FORTISALBERTA INC.

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

For the three and nine months ended September 30, 2010.

Dated November 5, 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 and nine months ended September 30, 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 111,600 kilometre, low-voltage distribution network in central and southern Alberta, which serves approximately 487,200 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 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 proposed average increases in base distribution rates of 13.3% for 2010 and 14.9% for 2011. The proposed rate increases were based on forecast revenue requirements of $326.7 million in 2010 and $381.6 million in 2011 and were 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 provided for a forecast revenue requirement of $336.2 million for 2010 (which included 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'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.

The Corporation also proposed 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 hearing on cost allocation and rate design took place on March 8 and 9, 2010.

On July 6, 2010, the AUC issued Decision 2010-309 (the "Decision") on the Corporation's 2010 and 2011 Phase 1 Distribution Tariff Application. The Corporation submitted a compliance filing for its 2010 and 2011 Phase 1 Distribution Tariff Application (the "Compliance Filing") on August 30, 2010 that incorporated the Decision. The Compliance Filing requested a 2010 and 2011 revenue requirement of $347.4 million and $370.5 million respectively. Included in the requested revenue requirement is a forecast level of operating expense for 2010 and 2011 of $140.6 million and $140.6 million respectively and a forecast level of depreciation and amortization expense for 2010 and 2011 of $124.9 million and $142.1 million respectively. The Compliance Filing also includes forecast 2010 and 2011 capital expenditures of $289.7 million and $245.8 million respectively, and forecast customer contributions for 2010 and 2011 of $27.0 million and $31.4 million respectively. In addition, the Compliance Filing included a forecast to make contributions to the Alberta Electric System Operator (the "AESO") projects of approximately $53.9 million and $42.2 million in 2010 and 2011 respectively. Included in the Compliance Filing as a placeholder, is a successful outcome of the review and variance application and appeal discussed in the Outlook section. As a result, the Corporation has not recorded revenue of $1.3 million for the nine months ended September 30, 2010, which was included in the Compliance Filing. The Corporation will await the outcome of the review and variance and/or appeal to make a final determination on this matter.

On July 22, 2010, the AUC released Decision 2010-329 regarding the Corporation's Phase II Distribution Tariff Application. The Corporation's Phase II (rate design) proposals were all effectively approved as filed. The Corporation submitted a Phase II Re-filing (rates by customer class) to the AUC on September 10, 2010 based on the Phase I re-filed revenue requirements on August 30, 2010. The effective date for new final rates and riders is anticipated to be January 1, 2011 for billing implementation.

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 2011. For 2010 the Corporation continues to use a deemed equity capitalization of 41% and a generic ROE of 9.0%.

Central Alberta Rural Electrification Association ("CAREA") Application

On October 1, 2010, the CAREA filed an application with the AUC seeking a declaration that, effective January 1, 2012, CAREA be entitled to serve any person wishing to obtain electricity for use on property within their service area and that the Corporation be restricted to serving only those that are not being served by the CAREA. Management believes that the relief sought by CAREA in the application is not supportable at law.

RESULTS OF OPERATIONS

Highlights

	Three Months Ended September 30			Nine Months Ended September 30		
($ thousands)	2010	2009	Increase / (Decrease)	2010	2009	Increase / (Decrease)
Revenues	109,911	84,015	25,896	289,010	244,519	44,491
Operating costs	32,839	32,832	7	103,912	97,749	6,163
Depreciation	42,431	21,223	21,208	84,565	60,443	24,122
Amortization	3,036	3,087	(51)	9,495	9,349	146
Income before interest and income taxes	31,605	26,873	4,732	91,038	76,978	14,060
Interest expense	12,750	12,173	577	40,443	36,042	4,401
Income before income taxes	18,855	14,700	4,155	50,595	40,936	9,659
Income tax recovery	(325)	(758)	433	(442)	(4,019)	3,577
Net income	19,180	15,458	3,722	51,037	44,955	6,082

The following table outlines the significant increases/(decreases) in the Results of Operations for the three months ended September 30, 2010 as compared to September 30, 2009:

