FORTISALBERTA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2013

October 29, 2013

The following Management's Discussion and Analysis ("MD&A") of FortisAlberta Inc. (the "Corporation") should be read in conjunction with the following: (i) the unaudited interim financial statements and notes thereto for the three and nine months ended September 30, 2013 prepared in accordance with accounting principles generally accepted in the United States ("GAAP"); (ii) the audited financial statements and notes thereto for the year ended December 31, 2012 prepared in accordance with GAAP; and (iii) the MD&A for the year ended December 31, 2012.

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 expected timing of filing of regulatory applications and receipt of regulatory decisions; the expectation that sufficient cash will be generated to pay all operating costs and interest expense from internally generated funds; the expectation that sufficient cash to finance ongoing capital expenditures will be generated from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; the expectation that the Corporation will continue to have access to the required capital on reasonable market terms; and the Corporation's forecast gross capital expenditures for 2013. 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 continued ability to maintain the electricity systems to ensure their continued performance; favourable economic conditions; no significant variability in interest rates; sufficient liquidity and capital resources; maintenance of adequate insurance coverage; the ability to obtain licences and permits; retention of existing service areas; continued maintenance of information technology infrastructure; 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: regulatory risk; loss of service areas; environmental risks; capital resources and liquidity risks; operating and maintenance risks; weather and general economic conditions in geographic areas where the Corporation operates; risk of failure of information technology infrastructure; insurance coverage risk; risk of loss of permits; labour relations risk; human resources risk; adverse results from litigation; and the ability to report under accounting principles generally accepted in the United States beyond 2014 or the adoption of International Financial Reporting Standards after 2014 that allows for the recognition of regulatory assets and liabilities.

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 118,000 kilometre, low-voltage distribution network in central and southern Alberta, which serves approximately 514,000 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 timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using GAAP for entities not subject to rate regulation.

Effective January 1, 2013, the AUC prescribed that distribution utilities in Alberta, including the Corporation, move to a form of rate regulation referred to as performance-based regulation ("PBR") for a five-year term. Under PBR, a formula that estimates inflation annually and assumes productivity improvements is used to determine distribution rates on an annual basis. Each year this formula is applied to the preceding year's distribution rates and for 2013 the formula was applied to the 2012 distribution rates. The 2012 distribution rates were set using a traditional cost-of-service model whereby the AUC established the Corporation's revenue requirements, being those revenues corresponding to the costs associated with the distribution business, and provided a rate of return on a deemed equity component of capital structure ("ROE") applied to rate base assets. The Corporation's ROE for ratemaking purposes was 8.75% for 2012 with a deemed equity capitalization of 41%. For 2013, an ROE of 8.75% was established by the AUC on an interim basis.

The PBR plan includes mechanisms for the recovery or settlement of items determined to flow through directly to customers ("Y factor") and the recovery of costs related to capital expenditures that are not being recovered through the inflationary factor of the formula ("K factor" or "capital tracker"). The AUC also approved a Z factor, a PBR re-opener and an ROE efficiency carry-over mechanism. The Z factor permits an application for recovery of costs related to significant unforeseen events. The PBR re-opener permits an application to re-open and review the PBR plan to address specific problems with the design or operation of the PBR plan. The use of the Z factor and PBR re-opener mechanisms is associated with certain thresholds. The ROE efficiency carry-over mechanism provides an efficiency incentive by permitting a utility to continue to benefit from any efficiency gains achieved during the PBR term for two years following the end of that term.

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

Performance-Based Regulation and 2013 Distribution Rates

In September 2012, the AUC issued Decision 2012-237 (the "PBR Decision") which approved the transition to PBR for a five-year 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. While the PBR Decision did provide a capital tracker mechanism for the recovery of costs related to certain capital expenditures, the Corporation sought further clarification regarding this mechanism in a Review and Variance application and a Capital Tracker application and sought leave to appeal the issue with the Alberta Court of Appeal.

