

MANAGEMENT'S REPORT

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

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

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

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

The December 31, 2010 financial statements were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of FortisAlberta Inc. Ernst & Young LLP, independent auditors appointed by the shareholder of FortisAlberta Inc. upon recommendation of the Audit Committee, have performed an audit of the 2010 financial statements and their report follows.

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

(signed)
Karl Smith
President and Chief Executive Officer

February 8, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholder of FortisAlberta Inc.,

We have audited the accompanying balance sheets of FortisAlberta Inc. as at December 31, 2010 and 2009 and the statement of income, comprehensive income and retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

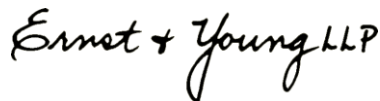
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of FortisAlberta Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script font.

Calgary, Canada
February 8, 2011

BALANCE SHEETS

As at December 31 (all amounts in thousands of Canadian dollars)	2010	2009
Assets		
Current assets		
Accounts receivable (notes 12 and 15)	114,187	80,211
Prepays and deposits	3,772	2,867
Income taxes receivable	–	1,122
Future income taxes (note 13)	1,128	379
Regulatory assets (note 5)	56,336	70,958
	175,423	155,537
Accounts receivable (notes 12 and 15)	1,584	1,587
Property, plant and equipment (notes 2(n) and 4)	1,874,741	1,651,477
Intangible assets (note 3)	65,455	68,417
Regulatory assets (note 5)	42,648	27,510
Investment tax credits receivable (note 13)	1,180	–
Accrued pension asset (note 10)	2,607	3,451
Goodwill	189,309	189,309
	2,352,947	2,097,288
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable, accrued and other liabilities (notes 12 and 15)	133,855	136,212
Short-term debt (notes 6 and 15)	9,352	15,176
Regulatory liabilities (note 5)	4,288	4,202
Income taxes payable	94	–
	147,589	155,590
Other liabilities (note 10)	6,406	5,276
Regulatory liabilities (note 5)	294,041	268,021
Future income taxes (note 13)	23,996	1,019
Long-term debt (notes 6 and 15)	1,073,465	948,154
	1,545,497	1,378,060
Shareholder's Equity		
Share capital (note 7)	173,848	173,848
Contributed surplus (note 8)	541,231	486,231
Retained earnings	92,371	59,149
	807,450	719,228
	2,352,947	2,097,288

Commitments and Contingencies (note 14)

Approved on behalf of the Board:

(signed)
Greg Conn
Director

(signed)
Judith Athaide
Director

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

STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

Years ended December 31 (all amounts in thousands of Canadian dollars)	2010	2009
Revenues		
Electric rate revenue (note 5)	375,594	310,433
Other revenue (notes 5 and 12)	12,868	20,412
	388,462	330,845
Expenses		
Operating costs (notes 5, 10 and 12)	141,472	131,286
Depreciation (notes 4 and 5)	113,334	81,903
Amortization (note 3)	12,564	12,482
	267,370	225,671
Income before interest and income taxes	121,092	105,174
Interest on short-term debt	21	95
Interest on long-term debt (note 6)	53,504	49,442
	53,525	49,537
Income before income taxes	67,567	55,637
Current income tax expense (recovery) (note 13)	94	(1,888)
Future income tax recovery (note 13)	(749)	(2,803)
	(655)	(4,691)
Net income	68,222	60,328
Other comprehensive income	–	–
Net income and other comprehensive income	68,222	60,328
Retained earnings, beginning of period	59,149	28,821
Dividends (note 7)	(35,000)	(30,000)
Retained earnings, end of period	92,371	59,149

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

STATEMENTS OF CASH FLOWS

Years ended December 31 (all amounts in thousands of Canadian dollars)	2010	2009
Operating Activities		
Net income	68,222	60,328
Add (deduct) items not involving cash:		
Depreciation	113,334	81,903
Amortization	12,960	12,837
Future income taxes	(749)	(2,803)
Allowance for funds used during construction	(4,504)	749
Gain on sale of property, plant, and equipment	(544)	—
Changes in other non-cash items related to operations (note 16)	17,469	42,081
	206,188	195,095
Changes in non-cash working capital related to operations (note 16)	(10,476)	(60,300)
Cash from operating activities	195,712	134,795
Investing Activities		
Additions to property, plant and equipment	(369,978)	(400,712)
Customer contributions for property, plant and equipment	40,338	23,143
Additions to intangible assets	(9,272)	(8,757)
Proceeds from the sale of property, plant and equipment	4,122	2,205
Net change in employee loans	(34)	(217)
	(334,824)	(384,338)
Cash used in investing activities	(334,824)	(384,338)
Financing Activities		
Increase in debt	260,508	395,386
Repayment of debt	(140,437)	(261,241)
Dividends paid (note 7)	(35,000)	(30,000)
Equity contributions (note 8)	55,000	147,500
Additions to transaction costs	(959)	(2,102)
	139,112	249,543
Cash from financing activities	139,112	249,543
Change in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of period	—	—
Cash and cash equivalents, end of period	—	—
Cash flows include the following elements:		
Interest paid	54,691	45,062
Income taxes received	—	2,010

