FORTISALBERTA INC.

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

For the three months ended March 31, 2010.

Dated April 30, 2010

The following discussion and analysis of financial condition and results of operations of FortisAlberta Inc. (the "Corporation") should be read in conjunction with the Corporation's unaudited financial statements for the three months ended March 31, 2010 and the Management Discussion & Analysis ("MD&A") and the audited financial statements for the year ended December 31, 2009. The financial information presented in this document has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and is in Canadian dollars unless otherwise specified.

FORWARD-LOOKING STATEMENTS

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

The forward-looking information in the MD&A includes, but is not limited to, statements regarding: the Corporation's expectation to generate sufficient cash required to complete planned capital programs from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; the Corporation's belief that it does not anticipate any difficulties in accessing the required capital on reasonable market terms; and the Corporation's forecast gross capital expenditures for 2010. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its electricity systems to ensure their continued performance; the commercial development of alternative sources of energy; favourable economic conditions; the level of interest rates; access to capital; maintenance of adequate insurance coverage; the ability to obtain licenses and permits; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

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

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

THE CORPORATION

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

The Corporation operates a largely rural, approximately 110,500 kilometre, low-voltage distribution network in central and southern Alberta, which serves approximately 482,200 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers of electricity.

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

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

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

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

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

REGULATORY MATTERS

2010/2011 Distribution Tariff Application

On June 16, 2009, the Corporation filed an application for 2010 and 2011 electric distribution service rates with the AUC. The Corporation is proposing average increases in base distribution rates of 13.3% for 2010 and 14.9% for 2011. The proposed rate increases are based on forecast revenue requirements of $326.7 million in 2010 and $381.6 million in 2011 and are primarily driven by the need to support customer growth and complete necessary maintenance and upgrades required to deliver safe and reliable service to customers. On December 11, 2009, the Corporation provided the AUC with an update to the proposed forecast revenue requirements primarily to reflect the Generic Cost of Capital ("GCOC") Decision 2009-216. The update provides for a forecast revenue requirement of $336.2 million for 2010 (which includes the collection of $4.1 million related to the impact of the GCOC Decision recorded in 2009) and $385.3 million for 2011.

The Corporation is also proposing some changes to its rate structures to better align the rates charged with the costs incurred to serve different types of customers. As a result, the proposed rate changes for 2010 and 2011 are higher for some customer classes and lower for others. A hearing on 2010 and 2011 revenue requirements took place from November 30, 2009 to December 4, 2009. A decision from the AUC on revenue requirements is expected in the second quarter of 2010. A hearing on cost allocation and rate design took place on March 8 and 9, 2010. A decision on cost allocation and rate design is anticipated in mid-2010.

The GCOC Decision was issued November 12, 2009, approving an increase in the Corporation's deemed equity capitalization from 37% to 41%. The GCOC Decision also approved a generic return on equity ("ROE") of 9.0% for 2009 compared to the placeholder of 8.51% resulting in a cumulative annual impact of $4.1 million that was recorded in the fourth quarter of 2009 and is expected to be collected from customers in 2010. For 2010 the Corporation continues to use a deemed equity capitalization of 41% and a generic ROE of 9.0%.

The Corporation's application for 2010 interim rates and riders, effective January 1, 2010, was approved by the AUC on December 21, 2009 in Decision 2009-272. This interim approval resulted in an average increase of 7.5% to the base distribution rates for 2010.