In March 2013, the AUC issued Decision 2013-071 which denied the Review and Variance application. The Corporation has filed leave to appeal the denial of the Review and Variance application on similar grounds as the leave to appeal of the PBR Decision. Both appeals have been adjourned pending further determinations in the outstanding PBR-related proceedings.

In March 2013, the AUC also issued Decision 2013-072 (the "Interim Compliance Decision") regarding the Compliance applications filed by all the distribution utilities. The Interim Compliance Decision approved a combined inflation and productivity factor of 1.71%, certain adjustments to the Corporation's going-in rates including Y factor amounts and a K factor placeholder equal to 60% of the applied for capital tracker amount. The AUC stated that the K factor placeholder provides a reasonable balance between the utilities' 2013 forecast rate adjustments related to capital trackers and potential customer rate shock implications.

The Interim Compliance Decision resulted in an interim increase to distribution rates of approximately 4% effective January 1, 2013 with collection from customers effective April 1, 2013. A final decision on the Compliance application was received in July directing the Corporation to continue to use the interim rates until all remaining 2013 placeholders have been determined. A hearing was held on the Capital Tracker application in June and July. A decision on this application is expected in the fourth quarter of 2013 and could result in further adjustments to the 2013 distribution rates. When a decision is received, the impact of any adjustment to the K factor placeholder will be reflected in revenue.

2014 Annual Rates Filing

In September 2013, the Company filed its 2014 Annual Rates Filing. The rates and riders, proposed to be effective on an interim basis for January 1, 2014, include a 5.36% increase to the distribution component of customer rates. This increase reflects a combined inflation and productivity factor of 1.59%, a K factor based on the capital tracker placeholder of 60% applied to the capital expenditures forecast for 2014, and a net refund of Y factor balances. A decision on this filing is expected in the fourth quarter of 2013.

Utility Asset Disposition Proceeding

In the 2011 Generic Cost of Capital Decision (the "2011 GCOC Decision"), the AUC made statements regarding cost responsibility for stranded assets, which the Corporation and other utilities challenge as being incorrectly made. The AUC's statements implied that the shareholder is responsible for the cost of stranded assets in a broader sense than that generally understood by regulated utilities and, to an extent, also conflicts directly with the *EUA*. As a result, the Corporation together with other Alberta 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 Utility Asset Disposition ("UAD") proceeding reinitiated in November 2012. The Corporation and the other utilities had sought leave to appeal the AUC's pronouncement on the treatment of stranded assets in the 2011 GCOC Decision with the Alberta Court of Appeal, and have temporarily adjourned that court process pending the AUC's follow-up proceeding. Any decision by the AUC regarding the treatment of stranded assets cannot alter a utility's right, under the *EUA*, to a reasonable opportunity to recover the prudent costs of service and earn a fair return on equity.

The UAD proceeding also seeks to clarify the regulatory treatment of the disposition of assets that were formerly used in the provision of regulated services. The UAD proceeding has closed and a decision is expected in the fourth quarter of 2013. The outcome of this proceeding is currently unknown.

2013 Generic Cost of Capital

In October 2012, the AUC initiated a 2013 Generic Cost of Capital proceeding (the "2013 GCOC proceeding") to establish a final ROE for 2013 and revisit the matter of a formula-based approach to setting annual ROE. In November 2012, the 2013 GCOC proceeding was suspended until other regulatory matters were resolved.

In April 2013, the AUC recommenced the 2013 GCOC proceeding to set the ROE and capital structure for Alberta utilities for 2013 as well as the ROE for 2014. In addition, an interim ROE for 2015 will be established. In this proceeding the AUC may consider the possibility of re-establishing a formula-based approach to setting annual ROE. The process for the 2013 GCOC proceeding commenced in the second quarter of 2013 and a hearing is scheduled for early 2014. The outcome of this proceeding is currently unknown.