Item ($ millions)	Increase/ (Decrease)	Explanation
Net income	3.7	The higher net income for the three months ended September 30, 2010 was primarily related to an increase in revenues, partially offset by increases in depreciation and amortization, and interest expense, as well as a decrease in income tax recovery as described in further detail below.
Revenues	25.9	Electric rate revenue increased by 30.3 for the three months ended September 30, 2010. Of this increase 6.2 was attributable to distribution rate increases as a result of the AUC Decision 2009-272 and customer growth. The AUC Decision 2010-309 resulted in an increase in revenue of 23.2, which is expected to be collected in 2011, and farm transmission credit of 1.7. In addition, franchise fee revenue and A-1 rider revenue resulted in a net decrease of 0.8. Other revenue decreased by 4.4 for the three months ended September 30, 2010. Net transmission revenue decreased by 2.6 primarily due to the AUC Decision 2010-309 which eliminated the volume risk that the Corporation takes on transmission costs. The remaining decrease in other revenue is due to a 1.8 decrease in miscellaneous revenue.
Depreciation and amortization	21.2	The increase for the three months ended September 30, 2010 was due to higher overall depreciation and amortization rates as approved by the Decision, which was reflected in the third quarter of 2010. In addition, there was an increase in capital assets related to system growth, as well as upgrades and replacement of assets within the Corporation’s service territory. The increase was partially offset by the commencement of capitalization of depreciation for vehicles and tools used in the construction of other assets in 2010.
Interest expense	0.6	The increase for the three months ended September 30, 2010 was attributable to higher debt levels arising from the issuance of long-term debt Series 09-2 that took place in October 2009 to finance increased capital assets and an increase in interest rates charged on the credit facility. This was partially offset by a change in allowance for funds used during construction as a result of the Decision and lower average drawings under the syndicated credit facility.

Item ($ millions)	Increase/ (Decrease)	Explanation
Income tax recovery	(0.4)	The reduction in income tax recovery for the three months ended September 30, 2010 was primarily due to the change in net customer deferrals subject to future income tax recoveries without an offsetting regulatory liability or asset, resulting in a lower future income tax recovery compared to the same period in 2009.

The following table outlines the significant increases/(decreases) in the Results of Operations for the nine months ended September 30, 2010 as compared to September 30, 2009:

Item ($ millions)	Increase/ (Decrease)	Explanation
Net income	6.1	The higher net income for the nine months ended September 30, 2010 was primarily related to an increase in revenues, partially offset by increases in operating costs, depreciation, amortization and interest expense as well as a decrease in income tax recovery as described in further detail below.
Revenues	44.5	Electric rate revenue increased by 50.8 for the nine months ended September 30, 2010. Of this increase 18.5 was attributable to distribution rate increases as a result of the AUC Decision 2009-272 and customer growth. The AUC Decision 2010-309 resulted in an increase in revenue of 30.3, which is expected to be collected in 2011, and farm transmission credit of 1.7. In addition, franchise fee revenue and A-1 rider revenue resulted in a net increase of 0.3. Other revenue decreased by 6.3 for the nine months ended September 30, 2010. Net transmission revenue decreased by 4.1 primarily due to the AUC Decision 2010-309 which eliminated the volume risk that the Corporation takes on transmission costs. The remaining decrease in other revenue is due to a 2.2 decrease in miscellaneous revenue.
Operating costs	6.2	Operating costs for the nine months ended September 30, 2010 were higher than the same period in 2009 due to higher labour and general operating expenses, partially offset by lower contracted manpower costs. Labour costs were higher due to the recognition of the prior year's deferred labour costs in 2010 and an increase in salaries and benefits. General operating expenses were higher due primarily to higher hearing cost and self-insurance reserve funding, vehicle fuel expenses, franchise fee expenses and information technology costs, partially offset by a reduction in telecommunication and advertising costs. Contracted manpower costs were lower due primarily to lower brushing and information technology related contractor costs, partially offset by higher meter reading costs due to the recognition of 1.3 of 2009 meter reading costs in the third quarter of 2010 as a result of the Decision. Labour and benefit costs and contracted manpower costs comprised approximately 67% of total operating costs for the nine months ended September 30, 2010.