RESULTS OF OPERATIONS

Highlights

	Three Months Ended March 31		
	2010	2009	Increase / (Decrease)
Energy deliveries Gigawatt Hours ("GWh") [(a)]	4,109	4,152	(43)
($ thousands)			
Revenues	87,856	79,500	8,356
Operating costs	35,485	33,642	1,843
Depreciation	20,971	19,312	1,659
Amortization	3,211	3,066	145
Income before interest and income taxes	28,189	23,480	4,709
Interest expense	13,959	11,748	2,211
Income before income taxes	14,230	11,732	2,498
Income tax (recovery)	(231)	(561)	330
Net income	14,461	12,293	2,168

Note:

a) *Energy deliveries include adjustments to prior period deliveries that have been reflected in the financial statements during the current period and exclude deliveries to those customers within the Corporation's service area that are connected directly to the transmission grid.*

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

Item ($ millions other than energy deliveries)	Increase/ (Decrease)	Explanation
Energy deliveries	(43) GWh	The decrease in energy deliveries for the three months ended March 31, 2010 is due to a decrease in deliveries to REA farm and irrigation, oil and gas, and industrial customers, which was mainly due to decreased consumption due to relatively mild weather in the first quarter of 2010, despite growth in the number of customer sites. As a significant portion of the Corporation's distribution revenue is derived from fixed or largely fixed billing determinants, changes in energy deliveries are not directly correlated with changes in revenues. Revenues are a function of numerous variables, many of which are independent of the actual energy deliveries.
Net income	2.2	The higher net income for the three months ended March 31, 2010 is primarily related to an increase in revenues, partially offset by an increase in depreciation, amortization, operating costs and interest expense as well as a decrease in income tax recovery as described in further detail below.
Revenues	8.4	Electric rate revenue increased by a total of $10.0 million. Of this increase $6.6 million was attributable to distribution rate increases as a result of the AUC Decision 2009-272 and customer growth. There was a $1.1 million increase due to the impact of the GCOC Decision recorded in the first quarter of 2010. In addition, franchise fee revenue, A-1 rider revenue and various other revenue deferrals resulted in a net increase of $2.3 million. Other revenue decreased by a total of $1.6 million. Net transmission revenue decreased by $0.1 million, primarily due to decreased net transmission revenue resulting from the volume risk that the Corporation takes on actual transmission costs relative to those charged to customers based on forecast volumes and price, on a year over year basis. Net transmission revenue is influenced by many factors which result in actual transmission volumes varying from that which is forecast. The remaining decrease in other revenue is due to a $1.5 million decrease in miscellaneous revenue.
Operating costs	1.8	Operating costs for the three months ended March 31, 2010 was $1.8 million higher than the same period in 2009 due to higher labour costs and higher general operating expenses. Labour costs were higher due to the recognition of prior year deferred labour costs in 2010 and an increase in salaries. General operating expenses were higher due primarily to higher hearing cost and self insurance reserve funding, vehicle fuel expenses and franchise fee expenses, partially offset by decreased telecom costs, linear taxes and advertising costs. Labour and benefit costs and contracted manpower costs comprised approximately 67% of total operating costs for the three months ended March 31, 2010.
Depreciation and amortization	1.8	The increase for the three months ended March 31, 2010 was due primarily to an increase in capital assets related to system growth, as well as upgrades and replacement of assets within the Corporation's service territory. The increase was partially offset by the commencement of capitalization of depreciation for vehicles and tools used in the construction of other assets in 2010.

Item ($ millions other than energy deliveries)	Increase/ (Decrease)	Explanation
Interest expense	2.2	The increase for the three months ended March 31, 2010 was attributable to higher debt levels arising from the issuance of long-term debt Series 09-1 and Series 09-2 that took place in February 2009 and October 2009 respectively to finance increased capital assets. This was partially offset by lower average drawings under the syndicated credit facility and by a reduction in interest rates charged on the syndicated credit facility.
Income tax recovery	(0.3)	The decrease for the three months ended March 31, 2010 is primarily due to an net increase in net customer deferrals subject to future income tax recoveries and the repayment of the Scotiabank reserve without an offsetting regulatory liability or asset for the amount of future income taxes expected to be refunded to or recovered from customers in future electricity rates compared to the same period in 2009. There was also lower current income tax recovery for the three months ended March 31, 2010 compared to the same period in 2009.