Phase II Distribution Tariff Application

In January 2013, the Corporation filed a Phase II Distribution Tariff application (the "Phase II DTA") which proposed rates by customer class based on a cost allocation study. The Phase II DTA requested that the 2012 interim distribution rates by customer class be made final for 2012 and 2013, subject to further adjustments as a result of the PBR Decision and determinations in outstanding PBR-related proceedings. The Phase II DTA also requested that Phase II adjustments between customer classes be applied to rates effective January 1, 2014. The Phase II DTA proceeding has closed and a decision from the AUC is expected in the fourth quarter of 2013. The outcome of this proceeding is currently unknown; however, it is not expected to have a material impact on the Corporation's 2013 financial results.

2014 and 2015 Capital Tracker Applications

In the PBR decision, the AUC determined that annual Capital Tracker applications will be filed each March for projects planned for the subsequent year. Under this schedule, FortisAlberta would normally have applied for its 2014 Capital Trackers in March of 2013. However, given a decision on the 2013 Capital Tracker application is outstanding, the AUC determined that the filing of 2014 Capital Tracker applications would be delayed until after a decision on the 2013 application is issued. With a decision on the 2013 Capital tracker application anticipated in the fourth quarter of 2013, it is expected that both the 2014 and 2015 Capital Tracker applications will be filed in the first quarter of 2014.

RESULTS OF OPERATIONS

Highlights

	Three Months Ended September 30			Nine Months Ended September 30		
($ thousands)	2013	2012	Variance	2013	2012	Variance
Revenues	119,784	116,252	3,532	354,617	334,628	19,989
Cost of sales	39,002	40,049	(1,047)	117,692	116,189	1,503
Depreciation	32,068	29,231	2,837	95,388	86,725	8,663
Amortization	4,253	3,822	431	12,825	11,713	1,112
Other income	-	-	-	1,729	1,763	(34)
Income before interest and income taxes	44,461	43,150	1,311	130,441	121,764	8,677
Interest expense	18,532	16,727	1,805	53,183	48,521	4,662
Income before income taxes	25,929	26,423	(494)	77,258	73,243	4,015
Income tax expense	253	407	(154)	737	173	564
Net income	25,676	26,016	(340)	76,521	73,070	3,451

Net income for the three months ended September 30, 2013 was comparable to the same period last year. Lower revenue associated with net transmission volume variances and restoration costs related to the southern Alberta flooding were offset by rate base growth associated with continued investment in energy infrastructure and growth in the number of customers and the timing of operating expenses.

Net income for the nine months ended September 30, 2013 increased $3.5 million compared to the same period last year. The increase was due to rate base growth associated with continued investment in energy infrastructure and growth in the number of customers, and the timing of operating expense, partially offset by lower revenue associated with net transmission volume variances and restoration costs related to the southern Alberta flooding.

In June 2013 areas within the Corporation's service territory were impacted by the flooding in southern Alberta. For the nine months ended September 30, 2013, restoration costs were approximately $3.8 million, including operating expenses and lost revenue of $1.9 million and capital expenditures of $1.9 million. The majority of these costs were incurred during the third quarter of 2013. Restoration efforts are ongoing and additional capital expenditures of $1.5 million are expected to be incurred in the last quarter of 2013 and into 2014. The Corporation continues to assess whether this event qualifies for Z factor treatment under PBR.

The following table outlines the significant variances in the Results of Operations for the three months ended September 30, 2013 as compared to September 30, 2012:

Item	Variance ($ millions)	Explanation
Revenues	3.5	Electric rate revenue increased by $7.6 million primarily due to the interim distribution rate increase of approximately 4% effective January 1, 2013 and growth in the number of customers. Other revenue decreased by $4.1 million primarily due to positive net transmission volume variances recognized in the third quarter of 2012. As approved by the AUC, net transmission volume variances were recognized in revenue during 2012 but deferred on the balance sheet as a regulatory asset or liability effective January 1, 2013.
Cost of sales	(1.0)	The decrease was primarily due to lower contracted manpower costs mainly related to the timing of vegetation management and the timing of certain operating expenses. The decreases were partially offset by higher labour and benefit costs driven by inflation and restoration costs related to the southern Alberta flooding. Labour and benefit costs and contracted manpower costs comprised approximately 62.3% of total cost of sales.
Depreciation and amortization	3.3	The increase was due to continued investment in capital assets.
Interest expense	1.8	The increase was primarily attributable to the issuance of long-term debt in October 2012.

