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

For the three and nine months ended September 30, 2012
October 30, 2012

The following discussion and analysis of financial condition and results of operations of FortisAlberta Inc. (the "Corporation") has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations and should be read in conjunction with the following: (i) the interim unaudited financial statements and notes thereto for the three and nine months ended September 30, 2012 prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"); (ii) the audited financial statements and notes thereto for the year ended December 31, 2011, with 2010 comparatives, prepared in accordance with US GAAP and voluntarily filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") by the Corporation on March 22, 2012; (iii) the "FortisAlberta Inc. Supplementary Interim Financial Statements (Unaudited)" contained in the above-noted voluntary filing which provides a detailed reconciliation between the Corporation's interim unaudited 2011 financial statements prepared in accordance with Canadian generally accepted accounting principles and interim unaudited 2011 financial statements prepared in accordance with US GAAP; and (iv) the Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2011.

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 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 2012. 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 distribution facilities to ensure its 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.

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 electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Corporation does not own or operate generation or transmission assets and is not involved in the direct sale of electricity. It is intended that the Corporation remain a regulated electricity 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 116,000 kilometre, low-voltage distribution network in central and southern Alberta, which serves approximately 505,000 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers.

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

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 equity component of capital structure ("ROE") applied to approved rate base assets. When the AUC issues a decision affecting the financial results of the Corporation, the effects of the decision are recorded in the period in which the decision is received.

The Corporation applies for the revenue requirement based on estimated cost-of-service and once the revenue requirement is approved, it is not adjusted as a result of actual cost-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. As such, net income is impacted by: (i) changes in the AUC approved ROE; (ii) changes in rate base; (iii) changes in the number and composition of customers; (iv) variances between actual expenses incurred and forecast expenses used to determine the revenue requirement and set customer rates; and (v) timing differences within an annual financial reporting period, between when actual expenses are incurred and when they are recovered from customers in rates.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. ("Fortis"), which is 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

2012 Negotiated Settlement Agreement ("NSA") and Decision

In March 2011, the Corporation filed a 2012 and 2013 Phase I Distribution Tariff Application which would determine the revenue requirement for those years. In response to the Phase I application, the AUC approved the commencement of a negotiated settlement process but limited the process to considering the revenue requirement for 2012 only, in light of the AUC's target of 2013 being the initial year of customer distribution rates based on performance based regulation ("PBR"). Customer distribution rates for 2012 are to be the going-in rates for the PBR plan commencing in 2013.

In November 2011, the Corporation filed an NSA pertaining to the 2012 revenue requirement, proposing an average customer distribution rate increase of 5.0% effective January 1, 2012. The requested rate increase was driven primarily by ongoing investment in energy infrastructure, including increased amortization and financing costs. The NSA had a forecast midyear rate base of $2,025.4 million. In December 2011, the AUC approved an interim average customer distribution rate increase of 5.0%, effective January 1, 2012, which reflected the parameters of the 2012 NSA.

In April 2012, the AUC issued Decision 2012-108 ("2012 Decision") that approved, substantially as filed, the NSA pertaining to the Corporation's 2012 distribution revenue requirement resulting in an average customer distribution rate increase of 5.0%, effective January 1, 2012, consistent with the interim rate increase that was previously approved by the AUC in December 2011. The cumulative impacts of the 2012 Decision were recorded in the second quarter of 2012. Final customer distribution rates will be determined after the completion of a Phase II proceeding, for which an application is expected to be filed in the fourth quarter of 2012.

Included in the 2012 Decision, the AUC did not approve the continuation of the deferral of transmission volume variances associated with the Corporation's Alberta Electric System Operator ("AESO") charges deferral account. Subsequently, in the AUC's decision regarding PBR discussed below, the deferral of the transmission volume variance was reinstated, effective January 1, 2013.

Performance Based Regulation

In early 2010, the AUC introduced an initiative to reform utility rate regulation for distribution utilities in Alberta. The AUC intends to replace existing cost-of-service regulation with PBR beginning January 1, 2013 for a five-year term. Under PBR the cost-of-service regulatory model is replaced with a method of rate-making that employs a formula to determine customer rates on an annual basis. The implementation of a PBR model does not alter a utility's right, under the *EUA*, to a reasonable opportunity to recover the prudent costs of service and the right to earn a reasonable return on equity. In July 2011, the Corporation, along with other distribution utilities operating under the AUC's jurisdiction, submitted its PBR proposal to the AUC outlining the Corporation's view as to how PBR should be implemented for the Corporation.