Current Economic Conditions

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

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	Revenues	Net Income
March 31, 2010	**87,856**	**14,461**
December 31, 2009	86,326	15,373
September 30, 2009	84,015	15,458
June 30, 2009	81,004	17,204
March 31, 2009	79,500	12,293
December 31, 2008	77,832	10,957
September 30, 2008	74,603	17,090
June 30, 2008	74,773	7,429

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

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

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

million primarily due to the capitalization of depreciation on vehicles and tools used in the construction of other assets, which offset the effect of the increase in capital assets.

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

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

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

- Revenues increased for the three months ended March 31, 2009 compared to the three months ended December 31, 2008 by $1.7 million. Net income increased for the three months ended March 31, 2009 compared to the three months ended December 31, 2008 by $1.3 million, primarily as a result of an increase in revenues and a decrease in interest expense, partially offset by an increase in operating costs, depreciation and amortization.

- Revenues increased for the three months ended December 31, 2008 compared to the three months ended September 30, 2008 by $3.2 million. Net income decreased for the three months ended December 31, 2008 compared to the three months ended September 30, 2008 by $6.1 million, primarily as a result of a decrease in the income tax recovery of $5.9 million and an increase in operating costs of $1.7 million, interest expense of $1.4 million and depreciation and amortization of $0.3 million, partially offset by an increase in revenues.

- Revenues decreased for the three months ended September 30, 2008 compared to the three months ended June 30, 2008 by $0.2 million. Net income increased for the three months ended September 30, 2008 compared to the three months ended June 30, 2008 by $9.7 million, primarily as a result of an income tax recovery of $11.0 million, partially offset by an increase in depreciation and amortization of $0.8 million and interest expense of $0.3 million, and a decrease in revenue.

FINANCIAL POSITION

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

Item ($ millions)	Increase/ (Decrease)	Explanation
Assets:		
Accounts receivable	10.9	The increase to accounts receivable was primarily due to outstanding invoices related to transmission connected projects, increased revenue accruals and accruals for third-party work totaling $13.1 million, partially offset by a reduction of $1.6 million in the receivable from Scotiabank related to the sale of the 2007 Alberta Electric System Operator ("AESO") deferral and a reduction of GST input tax credits of $1.0 million.
Property, plant and equipment (net of accumulated depreciation and the regulatory tax basis adjustment)	29.7	The increase to property, plant and equipment was comprised of net additions (adjusted for cost of removal and proceeds on retired assets) to property, plant and equipment of $50.0 million, less depreciation of $21.0 million (which includes the amount for future removal and site restoration costs recovered through depreciation and is net of regulatory tax basis adjustment amortization of $0.9 million) and an increase of $0.7 million in the provision for future removal and site restoration.
Regulatory assets	(9.0)	The decrease was primarily due to a reduction of $15.5 million in the AESO charges deferral partially offset by increases of $2.6 million in the capitalized overhead deferral, $1.1 million in the deferral relating to revenue associated with the GCOC Decision, $1.9 million in the future income tax regulatory deferral and $0.9 million in other deferrals.
Liabilities:		
Accounts payable, accrued and other liabilities	(9.9)	The decrease is primarily due to a $7.1 million decrease in payables to Scotiabank relating to the sale of the 2007 AESO deferral, a decrease of $3.3 million in the transmission cost accrual, and a net decrease of $4.6 million in other accruals and payables. These decreases were partially offset by an increase in payables of $1.9 million for transmission connected projects, linear and property taxes payable of $2.1 million and GST payable of $0.8 million.
Short-term debt	(10.4)	The decrease was primarily due to decreased drawings under the unsecured demand credit facility and outstanding cheques. Operational needs were fully met with drawings under the syndicated credit facility and cash from operations rather than being met partially by drawings under the unsecured demand facility.
Long-term debt	40.0	The increase is due to increased drawings under the syndicated credit facility of $40.0 million used to finance the Corporation's general corporate and capital activities.