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

Notes to the Financial Statements

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

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

Prior to January 1, 2008, the Alberta Energy and Utilities Board (the "EUB") was the chief provincial regulator of the Alberta energy industry. Effective January 1, 2008, the *Alberta Utilities Commission Act* (the "AUC Act") separated the EUB into two regulatory bodies; the Energy Resources and Conservation Board (the "ERCB") and the Alberta Utilities Commission (the "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* (the "EUA"), the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation including the rates and terms and conditions on which service is to be provided by those utilities. Hereafter, any use of the term "AUC" will refer to the EUB prior to January 1, 2008 and the AUC subsequently.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

(b) Regulation

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

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

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

On July 6, 2010, the AUC issued Decision 2010-309 (the "Decision") on the Corporation's 2010 and 2011 Phase 1 Distribution Tariff Application. In the third quarter of 2010 the Corporation recorded the impacts of the Decision. The most significant changes due to the Decision were in revenue, regulatory assets and depreciation and amortization expense. The Decision resulted in a net increase in revenue and regulatory assets primarily as a result of the increase in distribution rates. In addition, there was an increase in overall depreciation and amortization rates resulting in higher depreciation and amortization expense when comparing to the prior year.

(c) Cash and Cash Equivalents

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

(d) Income Taxes

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

(e) Property, Plant and Equipment

Property, plant and equipment are carried at cost, which includes direct labour and allocated overhead, less depreciation. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. These contributions are disclosed on the balance sheet as a reduction of property, plant and equipment.

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

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

The Corporation capitalizes an Allowance for Funds Used During Construction ("AFUDC"), which represents an amount allowed for regulatory purposes for financing costs during construction. The Corporation has included the AFUDC as part of the capital cost of the assets. The AFUDC is recovered in rates from customers over the life of the assets through recovery of depreciation expense. Pursuant to the Decision, the Corporation is calculating an AFUDC according to the methodology allowed by the AUC. As prescribed by the AUC, the regulatory deemed equity portion of AFUDC is recorded in electric rate revenue and the regulatory deemed debt portion is recorded in interest expense.

(f) Intangible Assets

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

Notes to the Financial Statements

For the years ended December 31, 2009 and 2010

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

Amortization is provided on a straight-line basis at various rates ranging from 2.74% to 41.11% as approved by the AUC, based on amortization studies prepared by the Corporation. Changes to amortization rates approved by the AUC are accounted for on a prospective basis. The AUC-approved rates are applied to the original historical capital costs reflected for regulatory rate setting purposes.

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

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

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

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

(h) Asset Retirement Obligations

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

(i) Goodwill

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

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

(j) Revenue Recognition

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

According to the EUA the Corporation is required to arrange and pay for transmission service with the Alberta Electric System Operator ("AESO") and collect transmission revenue from its customers, which is done through invoicing the customers' retailers through the Corporation's transmission component of its AUC-approved rates. As the Corporation is solely a distribution company, and as such does not own or operate any transmission facilities, it is largely a conduit

for the pass through of transmission costs to the end-use customers as the transmission facility owner does not have the direct relationship with the customers. As a result, the Corporation reports revenues and expenses related to transmission services on a net basis in other revenue. The rates collected are based on forecast transmission expenses, and prior to 2010 for certain elements of the transmission costs, the Corporation was subject to the impact of actual expenses being different from the forecast revenue relating to transmission services. All other differences were subject to deferral treatment and were either collected or refunded in future rate riders. Pursuant to the Decision, effective January 1, 2010, differences between revenues and expenses related to transmission services, other than cancel/rebills relating to years prior to 2010, will be subject to deferral treatment.

(k) Employee Future Benefits

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

(l) Stock-Based Compensation

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

(m) Other Comprehensive Income, Financial Instruments and Hedging

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

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

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

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

(n) 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.

Notes to the Financial Statements

For the years ended December 31, 2009 and 2010

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

(o) Future Changes in Accounting Policies

Adoption of New Accounting Standards

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

The pace and outcome of the 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 its financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

The Corporation is currently exploring other alternatives including adopting United States Generally Accepted Accounting Principles effective January 1, 2012.