The following table outlines the significant variances in the Results of Operations for the nine months ended September 30, 2013 as compared to September 30, 2012:

Item	Variance ($ millions)	Explanation
Revenues	20.0	Electric rate revenue increased by $25.1 million primarily due to the interim distribution rate increase of approximately 4% effective January 1, 2013 and growth in the number of customers, along with net increases in revenues related to flow-through items which were fully offset in cost of sales. Other revenue decreased by $5.1 million primarily due to net transmission volume variances, as discussed above for the quarter.
Cost of sales	1.5	The increase was primarily due to higher labour and benefit costs driven by inflation, net increases in costs that qualify as flow-through items which were fully offset in electric rate revenue, and restoration costs related to the southern Alberta flooding. The increases were partially offset by lower vehicle expenses mainly due to lower fuel costs and the timing of certain operating expenses. Labour and benefit costs and contracted manpower costs comprised approximately 62.5% of total cost of sales.
Depreciation and amortization	9.8	The increase was due to continued investment in capital assets.
Interest expense	4.7	The increase was primarily attributable to the issuance of long-term debt in October 2012.

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	Revenues	Net Income
September 30, 2013	119,784	25,676
June 30, 2013	116,570	24,077
March 31, 2013	118,263	26,768
December 31, 2012	114,398	23,097
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

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, ongoing investment in energy infrastructure, 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. The quarterly information presented above has been impacted by specific regulatory decisions. As approved by the AUC, the allowance for funds used during construction ("AFUDC") is recognized in the first and fourth quarters of the year and net transmission volume variances were recognized in revenue during 2012 but deferred on the balance sheet as a regulatory asset or liability effective January 1, 2013. However, there is no significant seasonality in the Corporation's operations.

September 30, 2013/June 30, 2013

Net income for the quarter ended September 30, 2013 increased $1.6 million compared to the quarter ended June 30, 2013. Revenue increased by $3.2 million mainly due to the higher electric rate revenue as a result of customer growth. Cost of sales increased $0.6 million primarily due to timing of expenses and incremental restoration costs related to the southern Alberta flooding. Depreciation increased $0.6 million primarily due to an increase in capital assets. Interest increased $0.4 million primarily due to the issuance of $150.0 million senior unsecured debentures in September 2013.

June 30, 2013/March 31, 2013

Net income for the quarter ended June 30, 2013 decreased $2.7 million compared to the quarter ended March 31, 2013. Revenue decreased by $1.7 million mainly due to the true-up to actual of the 2012 net transmission volume variances recognized in the first quarter. Cost of sales decreased $1.9 million primarily due to timing of expenses. Other income decreased $1.7 million and interest expense increased $1.6 million related to the equity and debt portions of the AFUDC, respectively, which were recorded in the first quarter.

March 31, 2013/December 31, 2012

Net income for the quarter ended March 31, 2013 increased $3.7 million compared to the quarter ended December 31, 2012. Revenue increased by $3.9 million primarily due to the interim distribution rate increase of approximately 4%, higher franchise fee revenue and an increase in customers. Cost of sales decreased $1.6 million primarily due to the timing of general operating costs and use of contracted manpower, partially offset by inflationary increases in labour and benefit costs and higher franchise fees. Depreciation increased $1.3 million primarily due to an increase in capital assets.