In September 2012, the AUC issued Decision 2012-237 (the "PBR Decision") which approved the five-year PBR term beginning in 2013 for Alberta distribution utilities. The formula determined by the AUC in the PBR Decision raises concerns and uncertainty for the Corporation regarding the treatment of certain capital expenditures. The Corporation will be seeking further clarification regarding those capital expenditures in the required compliance application, scheduled to be filed with the AUC in November 2012. The Corporation has also sought leave to appeal this issue with the Alberta Court of Appeal. For further information, refer to the "Business Risk" section of this MD&A.

Generic Cost of Capital Proceeding

In December 2011, the AUC issued Decision 2011-474 in respect of its 2011 Generic Cost of Capital Proceeding ("2011 GCOC Decision"). That decision established a ROE for ratemaking purposes of 8.75% for both 2011 and 2012, and an interim ROE of 8.75% for 2013. The Corporation's deemed equity capitalization was maintained at 41%. The AUC concluded that it would not return to a formula-based ROE adjustment mechanism at this time, and that it would initiate a proceeding in due course to establish a final ROE for 2013 and revisit the matter of a return to a formula-based approach at a future proceeding.

In the GCOC Decision, the AUC made statements regarding cost responsibility for stranded assets, which the Corporation and other utilities challenge as being incorrectly made. As a result, the Corporation and the other utilities filed a review and variance application with the AUC. In June 2012, the AUC decided it would not permit a review and variance of the decision in question but would examine the issue in a future proceeding. The Corporation and the other utilities had also sought leave to appeal the stranded asset pronouncements with the Alberta Court of Appeal, and have temporarily adjourned that court process pending the AUC's follow-up proceeding.

Maintaining Electricity Rates

In March 2012, the AUC issued Bulletin 2012-03 regarding maintaining regulated electricity rates. This bulletin addressed the Government of Alberta's letter requesting that regulated electricity rates be maintained until the Government responds to the recommendations of the Retail Market Review Committee (the "Committee"), announced in February 2012. The Committee's mandate includes the review of the default electricity rate charged to customers who do not obtain retail service from a retailer. The AUC will continue processing applications before them and may approve applications that maintain existing rates or propose rate reductions; however, the AUC will not issue decisions that result in rate increases. In September, the Committee's recommendations were provided to the Alberta Minister of Energy for review. Further process has yet to be established and the government-sanctioned rate freeze has not been lifted.

Central Alberta Rural Electrification Association ("CAREA") Application

In July 2012, the AUC issued Decision 2012-181 denying the CAREA's Application which had requested, effective January 1, 2012, that the CAREA be entitled to serve any new customer in the overlapping CAREA service area and that the Corporation be restricted to providing service in the overlapping CAREA service area only to a customer in that service area who is not being provided service by the CAREA. The decision confirms that the Corporation is the primary electricity distribution service provider within its service territory, including that portion of the Corporation's service territory that overlaps with the service territory of the CAREA. The CAREA has not sought leave to appeal this decision.

RESULTS OF OPERATIONS

Highlights

	Three Months Ended September 30			Nine Months Ended September 30		
($ thousands)	2012	2011	Increase / (Decrease)	2012	2011	Increase / (Decrease)
Revenues	116,252	102,660	13,592	334,628	306,130	28,498
Cost of sales	40,049	35,659	4,390	116,189	106,855	9,334
Depreciation	29,231	30,101	(870)	86,725	89,723	(2,998)
Amortization	3,822	3,433	389	11,713	10,173	1,540
Other income	–	–	–	1,763	2,959	(1,196)
Income before interest and income taxes	43,150	33,467	9,683	121,764	102,338	19,426
Interest expense	16,727	15,281	1,446	48,521	44,202	4,319
Income before income taxes	26,423	18,186	8,237	73,243	58,136	15,107
Income tax expense	407	256	151	173	1,129	(956)
Net income	26,016	17,930	8,086	73,070	57,007	16,063

Net income for the three months ended September 30, 2012 increased $8.1 million compared to the same period last year primarily due to net transmission revenue, rate base growth associated with continued investment in energy infrastructure and lower-than-forecast operating expenses mainly due to timing differences, partially offset by the impact of the 2012 GCOC Decision.

Net income for the nine months ended September 30, 2012 increased $16.1 million compared to the same period last year primarily due to rate base growth associated with continued investment in energy infrastructure, net transmission revenue, lower-than-forecast interest expense associated with the October 2011 debt issuance, lower-than-forecast operating expenses mainly due to timing differences, and lower income tax expense, partially offset by the impact of the 2012 GCOC Decision and the gain on sale of property in 2011.