Item ($ millions)	Increase/ (Decrease)	Explanation
Depreciation and amortization	24.3	The increase for the nine months ended September 30, 2010 was due to higher overall depreciation and amortization rates as approved by the Decision, which was reflected in the third quarter of 2010. In addition, there was an increase in capital assets related to system growth, as well as upgrades and replacement of assets within the Corporation's service territory. The increase was partially offset by the commencement of capitalization of depreciation for vehicles and tools used in the construction of other assets in 2010.
Interest expense	4.4	The increase for the nine months ended September 30, 2010 was attributable to higher debt levels arising from the issuance of long-term debt Series 09-2 that took place in October 2009 to finance increased capital assets. This was partially offset by a change in allowance for funds used during construction as a result of the Decision, lower average drawings under the syndicated credit facility and by a reduction in interest rates charged on the syndicated credit facility.
Income tax recovery	(3.6)	The decrease in income tax recovery for the nine months ended September 30, 2010 was primarily due the change in net customer deferrals subject to future income tax recoveries without an offsetting regulatory liability or asset, resulting in a lower future income tax recovery compared to the same period in 2009. In addition, there was current income tax expense in 2010 and a current income tax recovery in 2009.

Current Economic Conditions

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

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	Revenues	Net Income
September 30, 2010	109,911	19,180
June 30, 2010	91,243	17,396
March 31, 2010	87,856	14,461
December 31, 2009	86,326	15,373
September 30, 2009	84,015	15,458
June 30, 2009	81,004	17,204
March 31, 2009	79,500	12,293
December 31, 2008	77,832	10,957

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

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

- Revenues increased by $1.5 million for the three months ended March 31, 2010 compared to the three months ended December 31, 2009. Net income decreased for the three months ended March 31, 2010 compared to the three months ended December 31, 2009 by $0.9 million, due to increases 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.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheet as at September 30, 2010 as compared to December 31, 2009:

Item ($ millions)	Increase/ (Decrease)	Explanation
Assets:		
Accounts receivable	19.5	The increase in accounts receivable was primarily due to increased revenue accruals and accruals for third-party work totaling 21.2, as well as an increase in other receivables of 0.9, partially offset by a reduction of 1.6 in the receivable from Scotiabank related to the sale of the 2007 AESO deferral and a reduction of 1.0 in GST input tax credits.
Regulatory assets	14.6	The increase in regulatory assets is primarily due to the recognition of 27.0 for the increase in distribution rates as a result of the Decision which is expected to be collected in 2011, an increase of 17.9 in the future income tax regulatory deferral and the recognition of 7.6 for the regulatory asset relating to deferred operating costs. These are partially offset by a 30.9 reduction in the AESO charges deferral, a 3.1 reduction in the deferral relating to the 2009 impact of the GCOC decision, a 2.5 reduction in the uniform system of accounts cost deferral, a 1.3 reduction in the meter reading costs deferral and a 0.1 net reduction in the remaining regulatory assets.
Property, plant and equipment (net of accumulated depreciation and the regulatory tax basis adjustment)	147.3	The increase in property, plant and equipment was comprised of net additions (adjusted for cost of removal and proceeds on retired assets) to property, plant and equipment of 219.7, less depreciation of 84.6 (which includes the amount for future removal and site restoration costs recovered through depreciation and is net of regulatory tax basis adjustment amortization of 2.6) and an increase of 12.2 in the provision for future removal and site restoration.
Liabilities:		
Regulatory liabilities	14.6	The increase in regulatory liabilities is primarily due to the increase of 12.2 in the provision for future removal and site restoration and a net increase of 2.4 in the remaining regulatory liabilities.
Future income taxes	17.4	Future income taxes increased due to an increase in timing differences.
Long-term debt	82.2	The increase is due to increased drawings under the syndicated credit facility of 81.9 used to finance the Corporation's general corporate and capital activities as well as 0.3 related to the amortization of debenture discounts and deferred financing fees partially offset by 0.1 additions to deferred financing fees.
Shareholder's Equity:		
Contributed surplus	40.0	The increase is due to equity contributions from Fortis Alberta Holdings Inc. (the Corporation's parent and an indirectly wholly owned subsidiary of Fortis) for which no additional shares were issued.