December 31, 2012/September 30, 2012

Net income for the quarter ended December 31, 2012 decreased by $2.9 million compared to the quarter ended September 30, 2012. Revenue decreased by $1.9 million primarily due to a decrease in net transmission volume variances of $1.3 million and a decrease in A1 rider revenue, partially offset by an increase in demand and customers. Cost of sales increased by $1.9 million primarily due to higher labour and benefit costs and timing of general operating costs. Depreciation increased by $1.3 million primarily due to an increase in capital assets. The decreases in net income were partially offset by an increase in other income of $1.7 million and a decrease of $1.6 million in interest expense related to the equity and debt portions of the AFUDC, respectively. The decrease in interest expense was partially offset by interest on the long-term debt issued in October 2012.

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 an AUC approved reduction in depreciation rates 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 volume variances of $3.0 million as a result of the discontinuance of the full deferral of transmission costs, 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 including the $3.0 million reduction for the first quarter as the impact of the AUC approved reduction in depreciation rates was recorded in the second quarter of 2012, partially offset by higher depreciation expense related to increased capital assets. The 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 related to the equity and debt portions of the AFUDC, respectively, which was recorded in the first quarter.

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.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheet as at September 30, 2013 as compared to December 31, 2012:

Item	Variance ($ millions)	Explanation
Assets:		
Income tax receivable (current and long-term)	8.9	The increase was mainly due to the expected refund of 2013 installments which were estimated based on the preceding year's tax expense.
Regulatory assets (current and long-term)	38.4	The increase was primarily due to increases in the deferred income tax regulatory deferral and deferred overhead costs, and the accumulation of the 2013 Alberta Electric System Operator ("AESO") charges deferral. In addition, the Interim Compliance Decision resulted in the recognition of new regulatory assets related to the interim increase in distribution rates as discussed in the "Regulatory Matters" section.
Property, plant and equipment	178.9	The increase was due to continued investment in energy infrastructure and higher AESO contributions, partially offset by depreciation and customer contributions.
Intangible assets	(6.1)	The decrease was due to amortization of intangible assets.
Liabilities:		
Accounts payable and other current liabilities	(88.8)	The decrease was primarily due to a net decrease of $62.6 million related to the refund of customer deposits as the associated transmission connected projects were completed during the period and the timing of payment to the AESO for 2012 transmission costs of $44.8 million. These decreases were partially offset by increases in accrued interest and transmission costs payable.
Regulatory liabilities (current and long-term)	6.5	The increase was primarily due to an increase in the provision for future site restoration costs, partially offset by a decrease in AESO charges deferral balances relating to prior years and the refund of the 2011/2012 distribution adjustment rider which was included as a component of the 2013 Y factor deferral.
Deferred income tax (deferred income tax liabilities net of current deferred income tax assets)	27.4	The increase was primarily due to higher temporary differences relating to capital assets.
Long-term debt	149.8	The increase was due to the issuance of $150.0 million senior unsecured debentures in September 2013.

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)	2013	2012	Variance	2013	2012	Variance
Cash, beginning of period	28,376	-	28,376	44,072	-	44,072
Cash from (used in)						
Operating activities	11,768	149,578	(137,810)	80,345	346,715	(266,370)
Investing activities	(65,258)	(93,944)	28,686	(273,467)	(274,409)	942
Financing activities	42,251	(35,855)	78,106	166,187	(52,527)	218,714
Cash, end of period	17,137	19,779	(2,642)	17,137	19,779	(2,642)

Operating Activities

For the three months ended September 30, 2013, net cash provided from operating activities was $137.8 million lower than for the same period in 2012. The decrease was primarily due to the timing of the flow through of transmission costs as transmission revenue was collected from customers on a different timeline than transmission costs were paid to the AESO, lower cash flow associated with customer deposits related to transmission connected projects and the timing of collection of accounts receivable balances.