The following table outlines the significant variances in the Results of Operations for the three months ended September 30, 2012 as compared to September 30, 2011:

Item	Increase/ (Decrease) ($ millions)	Explanation
Revenues	13.6	Electric rate revenue increased by $8.7. Of this increase approximately $7.0 was attributable to an average 5.0% distribution rate increase, effective January 1, 2012, and growth in the number of customers. In addition, there was an increase of $1.3 in franchise fee revenue and $0.8 in A-1 rider revenue. These increases were partially offset by a decrease of $0.5 relating to the impact of the 2011 GCOC Decision. Other revenue increased by $4.9 primarily as a result of net transmission revenue due to the 2012 Decision, which discontinued the full deferral of transmission costs for 2012. In the absence of full deferral, the Corporation is subject to volume risk on actual transmission costs relative to those charged to customers based on forecast volumes and price. Net transmission revenue is influenced by many factors which result in actual transmission volumes varying from that which was forecast.
Cost of sales	4.4	Increase was mainly due to an increase in salaries and wages, higher franchise fees and other taxes partially offset by a decrease in contracted manpower costs. Labour and benefit costs and contracted manpower costs comprised approximately 58.7% of total cost of sales.
Interest expense	1.4	The increase was attributable to higher debt levels from the issuance of long-term debt in October 2011.

The following table outlines the significant variances in the Results of Operations for the nine months ended September 30, 2012 as compared to September 30, 2011:

Item	Increase/ (Decrease) ($ millions)	Explanation
Revenues	28.5	Electric rate revenue increased by $20.1. Of this increase approximately $18.9 was attributable to an average 5.0% distribution rate increase, effective January 1, 2012, and growth in the number of customers. In addition, there was an increase of $3.2 in franchise fee revenue. These increases were partially offset by a decrease of $2.1 relating to the Review and Variance AUC Decision 2011-233, recorded in 2011, regarding expenditures associated with the automated metering project and the impact on the revenue requirement, and a decrease of $1.6 relating to the impact of the 2011 GCOC Decision. Other revenue increased by $8.4 primarily as a result of net transmission revenue due to the 2012 Decision as discussed above for the quarter.
Cost of sales	9.3	Increase was mainly due to higher salaries and wages and franchise fees partially offset by a decrease in contracted manpower costs. Labour and benefit costs and contracted manpower costs comprised approximately 60.9% of total cost of sales.
Depreciation	(3.0)	The decrease was due to an overall decrease in depreciation rates effective January 1, 2012 as approved in the 2012 Decision. This was partially offset by an increase in depreciation expense associated with continued investment in capital assets, as well as upgrades and replacements of assets.
Amortization	1.5	The increase was a result of an increase in amortization rates as approved in the 2012 Decision and an increase in intangible assets.
Other income	(1.2)	The decrease was a result of a gain on the sale of property in 2011 with no property sales in 2012.
Interest expense	4.3	The increase was attributable to higher debt levels from the issuance of long-term debt in October 2011.
Income tax expense	(1.0)	The decrease was due to lower current income tax expense partially offset by higher deferred income tax expense. The net decrease was primarily due to additional loss carry forwards being utilized in the Corporation's 2011 tax return. In addition, the Corporation recorded a higher current income tax expense in 2011 related to the sale of property.

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	Revenues	Net Income
September 30, 2012	116,252	26,016
June 30, 2012	110,129	25,547
March 31, 2012	108,247	21,507
December 31, 2011	102,149	16,571
September 30, 2011	102,660	17,931
June 30, 2011	103,009	18,119
March 31, 2011	100,461	20,958
December 31, 2010	97,862	17,000

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 resulting from changes in deferral account balances, availability of tax recoveries and levels of taxable income. There is no significant seasonality in the Corporation's operations.

September 30, 2012/June 30, 2012:
Net income for the quarter ended September 30, 2012 increased by $0.5 million compared to the quarter ended June 30, 2012. Revenue increased by $6.1 million primarily due to an increase in demand and customers. Cost of sales increased by $2.6 million mainly due to an increase in other taxes, general operating expenses and materials. Depreciation increased by $3.1 million mainly due to the $3.0 million reduction for the first quarter impact of the 2012 Decision being recorded in the second quarter of 2012.

