FORTISALBERTA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2014

November 5, 2014

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, 2014, prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"); (ii) the audited financial statements and notes thereto for the year ended December 31, 2013, prepared in accordance with US GAAP; and (iii) the MD&A for the year ended December 31, 2013. All financial information presented in this MD&A has been prepared in accordance with US GAAP and is expressed in Canadian dollars unless otherwise indicated.

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 2014. 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; political risk; a severe and prolonged economic downturn; environmental risks; capital resources and liquidity risks; operating and maintenance risks; weather conditions in geographic areas where the Corporation operates; risk of failure of information technology infrastructure; cyber-security risk; insurance coverage risk; risk of loss of permits and rights-of-way; labour relations risk; human resources risk; adverse results from litigation; and the ability to report under US GAAP beyond 2018.

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 119,000 kilometre, low-voltage distribution network in central and southern Alberta, which serves approximately 526,000 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 US 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. The 2012 distribution rates are the base rates upon which the formula was first applied and they 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 and 2014, an ROE of 8.75% and a deemed equity capitalization of 41% were 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

2015 Annual Rates Application

In September 2014, the Corporation filed its 2015 Annual Rates Application. The rates and riders, proposed to be effective on an interim basis for January 1, 2015, include an increase of approximately 10% to the distribution component of customer rates. This increase reflects a combined inflation and productivity factor of 1.49%, a K factor placeholder of $68.9 million, which is 100% of the 2015 depreciation and return associated with the rate base resulting from the 2013 actual, and 2014 and 2015 forecast capital tracker expenditures as filed for in the May 2014 Capital Tracker Application, and a net refund of Y factor balances of $1.3 million. A decision on this filing is expected in the fourth quarter of 2014.

Capital Tracker Applications

In May 2014, the Corporation submitted a combined application for the 2013, 2014, and 2015 capital trackers as prescribed by the AUC, seeking capital tracker revenue of $23.2 million, $48.1 million, and $68.9 million, respectively. Capital tracker revenue for all three years will be subject to change based on actual capital expenditures in the categories approved for capital tracker treatment by the AUC. For 2013, the Corporation's capital tracker revenue was based on a placeholder equal to 60% of the then applied for capital tracker amounts, which resulted in the recognition of $14.6 million of capital tracker revenue in 2013. For 2014, the Corporation's capital tracker revenue is based on the continuation of the placeholder and is expected to result in the recognition of $29.2 million of capital tracker revenue, subject to potential adjustment.

A hearing related to the combined capital tracker application was held in October 2014 with an AUC decision expected during the first quarter of 2015. Any adjustment to the 60% capital tracker placeholder amounts for 2013 and 2014 will result in an adjustment to revenue. Such an adjustment will be recognized when an AUC decision is received or when sufficient information is available to allow management to estimate the required adjustment in accordance with US GAAP.

Generic Cost of Capital

A hearing related to the Generic Cost of Capital ("GCOC") proceeding concluded in June 2014. As a result of this proceeding, the AUC is expected to set the allowed ROE and capital structure for Alberta utilities for 2013 and 2014, and possibly for 2015. The AUC will also consider re-establishing a formula-based approach to setting annual ROE going forward. A decision on this proceeding is expected from the AUC before the end of 2014.

Phase II Distribution Tariff Application

In January 2014, the Corporation's Phase II Distribution Tariff Application was approved by the AUC substantially as filed. The impact of this decision, which was considered interim until the required Compliance Filing was approved, was recognized during the first quarter of 2014 and did not have a material impact on the financial results of the Corporation. In July 2014, the AUC approved the Corporation's Compliance Filing as filed and no further financial adjustments were required.

Utility Asset Disposition Decision

Pursuant to the Utility Asset Disposition ("UAD") Decision issued by the AUC in November 2013, the Corporation, and other utilities in Alberta, filed a leave to appeal the UAD Decision with the Alberta Court of Appeal. The Corporation believes that the UAD Decision does not provide sufficient certainty to conclude that the AUC has properly interpreted and applied the Corporation's statutory rights under the *EUA* to recover the prudently incurred costs and expenses of its capital investment. In August 2014, the Alberta Court of Appeal granted leave on certain of the issues brought forward. The Corporation, with the other utilities in Alberta, is in the process of determining a schedule to proceed with the appeal. The timing and outcome of this appeal is currently unknown.