3. INTANGIBLE ASSETS

Cost as at:

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

Accumulated amortization as at:

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

Net book value as at:

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

Cost as at:

December 31	2008	Acquisitions	Retirements	2009
Land rights	7,729	1,795	–	9,524
Computer software	94,211	6,952	(5,237)	95,926
Intangible assets	101,940	8,747	(5,237)	105,450

Accumulated amortization as at:

December 31	2008	Amortization	Retirements	2009
Land rights	(1,855)	(302)	–	(2,157)
Computer software	(27,933)	(12,180)	5,237	(34,876)
Intangible assets	(29,788)	(12,482)	5,237	(37,033)

Net book value as at:

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Land rights	9,524	(2,157)	7,367
Computer software	95,926	(34,876)	61,050
Intangible assets	105,450	(37,033)	68,417

The amortization rates of intangible assets are as follows:

December 31	2010		2009	
	Regulated Amortization Rates	Effective Amortization Rates	Regulated Amortization Rates	Effective Amortization Rates
	%	%	%	%
Land rights	2.74	3.41	2.78	3.51
Computer software	13.81	14.00	13.00	13.66

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

As indicated in Note 2(f), generally when a regulated asset is retired or disposed of, there is no gain or loss recorded in income as this amount is charged to accumulated amortization. The net loss due to asset retirement or disposal for the year ended December 31, 2010, that would have been recognized in the absence of rate regulation is \$3.7 million (2009 - nil).

In the absence of rate regulation, AFUDC would not be recognized as a capital cost of constructing an asset. The cumulative impact on the financial statements is currently not determinable. In 2010, the AFUDC recorded by the Corporation was \$0.3 million (2009 - nil).

4. PROPERTY, PLANT AND EQUIPMENT

December 31, 2010	Cost	Accumulated Depreciation	Net Book Value
Distribution system	2,481,610	(540,594)	1,941,016
Land	11,856	–	11,856
Vehicles	69,336	(13,404)	55,932
Buildings and furniture	92,272	(16,400)	75,872
Tools and instruments	16,287	(6,697)	9,590
Computer hardware	24,051	(9,694)	14,357
Materials and supplies	33,323	–	33,323
AESO contributions	101,751	(7,031)	94,720
Construction in progress	85,002	–	85,002
Customer contributions	(538,771)	171,409	(367,362)
	2,376,717	(422,411)	1,954,306
Regulatory tax basis adjustment	(135,109)	55,544	(79,565)
	2,241,608	(366,867)	1,874,741

December 31, 2009	Cost	Accumulated Depreciation	Net Book Value
Distribution system	2,282,758	(502,553)	1,780,205
Land	11,376	–	11,376
Vehicles	64,831	(9,667)	55,164
Buildings and furniture	87,466	(10,464)	77,002
Tools and instruments	14,789	(5,836)	8,953
Computer hardware	28,703	(12,590)	16,113
Materials and supplies	24,140	–	24,140
AESO contributions	86,264	(4,502)	81,762
Construction in progress	23,968	–	23,968
Customer contributions	(507,612)	163,468	(344,144)
	2,116,683	(382,144)	1,734,539
Regulatory tax basis adjustment	(135,109)	52,047	(83,062)
	1,981,574	(330,097)	1,651,477

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

	December 31, 2010		December 31, 2009	
	Regulated Depreciation Rates	Effective Depreciation Rates	Regulated Depreciation Rates	Effective Depreciation Rates
	%	%	%	%
Distribution system	4.00	4.77	3.41	4.21
Vehicles	9.83	9.93	7.62	7.53
Buildings and furniture	4.52	5.75	3.55	4.89
Tools and instruments	10.32	9.82	11.07	10.49
Computer hardware	25.75	26.17	24.59	24.93
Customer contributions	2.73	3.50	3.69	4.78
AESO contributions	2.69	2.69	3.84	3.84
Regulatory tax basis adjustment	–	2.59	–	3.07

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

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

When the business was acquired from TransAlta on August 31, 2000, the property, plant and equipment acquired had a deemed tax basis for regulatory purposes that was higher than that available to the Corporation for legal entity tax filing purposes. As such the corresponding tax deductions available for regulatory purposes exceeds that available for legal entity tax filing purposes and over time, the tax expense for the Corporation will exceed that which is expected to

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be included in rates for regulatory purposes, although in any one year the opposite situation could take place due to the timing of certain deductions. For all assets acquired or constructed subsequent to August 31, 2000, the initial tax basis has been the same for regulatory and legal entity tax filing purposes. Given the difference in the tax basis for the property, plant and equipment initially acquired from TransAlta, the timing of the deductions taken for legal entity tax filing purposes may differ from that utilized for rate making purposes and as such the tax basis of assets acquired subsequently may also differ over time. In any year where deductions utilized for rate making purposes are greater than deductions taken for legal entity tax filing purposes the Corporation could have income tax expense that would not be collected in rates resulting in a reduction in net income.

The regulatory tax basis adjustment represents an adjustment to the fair value of the Corporation's property, plant and equipment reflected in the application of pushdown accounting when the business was acquired from TransAlta. This adjustment results from the excess of the deemed tax basis of the Corporation's property, plant and equipment for regulatory rate making purposes as compared to the Corporation's tax basis for income tax purposes. The regulatory tax basis adjustment is being amortized on a straight line basis over the estimated service lives of the Corporation's property, plant and equipment by an offset against the provision for depreciation. For the year ended December 31, 2010, depreciation expense was reduced by \$3.5 million (2009 - \$4.1 million) for the amortization of the regulatory tax basis adjustment.