June 30, 2012/March 31, 2012:
Net income for the quarter ended June 30, 2012 increased by $4.0 million compared to the quarter ended March 31, 2012. Revenue increased by $1.9 million primarily due to an increase in net transmission revenue of $3.0 million as a result of the 2012 Decision, partially offset by reductions in A1 rider revenue and franchise fee revenue which resulted in corresponding reductions in cost of sales. Depreciation decreased by $5.3 million due to the reduction in overall depreciation rates approved in the 2012 Decision including the $3.0 million reduction for the first quarter impact of the 2012 Decision being recorded in the second quarter of 2012, partially offset by higher depreciation expense related to increased capital assets. These increases in net income were partially offset due to a decrease in other income of $1.8 million and an increase in interest expense by $1.5 million relating to the equity and debt portions of the allowance for funds used during construction ("AFUDC"), respectively, as AFUDC is recorded in the first and fourth quarters of the year.

March 31, 2012/December 31, 2011:
Net income for the quarter ended March 31, 2012 increased $4.9 million compared to the quarter ended December 31, 2011. Revenues increased by $6.1 million primarily due to an average 5.0% increase in distribution rates effective January 1, 2012 and an increase in customers. Depreciation increased by $0.7 million due to an increase in capital assets.

December 31, 2011/September 30, 2011:
Net income for the quarter ended December 31, 2011 decreased by $1.4 million compared to the quarter ended September 30, 2011. Revenues decreased by $0.5 million due primarily to lower demand and recording the impact of the 2011 GCOC Decision in the fourth quarter partially offset by an increase in customers. Cost of sales increased by $2.8 million primarily due to an increase in labour and general operating costs. These decreases in net income were partially offset by an increase in other income of $1.7 million and a decrease of $1.7 million in interest expense as a

result of recording AFUDC in the fourth quarter which, was partially offset by an increase in interest on the long-term debt Series 11-1 issued in October 2011.

September 30, 2011/June 30, 2011:
Net income for the quarter ended September 30, 2011 decreased $0.2 million compared to the quarter ended June 30, 2011. Revenues decreased by $0.3 million primarily due to the effects of the Review and Variance Decision partially offset by an increase in distribution revenue billings.

June 30, 2011/March 31, 2011:
Net income for the quarter ended June 30, 2011 decreased by $2.8 million compared to the quarter ended March 31, 2011. Other income decreased by $3.1 million due to the gain on sale of property and the equity portion of AFUDC both being recorded in the first quarter of 2011. Interest expense increased by $1.7 million primarily due to the debt portion of AFUDC being recorded in the first quarter of 2011. These decreases in net income were partially offset by an increase of $1.7 million in revenue due to the effects of the Review and Variance Decision which were recorded in the second quarter of 2011.

March 31, 2011/December 31, 2010:
Net income for the quarter ended March 31, 2011 increased by $4.0 million compared to the quarter ended December 31, 2010. Revenues increased by $2.6 million primarily due to an increase in distribution rates and customers. Other income increased by $1.4 million due to the gain on sale of property recorded in the first quarter of 2011. Cost of sales decreased by $2.3 million primarily due to a decrease in contracted manpower costs partially offset by an increase in salaries and wages. These increases in net income were partially offset by an increase of $1.1 million in depreciation and amortization due to an increase in capital and intangible assets.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheets as at September 30, 2012 as compared to December 31, 2011:

Item	Increase/ (Decrease) ($ millions)	Explanation
Assets:		
Accounts receivable (current and non-current)	(27.6)	The decrease was primarily due to reductions in the distribution and transmission riders and a change from monthly to weekly billings for the distribution tariff, partially offset by higher base rates for distribution and transmission services, effective January 1, 2012, and growth in the number of customers.
Property, plant and equipment	195.2	The increase was due to continued investment in energy infrastructure, partially offset by depreciation and customer contributions.
Intangible assets	(5.1)	The decrease was primarily due to an increase in amortization as a result of the 2012 Decision, partially offset by an increase in intangible assets.
Regulatory assets (current and non-current)	(13.1)	The decrease was primarily due to the collection of $44.2 related to the 2011 AESO charges deferral, partially offset by increases in the deferred income tax regulatory deferral and deferred overhead costs of $25.1 and $8.0, respectively.
Liabilities:		
Accounts payable, accrued and other liabilities (current and non-current)	100.6	The increase was primarily due to an increase in trade payables of $37.6 driven by the timing of payment to the AESO for transmission costs, an increase of $50.9 related to transmission connected projects which will be refunded once the projects are completed and long-term debt interest accruals of $10.1.
Short-term debt	(5.6)	The decrease was due to repayment of short-term borrowings.
Regulatory liabilities (current and non-current)	22.8	The increase was primarily due to the 2012 AESO charges deferral of $28.2 and an increase in the provision for future site restoration costs of $4.1, partially offset by a decrease in the 2010 AESO charges deferral of $8.8 as it is being refunded to customers in 2012.
Deferred income taxes (deferred income tax liabilities net of current deferred income tax assets)	28.1	The increase was due to higher temporary differences between the carrying value of assets and liabilities and their values for income tax purposes.
Long-term debt	(13.0)	The decrease was due lower drawings under the committed credit facility.