SOURCES AND USES OF LIQUIDITY AND CAPITAL RESOURCES

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

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

STATEMENT OF CASH FLOWS

	Three Months Ended March 31		
($ thousands)	**2010**	**2009**	**Increase/ (Decrease)**
Cash, beginning of period	–	–	–
Cash provided from (used in)			
Operating activities	36,688	24,635	12,053
Investing activities	(57,490)	(85,584)	28,094
Financing activities	20,802	60,949	(40,147)
Cash, end of period	–	–	–

Operating Activities

For the three months ended March 31, 2010, net cash provided from operating activities was $36.7 million, which was $12.1 million higher than the same period in 2009. Cash receipts were $24.1 million higher than the same period in 2009 primarily due to an increase in cash from net transmission receipts and payments, as well as an increase distribution rates and customer counts. Cash payments were $3.6 million higher in 2010 compared to the same period in 2009 primarily due to higher labour and benefit costs. Cash interest paid was $2.9 million higher in 2010 than the same period in 2009 due to the issuance of long-term debt Series 09-1 that took place in February 2009 exceeding the reduction in interest on the syndicated credit facility due to lower drawings and lower interest rates. Further, there was an additional net decrease of $5.5 million due to the payment to Scotiabank in 2010 relating to the sale of the 2007 AESO deferral, partially offset by changes in accounts receivable and account payable balances relating to transmission connected projects and GST.

Management believes that the Corporation will continue to be a rate-regulated entity allowing for recovery of its prudently incurred regulated costs and a reasonable return on equity. In this environment the Corporation should be able to pay all operating costs and interest expense out of operating cash flows, with some residual available for dividend payments to the parent company and/or capital expenditures. If there is continued growth, the Corporation will require additional financing in the form of debt and equity to fund a portion of its capital expenditures. In addition, management expects that the Corporation will continue to provide these distribution services to the customers in its service territory for the foreseeable future and, as such, when the current debt instruments mature the Corporation would be required to issue new debt to repay the principal obligations, as there would still be a requirement for that capital to support the assets of the Corporation. There are no required long-term debt principal repayments in 2010.

Investing Activities

Statement of Financial Highlights	Three Months ended March 31		
($ thousands)	**2010**	**2009**	**Increase/ (Decrease)**
Capital expenditures			
New customers	35,964	46,772	(10,808)
Capital upgrades and replacements	15,082	10,006	5,076
Facilities, vehicles and other	8,791	15,660	(6,869)
Information technology	2,224	2,856	(632)
AESO contributions	(3,564)	134	(3,698)
Gross capital expenditures	58,497	75,428	(16,931)
Less: customer contributions	8,989	6,414	2,575
Net capital expenditures	49,508	69,014	(19,506)

The Corporation's utility operations are capital intensive. For the three months ended March 31, 2010, the Corporation had gross capital expenditures of approximately $58.5 million compared to $75.4 million for the same period in 2009. Capital expenditures related to new customers decreased by $10.8 million compared to the same period in 2009, primarily as a result of a decrease in demand for new residential services, irrigation and farm services. Capital expenditures related to capital upgrades and replacements increased by $5.1 million compared to the same period in 2009, primarily as a result of an increase in substation upgrades, capacity increases, system improvements and other upgrades and replacements. Capital expenditures related to facilities, vehicles and other decreased by $6.9 million compared to the same period in 2009, primarily as a result of decreases of $3.5 million related to changes in transformers, $1.7 million related to meters and meter equipment and $1.5 million in buildings due to the construction of the Redcliff building in 2009. Capital expenditures related to information technology decreased by $0.6 million compared to the same period in 2009, primarily as a result of decreased spending on software in 2010.

