FORTIS ALBERTA

Annual Information Form
Year Ended December 31, 2015

April 6, 2016

TABLE OF CONTENTS

GLOSSARY

Except as otherwise defined, or unless the context otherwise requires, the following terms have the meanings set forth below:

"ABCA" means the *Business Corporations Act* (Alberta);

"AESO" means the Alberta Electric System Operator;

"AIES" means the Alberta Interconnected Electric System;

"AUC" means the Alberta Utilities Commission;

"AUC Act" means the *Alberta Utilities Commission Act*;

"Balancing Pool" means an independent government agency set up to manage the transition to a competitive generation market and administer the Power Purchase Arrangements;

"Board" means the Board of Directors of FortisAlberta Inc.;

"Corporation" means FortisAlberta Inc.;

"DBRS" means DBRS Limited;

"DC SERP" means the FortisAlberta Defined Contribution Supplemental Employee Retirement Plan;

"Debentures" means, collectively, the Series 04-2 Debentures, Series 06-1 Debentures, Series 07-1 Debentures, Series 08-1 Debentures, Series 09-1 Debentures, Series 09-2 Debentures, Series 10-1 Debentures, Series 11-1 Debentures, Series 12-1 Debentures, Series 13-1 Debentures, Series 14-1 Debentures, Series 14-2 Debentures and Series 15-1 Debentures;

"EMS" means the Environmental Management System;

"EPCOR" means EPCOR Energy Alberta GP Inc.;

"EUA" means the *Electric Utilities Act* (Alberta);

"Executive Officer" means the officers of the Corporation and includes named executive officers;

"Fortis" means Fortis Inc.;

"FortisAlberta" means FortisAlberta Inc.;

"FPA" means forest protection area as defined by the Alberta *Forest and Prairie Protection Act*;

"GAAP" means, at the option of the Corporation, the generally accepted accounting principles (including International Financial Reporting Standards, as applicable) as in effect from time to time, in either Canada or in the United States of America, and applied to the financial statements most recently publicly filed by the Corporation in accordance with Canadian securities laws;

"GHR Committee" means the Governance and Human Resources Committee of the Board;

"GWh" means a gigawatt hour, which is a measure of energy used over a one-hour period that is equal to 1,000,000,000 watts;

"HEEA" means the *Hydro and Electric Energy Act* (Alberta);

"Hay Group" means Hay Group Ltd;

"Indentures" means, collectively, the trust indentures respectively dated October 25, 2004 and September 7, 2011, between the Corporation and the Trustee, as each may be amended or supplemented from time to time, which trust indentures collectively provide for the issuance of the Debentures;

"KWh" means a kilowatt-hour, which is a measure of energy used over a one-hour period that is equal to 1,000 watts;

"MGA" means the *Municipal Government Act* (Alberta);

"MSA" means the Market Surveillance Administrator;

"PBR" means Performance Based Regulation;

"Power Pool" means the power pool of Alberta;

"Power Purchase Arrangements" means the legislated commercial arrangements known as power purchase arrangements;

"PSU" means performance share unit;

"Rate Base Assets" means all distribution utility assets in which the Corporation has invested to provide service to distribution utility customers, which are included in the determination of the Corporation's revenue requirement and are subject to a regulated rate of return;

"**REA**" Rural Electrification Association;

"ROE" means Return on Equity;

"RRO" means Regulated Rate Option;

"RRO Customers" mean certain small and medium-sized customers for whom distribution utilities are required to continue to arrange for or provide retail services;

"RRSP" means registered retirement savings plan;

"S&P" means Standard and Poor's, a Division of The McGraw-Hill Companies, Inc.;

"TFOs" means Transmission Facility Owners;

"TransAlta" means TransAlta Utilities Corporation;

"Towers Watson" means Willis Towers Watson;

"Trustee" means Computershare Trust Company of Canada, in its capacity as trustee under the Indentures;

"TSX" means Toronto Stock Exchange; and

"UUWA" means the United Utility Workers' Association of Canada.

All dollar amounts in this Annual Information Form are expressed in Canadian dollars unless otherwise noted. Readers are directed to consider all forward looking information in this Annual Information Form with the qualifications contained in the section entitled "Forward Looking Information" in this document.

THE CORPORATION

FortisAlberta is the owner and operator of a regulated electricity distribution business in the Province of Alberta and was incorporated under the *ABCA* on January 1, 2000. The Corporation is an indirect, wholly-owned subsidiary of Fortis, a diversified, international electricity and gas distribution utility holding company having investments in distribution, transmission and generation utilities. FortisAlberta's registered head office is located at 320 – 17th Avenue S.W., Calgary, Alberta, T2S 2V1. The Corporation has no subsidiaries.