RESULTS OF OPERATIONS

Highlights

	Three Months Ended September 30			Nine Months Ended September 30		
($ thousands)	2014	2013	Variance	2014	2013	Variance
Revenues	130,942	120,046	10,896	385,900	355,423	30,477
Cost of sales	43,093	39,002	4,091	128,228	117,692	10,536
Depreciation	35,887	32,068	3,819	107,697	95,388	12,309
Amortization	5,045	4,253	792	14,922	12,825	2,097
Other income	-	-	-	1,410	1,729	(319)
Income before interest expense and income taxes	46,917	44,723	2,194	136,463	131,247	5,216
Interest expense	20,065	18,794	1,271	59,245	53,989	5,256
Income before income taxes	26,852	25,929	923	77,218	77,258	(40)
Income tax (recovery) expense	(361)	253	(614)	(768)	737	(1,505)
Net income	27,213	25,676	1,537	77,986	76,521	1,465

Net income for the three months ended September 30, 2014 increased $1.5 million compared to the same period last year. The increase was due to flood restoration costs incurred in the third quarter of 2013, an income tax recovery, and rate base growth associated with continued investment in energy infrastructure and growth in the number of customers, partially offset by the timing of certain operating costs.

Net income for the first nine months of 2013 includes positive net transmission volume variances of $1.8 million related to certain 2012 billings adjustments. Excluding this one-time variance, net income for the nine months ended September 30, 2014 was $3.3 million higher than the same period last year due to an income tax recovery, flood restoration costs incurred in the third quarter of 2013, and rate base growth associated with continued investment in energy infrastructure and growth in the number of customers, partially offset by the timing of certain operating costs.

The expected impact on earnings of the growth in rate base continues to be tempered by interim rates which include a placeholder allowing the recovery of 60% of the Corporation's applied for capital tracker amounts for both 2013 and 2014.

The following table outlines the significant variances in the Results of Operations for the three months ended September 30, 2014 as compared to September 30, 2013:

Item	Variance ($ millions)	Explanation
Revenues	10.9	Electric rate revenue increased by $10.4 million primarily due to the interim distribution rate increase of approximately 5.36% effective January 1, 2014, growth in the number of customers and net increases in revenues related to flow-through items which were fully offset in cost of sales. Other revenue increased by $0.5 million primarily due to increases in various miscellaneous revenues.
Cost of sales	4.1	The increase was primarily driven by higher contracted manpower costs mainly related to street light repairs and the timing of vegetation management and net increases in costs that qualify as flow-through items which were fully offset in electric rate revenue, partially offset by flood restoration costs incurred in the third quarter of 2013. Labour and benefit costs and contracted manpower costs comprised approximately 62% of total cost of sales.
Depreciation and amortization	4.6	The increase was due to continued investment in capital assets.
Interest expense	1.3	The increase was primarily attributable to the issuance of long-term debt in September 2013.
Income tax	(0.6)	The decrease was primarily attributable to a change in deferrals subject to deferred income tax without an offsetting regulatory asset.

The following table outlines the significant variances in the Results of Operations for the nine months ended September 30, 2014 as compared to September 30, 2013:

Item	Variance ($ millions)	Explanation
Revenues	30.5	Electric rate revenue increased by $31.6 million primarily due to the interim distribution rate increase of approximately 5.36% effective January 1, 2014, growth in the number of customers and net increases in revenues related to flow-through items which were fully offset in cost of sales. Other revenue decreased by $1.1 million primarily due to the one-time positive net transmission volume variances of $1.8 million recognized in the first quarter of 2013 as a result of adjustments to certain 2012 billings.
Cost of sales	10.5	The increase was primarily due to net increases in costs that qualify as flow-through items which were fully offset in electric rate revenue, higher contracted manpower costs mainly related to street light repairs, differences in the timing of certain operating expenses, and higher labour and benefit costs driven by inflation and wage increases. Labour and benefit costs and contracted manpower costs comprised approximately 61% of total cost of sales.
Depreciation and amortization	14.4	The increase was due to continued investment in capital assets.
Interest expense	5.3	The increase was primarily attributable to the issuance of long-term debt in September 2013.
Income tax	(1.5)	The decrease was primarily attributable to a change in deferrals subject to deferred income tax without an offsetting regulatory asset.