As indicated in Note 2(e), generally when a regulated asset is retired or disposed of, there is no gain or loss recorded in income as this amount is charged to accumulated depreciation. The net loss due to asset retirement or disposal for the year ended December 31, 2010, that would have been recognized in the absence of rate regulation is \$3.2 million (2009 - \$4.6 million).

In the absence of rate regulation, AFUDC would not be recognized as a capital cost of constructing an asset. The cumulative impact on the financial statements is currently not determinable. In 2010, the AFUDC recorded by the Corporation was \$4.2 million (2009 - (\$0.7) million).

5. REGULATORY ASSETS AND LIABILITIES

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

a) Regulatory Assets

	2010	2009	Remaining Recovery Period
	\$	\$	Years
Hearing cost reserve	997	1,431	1
Self insurance reserve	303	1,269	2
AESO charges deferral	19,319	80,190	1
Regulatory other post-retirement benefits asset	6,406	5,276	Benefit payment period to employees
Uniform system of accounts cost deferral	–	3,291	–
Meter reading costs deferral	–	1,300	–
2009 impact of generic cost of capital decision	–	4,100	–
Future income tax regulatory deferral	24,588	1,611	Life of the assets
2010 distribution adjustment rider	36,020	–	1
Deferred operating costs	11,351	–	Life of the assets
	98,984	98,468	
Less: current portion	56,336	70,958	
Long-term portion	42,648	27,510	

Hearing Cost Reserve

The AUC has the ability to allow costs of a proceeding to be borne by customers through a utility's hearing cost reserve account. The AUC will award participants in a utility proceeding the reasonable costs associated with their involvement and will allow the Corporation to collect these from customers. The amount of the hearing cost reserve account is applied for under the Corporation's tariff application as a component of the revenue requirement. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, operating costs would have been \$434 lower in 2010 (2009 - \$1,431 higher) and electric rate revenue would have been unchanged in 2010 (2009 - \$322 lower).

Self Insurance Reserve ("SIR")

The Corporation utilizes a combination of commercial insurance and a SIR to mitigate the risk inherent in the operation of its distribution network. The SIR is designed to provide coverage for perils where commercial insurance coverage is not readily available or not economically practical, and to provide the Corporation with the flexibility of accepting higher deductibles on its commercial insurance policies. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, operating costs would have been \$966 lower in 2010 (2009 - \$1,005 higher).

AESO Charges Deferral

This balance represents the 2009 AESO charges deferral. It includes actual expenses incurred in excess of revenues collected for various items, such as transmission costs incurred and billed through to customers, that are subject to deferral. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are

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incurred. During 2010, \$61.3 million of the 2008 AESO charges deferral was collected in rates through a transmission adjustment rider resulting in an under collection of \$0.2 million, which will be carried forward and included in the 2010 AESO charges deferral filing. The filing for the 2009 AESO charges deferral was approved through AUC Decision 2010-558 on December 7, 2010, in the amount of approximately \$20.1 million, including 2011 carrying costs of \$0.8 million, and will be collected in rates through a transmission adjustment rider in 2011. In the absence of rate regulation, other revenue would have been \$60.9 million higher in 2010 (2009 - \$16.2 million lower).

Regulatory Other Post-Retirement Benefits Asset

This balance represents the deferred portion of the expense relating to the other post-employment benefits and the supplemental pension plan that is expected to be recovered from customers in future rates. Once recovered in rates, these deferred expenses will be recognized. In 2010, as prescribed by the Decision, expenses were recovered in rates based on the cash payment method. Therefore, the Corporation's expense for other post-retirement benefits represents the cash payments made. In the absence of rate regulation, operating costs would be \$1,130 higher in 2010 (2009 - \$1,056 higher). This balance is not subject to regulatory return.

Uniform System of Accounts Costs Deferral

The Corporation had deferred costs relating to the uniform system of accounts initiative, which was an initiative to provide uniformity to regulatory filings and regulatory reporting for electric utilities in Alberta. This deferral represented costs incurred that were recovered from customers in 2010. In the absence of rate regulation, operating expenses would have been \$3,291 lower in 2010 (2009 - \$619 higher).

Meter Reading Costs Deferral

This balance represented the deferral of meter reading costs. The Corporation applied in its 2010/2011 Tariff Application to collect these amounts from customers in 2010. However, per the Decision the Corporation was not permitted to collect these costs in its 2010 rates. In the absence of rate regulation, operating costs would have been \$1,300 lower in 2010 (2009 - \$1,300 higher).

2009 Generic Cost of Capital Decision Deferral

In 2009, the AUC issued the Generic Cost of Capital Decision 2009-216. This balance reflected the 2009 impact of this decision which resulted in an increase in the deemed equity capitalization for the Corporation from 37% to 41% and an increase in allowed return on equity from 8.51% to 9.00%. In the absence of rate regulation, electric rate revenue would have been \$4,100 higher in 2010 (2009 - \$4,100 lower).