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 September 30			Nine Months Ended September 30		
($ thousands)	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Cash, beginning of period	–	–	–	–	–	–
Cash provided from (used in):						
Operating activities	55,233	53,108	2,125	133,866	111,370	22,496
Investing activities	(89,166)	(102,152)	12,986	(226,078)	(300,047)	73,969
Financing activities	33,933	49,044	(15,111)	92,212	188,677	(96,465)
Cash, end of period	–	–	–	–	–	–

Operating Activities

For the three months ended September 30, 2010, net cash provided from operating activities was $55.2 million, which was $2.1 million higher than the same period in 2009. Cash receipts were $10.7 million higher than the same period in 2009 primarily due to an increase in cash from net transmission receipts and payments, as well as an increase in distribution rates and customer counts. Cash payments were $6.0 million higher in 2010 compared to the same period in 2009. Cash taxes of $2.0 million were received for the period in 2009 whereas none were received in 2010. Further, there was an additional net decrease of $0.6 million due to the changes in accounts receivable and account payable balances relating to transmission and distribution connected projects, GST and other receivables.

For the nine months ended September 30, 2010, net cash provided from operating activities was $133.9 million, which was $22.5 million higher than the same period in 2009. Cash receipts were $41.9 million higher in 2010 than in 2009 primarily due to an increase in cash from net transmission receipts and payments, as well as an increase in distribution rates and customer counts. Cash payments were $6.6 million higher in 2010 compared to the same period in 2009. Cash interest paid was $6.2 million higher in 2010 than the same period in 2009 due to the issuance of long-term debt Series 09-1 and 09-2 that took place in February 2009 and October 2009 respectively partially offset by decreased interest on the syndicated credit facility due to lower drawings and lower interest rates. Cash taxes of $2.0 million were received for the period in 2009 whereas none were received in 2010. Further, there was an additional net decrease of $4.6 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 and distribution connected projects, GST and other receivables.

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 September 30**			**Nine Months ended September 30**		
($ thousands)	**2010**	**2009**	**Increase/ (Decrease)**	**2010**	**2009**	**Increase/ (Decrease)**
Capital expenditures						
New customers	43,224	43,761	(537)	123,355	147,097	(23,742)
Capital upgrades and replacements	18,177	19,917	(1,740)	46,839	46,200	639
Facilities, vehicles and other	21,249	21,399	(150)	49,549	71,167	(21,618)
Information technology	3,122	2,256	866	8,226	8,269	(43)
AESO contributions	22,494	11,913	10,581	22,323	25,782	(3,459)
Gross capital expenditures	108,266	99,246	9,020	250,292	298,515	(48,223)
Less: customer contributions	(10,297)	(11,272)	975	(28,400)	(19,462)	(8,938)
Net capital expenditures	97,969	87,974	9,995	221,892	279,053	(57,161)

The Corporation's utility operations are capital intensive. For the three months ended September 30, 2010, the Corporation had gross capital expenditures of approximately $108.3 million compared to $99.2 million for the same period in 2009. Capital expenditures related to new customers decreased by $0.5 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. This decrease was partially offset by an increase in oil and gas, and general service. Capital expenditures related to capital upgrades and replacements decreased by $1.7 million compared to the same period in 2009, primarily as a result of a decrease in substation upgrades, capacity increases and planned maintenance. Capital expenditures related to facilities, vehicles and other decreased by $0.2 million compared to the same period in 2009, primarily as a result of decreases of $7.2 million related to meters and meter equipment, $1.9 million related to land, offset by increases of $6.8 million related to changes in transformers, and $2.1 million related to buildings, leasehold improvements, furniture and vehicles. Capital expenditures related to information technology increased by $0.9 million compared to the same period in 2009, primarily as a result of increased spending in 2010 on computer hardware and software expenditures necessary to meet business requirements of the engineering, procurement and construction project. Capital expenditures related to AESO contributions increased by $10.6 million.