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)	2012	2011	Increase/ (Decrease)	2012	2011	Increase/ (Decrease)
Cash, beginning of period	–	–	–	–	–	–
Cash provided from (used in):						
Operating activities	149,578	49,211	100,367	345,112	173,112	172,000
Investing activities	(93,944)	(68,758)	(25,186)	(272,806)	(215,969)	(56,837)
Financing activities	(35,855)	19,547	(55,402)	(52,527)	42,857	(95,384)
Cash, end of period	19,779	–	19,779	19,779	–	19,779

Operating Activities

For the three months ended September 30, 2012, net cash provided from operating activities was $100.4 million higher than for the same period in 2011. Cash receipts were $106.2 million higher primarily due to net transmission receipts and payments and the impact of an increase in distribution rates and number of customers. This increase was partially offset by higher cash payments of $5.8 million related to higher cost of sales.

For the nine months ended September 30, 2012, net cash provided from operating activities was $172.0 million higher than for the same period in 2011. Cash receipts were $146.4 million higher primarily due to net transmission receipts and payments and the impact of an increase in distribution rates and number of customers. Changes in other receivables and payables resulted in net cash inflows of approximately $36.6 million primarily related to transmission connected projects which are required to be repaid as projects are completed. In addition, income taxes paid were $2.3 million lower than those paid during the same period in 2011. These increases were partially offset by higher cash payments of $10.5 million related to higher cost of sales and an increase in interest paid of $2.8 million due to the issuance of long-term debt in October 2011.

The Corporation expects to 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.

Investing Activities

	Three Months Ended September 30			Nine Months Ended September 30		
($ thousands)	2012	2011	Increase/ (Decrease)	2012	2011	Increase/ (Decrease)
Capital expenditures:						
New customers	39,886	35,523	4,363	129,451	94,298	35,153
Capital upgrades and replacements	36,526	37,429	(903)	97,521	98,904	(1,383)
Facilities, vehicles and other	11,232	11,538	(306)	16,772	27,722	(10,950)
Information technology	3,564	4,565	(1,001)	10,665	11,004	(339)
AESO contributions	9,916	2,770	7,146	46,482	22,345	24,137
Gross capital expenditures	101,124	91,825	9,299	300,891	254,273	46,618
Less: customer contributions	(9,078)	(13,457)	4,379	(27,581)	(40,728)	13,147
Net capital expenditures	92,046	78,368	13,678	273,310	213,545	59,765
Adjustment to net capital expenditures for:						
Non-cash working capital	(3,134)	(12,651)	9,517	(8,316)	(1,899)	(6,417)
Costs of removal, net of salvage proceeds	6,624	4,339	2,285	15,701	11,792	3,909
Capitalized depreciation, AFUDC and other	(1,592)	(1,298)	(294)	(7,889)	(7,469)	(420)
Cash used in investing activities	93,944	68,758	25,186	272,806	215,969	56,837

For the three months ended September 30, 2012, the Corporation invested $101.1 million in property, plant and equipment and intangible assets compared to $91.8 million for the same period in 2011. Capital expenditures related to new customers increased by $4.4 million primarily due to higher demand by oil and gas customers. AESO contributions increased $7.1 million due to specific transmission facility projects.

For the nine months ended September 30, 2012, the Corporation invested $300.9 million in property, plant and equipment and intangible assets compared to $254.3 for the same period in 2011. Capital expenditures related to new customers increased by $35.2 million primarily due to higher demand by residential and oil and gas customers. Capital expenditures related to facilities, vehicles and other decreased by $11.0 million primarily due the completion of an automated metering project, lower vehicle expenditures and the purchase of land and buildings in 2011, partially offset by construction of a distribution control center in 2012. AESO contributions increased $24.1 million due to specific transmission facility projects.

It is expected that ongoing capital expenditures will be financed from funds generated by operating activities, drawings on the committed credit facility, proceeds from issuance of debt, and equity contributions from Fortis via Fortis Alberta Holdings Inc.

