of operations, financial condition and prospects.

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 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 be 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 and such claims, if successful, could have a material adverse effect on the business, results of operations and prospects of the Corporation. The Corporation has a wildfire agreement in place with the Government of Alberta for Crown lands in the forest protection area that limits the Corporation's liability for the Crown's forest fire suppression costs to 50% of the total cost to suppress the fire to a maximum of $100 thousand. The Agreement allows the Corporation to reduce its liability to 25% of the fire suppression costs to a maximum of $50 thousand following approval by the Crown of the Corporation's Annual Wildfire Management Plan for Wildfire Prevention.

While the Corporation maintains insurance for fires, 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 possible types of liabilities that may be incurred by the Corporation will be covered by its insurance. See "Underinsured and Uninsured Losses".

Electricity distribution has inherent potential risks and there can be no assurance that substantial costs and liabilities will not be incurred. Potential environmental damage and costs could materialize due to some type of severe weather event or major equipment failure and there can be no assurance that such costs would be recoverable. Unrecovered costs could have a material adverse effect on the Corporation's business, results of operations and prospects.

Capital Resources

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 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 and 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 such capital expenditures and to repay existing debt.

Labour Relations

Approximately 75% of the employees of the Corporation are members of the UUWA. On December 14, 2010, the Company reached a three-year collective agreement with the UUWA, which was ratified by 86% of its membership. 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 present collective bargaining agreements will be renewed. The inability to maintain or renew the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes for the Corporation that are not provided for in approved rate orders and that could have a material adverse effect on the results of operations, cash flow and net income of the Corporation.

Operating and Maintenance Risk

The Corporation's distribution assets require maintenance, improvement and replacement. Accordingly, to ensure the continued performance of the Corporation's physical distribution assets, the Corporation determines expenditures that must be made to maintain and replace 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 capital 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 continually develops capital expenditure programs and assesses current and future operating and maintenance expenses that will be incurred in the ongoing operation of its distribution business. Management's 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 capital 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.

Permits

The acquisition, ownership and operation of electricity businesses and assets requires numerous permits, approvals and certificates from federal, provincial and municipal government agencies. The Corporation may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory 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 sale of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation.

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 Utilities Corporation ("TransAlta"). In order for the Corporation to acquire these access permits, both the Ministry of Indian and Northern Affairs Canada and the individual Band council 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. The failure to acquire access permits or negotiate land usage agreements may disrupt the Corporation's ability to reliably distribute electricity, which could have a material adverse effect on the Corporation.

Weather Conditions and Other Acts of Nature

The facilities of the Corporation are exposed to the effects of severe weather conditions and other acts of nature. Although the Corporation's facilities have been constructed, operated and maintained to withstand a certain level of severe weather, there is no assurance that they will successfully do so in all circumstances. In addition, many of these facilities are located in remote areas, which make it more difficult to perform maintenance and repairs if they are damaged by weather conditions or other acts of nature. In the event of a large uninsured loss caused by severe weather conditions or other natural disasters, application will likely be made to the AUC for the recovery of these costs through rates. However, there can be no assurance that the AUC will approve any such application. Losses resulting from repair costs and lost revenues could substantially exceed insurance coverage and any increased rates. 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. The Terms and Conditions of Distribution Access Service of the Corporation include protection from damages or losses of an indirect or consequential nature, and specifically from liability of any kind arising from reasonable curtailment or interruption of distribution service. However, any major damage to the Corporation's facilities 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.

Underinsured and Uninsured Losses

The Corporation maintains insurance coverage at all times in respect of 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. It is anticipated that such 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. Further, there can be no assurance that available insurance will cover all losses or liabilities that might 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 business, results of operations, financial position and prospects.

In the event of an underinsured or 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. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Corporation's business, results of operations, financial position and prospects.

Information Technology Infrastructure

The Corporation's ability to operate effectively in the Alberta electricity market is highly dependent upon it developing, managing and maintaining complex information systems and infrastructure that are employed to 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. System failures could have a material adverse effect on the Corporation.

Workforce Demographics

The Corporation is exposed to some risk surrounding upcoming retirements and employee turnover. Given the demographics of the Corporation, 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 will be a challenge if the Corporation is unable to continue to attract and retain qualified personnel.

OUTLOOK

The AUC has initiated a process to reform utility rate regulation in Alberta. The AUC has expressed its intention to apply a performance based regulation ("PBR") formula to distribution service rates. A PBR regime can create incentives for a utility to improve efficiencies similar to a competitive market and to share in economic and/or other benefits with customers. The Corporation is currently assessing PBR and will participate fully in the AUC process. The Corporation will submit a 2012 and 2013 Cost of Service ("COS") Application in the first quarter of 2011 under the Uniform System of Accounts /Minimum Filing Requirements format for rates to be in place prior to transition between COS and PBR regulation.

The regulated ROE for 2011 was approved as 9.0% on an interim basis in AUC Decision 2009-216. The AUC issued a Notice of Commission-Initiated Proceeding on December 16, 2010 to finalize the 2011 ROE, review capital structure and consider whether a return to a formula-based approach for setting ROE beginning in 2012 is warranted. In the absence of a formula-based approach, the AUC is expected to consider how the ROE will be set for 2012. This proceeding will also consider additional matters associated with customer contributions.

Per Decision 2010-554, the AUC initiated a proceeding in respect of the Review and Variance Application to determine the prudence of the additional capital expenditures related to the metering project. The proceeding will be written, with a decision expected in the second quarter.

On October 1st, the CAREA filed an Application with the AUC requesting that, for the purposes of Sections 25 and 26 of Hydro Electric Energy Act, regarding service areas, the CAREA be entitled to serve any new customer in the overlapping CAREA service area wishing to obtain electricity for use on property; and the Corporation be restricted to, and shall provide, electric distribution service in the CAREA service area only to a consumer in that service area who is not being provided service by CAREA. The Corporation has intervened in the proceeding. Management believes that the CAREA application is not supportable at law.

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