Future Income Tax Regulatory Deferral

This balance represents the amount of future income taxes expected to be refunded to or recovered from customers in future electricity rates. In the absence of rate regulation, the future income tax recovery would have been \$22,977 lower in 2010 (2009 - \$1,611 lower). This balance is not subject to regulatory return.

2010 Distribution Adjustment Rider

This balance represents the difference in the revenue requirement between the interim rates that have been charged to customers in 2010 and those approved in the Decision. It is expected that this balance will be collected from customers in 2011. In the absence of rate regulation, electric rate revenue would have been \$36,020 lower in 2010. This balance is not subject to regulatory return.

Deferred Operating Costs

This balance represents deferred operating costs. It is expected that this balance will be collected from customers over the life of the property, plant and equipment. In the absence of rate regulation, operating costs would have been \$11,351 higher in 2010.

b) Regulatory liabilities

	2010	2009	Remaining Settlement Period
	\$	\$	Years
Regulatory pension deferral	2,607	3,451	Benefit payment period to employees
A1 rider deferral	4,873	4,135	2
Provision for future removal and site restoration	279,528	262,337	Life of the assets
AESO contributions deferral	1,000	2,300	2
Load settlement charges	985	-	1
Automated metering foreign exchange deferral	20	-	2
2010 AESO charges deferral	9,316	-	2
	298,329	272,223	
Less: current portion	4,288	4,202	
Long-term portion	294,041	268,021	

Regulatory Pension Deferral

This balance represents pension surplus that has not been reflected in rates and will result in a reduction of future rates when recognized. When future rates are reduced, this liability balance will be drawn down and reflected as a reduction of pension expense. In the absence of rate regulation, the operating costs would have been \$844 higher in 2010 (2009 - \$544 higher). This balance is not subject to regulatory return.

A1 Rider Deferral

The Corporation pays linear taxes and collects these linear taxes from the customers within the specific municipalities on a community specific basis. This regulatory deferral represents the difference between the A1 rider revenue and the linear tax expense. To the extent that actual costs incurred exceed the amount collected in revenue, these excess costs are deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, electric rate revenue would have been \$738 higher in 2010 (2009 - \$3,134 higher). This balance is not subject to regulatory return.

Provision for Future Removal and Site Restoration

Consistent with the Corporation's depreciation study, this balance represents the amounts collected in rates over the life of certain assets attributable to removal and site restoration costs that are expected to be incurred in the future. Depreciation expense includes an amount allowed for regulatory purposes for these future removal and site restoration costs. Actual costs of removal and restoration incurred are recorded against this balance. Any difference between actual costs incurred and those assumed in the collected amounts are reflected in this balance. In the absence of regulation, removal costs would have been recognized as incurred rather than over the life of the asset through depreciation expense. The amount for future removal and site restoration costs included in the depreciation expense was \$40,146 in 2010 (2009 - \$19,257). Actual site restoration costs were \$22,955 in 2010 (2009 - \$21,362). In the absence of rate regulation, depreciation expense would have been \$40,146 lower in 2010 (2009 - \$19,257) and operating expenses would have been \$22,955 higher (2009 - \$21,362).

AESO Contributions Deferral

As prescribed by the Decision, a deferral account for the difference in the depreciation and return arising from any variance between the forecast and actual AESO contributions has been recorded. To the extent that current rates are based on a lower forecast AESO contributions balance, the difference in depreciation and return is deferred and will be recognized

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when collected in future rates. In the event that current rates are based on a higher forecast AESO contributions balance, the difference in depreciation and return is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, electric rate revenue would have been \$1,300 lower in 2010 (2009 - \$400 higher).

Load Settlement Charges

The AESO invoices the Corporation for load settlement charges. Prior to 2010 these charges were included in the AESO charges deferral. Per the Decision the Corporation is to have a separate deferral for these costs and no longer include them in the AESO charges deferral. The forecast amount of load settlement costs are applied for under the Corporation's tariff application as a component of the revenue requirement. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these costs exceeds actual costs incurred, the excess revenue is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, electric rate revenue would have been \$985 higher in 2010.

Automated Metering Foreign Exchange Deferral

As prescribed by the Decision, a deferral account for the difference in the depreciation and return arising from the variance between the foreign exchange rate used in the tariff application relating to automated metering capital expenditures and the actual foreign exchange rate, has been recorded. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, electric rate revenue would have been \$20 higher in 2010.

2010 AESO Charges Deferral

This balance represents the 2010 AESO charges deferral. It includes actual expenses and revenues collected for various items, such as transmission costs incurred and billed through to customers that are subject to deferral. To the extent that actual costs incurred exceeded the amount collected in revenue, the excess costs have been deferred and will be recognized when collected in future rates. In the event that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability. This liability will either be refunded to customers through a reduction in future rates or will be recognized when additional costs are incurred. In the absence of rate regulation, other revenue would have been \$9,316 higher in 2010.