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	Revenues	Net Income
September 30, 2014	130,942	27,213
June 30, 2014	128,113	25,352
March 31, 2014	126,845	25,421
December 31, 2013	120,255	17,211
September 30, 2013	120,046	25,676
June 30, 2013	116,836	24,077
March 31, 2013	118,541	26,768
December 31, 2012	114,398	23,097

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

September 30, 2014/June 30, 2014

Net income for the quarter ended September 30, 2014 increased $1.9 million compared to the quarter ended June 30, 2014. Revenue increased by $2.8 million mainly due to higher electric rate revenue as a result of customer growth, partially offset by net decreases in revenues related to flow-through items which were fully offset in cost of sales. Cost of sales increased $1.2 million primarily due to timing of expenses, partially offset by net decreases in costs that qualify as flow-through items which were fully offset in electric rate revenue.

June 30, 2014/March 31, 2014

Net income for the quarter ended June 30, 2014 was comparable to the quarter ended March 31, 2014. Revenue increased by $1.3 million mainly due to increase in the number of customers and higher demand relating to the start of irrigation season, partially offset by net decreases in revenues related to flow-through items which were fully offset in cost of sales. Cost of sales decreased $1.3 million primarily due to timing of expenses and net decreases in costs that qualify as flow-through items which were fully offset in electric rate revenue. Other income decreased $1.3 million and interest expense increased $1.2 million related to the equity and debt portions of the AFUDC, respectively.

March 31, 2014/December 31, 2013

Net income for the quarter ended March 31, 2014 increased $8.2 million compared to the quarter ended December 31, 2013. Revenue increased by $6.6 million primarily driven by net increases in revenues related to flow-through items which were fully offset in cost of sales, the interim distribution rate increase of approximately 5.36% and growth in the number of customers. Cost of sales decreased $0.3 million primarily due to the timing of general operating costs and use of contracted manpower, partially offset by increases in labour and benefit costs due to inflation and wage increases and net increases in costs that qualify as flow-through items which were fully offset in electric rate revenue. Depreciation decreased $1.2 million due to timing of depreciation expense, partially offset by an increase in capital assets.

December 31, 2013/September 30, 2013

Net income for the quarter ended December 31, 2013 decreased $8.5 million compared to the quarter ended September 30, 2013. Revenue was comparable quarter over quarter. Cost of sales increased $4.5 million primarily due to higher labour and benefit costs, and timing of general operating costs, partially offset by incremental restoration costs related to the southern Alberta flooding in the third quarter. Depreciation increased $4.9 million primarily due to an increase in capital assets and timing of depreciation expense. Interest expense increased $1.5 million due to the issuance of $150.0 million senior unsecured debentures in September 2013. The decreases in net income were partially offset by an increase in other income of $1.4 million and a decrease in interest expense of $1.2 million related to the equity and debt portions of AFUDC, respectively.

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 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.

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 $4.1 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.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheet as at September 30, 2014 as compared to December 31, 2013:

Item	Variance ($ millions)	Explanation
Assets:		
Cash	231.2	The increase was due to the issuance of long-term debt in advance of the principal repayment of $200.0 million debentures that matured in October 2014.
Accounts receivable (current and long-term)	(8.3)	The decrease was primarily driven by a reduction in transmission riders and collection of an Alberta Electric System Operator ("AESO") contribution refund, partially offset by increased base rates for distribution and transmission services and growth in the number of customers and an increase in receivables related to transmission connected projects.
Income tax receivable (current and long-term)	11.7	The increase was mainly due to the expected refund of 2014 installments which are estimated based on the preceding year's tax expense.
Regulatory assets (current and long-term)	33.6	The increase was primarily due to increases in the deferred income tax regulatory deferral and deferred overhead costs.
Property, plant and equipment	111.6	The increase was due to continued investment in energy infrastructure, partially offset by depreciation and customer contributions.
Intangible assets	(5.4)	The decrease was due to amortization of intangible assets.
Liabilities:		
Short-term borrowings	(24.8)	The decrease was primarily related to $20.0 million in drawings on the Corporation's committed credit facility as at December 31, 2013 compared to no drawings as at September 30, 2014.
Accounts payable and other current liabilities	10.6	The increase was primarily due to timing of interest payments on long-term debt and net increases related to transmission and distribution connected projects which will be refunded as the projects are completed, partially offset by net decreases in accrued labour.
Regulatory liabilities (current and long-term)	10.0	The increase was primarily due to an increase in the provision for future site restoration costs, partially offset by a decrease in the AESO charges deferral account.
Deferred income tax (long-term deferred income tax liabilities net of current deferred income tax assets)	32.8	The increase was primarily due to higher temporary differences relating to capital assets.
Long-term debt (including current installments)	275.0	The increase was due to the issuance of $275.0 million senior unsecured debentures in September 2014.
Shareholder's equity	71.9	The increase was due to net income and equity injections received from Fortis, less dividends paid.