For the nine months ended September 30, 2013, net cash provided from operating activities was $266.4 million lower than for the same period in 2012. The decrease was primarily attributable to the timing of the flow through of transmission costs as discussed above for the quarter, and lower cash flow associated with customer deposits related to transmission connected projects. During the nine months ended September 30, 2013, the Corporation refunded net $62.6 million of deposits to customers compared to the net receipt of $50.9 million of deposits from customers during the nine months ended September 30, 2012. Also contributing to the reduction in cash provided from operations were the timing of collection of accounts receivable balances, higher income tax installments and higher cash expenses paid related to an increase in cost of sales.

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)	2013	2012	Variance	2013	2012	Variance
Capital expenditures:						
Customer growth [(1)]	41,055	39,886	1,169	133,799	129,451	4,348
Externally driven and other [(2)]	17,249	16,907	342	42,466	36,162	6,304
Sustainment [(3)]	16,202	34,415	(18,213)	52,540	88,797	(36,257)
AESO contributions [(4)]	3,895	9,917	(6,022)	70,187	46,482	23,705
Gross capital expenditures	78,401	101,125	(22,724)	298,992	300,892	(1,900)
Less: customer contributions	(9,806)	(9,078)	(728)	(34,581)	(27,581)	(7,000)
Net capital expenditures	68,595	92,047	(23,452)	264,411	273,311	(8,900)
Adjustment to net capital expenditures for:						
Non-cash working capital	(4,363)	(3,136)	(1,227)	6,068	(8,317)	14,385
Costs of removal, net of salvage proceeds	2,523	6,624	(4,101)	9,014	15,701	(6,687)
Capitalized depreciation, AFUDC and other	(1,497)	(1,591)	94	(6,026)	(6,286)	260
Cash used in investing activities	65,258	93,944	(28,686)	273,467	274,409	(942)

Notes:

(1) *Includes new customer connections*

(2) *Includes upgrades associated with substations, line moves, new connections for independent power producers and the distribution control centre*

(3) *Includes planned maintenance, capacity increases, facilities, vehicles and information technology*

(4) *Reflects the Corporation's required contributions towards transmission projects as determined by the AUC approved investment levels and paid when transmission projects are approved*

For the three months ended September 30, 2013, the Corporation invested $78.4 million in property, plant and equipment and intangible assets, compared to $101.1 million for the same period in 2012. Capital expenditures related to new customers increased $1.2 million due to increased demand for large services by the oil and gas sector. Externally driven and other capital was comparable to the same period in the previous year. Higher expenditures for upgrades associated with substations were offset by fewer large line moves and the timing of capital expenditures related to the distribution control centre. Sustainment capital was $18.2 million lower for the quarter due to reductions in planned system maintenance and capacity and system improvements, along with lower capital expenditures related to automated metering. AESO contributions for the quarter were lower as a result of smaller scale projects being approved in 2013 compared to 2012.

For the nine months ended September 30, 2013, the Corporation's investment in property, plant and equipment and intangible assets was comparable to the same period in 2012. Increases in customer growth, externally driven and other, and AESO contributions were offset by lower sustainment capital expenditures. Customer growth increased $4.3 million due to a large commercial project in northern Alberta, as well as increased demand for large services driven by the oil and gas sector. Externally driven and other capital increased $6.3 million due to increased expenditures for upgrades associated with substations and the continued construction of the distribution control centre, partially offset by fewer large line moves. Sustainment capital decreased $36.3 million due to reductions in planned system maintenance and capacity and system improvements, along with lower capital expenditures related to automated metering. AESO contributions were higher as a result of the approval of a number of larger transmission projects in 2013.

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., the Corporation's parent and an indirectly wholly owned subsidiary of Fortis.

Capital Expenditures Forecast

The Corporation has forecast gross capital expenditures for 2013 of approximately $424.9 million, down $6.7 million from the $431.6 million disclosed in the MD&A for the year ended December 31, 2012. The 2013 capital expenditures 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, 2013, cash from financing activities increased $78.1 million compared to the same period in 2012. This increase was primarily due to proceeds received on the issuance of $150.0 million senior unsecured debentures in September 2013, partially offset by a $72.1 million decrease in net borrowings under the committed credit facility.