For the nine months ended September 30, 2010, the Corporation had gross capital expenditures of approximately $250.3 million, compared to $298.5 million for the same period in 2009. Capital expenditures related to new customers decreased by $23.7 million compared to the same period in 2009. Capital expenditures related to capital upgrades and replacements increased by $0.6 million compared to the same period in 2009. Capital expenditures related to facilities, vehicles, and other decreased by $21.6 million compared to the same period in 2009. Capital expenditures related to AESO Contributions decreased by $3.5 million.

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 $8.8 million lower than net capital expenditures for the three months ended September 30, 2010 and $4.2 million higher for the nine months ended September 30, 2010 as illustrated by the following table:

($ thousands)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Net capital expenditures	97,969	221,892
Changes in:		
Non-cash working capital	(7,022)	2,534
Costs of removal, net of salvage proceeds, from the sale of property, plant and equipment and the allowance for funds used during construction	3,256	10,470
Capitalized depreciation	(1,109)	(3,581)
Materials and supplies	(12,465)	(13,941)
December 31, 2009 transformer accumulated depreciation to be refunded to customers in 2010 per the Decision	8,642	8,642
Change in employee loans	(105)	62
Cash used in investing activities	89,166	226,078

Financing Activities

For the three months ended September 30, 2010, net cash provided from financing activities was $33.9 million, compared to $49.0 million during the same period in 2009. This decrease was primarily due to a $1.4 million decrease in the net issuance of debt and a $12.5 million decrease in equity contributions received in the three months ended September 30, 2010 compared to the same period in 2009. In addition, dividends paid to Fortis Alberta Holdings Inc. for the three months ended September 30, 2010 were $8.8 million compared to $7.5 million for the same period in 2009.

For the nine months ended September 30, 2010, net cash provided from financing activities was $92.2 million, compared to $188.7 million during the same period in 2009. This decrease was primarily due to a $56.5 million decrease in the net issuance of debt and a decrease in equity contributions received of $37.5 million as compared to the nine months ended September 30, 2009. In addition, dividends paid to Fortis Alberta Holdings Inc. for the nine months ended September 30, 2010 were $26.3 million compared to $22.5 million for the same period in 2009. This decrease in cash was partially offset by lower cash expenditures on deferred financing fees of $1.2 million compared to the same period in 2009.

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

Capital Expenditures

As an electric utility, the Corporation is obligated to provide a safe and reliable service to its customers. The Corporation has forecast total gross capital expenditures for 2010 of approximately $361.0 million including $168.0 million for customer requested capital, $66.4 million for capital upgrades and improvements, $49.2 million for metering, and $77.4 million for other capital. Included in other capital is $15.0 million for information technology, $12.7 million for facilities, $33.5 million for contributions to AESO projects and $16.2 million relating to miscellaneous capital projects. In addition, the Corporation expects to receive forecast customer contributions of approximately $28.2 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 Generic Cost of Capital 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 International Financial Reporting Standards ("IFRS"). As indicated in Note 2(c) of the Corporation's unaudited financial statements for the three and nine months ended September 30, 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

	September 30, 2010		December 31, 2009	
	$ millions	%	$ millions	%
Total long-term debt[(a)]	1,038.3	57.0	956.3	57.1
Shareholder's equity	784.0	43.0	719.2	42.9
Total	1,822.3	100.0	1,675.5	100.0

Note:

[(a)] *The September 30, 2010, balance does not include deferred financing fees of $7.9 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 September 30, 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 September 30, 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 nine months ended September 30, 2010 on the syndicated credit facility was 1.0 % (nine months ended September 30, 2009 – 1.1 %). As at September 30, 2010, there were $103.9 million in drawings under the facility for bankers' acceptances (December 31, 2009 – $22.0 million), and there was $42.2 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 September 30, 2010. This facility bears an interest rate on all drawings equal to prime. There were $3.9 million drawings on this facility as at September 30, 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.