6. DEBT

	Coupon Rate	Payment Terms	Maturity Date	2010 Effective Rate	December 31, 2010	December 31, 2009
Senior unsecured debentures	%			%	\$	\$
Series 04-1	5.33	Semi-annual	2014	5.47	200,000	200,000
Series 04-2	6.22	Semi-annual	2034	6.31	200,000	200,000
Series 06-1	5.40	Semi-annual	2036	5.48	100,000	100,000
Series 07-1	4.99	Semi-annual	2047	5.04	109,891	109,890
Series 08-1	5.85	Semi-annual	2038	5.94	99,488	99,480
Series 09-1	7.06	Semi-annual	2039	7.14	99,987	99,987
Series 09-2	5.37	Semi-annual	2039	5.42	124,946	124,945
Series 10-1	4.80	Semi-annual	2050	4.84	124,911	-
Drawing on the syndicated credit facility	Variable	Variable	2012	1.13	22,984	21,995
Cash balances in overdraft position	N/A	N/A	2011	-	9,352	15,176
Transaction costs	-	-	-	-	(8,742)	(8,143)
					1,082,817	963,330
Less: short-term debt					9,352	15,176
Long-term debt					1,073,465	948,154

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.

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).

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

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.

Transaction costs are recorded in income using the effective interest method over the life of the related senior unsecured debentures. Included in interest expense on long-term debt was \$386 of amortization of transaction costs in 2010 (2009 - \$355).

Scheduled principal repayments are as follows:

	\$
2011	9,352
2012	22,984
2013	–
2014	200,000
2015	–
Thereafter	859,223
	1,091,559

7. SHARE CAPITAL

Authorized – unlimited number of:

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

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

For the year ended December 31, 2010, the Corporation declared and paid dividends totalling \$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).

8. CONTRIBUTED SURPLUS

The Corporation was incorporated under the laws of Alberta for the initial purpose of acquiring the distribution and retail operations of TransAlta, pursuant to an asset transfer agreement, which had an effective closing date of August 31, 2000. The Corporation was acquired by an indirectly wholly-owned subsidiary of Aquila, a U.S. public company, on August 31, 2000. The consideration paid for this acquisition has been recorded in these financial statements using pushdown accounting, the final adjustment of which occurred on March 15, 2002.

Contributed surplus relates to the pushdown of the excess purchase price paid over the carrying value paid by the Corporation's former parent on acquisition of the Corporation, and equity contributions from Fortis Alberta Holdings Inc. for which no additional shares were issued. During the year ended December 31, 2010, the Corporation received equity contributions from Fortis Alberta Holdings Inc. in the amount of \$55.0 million (year ended December 31, 2009 - \$147.5 million).

9. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are to ensure ongoing access to capital to allow it to build and maintain the electrical distribution system within the Corporation's service territory. To ensure this access to capital, the Corporation targets a long-term capital structure that includes approximately 59% long-term debt and 41% equity, which is consistent with the 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.

10. EMPLOYEE FUTURE BENEFITS

(a) Description

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

The Corporation uses a measurement date that is three months prior to the reporting date for the actuarial valuation undertaken for expense calculation purposes. The most recent actuarial valuation of the plans for funding purposes was completed for the period ended December 31, 2007. Information from the funding valuation was used in the actuarial valuation completed for expense calculation purposes. The next actuarial valuation for funding purposes is required to be completed as of a date no later than December 31, 2010, which would be filed in 2011.

The net periodic cost for the year ended December 31, 2010 was determined based on the financial position of the plans at December 31, 2009 (using a measurement date of September 30, 2009). The net periodic cost for the year ended December 31, 2009 was determined based on the financial position of the plans at December 31, 2008 (using a measurement date of September 30, 2008).

(b) Costs Recognized

In 2009 and 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, which is expected to be recovered or refunded in future rates, is subject to deferral treatment.

Components of Net Periodic Costs

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

Components of Net Periodic Costs

December 31, 2009	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Current service cost (employer portion) and expected expenses	688	238	405	1,331
Interest cost	1,450	60	437	1,947
Actual return on plan assets	(952)	–	–	(952)
Actuarial loss	271	63	611	945
Costs arising in the period	1,457	361	1,453	3,271
Differences between costs arising in the period and costs recognized in the period in respect of:				
- Return on plan assets	(319)	–	–	(319)
- Actuarial loss (gain)	798	–	(498)	300
- Past service costs	80	–	75	155
Net periodic pension cost recognized	2,016	361	1,030	3,407
Regulatory adjustment to net benefit cost	(544)	(241)	(815)	(1,600)
Net benefit cost recognized in financial statements	1,472	120	215	1,807
Defined contribution net benefit cost recognized in financial statements	5,722	–	–	5,722
Total recognized in financial statements	7,194	120	215	7,529

Composition of Accrued Benefit Asset (Liability)

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

Note:

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

Composition of Accrued Benefit Asset (Liability)