For the nine months ended September 30, 2013, cash from financing activities increased $218.7 million compared to the same period in 2012. This increase was primarily due to proceeds received on the issuance of $150.0 million senior unsecured debentures in September 2013, a $12.9 million increase in net borrowings under the committed credit facility and an equity injection of $55.0 million received from Fortis.

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, 2012, except as discussed below.

During the second quarter of 2013, the Corporation filed an actuarial valuation of the defined benefit component of the pension plan for funding purposes as at December 31, 2012. The actuarial valuation resulted in a decrease in the minimum pension contributions to approximately $1.6 million for 2013, compared to $2.3 million as disclosed in the MD&A for the year ended December 31, 2012. The actuarial valuation also set the minimum pension contributions for 2014 and 2015 at approximately $1.6 million per year.

CAPITAL MANAGEMENT

The Corporation's objective when managing capital is 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 of debentures or other debt and/or equity contributions by Fortis via Fortis Alberta Holdings Inc.

Summary of Capital Structure

As at:	September 30, 2013		December 31, 2012	
	$ millions	%	$ millions	%
Short-term and long-term debt	1,459.0	57.7	1,309.2	57.3
Shareholder's equity	1,069.8	42.3	975.6	42.7
	2,528.8	100.0	2,284.8	100.0

The Corporation has externally imposed capital requirements by virtue of its Trust Indenture and committed credit facility that limit the amount of debt that can be incurred relative to equity. As at September 30, 2013, the Corporation was in compliance with these externally imposed capital requirements.

As at September 30, 2013, the Corporation has an unsecured committed credit facility with an available amount of $250.0 million maturing in August 2018. 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, 2013 on the committed credit facility was 2.2% (nine months ended September 30, 2012 – 2.3%). As at September 30, 2013, there were nil drawings under the committed credit facility (December 31, 2012 – nil) and $0.4 million drawn in letters of credit (December 31, 2012 – $0.4 million).

In September 2013, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation sold $150.0 million of senior unsecured debentures. The debentures bear interest at a rate of 4.85%, to be paid semi-annually, and mature in 2043. Proceeds of the issue were used to repay existing indebtedness incurred under the committed credit facility to finance capital expenditures and for general corporate purposes.

In October 2013, the Corporation filed a short-form base shelf prospectus with the securities regulatory authority in each of the provinces of Canada under which the Corporation may from time to time during the 25-month life of the base shelf prospectus issue medium-term note debentures in an aggregate principal amount of up to $500.0 million.

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 Fortis and other subsidiaries of Fortis. Amounts due to or from related parties were measured at the exchange amount and were as follows:

As at: ($ thousands)	September 30, 2013	December 31, 2012
Accounts receivable		
Housing loan [(1)]	600	670
Housing equity advance [(2)]	331	435
Other loans [(3)]	33	18
Related parties	13	19
	977	1,142
Accounts payable and other current liabilities		
Related parties	-	2

Notes:

(1) *This loan is to an officer of the Corporation and is interest-free for a period of nine years from the loan grant date after which interest will accrue at the rate of prime plus 0.5%. The loan must be repaid within ten years of the grant date and is secured by a mortgage on the residence purchased by the officer.*

(2) *This equity advance is to an employee of the Corporation to secure the purchase of a new residence as part of the employee's relocation. The equity advance is interest-free, repayable upon the sale of the existing residence and secured by the employee's existing residence.*

(3) *These loans are to employees of the Corporation and include stock option loans, employee share purchase plan loans and employee personal computer purchase program loans.*

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.