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

Cash used in investing activities was higher than net capital expenditures for the three months ended March 31, 2010 as illustrated by the following table:

($ thousands)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Net capital expenditures	49,508	69,014
Changes in:		
Non-cash working capital	5,485	2,883
Costs of removal, net of salvage proceeds, from the sale of property, plant and equipment and the allowance for funds used during construction	3,970	3,528
Capitalized depreciation	(1,142)	–
Materials and supplies	(568)	9,940
Change in employee loans	237	219
Cash used in investing activities	57,490	85,584

Financing Activities

For the three months ended March 31, 2010, net cash provided from financing activities was $20.8 million, compared to $60.9 million provided from financing activities during the same period in 2009. This decrease was primarily due to a $20.0 million decrease in the net issuance of debt and because no equity contributions were received in the three months ended March 31, 2010, whereas $20.0 million was received for the same period in 2009. In addition, dividends paid to Fortis Alberta Holdings Inc. for the three months ended March 31, 2010 were $8.8 million as compared to $7.5 million for the same period in 2009.

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

Capital Expenditures

As an electric utility, the Corporation is obligated to provide a safe and reliable service to its customers. The Corporation has forecast total gross capital expenditures for 2010 of approximately $398.8 million including $164.3 million for customer requested capital, $90.2 million for capital upgrades and improvements, $71.7 million for metering, and $72.6 million for other capital. Included in other capital is $12.8 million for information technology, $12.2 million for facilities and $37.3 million for contributions to AESO projects, and $10.3 million relating to other capital projects. In addition, the Corporation expects to receive forecast customer contributions of approximately $28.1 million. These estimates are based upon detailed forecasts, which are based upon numerous assumptions such as customer demand, weather, cost of labour and material, as well as other factors that could change and cause actual results to differ from these forecasts.

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 GCOC Decision 2009-216. This targeted capital structure is after considering the effects of the elimination of the goodwill and regulatory tax basis adjustment due to the anticipated adoption of IFRS. As indicated in Note 2(c) of the Corporation's unaudited interim Financial Statements for the three months ended March 31, 2010, it is expected that the goodwill and regulatory tax basis adjustment resulting from pushdown accounting will likely be eliminated upon the adoption of IFRS. This ratio is maintained by the Corporation through the issuance from time to time of bonds or other evidences of indebtedness, and/or equity contributions by Fortis Alberta Holdings Inc.

Summary of Long-term Capital Structure

	March 31, 2010		December 31, 2009	
	$ millions	%	$ millions	%
Total long-term debt[(a)]	996.3	57.9	956.3	57.1
Shareholder's equity	724.9	42.1	719.2	42.9
Total	1,721.2	100.0	1,675.5	100.0

Note:

a) The March 31, 2010 balance does not include deferred financing fees of $8.1 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 March 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 as at March 31, 2010.

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 three months ended March 31, 2010 on the syndicated credit facility was 0.8% (three months ended March 31, 2009 – 1.8%). As at March 31, 2010, there were $62.0 million in drawings under the facility for bankers' acceptances (December 31, 2009 - $22.0 million), and there was $40.5 million drawn in letters of credit (December 31, 2009 - $23.4 million).

In December 2008, the Corporation filed a short-form base shelf prospectus ("Shelf") with the security commissions or similar authorities in Canada. This Shelf contemplates the issuance of up to $350.0 million medium term note debentures, which would be senior unsecured obligations of the Corporation.

An unsecured demand facility of $10.0 million was available to the Corporation as at March 31, 2010. This facility bears an interest rate on all drawings equal to prime. There were no drawings on this facility as at March 31, 2010 (December 31, 2009 – $1.7 million which was included in short-term debt).

OUTSTANDING SHARES

Authorized – unlimited number of:

- Common shares
- Class A common shares
- First Preferred non-voting shares, redeemable, cumulative dividend at 10% of the redemption price.

Issued – 63 Class A common shares, with no par value.
Share capital as at March 31, 2010 was $173.8 million (December 31, 2009 – $173.8 million).