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:

	Included in Accounts Receivable		**Included in Accounts Payable**	
($ thousands)	**September 30, 2010**	**December 31, 2009**	**September 30, 2010**	**December 31, 2009**
FortisBC Inc.	3	10	–	–
Fortis	–	–	484	272
Fortis Turks and Caicos Inc.	12	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)]	31	14	–	–
Employee computer loans to officers of the Corporation[(d)]	1	–	–	–
Total	1,611	1,605	484	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 three months ended September 30, 2010 and 2009 were measured at the exchange amount and are as follows:

	Included in Other Revenue		Included in Operating Costs	
($ thousands)	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
FortisBC Inc.	15	53	6	7
Fortis	–	–	410	440
Fortis Properties Inc.	–	–	6	2
Maritime Electric Company, Limited	5	7	–	–
Fortis Turks and Caicos Inc.	12	–	–	–
Total	32	60	422	449

The amounts included in other revenue and operating costs for related parties for the nine months ended September 30, 2010 and 2009 were measured at the exchange amount and are as follows:

	Included in Other Revenue		Included in Operating Costs	
($ thousands)	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
FortisBC Inc.	76	69	18	18
Fortis	60	7	1,774	1,402
Fortis Pacific Holdings Inc.	8	3	–	–
Fortis Properties Inc.	–	–	8	15
Maritime Electric Company, Limited	10	12	–	–
Fortis Turks and Caicos Inc.	12	–	–	–
Newfoundland Power Inc.	–	–	–	3
Total	166	91	1,800	1,438

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 and also invoiced related expenses.

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.

Fortis Turks and Caicos Inc. – received employee services, information technology services and material sales 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 September 30, 2010.

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

	September 30, 2010		December 31, 2009	
($ thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans and receivables				
Accounts receivable (short-term)[(a)(b)]	99,738	99,738	79,250	79,250
Accounts receivable (long-term)[(a)]	1,583	1,583	1,587	1,587
Other financial liabilities				
Accounts payable and accrued liabilities[(a)(c)]	137,964	137,964	136,048	136,048
Short-term debt[(a)]	11,825	11,825	15,176	15,176
Long-term debt[(d)(e)]	1,038,253	1,187,585	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 September 30, 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. The September 30, 2010 balance does not include GST payable of $0.1 million (December 31, 2009 – nil).*

[(d)] *The September 30, 2010 balance does not include deferred financing fees of $7.9 million (December 31, 2009 – $8.1 million).*

[(e)] *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 for separate recognition 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 September 30, 2010.

Credit Rating	Number of Counterparties	Gross	Exposure
		($ thousands)	($ thousands)
AAA to AA (low)	1	1,448	-
A (high) to A (low)	8	4,017	-
BBB (high) to BBB (low)	8	11,847	-
Not rated	33	88,632	1,893
Total	50	105,944	1,893

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 Corporation has not recorded an allowance for doubtful accounts and the aging analysis of the Corporation's accounts receivable is as follows:

($ thousands)	September 30, 2010
Not past due	98,641
Past due 0-60 days	884
Past due 61 days and over	213
	99,738

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 and nine months ended September 30, 2010:

($ thousands)	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	25 basis point decrease	200 basis point increase	25 basis point decrease	200 basis point increase
Increase (decrease) in net income	64	(503)	142	(1,133)

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 September 30, 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 $27 thousand for the three months ended September 30, 2010, and $70 thousand for the nine months ended September 30, 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 $19 thousand for the three months ended September 30, 2010, and $51 thousand for the nine months ended September 30, 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.

Capital market volatility may impact the Corporation's cost of issuance of long term capital as well as 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 either plan is expected to be collected or refunded in future rates, subject to forecast risk.