Capital Expenditures Forecast

The Corporation has forecast gross capital expenditures for 2012 of approximately $447.5 million as follows:

($ millions)	2012 Forecast
New customers	178.3
Capital upgrades and replacements	138.1
Facilities, vehicles and other	31.5
Information technology	17.5
AESO contributions	82.1
Gross capital expenditures	447.5
Less: customer contributions	(46.5)
Net capital expenditures	401.0

These estimates are based on detailed forecasts, which include numerous assumptions such as customer demand, weather, cost of labour and material and other factors that could cause actual results to differ from forecast.

Financing Activities

For the three months ended September 30, 2012, cash used in financing activities increased $55.4 million compared to the same period in 2011. This increase was primarily due to a $54.7 million decrease in net borrowings under the committed credit facility and an increase of $1.3 million in dividends paid.

For the nine months ended September 30, 2012, cash used in financing activities increased $95.4 million compared to the same period in 2011. The increase was primarily due to a $62.6 million decrease in net borrowings under the committed credit facility, a decrease of $30.0 million in equity contributions as no contributions have been received in 2012 and an increase of $3.8 million in dividends paid.

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.

COMMITMENTS

The Corporation's commitments have not changed materially from those disclosed in the MD&A for the year ended December 31, 2011.

CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are to ensure ongoing access to capital to allow it to build and maintain the electricity distribution facilities within the Corporation's service territory. To ensure this access to capital, the Corporation targets a capital structure that includes approximately 59% debt and 41% equity, which is consistent with the 2011 GCOC Decision. This targeted capital structure excludes the effects of goodwill and other items that do not impact the deemed regulatory capital structure. 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 via Fortis Alberta Holdings Inc.

Summary of Capital Structure

As at:	September 30, 2012		December 31, 2011	
	$ millions	%	$ millions	%
Short-term and long-term debt	1,200.2	55.5	1,218.8	56.9
Shareholder's equity	963.8	44.5	924.3	43.1
	2,164.0	100.0	2,143.1	100.0

The Corporation has externally imposed capital requirements by virtue of the Trust Indenture and the committed credit facility that limit the amount of debt that can be incurred relative to equity. As at September 30, 2012, the Corporation was in compliance with these externally imposed capital requirements.

As at September 30, 2012, the Corporation has an unsecured committed credit facility with an available amount of $250.0 million maturing in August 2016. Drawings under the committed credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans bear an interest rate of prime and bankers' acceptances are issued at the applicable bankers' acceptance discount rate plus a stamping fee of 1.0%. The average interest rate for the nine months ended September 30, 2012 on the committed credit facility was 2.3% (nine months ended September 30, 2011 – 1.6%). As at September 30, 2012, there was $16.0 million in drawings under the facility for banker's acceptances (December 31, 2011- $29.0 million) and $0.8 million drawn in letters of credit (December 31, 2011 - $0.8 million).

On October 18, 2012, 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 3.98%, to be paid semi-annually, and mature on 2052. The transaction closed on October 23, 2012, and the proceeds of the issue were used to repay existing indebtedness incurred under the committed credit facility, fund future capital expenditures and for general corporate purposes.

OUTSTANDING SHARES

Authorized – unlimited number of:

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

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

RELATED PARTY TRANSACTIONS

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

As at: ($ thousands)	Included in Accounts Receivable September 30, 2012	Included in Accounts Receivable December 31, 2011	Included in Accounts Payable September 30, 2012	Included in Accounts Payable December 31, 2011
Related parties	26	4	4	8
Housing loans to officers of the Corporation (a)	670	700	–	–
Stock option loans to officers of the Corporation (b)	54	167	–	–
Other loans to officers of the Corporation (c)	28	18	–	–
Total	778	889	4	8
Less: current portion	54	21	4	8
Long-term portion	724	868	–	–

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 option 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 Corporation has granted loans to officers of the Corporation under the employee share purchase plan and the employee personal computer purchase program. The loans are taken on an interest-free basis and must be repaid in full within one to 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. All services provided to or received from related parties were billed on a cost-recovery basis.

The amounts included in other revenue and cost of sales for related parties for the three and nine months ended September 30, 2012 and 2011 were measured at the exchange amount and were as follows:

	Included in Other Revenue		Included in Cost of Sales	
Three months ended: ($ thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
FortisBC Inc.	54	–	7	–
Fortis	–	–	732	692
Other related parties	28	25	1	35
Total	82	25	740	727

	Included in Other Revenue		Included in Cost of Sales	
Nine months ended: ($ thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
FortisBC Inc.	112	96	19	20
Fortis	14	–	2,294	2,140
Fortis Turks and Caicos Inc.	–	467	–	–
Other related parties	47	34	17	39
Total	173	597	2,330	2,199

Fortis – billed the Corporation for charges relating to corporate governance expenses, stock-based compensation costs and travel and accommodation expenses. The Corporation billed Fortis for staff and pension related expenses.