RELATED PARTY TRANSACTIONS

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

($ thousands)	Included in Accounts Receivable		Included in Accounts Payable	
	March 31, 2010	**December 31, 2009**	**March 31, 2010**	**December 31, 2009**
FortisBC Inc.	5	10	–	–
Fortis	–	–	619	272
Fortis Turks and Caicos Inc.	3	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]	49	14	–	–
Total	1,621	1,605	619	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 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.*

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

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

($ thousands)	Included in Other Revenue		Included in Operating Costs	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
FortisBC Inc.	40	10	6	5
Fortis	3	–	624	480
Fortis Pacific Holdings Inc.	8	–	–	–
Fortis Properties Inc.	–	–	2	6
Maritime Electric Company, Limited	2	–	–	–
Newfoundland Power Inc.	–	–	–	3
Total	53	10	632	494

FortisBC Inc. – billed the Corporation in 2010 for charges consisting of pension costs, as well as airfare and travel for board meetings. In 2010, the Corporation provided metering services, employee services, information technology services and material sales to FortisBC Inc.

Fortis – billed the Corporation in 2010 for charges relating to corporate governance expenses, stock-based compensation costs, pension costs, subscription expenses and travel and accommodation expenses for board meetings. In 2010, the Corporation provided employee services such as airfare and accommodation for board meetings.

Fortis Pacific Holdings Inc. – received employee services such as meter compliance testing from the Corporation in 2010.

Fortis Properties Inc. – billed the Corporation for travel and accommodation expenses for board meetings in 2010.

Maritime Electric Company, Limited – received employee services such as meter compliance testing from the Corporation in 2010.

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

FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

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

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

($ thousands)	March 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans and receivables				
Accounts receivable (short-term)[(a)(b)]	91,061	91,061	79,250	79,250
Accounts receivable (long-term)[(a)]	1,588	1,588	1,587	1,587
Other financial liabilities				
Accounts payable and accrued liabilities[(a)(c)(e)]	124,998	124,998	136,048	136,048
Short-term debt[(a)]	4,812	4,812	15,176	15,176
Long-term debt[(d)(f)]	996,289	1,070,444	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 March 31, 2010 balance does not include GST input tax credits receivable of nil (December 31, 2009 - $1.0 million).
c) Included within accounts payable, accrued and other liabilities in the Balance Sheet.
d) The March 31, 2010 balance does not include deferred financing fees of $8.1 million (December 31, 2009 – $8.1 million).
e) The March 31, 2010 balance does not include GST input tax credits payable of $0.8 million (December 31, 2009 - nil).
f) The fair value of the long-term debt is estimated based on the quoted market prices for the same or similarly rated issues for debt of the same remaining maturities.

Derivatives

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

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

Risk Management

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

Counterparty Credit Risk

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

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

Credit Rating	**Number of Counterparties**	**Gross Exposure** ($ thousands)	**Exposure** ($ thousands)
AAA to AA (low)	1	1,079	–
A (high) to A (low)	7	3,321	–
BBB (high) to BBB (low)	8	10,024	–
Not rated	34	78,169	3,203
Total	50	92,593	3,203

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

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

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

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

($ thousands)	**March 31, 2010**
Not past due	90,347
Past due 0-60 days	390
Past due 61 days and over	324
	91,061

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 three months ended March 31, 2010:

($ thousands)	Three months ended March 31, 2010	
	25 basis point decrease	**200 basis point increase**
Increase (decrease) in net income	32	(258)

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 March 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 $20 thousand for the three months ended March 31, 2010.

Liquidity Risk

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

The recent 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 significantly 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 the plans is expected to be collected or refunded in future rates, subject to forecast risk.