December 31, 2009	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Fair value of assets	19,010	–	–	19,010
Accrued benefit obligation	(22,730)	(1,189)	(7,827)	(31,746)
Resulting plan deficit	(3,720)	(1,189)	(7,827)	(12,736)
Unamortized amounts:				
- Net actuarial losses	6,482	–	2,846	9,328
- Plan amendment costs	349	–	839	1,188
Contributions after the measurement date	340	–	55	395
Total recognized in financial statements^(a)	3,451	(1,189)	(4,087)	(1,825)

Note:

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

Plan Assets

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

Plan Assets

December 31, 2009	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Fair value of assets at beginning of year	18,122	–	–	18,122
Net transfer in	34	–	–	34
Employer contributions	1,588	120	193	1,901
Member contributions	53	–	–	53
Benefits paid	(1,343)	(120)	(193)	(1,656)
Actual return on plan assets	952	–	–	952
Actual plan expenses	(396)	–	–	(396)
Fair value of assets at end of year	19,010	–	–	19,010

Reconciliation of Accrued Benefit Obligation

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

Reconciliation of Accrued Benefit Obligation

December 31, 2009	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Benefit obligations at beginning of year	21,907	948	6,567	29,422
Current service cost (employer portion)	358	238	405	1,001
Interest cost on accrued benefit obligation	1,450	60	437	1,947
Member contributions	53	–	–	53
Benefits paid	(1,343)	(120)	(193)	(1,656)
Net transfer in	34	–	–	34
Actuarial loss	271	63	611	945
Benefit obligations at end of year	22,730	1,189	7,827	31,746

Reconciliation of Accrued Benefit Asset (Liability)

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

Reconciliation of Accrued Benefit Asset (Liability)

December 31, 2009	Retirement Plan	Supplemental Plan	Non-Pension Benefits	All Benefits Covered
Accrued benefit asset (liability) at beginning of year	3,995	(948)	(3,271)	(224)
Net periodic cost	(2,016)	(361)	(1,030)	(3,407)
Employer contributions/benefits paid	1,472	120	214	1,806
Accrued benefit asset (liability) at end of year	3,451	(1,189)	(4,087)	(1,825)

As at September 30, the assets of the defined benefit plan were invested as follows:	2010	2009
	%	%
Equity securities	0.0	60.0
Debt securities	100.0	40.0
	100.0	100.0

For the year ended December 31, 2010, the expected average remaining service period for the non-pension benefits plan is 15 years (2009 - 15 years) and for the retirement plan is 4 years (2009 - 5 years).

Plan assumptions – the significant actuarial assumptions utilized in measuring the Corporation’s accrued benefit obligations were as follows:	Year Ended December 31, 2010	Year Ended December 31, 2009
Accrued benefit obligations:		
- Liability discount rate retirement plan	5.30%	6.60%
- Liability discount rate non-pension benefits	4.35%	5.10%
- Rate of compensation increase for retirement plan	3.25%	5.50%
Net benefit cost during the period:		
- Liability discount rate retirement plan	6.60%	6.70%
- Liability discount rate non-pension benefits	5.10%	6.40%
- Rate of compensation increase	5.50%	5.00%
- Expected long-term rate of return on assets	4.75%	7.00%
- Health care trend rate:		
Weighted average rates	7.30%	7.40%
Ultimate rate to which the trend rate is assumed to decline	5.00%	5.00%
Year in which ultimate rate is reached	2024	2024

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

	1% Increase in Rate	1% Decrease in Rate
Increase (decrease) in accrued benefit obligation	401	(376)
Increase (decrease) in combined interest cost plus current service costs	41	(39)

11. STOCK OPTIONS

Fortis is authorized to grant certain key employees and directors of Fortis and its subsidiaries options to purchase common shares of Fortis. The options are issued at the five-day average trading price immediately preceding the date of grant. Options vest evenly over a four-year period on each anniversary of the date of grant. The options expire seven to 10 years after the date of grant. At December 31, 2010, Fortis had approximately 4.0 million common shares in the reserve for issue under the terms of the stock-based compensation and share purchase plans. The following tables outline the options granted to employees of the Corporation.

	Number of Stock Options	Weighted Average Exercise Price
		\$
Outstanding at December 31, 2009	361,160	24.83
Exercised	(74,433)	22.91
Expired	(37,905)	25.76
Granted	94,956	27.36
Outstanding at December 31, 2010	343,778	25.84

Notes to the Financial Statements

For the years ended December 31, 2009 and 2010

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

Grant Date	Number Outstanding as at December 31, 2010	Exercise Price (\$)	Number Vested as at December 31, 2010	Expiry
March 10, 2004	9,454	15.28	9,454	2014
March 1, 2005	1,811	18.40	1,811	2015
August 16, 2005	1,921	20.82	1,921	2015
February 28, 2006	10,880	22.94	10,880	2016
May 7, 2007	65,028	28.19	48,771	2014
February 26, 2008	76,644	28.27	38,322	2015
March 11, 2009	89,736	22.29	22,434	2016
March 1, 2010	88,304	27.36	–	2017
Total	343,778		133,593	

Grant Date	Number of Options Granted	Exercise Price	Fair Market Value per Option
			\$
March 1, 2010	94,956	27.36	4.41

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

Dividend yield (%)	3.66
Expected volatility (%)	25.10
Risk-free interest rate (%)	2.54
Weighted-average expected life (years)	4.50

Compensation expense was \$390 for the year ended December 31, 2010 (2009 - \$407).