BUSINESS OF FORTISALBERTA

FortisAlberta 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 electric utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

FortisAlberta operates a predominantly rural and suburban, low-voltage distribution network in central and southern Alberta, totaling approximately 121,000 kilometers of wires. The Corporation's distribution network serves approximately 539,000 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers of electricity. In 2015, FortisAlberta distributed approximately 24,000 GWh of electricity. This includes electricity to those customers within its service area that are connected directly to the transmission grid.

The Corporation is regulated by the AUC pursuant to the *AUC Act*. The AUC's jurisdiction, pursuant to the *EUA*, the *Public Utilities Act*, the *HEEA* 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.

Up until January 1, 2013, the Corporation operated under a traditional form of cost-of-service regulation as prescribed by the AUC. Under this form of regulation, rate orders issued by 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 capital structure applied to approved rate base assets. Under the traditional form of cost-of-service regulation the Corporation applied for the revenue requirement based on estimated costs of service. Once the revenue requirement was approved, it was not adjusted if actual costs of service were different from what was estimated, other than for certain prescribed costs that were eligible for deferral treatment and were either collected or refunded in future rates. Starting January 1, 2013, the Corporation began operating under a new form of cost-of-service regulation known as performance based regulation, or PBR, which is discussed further under "Performance Based Regulation" on page 13. The implementation of PBR is not intended to alter the basis for cost-of-service regulation, being the Corporation's right, under the *EUA*, to a reasonable opportunity to recover the prudent costs of service and the right to earn a reasonable return on equity.

FRANCHISES

FortisAlberta customers that are located within a city, town, or village boundary are served through franchise agreements between the Corporation and the respective customers' municipality of residence. To ensure the exclusive right to own and operate the electrical distribution system within municipal boundaries, FortisAlberta maintains standard franchise agreements with numerous municipalities. Under section 47 of the *MGA*, municipal governments in Alberta have, upon termination of a franchise agreement, the right to own electricity distribution utilities by purchasing the assets of FortisAlberta that are located in their municipal boundaries. Any franchise agreement that is not renewed at the expiry of the term, continues in effect until either the Corporation or the municipality terminates it with the approval of the AUC. If a franchise agreement is terminated and the municipality subsequently exercises its right under the

MGA to purchase FortisAlberta's distribution network within the municipality's boundaries, the Corporation must be compensated. Compensation would include payment for FortisAlberta's assets on the basis of a methodology approved by the AUC.

FortisAlberta holds franchise agreements with 156 municipalities within its service area. The franchise agreements include ten-year terms with an option to renew for up to two subsequent five-year terms. Over 90% of the Corporation's franchise agreements are newly signed over the last three years and, as such, are not set to expire on the initial term until 2023 and beyond.

MARKET AND SALES

The following tables compare 2015 and 2014 distribution revenues and energy deliveries by rate class:

	Revenue [1]			
Rate Class	**2015**		**2014**	
	($000)	%	($000)	%
Residential	160,779	29.4	157,968	31.6
Large Commercial, Industrial and Oilfield	119,994	21.9	111,126	22.2
Farm	73,815	13.5	61,003	12.2
Small Commercial	65,575	12.0	55,890	11.2
Small Oilfield	52,474	9.6	42,177	8.4
Other	23,701	4.3	23,946	4.8
Transmission Connected	1,090	0.2	1,183	0.2
Total Energy Revenue	497,429	90.9	453,293	90.6
Rate Riders, Deferrals and Adjustments	49,894	9.1	46,786	9.4
	547,322	100.0	500,079	100.0

(1) Includes customers within FortisAlberta's service area that are connected directly to the transmission grid.

	GWh Deliveries [1] [2]			
Rate Class	**2015**		**2014**	
	GWh	%	GWh	%
Residential	2,989	12.6	2,979	12.2
Large Commercial, Industrial and Oilfield	10,402	43.7	10,646	43.6
Farm	1,350	5.6	1,302	5.3
Small Commercial	1,371	5.8	1,387	5.7
Small Oilfield	947	4.0	984	4.0
Other	73	0.3	73	0.3
Transmission Connected[3]	6,663	28.0	7,076	28.9
Total Energy Deliveries	23,795	100.0	24,447	100.0

(1) Includes customers within FortisAlberta's service area that are connected directly to the transmission grid.
(2) Energy deliveries include adjustments to prior periods which have been reflected in the financial statements during the current period.
(3) Transmission Connected energy is based on interim settlement that is expected be finalized in May 2016.

The revenue and energy delivery tables above align with the rate classes on which FortisAlberta's tariff billing is based. These rate classes span industry classifications (also referred to as industry codes) and are grouped in broader categories for regulatory filings and available online at the AUC website at www.auc.ab.ca.

While FortisAlberta does not forecast or record revenue by industry classification, the Corporation does forecast and record distribution energy, or GWh, by both industry classification and rate class. The following table provides a mapping for distribution from rate class by industry classification.