The Corporation's outstanding financial liabilities as at March 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 March 31, 2010:

($ thousands)	1–5 Years	6–10 Years	> 10 Years	Total
Drawings on the syndicated credit facility (a)(c)	62,000	–	–	62,000
Senior unsecured debentures (b)(c)				
- Principal payments	200,000	–	735,000	935,000
- Interest payments	268,058	214,758	800,518	1,283,334
Total	530,058	214,758	1,535,518	2,280,334

Notes:

a) *The Corporation's syndicated credit facility has a maturity date of May 2012. The drawings under the syndicated credit facility as at March 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 March 31, 2010 and the maturity date of the syndicated credit facility.*

b) *The March 31, 2010 balance does not include deferred financing fees of $8.1 million.*

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

SIGNIFICANT ACCOUNTING ESTIMATES

Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. There were no material changes to the Corporation's significant accounting estimates during the period ended March 31, 2010 from those disclosed in the MD&A for the year ended December 31, 2009. Interim financial statements necessarily employ a greater use of estimates than the annual financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

Transition to IFRSs in Canada

In October 2009, the Accounting Standards Board (the "AcSB") issued a third and final International Financial Reporting Standards ("IFRS") Omnibus Exposure Draft confirming that publicly accountable enterprises will be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. The AcSB proposes that Canadian Institute of Chartered Accountants ("CICA") Handbook Section - Accounting Changes, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to the IFRS Omnibus Exposure Draft. Consequently, the Corporation does not intend to disclose the full impact of the transition to IFRS in publicly available financial statements prior to 2011. The Corporation is continuing to assess the financial reporting impacts of adopting IFRS in 2011. While the impact on future financial position and results of operations is not fully determinable at this time, proposals put forth by the International Accounting Standards Board in its July 2009 Exposure Draft – Rate-Regulated Activities, if adopted, should reduce earnings' volatility at the Corporation that may have otherwise resulted under IFRS, in the absence of an accounting standard for rate-regulated activities. At the April 2010 meeting, the IASB approved the additional IFRS 1 deemed cost exemption for operations subject to rate regulation for first-time adopters. Under the exemption a first-time adopter may elect to use the carrying amount of items of property, plant and equipment or intangible assets used in rate-regulated activities at the date of transition to IFRSs as deemed cost. The exemption will be included in the 2010 Improvements to IFRSs that will be released by the IASB at the end of April 2010. The IASB staff continues its research and analysis on the rate-regulated activities project, focusing on the key issue of whether regulatory assets and regulatory liabilities exist in accordance with the current Framework for the Preparation and Presentation of Financial Statements and whether they are consistent with other current IFRSs.

The Corporation does expect to derecognize amounts previously recorded under pushdown accounting, as well as, a potential change in the manner in which it will measure and recognize property, plant and equipment and intangible assets. The Corporation also anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the required information.

BUSINESS RISK

Legal Proceedings

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

A Statement of Claim was filed on December 18, 2007 in which the Plaintiff, a minor, claims damages in excess of $4.5 million against the numerous defendants, including the Corporation. The Plaintiff's claim arises from personal injuries he suffered in August, 2006 as a result of a motorcycle accident. The Plaintiff alleges that the defendants or any of them, including the Corporation, negligently erected or failed to remove a wire that was strung between a sign and a power pole of the Corporation. While riding his motorcycle, the Plaintiff is alleged to have struck the wire causing his injuries. On August 27, 2008 the parents of the Plaintiff issued a Statement of Claim in the Court of Queen's Bench of Alberta, Judicial District of Edmonton claiming that they suffered damages arising from the mental distress they are alleged to have suffered as a result of witnessing the aftermath of their son's injuries. The combined value of the damages claimed in the action by the two parents is approximately $0.35 million. 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.

OUTLOOK

The AUC has initiated a process to reform utility rate regulation in Alberta. The AUC has expressed its intention to apply a performance based ratemaking ("PBR") formula to distribution service rates as early as July 1, 2012. A PBR regime can create incentives for a utility to improve efficiencies similar to a competitive market and to share in economic and/or other benefits with customers. The Corporation is currently assessing PBR and will participate fully in the AUC process.

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