The Corporation's outstanding financial liabilities as at September 30, 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 September 30, 2010:

($ thousands)	1–5 Years	6–10 Years	> 10 Years	Total
Drawings on the syndicated credit facility [(a)(c)]	104,000	-	-	104,000
Senior unsecured debentures [(b)(c)]				
- Principal payments	200,000	-	735,000	935,000
- Interest payments	262,728	214,758	779,042	1,256,528
Total	566,728	214,758	1,514,042	2,295,528

Notes:

[(a)] *The Corporation's syndicated credit facility has a maturity date of May 2012. The drawings under the syndicated credit facility as at September 30, 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 September 30, 2010 and the maturity date of the syndicated credit facility.*

[(b)] *The September 30, 2010 balance does not include deferred financing fees of $7.9 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 September 30, 2010 from those disclosed in the MD&A for the year ended December 31, 2009, other than depreciation rates which were changed as a result of the Decision. 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 would 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.

In September 2010, the AcSB issued an amendment to the introduction of Part I (the "Amendment") of the Canadian Institute of Chartered Accountants ("CICA") Handbook revising the mandatory date for first-time adoption of IFRS by qualifying entities with rate-regulated activities to interim and annual financial statements relating to annual periods beginning on or after January 1, 2012. Earlier adoption is permitted.

A qualifying entity would be an entity that: (i) has activities subject to rate regulation meeting the definition of that term in Generally Accepted Accounting Principles, paragraph 1100.32B, in Part V of the CICA Handbook; and (ii) in accordance with Accounting Guideline AcG-19, Disclosures by Entities Subject to Rate Regulation, discloses that it has accounted for a transaction or event differently than it would have in the absence of rate regulation (i.e., that it has recognized regulatory assets and liabilities). The Amendment also requires that an entity choosing to defer its IFRS changeover date disclose that fact.

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 proposed deferral option. The Corporation expects to take the election to defer the adoption of IFRS until 2012 and would, therefore, 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 AcSB proposes that 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 2012.

The Corporation is continuing to assess the financial reporting impacts of adopting IFRS in 2012. The impact on the Corporation's future financial position and results of operations are not fully determinable at this time.

At the April 2010 meeting, the International Accounting Standards Board (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 was included in the 2010 Improvements to IFRSs that was released by the IASB in May 2010.

At its September 2010 meeting, the IASB continued its discussions on Rate-regulated Activities. The IASB received papers that focused on:

- whether the effect of regulation should be analyzed in the context of IAS 38 Intangible Assets and IAS 37 Provisions, Contingent Liabilities and Contingent Asset;
- whether the effect of regulation should be recognized in financial statements that are prepared in accordance with existing IFRSs;
- the status of the Rate-regulated Activities project as a stand-alone project; and
- whether IFRSs should be amended to require specific disclosure requirements related to the impact of regulation on an entity that is subject to regulations.

The IASB did not reach conclusions on any technical issues at this meeting. The IASB reconfirmed its earlier view that the matter could not be resolved quickly. Accordingly the IASB decided that the next step should be to consider whether to include rate regulated activities in its future agenda.

The IASB decided to include in its public consultation on its future agenda a request for views on what form a future project might take, if any, to address the rate-regulated activities. The feedback received will assist the IASB in setting its future agenda. The potential future steps include, but are not limited to:

- a disclosure only standard;
- an interim standard, similar to IFRS 4 or IFRS 6, to grandfather previous GAAP accounting practices with some limited improvements;
- a medium term project focused on the effects of rate-regulation; or
- a comprehensive project on intangible assets.

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.

In the Corporation's 2010 and 2011 Phase 1 Distribution Tariff Application, the Corporation requested to update the 2010/2011 forecast for the metering project, bringing the total project forecast to $125.7 million. The AUC reached the conclusion that an amount of $104.3 million for the metering project formed part of the 2008/2009 Negotiated Settlement Agreement ("NSA") approved in Decision 2008-011. The Corporation has filed a Review and Variance Application with the AUC and a Leave to Appeal with the Alberta Court of Queen's Bench regarding the AUC's reading of Decision 2008-011, the interpretation thereof and the NSA included therein.

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 it is management's intention to use the proceeds of the issue to repay existing indebtedness incurred under the syndicated credit facility, and for general corporate purposes.

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