FortisBC Inc. – billed the Corporation for pension costs. The Corporation provided metering services, employee services, information technology services and material sales to FortisBC Inc.

Other related parties – billed the Corporation for consulting costs. The Corporation provided metering services and employee services.

FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement is required to reflect the assumptions that market participants would use in pricing a financial asset or financial liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists which prioritizes the inputs used to measure fair value.

The three levels of the fair value hierarchy are defined as follows:

- Level 1: Fair value determined using unadjusted quoted prices in active markets
- Level 2: Fair value determined using pricing inputs that are observable
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available

The fair values of the Corporation's financial instruments reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment; therefore, they may not be relevant in predicting the Corporation's future earnings or cash flows.

The following table represents the fair value measurements of the Corporation's financial instruments as they relate to the fair value hierarchy, as well as the corresponding financial instruments carrying value.

Other Financial Liabilities - Long-Term Debt:

As at: ($ thousands)	September 30, 2012	December 31, 2011
Carrying value	1,200,223	1,213,192
Fair value [(a)]	1,517,768	1,495,107

Note:

a. *The fair value of the long-term debt was estimated using level 2 inputs based on the indicative prices for the same or similarly rated issues for debt of the same remaining maturities.*

The carrying values of financial instruments included in current assets, long-term accounts receivable, current liabilities and short term debt on the balance sheet approximate their fair values, which reflects the short-term maturity, normal trade credit terms and/or nature of these financial instruments.

Derivatives

The Corporation currently does not have any stand-alone derivative instruments as defined under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815.

The Corporation conducted a review of contractual agreements for embedded derivatives. Under ASC 815, a derivative must meet three specific criteria to be accounted for under this standards codification. 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 any of the risks impacting operations. The Corporation enters into financial instruments to finance operations in the normal course of business.

Counterparty Credit Risk

Counterparty credit risk is the financial risk associated with the non-performance of contractual obligations by counterparties. The Corporation extends credit to select counterparties in the normal course of business.

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, 2012.

Credit Rating	Number of Counterparties	Gross Exposure ($ thousands)	Exposure ($ thousands)
AAA to AA (low)	1	781	–
A (high) to A (low)	8	2,096	–
BBB (high) to BBB (low)	10	23,379	–
Not rated	33	30,757	74
Total	52	57,013	74

Gross exposure represents the projected value of retailer billings over a 37-day period, decreased from 60 days in previous periods due to the Corporation changing its billing cycle from monthly to weekly. The Corporation is required to minimize its gross exposure to retailer billings by obtaining an acceptable form of prudential, which includes 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 credit rating serves to reduce the amount of prudential. For retailers that do not have an investment grade credit rating, the exposure is calculated as the projected value of billings over a 37-day period less the prudential held by the Corporation. The Corporation assesses non-retailer billings on an individual basis for collectability and these billings are not subject to obtaining prudential.

Factors such as volatility in the global capital markets and a slowdown in the Alberta economy could cause a reduction in the credit quality of some of the Corporation's customers. In the event that the prudential obtained by the Corporation 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.

The accounts receivable of the Corporation are not impaired and the aging analysis of accounts receivable, excluding goods and services tax receivable, was as follows:

($ thousands)	As at September 30, 2012
Not past due	113,461
Past due 0-60 days	2,955
Past due 61 days and over	283
Total	116,699

Interest Rate Risk

Interest rate risk is 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 of which the Corporation applies in its rate applications to recover, 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 thereby mitigating the risk of these fluctuations. The drawings under the Corporation's committed credit facility are at current market short-term interest rates, exposing the Corporation to some cash flow risk, but minimal fluctuations in fair value.

A change in the Corporation's interest rates results in interest rate exposure for drawings under the committed credit facility. Further, the Corporation is subject to financial risk whereby changes in the Corporation's credit rating could affect the costs of financing and access to sources of liquidity and capital. The Corporation's committed credit facility has interest rate and fee components that are sensitive to the Corporation's credit ratings. 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, 2012, the Corporation was rated by Moody's at Baa1, by S&P at A-, and by DBRS at A (low).

Liquidity Risk

Liquidity risk is 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.