Related party transactions included in other revenue and cost of sales were measured at the exchange amount and were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
($ thousands)	2013	2012	2013	2012
Included in other revenue [(1)]	32	82	92	173
Included in cost of sales [(2)]	663	740	2,605	2,330

Notes:

[(1)] *Includes services provided to subsidiaries of Fortis related to metering, information technology, material sales and intercompany employee services.*

[(2)] *Includes charges from Fortis relating to corporate governance expenses, stock-based compensation costs, consulting services and travel and accommodation expenses.*

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

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; and
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, 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.

Long-term debt as at: ($ thousands)	September 30, 2013	December 31, 2012
Fair value [(1)]	1,627,920	1,609,235
Carrying value	1,458,996	1,309,151

Note:

[(1)] *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 value of financial instruments included in current assets, long-term accounts receivable and current liabilities on the balance sheet approximate their fair value, 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, *Derivatives and Hedging*.

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, 2013.

Credit Rating	Number of Counterparties	Gross Exposure ($ thousands)	Net Exposure ($ thousands)
AAA to AA (low)	1	1,461	-
A (high) to A (low)	8	36,022	-
BBB (high) to BBB (low)	8	8,331	-
Not rated	31	59,275	695
Total	48	105,089	695

Gross exposure represents the projected value of retailer billings over a 37-day period. 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 net 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 net 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:

As at: ($ thousands)	September 30, 2013	December 31, 2012
Not past due	108,618	110,647
Past due 0-60 days	3,231	3,911
Past due 61 days and over	1,909	2,735
Total	113,758	117,293

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 which the Corporation recovers in current distribution rates, thereby minimizing cash flow variability due to interest rate exposures. If the Corporation issues new fixed rate debentures within the five-year PBR term it would be exposed to cash flow variability to the extent that the inflation and productivity factor of the PBR formula may not fully provide for the interest payments. The fair value of the Corporation's current 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.

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 Dominion Bond Rating Service Limited ("DBRS") and Standard and Poor's ("S&P") and a change in rating by either of these rating agencies could potentially increase or decrease the interest expense of the Corporation. As at September 30, 2013, the Corporation was rated by DBRS at A (low) and by S&P at A- .

During the first quarter of 2013 the Corporation discontinued its engagement with Moody's Investors Service.

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, 2013, include accounts payable and accrued liabilities, and long-term debt. The Corporation expects to settle its financial liabilities relating to 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 as at September 30, 2013. The Corporation had no drawings under the committed credit facility as at September 30, 2013.

($ thousands)	Total	Due within 1 year	Due in years 2 and 3	Due in years 4 and 5	Due after 5 years
Senior unsecured debentures:					
Principal payments [1]	1,460,000	-	200,000	-	1,260,000
Interest payments	1,897,193	77,537	139,084	133,752	1,546,820
Total	3,357,193	77,537	339,084	133,752	2,806,820

Notes:
[1] *Payments are shown exclusive of discounts.*

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Corporation's financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances.

Due to changes in facts and circumstances, and the inherent uncertainty in making estimates, actual results may differ materially from current estimates. Estimates and judgments are reviewed periodically and as adjustments become necessary they are recognized in the period they become known. There were no material changes to the Corporation's significant accounting estimates during the nine months ended September 30, 2013 from those disclosed in the MD&A for the year ended December 31, 2012.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2013, the Corporation prospectively adopted Accounting Standards Update 2013-02 which amended ASC 220, *Comprehensive Income*. The amendments improve the reporting of reclassifications out of accumulated other comprehensive income ("AOCI") and require entities to report, in one place, information about reclassifications out of AOCI and to disclose additional information about changes in AOCI balances by component and significant items reclassified out of AOCI. An entity must now disaggregate the total change of each component of other comprehensive income ("OCI") and separately present reclassification adjustments and current period OCI. The amendments did not have a material effect on the Corporation's interim financial statements for the three and nine months ended September 30, 2013.

BUSINESS RISK

The Corporation's business risks have not changed materially from those disclosed in the Business Risk and Outlook sections of the MD&A for the year ended December 31, 2012.

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