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.

STATEMENTS OF CASH FLOWS

	Three Months Ended September 30			Nine Months Ended September 30		
($ thousands)	2014	2013	Variance	2014	2013	Variance
Cash, beginning of period	-	28,376	(28,376)	-	44,072	(44,072)
Cash from (used in):						
Operating activities	43,937	11,768	32,169	204,135	80,345	123,790
Investing activities	(72,292)	(65,258)	(7,034)	(215,403)	(273,467)	58,064
Financing activities	259,511	42,251	217,260	242,424	166,187	76,237
Cash, end of period	231,156	17,137	214,019	231,156	17,137	214,019

Operating Activities

For the three months ended September 30, 2014, net cash provided from operating activities was $32.2 million higher than for the same period in 2013. The increase was primarily due to lower refunds of customer deposits related to transmission connected projects and higher cash receipts related to increased revenues, partially offset by the timing of the flow through of transmission costs as revenue was collected from customers on a different timeline than costs were paid to the AESO.

For the nine months ended September 30, 2014, net cash provided from operating activities was $123.8 million higher than for the same period in 2013. The increase was primarily attributable to lower refunds of customer deposits related to transmission connected projects, the timing of the flow through of transmission costs, higher cash receipts related to increased revenues, and timing of collection of accounts receivable balances. The increases were partially offset by higher cash expenses related to an increase in cost of sales and higher cash interest paid associated with the issuance of long-term debt in September 2013.

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)	2014	2013	Variance	2014	2013	Variance
Capital expenditures:						
Customer growth [1]	40,933	41,055	(122)	119,433	133,799	(14,366)
Externally driven and other [2]	11,453	17,249	(5,796)	33,481	42,466	(8,985)
Sustainment [3]	26,752	16,202	10,550	70,030	52,540	17,490
AESO contributions [4]	3,434	3,895	(461)	14,328	70,187	(55,859)
Gross capital expenditures	82,572	78,401	4,171	237,272	298,992	(61,720)
Less: customer contributions	(15,647)	(9,806)	(5,841)	(27,137)	(34,581)	7,444
Net capital expenditures	66,925	68,595	(1,670)	210,135	264,411	(54,276)
Adjustment to net capital expenditures for:						
Non-cash working capital	2,937	(4,363)	7,300	830	6,068	(5,238)
Costs of removal, net of salvage proceeds	4,749	2,523	2,226	10,485	9,014	1,471
Capitalized depreciation, AFUDC and other	(2,319)	(1,497)	(822)	(6,047)	(6,026)	(21)
Cash used in investing activities	72,292	65,258	7,034	215,403	273,467	(58,064)

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, 2014, the Corporation's gross expenditures were $82.6 million, compared to $78.4 million for the same period in 2013. Externally driven expenditures decreased $5.8 million primarily due to reduced spending for upgrades associated with substations, partially offset by increased expenditures for line moves. Sustainment capital increased $10.6 million due to the timing of expenditures for planned maintenance and system capacity improvements.

For the nine months ended September 30, 2014 the Corporation's gross capital expenditures were $237.3 million, compared to $299.0 million for the same period in 2013. Capital expenditures related to new customers decreased $14.4 million due to lower demand for oil and gas related services, partially offset by higher demand for residential services. Externally driven expenditures decreased $9.0 million due to lower expenditures for upgrades associated with substations and the distribution control centre, partially offset by increased expenditures for line moves. Sustainment capital increased $17.5 million due to the timing of expenditures for planned maintenance and system capacity improvement projects, and information technology expenditures related to the lifecycle upgrade of the Corporation's business applications. AESO contributions were $55.9 million lower as a result of larger scale transmission projects being approved in 2013 compared to 2014.

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 2014 of approximately $363.1 million, down $46.9 million from the $410.0 million disclosed in the MD&A for the year ended December 31, 2013. The decrease was mainly due to lower AESO contributions as certain transmission projects are delayed. The 2014 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, 2014, cash from financing activities increased $217.3 million compared to the same period in 2013. This increase was primarily due to proceeds received on the issuance of $275.0 million senior unsecured debentures in September 2014 as compared to proceeds of $150.0 million received in September 2013 and $94.1 million lower repayments of net borrowings under the committed credit facility.

For the nine months ended September 30, 2014, cash from financing activities increased $76.2 million compared to the same period in 2013. This increase was primarily due to proceeds received on the issuance of $275.0 million senior unsecured debentures in September 2014 as compared to proceeds of $150.0 million received in September 2013, partially offset by $19.9 million higher repayments of net borrowings under the committed credit facility and a $20.0 million decrease in equity injections 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.