12. RELATED PARTY TRANSACTIONS

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

December 31	Included in Accounts Receivable		Included in Accounts Payable	
	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:

December 31	Included in Other Revenue		Included in Operating Costs	
	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

Notes to the Financial Statements

For the years ended December 31, 2009 and 2010

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

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.

13. PROVISION FOR INCOME TAXES

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

December 31	2010	2010	2009	2009
	\$	%	\$	%
Income before income taxes	67,567		55,637	
Expected provision for income taxes	18,919	28.0	16,135	29.0
Adjustments resulting from differences between income for accounting and income tax purposes:				
Capital assets	(22,244)	(32.9)	(17,242)	(30.9)
Other expenses	2,565	3.8	(1,730)	(3.1)
Future income tax rate changes and other	105	0.1	(1,854)	(3.4)
Provision for income taxes	(655)	(1.0)	(4,691)	(8.4)

Components of the income tax recovery are:

Year ended December 31	2010	2009
Current income tax expense (recovery)	94	(1,888)
Future tax expense before regulatory adjustment	22,228	22,969
Regulatory adjustment for the recovery of future taxes in future customer rates	(22,977)	(25,772)
Future income tax recovery	(749)	(2,803)
Total income tax recovery	(655)	(4,691)

Future income tax liability is comprised of:

Year ended December 31	2010	2009
Regulatory assets and liabilities	1,615	(2,085)
Property, plant and equipment and intangible assets	(22,351)	2,840
Financing fees	(2,132)	(1,395)
Total future income tax liability	(22,868)	(640)
Less: current portion	1,128	379
Long-term portion	(23,996)	(1,019)

As at December 31, 2010, the Corporation has approximately \$46.8 million (December 31, 2009 - \$80.8 million) in non-capital loss carryforwards that expire between 2029 and 2030.

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

14. COMMITMENTS AND CONTINGENCIES

(a) Operating Leases and Other Contractual Obligations

The Corporation has operating leases for facilities and office premises. Also, the Corporation and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution

facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Corporation no longer has attachments to the transmission facilities. Due to the unlimited term of this contract, the calculation of future payments after 2015 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. In addition, the Corporation and an Alberta transmission service provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. The service agreements have minimum expiry terms of five years from September 1, 2010, and are subject to extension based on mutually agreeable terms.

Future minimum payments are as follows:

	\$
2011	4,515
2012	4,334
2013	4,141
2014	4,088
2015	3,766
Thereafter	45,780
	66,624

(b) Legal Proceedings

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

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.

(c) Capital Expenditures

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

(d) Pension Contribution Obligations

The Corporation makes minimum pension contributions into a defined benefit component of the Corporation's pension plan for certain employees. 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.

15. FINANCIAL INSTRUMENTS

(a) Designation and Valuation of Financial Instruments

CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, requires an entity to designate its financial instruments into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) held-for-trading assets and liabilities. The Corporation 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:

December 31	2010		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.

(b) Derivatives

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

Under Section 3855, 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.

(c) Risk Management

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

(i) Counterparty Credit Risk

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

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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	Exposure
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:

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

(ii) Interest Rate Risk

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

	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 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 for the year ended December 31, 2010.

(iii) Liquidity Risk

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

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:

Notes to the Financial Statements

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

	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:

- 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.
- The December 31, 2010 balance does not include transaction costs of \$8.7 million.
- Payments are shown after amortization of discounts.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Other Non-cash Items Related to Operations:

December 31	2010	2009
	\$	\$
Decrease in long-term accounts receivable	—	1,555
Increase in investment tax credits receivable	(1,180)	—
Decrease in non-current regulatory assets	7,839	39,927
Decrease in accrued pension assets	844	544
Increase in long-term other liabilities	1,130	1,056
Increase (decrease) in long-term regulatory liabilities	8,829	(880)
Increase (decrease) in unamortized bankers acceptance discount	7	(121)
	17,469	42,081

Changes in Non-cash Working Capital Related to Operations:

December 31	2010	2009
	\$	\$
Increase in accounts receivable	(34,840)	(4,193)
(Increase) decrease in prepaids and deposits	(905)	272
Decrease (increase) in income taxes receivable	1,122	(385)
Decrease (increase) in regulatory assets	14,622	(63,734)
Increase in accounts payable, accrued and other liabilities	9,345	4,192
Increase in income taxes payable	94	—
Increase in regulatory liabilities	86	3,548
	(10,476)	(60,300)

FortisAlberta Inc. Supplementary Financial Information Coverage Ratios (unaudited)

The following financial ratio is provided as additional supplementary information.

For the twelve months ended December 31	2010
Earnings coverage (times) ^(a)	2.262

Note:

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