Factors such as volatility experienced in the global capital markets may increase the cost of issuing long-term debt and 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: (i) that the Corporation's defined benefit pension plan will not earn the assumed rate of return; (ii) that market driven changes may result in changes in the discount rates and other variables, which would result in the Corporation being required to make contributions in the future that differ from the estimates; and (iii) that there is measurement uncertainty in 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 required to be made into the Corporation's defined benefit and defined contribution pension plans. Therefore, an increase or decrease in the Corporation's future funding obligations and/or pension expense is expected to be collected or refunded in future customer rates, subject to forecast risk. The defined benefit pension plan assets are invested in a 100% long-term bond fund, which reduces the forecast risk on future defined benefit funding obligations.

The Corporation's outstanding financial liabilities as at September 30, 2012, 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, including drawings on the committed credit facility, as at September 30, 2012:

($ thousands)	Due within 1 year	Due in years 2 and 3	Due in years 4 and 5	Due after 5 years	Total
Drawings on the committed credit facility [(a) (b)]	–	–	16,000	–	16,000
Senior unsecured debentures:					
Principal payments [(b)]	–	200,000	–	985,000	1,185,000
Interest payments	65,287	125,243	109,253	1,247,934	1,547,717
Total	65,287	325,243	125,253	2,232,934	2,748,717

Notes:

a. *The Corporation's committed credit facility has a maturity date of August 2016. The drawings under the committed credit facility were bankers' acceptances, which had 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, 2012 and the maturity date of the committed credit facility.*

b. *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 adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. In addition, certain estimates not associated with regulatory decisions are also subject to adjustments. Interim financial statements necessarily employ a greater use of estimates than the annual financial statements. There were no material changes to the Corporation's significant accounting estimates during the nine months ended September 30, 2012 from those disclosed in the MD&A for the year ended December 31, 2011.

CHANGES IN ACCOUNTING POLICIES

Adoption of New Accounting Standards

In 2011, the FASB issued two Accounting Standards Updates ("ASU") which amend guidance for the presentation of comprehensive income. The amended guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The option to report other comprehensive income and its components in the statement of shareholder's equity has been eliminated. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. The Corporation adopted these ASUs as at January 1, 2012 which did not change the Corporation's financial statement presentation of comprehensive income.

In 2011, the FASB issued an ASU which intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Corporation adopted this ASU as at January 1, 2012. In adopting the amendments, the Corporation will perform a qualitative assessment before calculating the fair value of its reporting unit when it performs its annual impairment test.

In 2011, the FASB issued an ASU which amends the wording used to describe many of the requirements for measuring fair value to achieve the objective of developing common fair value measurement and disclosure requirements, as well as improving consistency and understandability. Some of the requirements clarify the FASB's intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Corporation adopted this ASU as at January 1, 2012 and it did not materially impact the Corporation's financial statements.

BUSINESS RISK

The Corporation's business risks have not changed materially from those disclosed in the MD&A for the year ended December 31, 2011, except as disclosed below.

Regulation

The recent decision by the AUC to transition distribution utilities in Alberta to PBR is a fundamental change in how these utilities are regulated; however, the change provides an opportunity for reduced regulatory burden and the incentive to achieve greater efficiencies and cost savings, which can lead to improved earnings. Under PBR, there is greater risk that earnings will be negatively impacted given the length of the term and the uncertainty of resulting rate adjustments. It is possible that the formula, as approved in the PBR Decision, could have an adverse impact on the Corporation if the Corporation's actual costs, including certain of its required capital expenditures, exceed the costs permitted by the formula. Management believes that, in the absence of clarification which would broaden the scope of the recovery of these expenditures, the formula as approved in the PBR Decision conflicts with the Corporation's legal right to recover prudent costs of providing distribution services and to earn a reasonable return on equity. The Corporation will be seeking further clarification regarding the application of the formula in proceedings before the AUC and has sought leave to appeal the PBR Decision with the Alberta Court of Appeal.

OUTLOOK

AESO Contributions

In June 2012, the AESO filed two applications with the AUC: (i) the AESO Customer Contribution Policy Application; and (ii) the Amortized Construction Contribution Rider I Application. The first application proposed a reduction in the level of AESO contributions that transmission customers, including the Corporation, would pay versus what the transmission facility owner would pay. The second application proposed that transmission customers be given the option to make the required ASEO contribution as a series of payments over a number of years, rather than as an upfront payment. Effectively, this would result in the transmission facility owner financing the AESO contribution. A decision on these applications is not expected until 2013.

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