CONTRACTUAL OBLIGATIONS

The Corporation's contractual obligations have not changed materially from those disclosed in the MD&A for the year ended December 31, 2013, with the exception of future principal and interest payments associated with the September 2014 issuance of $275.0 million senior unsecured debentures described below in the Capital Management discussion.

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, 2014		December 31, 2013	
	$ millions	%	$ millions	%
Total debt	1,734.0	59.4	1,483.8	57.1
Shareholder's equity	1,187.2	40.6	1,115.3	42.9
	2,921.2	100.0	2,599.1	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, 2014, the Corporation was in compliance with these externally imposed capital requirements.

As at September 30, 2014, the Corporation had an unsecured committed credit facility with an available amount of $250.0 million maturing in August 2019. 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 weighted average effective interest rate for the nine months ended September 30, 2014 on the committed credit facility was 3.1% (nine months ended September 30, 2013 - 2.3%). As at September 30, 2014 there were no drawings under the committed credit facility (December 31, 2013 - $20.0 million).

In September 2014, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation sold $275.0 million senior unsecured debentures in a dual tranche of $150.0 million and $125.0 million. The $150.0 million tranche debentures bear interest at a rate of 3.30%, to be paid semi-annually, and mature in 2024. The $125.0 million tranche debentures bear interest at a rate of 4.11%, to be paid semi-annually, and mature in 2044. Proceeds of the issue were used to repay $200.0 million senior unsecured debentures that matured in October 2014, to finance capital expenditures and for general corporate purposes.

CREDIT RATINGS

As at September 30, 2014, the Corporation's debentures were rated by DBRS at A (low) and by Standard and Poor's ("S&P") at A-. In February 2014, DBRS revised its outlook on the Corporation and changed the trend to positive from stable, reflecting DBRS's view of the Corporation having financial metrics consistently in the A rating range. In October 2014, S&P restored its outlook on the Corporation to stable following the completion of the final transactions related to Fortis' acquisition of UNS Energy Corporation.

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.

OFF-BALANCE SHEET ARRANGEMENTS

With the exception of letters of credit outstanding of $0.1 million as at September 30, 2014 (December 31, 2013 - $0.2 million), the Corporation had no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with Fortis and other subsidiaries of Fortis. Amounts due from or to related parties were measured at the exchange amount and were as follows:

As at: ($ thousands)	September 30, 2014	December 31, 2013
Accounts receivable		
Housing loan	-	600
Other loans [(1)]	26	21
Related parties	51	22
	77	643
Accounts payable and other current liabilities		
Related parties	765	1

Notes:
[(1)] *These loans are to officers of the Corporation and may 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, cost of sales and interest expense were measured at the exchange amount and were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
($ thousands)	2014	2013	2014	2013
Included in other revenue [(1)]	112	32	257	92
Included in cost of sales [(2)]	887	663	2,696	2,605
Included in interest expense [(3)]	-	-	32	-

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*

[(3)] *Reflects interest expense paid on a demand note from Fortis which was borrowed and repaid during the first quarter of 2014*

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

FINANCIAL INSTRUMENTS

The following table represents the fair value measurements of the Corporation's financial instruments:

Long-term debt, including current installments, as at: ($ thousands)	September 30, 2014	December 31, 2013
Fair value [(1)]	1,989,281	1,618,054
Carrying value	1,733,978	1,459,000

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 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 carrying value of financial instruments included in current assets, long-term accounts receivable, short-term borrowings 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.

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Corporation's financial statements in accordance with US 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 three and nine months ended September 30, 2014 from those disclosed in the MD&A for the year ended December 31, 2013.

CHANGES IN ACCOUNTING POLICIES

The Corporation's unaudited interim financial statements have been prepared following the same accounting policies as those used in preparing the Corporation's 2013 audited annual financial statements.

Future Accounting Pronouncements

Revenue from Contracts with Customers
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This update completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This update is effective for annual and interim periods beginning on or after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. Early adoption is not permitted. The Corporation is assessing the impact that the adoption of this standard will have on its financial statements.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern
In August 2014, FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in this update are intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related disclosures. This update is effective for annual and interim periods beginning on or after December 15, 2016. Early adoption is permitted. The Corporation does not expect that the adoption of this update will have a material impact on its financial statements.

BUSINESS RISK

The Corporation's business risks have not changed materially from those disclosed in the Business Risk section of the MD&A for the year ended December 31, 2013.

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