Mapping for Rate Class by Industry Classification

Category	Rate Class / Industry Code	Res	Farm					Other		Small Commercial	Small Oil and Gas	Large Commercial, Industrial and Oil and Gas	
		Rate 11 Residential	Rate 21 FAI Farm [1]	Rate 23 FAI Grain Drying [1]	Rate 24 REA Farm [2]	Rate 26 FAI Irrigation [1]	Rate 28-29 REA Irrigation [2]	Rate 31-33 Street Lights	Rate 38 Yard Lights	Rate 41 Small General Service	Rate 44-45 Oil & Gas Service	Rate 61 General Service	Rate 63 Large General Service
Retail	Residential	•								•		•	
	Commercial									•		•	•
	Outdoor Lighting							•	•				
Wholesale	Small Wholesale											•	•
Farm	FAI Farm [1]		•	•						•		•	
	FAI Irrigation [1]					•							
	REA Irrigation [2]						•						
	REA Farm [2]				•								
Oil and Gas	Oilfield									•	•	•	•
	Cavern Storage									•		•	•
	Pipelines									•		•	•
	Refineries											•	
	Gas Processing									•		•	•
Other Industrial	Misc. Industrial									•		•	•
	Chemical Plants									•		•	•
	Cement Plants									•		•	
	Food and Beverage									•		•	•
	Metal Products									•		•	•
	Coal Mines											•	
	Forest Products									•		•	•
Interchange	Interchange									•		•	•

Footnotes:

1. FAI refers to FortisAlberta Inc.
2. REA refers to Rural Electrification Association.

HUMAN RESOURCES

At December 31, 2015, FortisAlberta had 1,162 full-time employees, 30 part-time employees and 8 temporary and term employees. Approximately 80% of the employees of the Corporation are members of the UUWA. In December, 2013, the Corporation reached an agreement on a new four-year collective agreement with the UUWA. The collective agreement will expire on December 31, 2017.

ENVIRONMENTAL MATTERS

Canadian federal, provincial and municipal governments share jurisdiction over environmental matters affecting the Corporation. As a result, the Corporation is subject to numerous acts, regulations and guidelines relating to the protection, preservation and enhancement of the natural environment. This includes air, water and soil, flora and fauna and natural resources including forests, grasslands, surface waters, species at risk and migratory birds. The environmental matters with the most significant impact to the Corporation are those associated with wildfires, spills, waste management, and wildlife and natural resources.

Environmental considerations associated with operational activities are best addressed within the context of a formal system. The Corporation has implemented programs and procedures within the context of its EMS. The EMS is consistent with the guidelines of ISO 14001, an international standard for environmental management systems. The EMS provides a framework that allows for the identification of potential environmental impacts, the establishment of processes and programs to mitigate those impacts and the monitoring of performance to aid in the continual improvement of the Corporation’s environmental performance. The EMS is an adaptive system that evolves to the changing nature of the Corporation's business risks and objectives.

In 2015, the costs associated with adhering to environmental protection requirements were approximately $0.6 million.

ALBERTA’S ELECTRICITY INDUSTRY

The electricity industry in Alberta consists of four principal segments:

- *Generation* — Generation is the production of electric power. Generators in Alberta include both power producers and companies that have purchased the rights to the output of formerly regulated Alberta generators. Generators sell wholesale power into the Alberta Power Pool spot market or through direct contractual arrangements. Most of the power generated in Alberta is generated using coal or natural gas as the fuel source, with hydro and wind power comprising the majority of the remaining supply.
- *Transmission* — Transmission is the conveyance of electricity at higher voltages. Alberta’s transmission system or grid is composed of high voltage power lines and related facilities, which convey electricity from generation facilities to distribution networks and directly connected end-users. The Alberta transmission grid is interconnected with the transmission system in British Columbia which is also connected to the transmission system in the Pacific Northwest of the United States. The Alberta transmission grid is also connected to that of Saskatchewan via a smaller, direct current link. Where the transmission system connects to a distribution network, transmission substations step-down the voltage to distribution level voltages. Transmission facilities are owned by TFOs that are regulated under the jurisdiction of the AUC. The approved costs of the TFOs are paid by the AESO, and the AESO funds these and other costs of its operations through a regulated system access tariff, with charges thereunder paid by users of the electric system, including FortisAlberta.
- *Distribution* — Distribution is the conveyance of electricity at lower voltages. Distribution networks are composed of low voltage power lines and related facilities, which convey electricity from transmission systems to end-use customers.

The companies that own distribution networks are responsible for constructing, operating and maintaining the distribution network, providing non-discriminatory electric distribution service and arranging for system access service (i.e. transmission access) through the AESO for the end-use customers to whom they distribute electricity. Distribution wire owners are also responsible for metering, meter data management, wholesale billing, customer enrolment services and load settlement, and for arranging for or providing regulated rate and regulated default retail electricity supply services under the *EUA*. Load settlement is the process whereby hourly consumption is calculated for each site in Alberta, in support of the Alberta competitive electricity marketplace. The major distribution companies are regulated under the jurisdiction of the AUC.

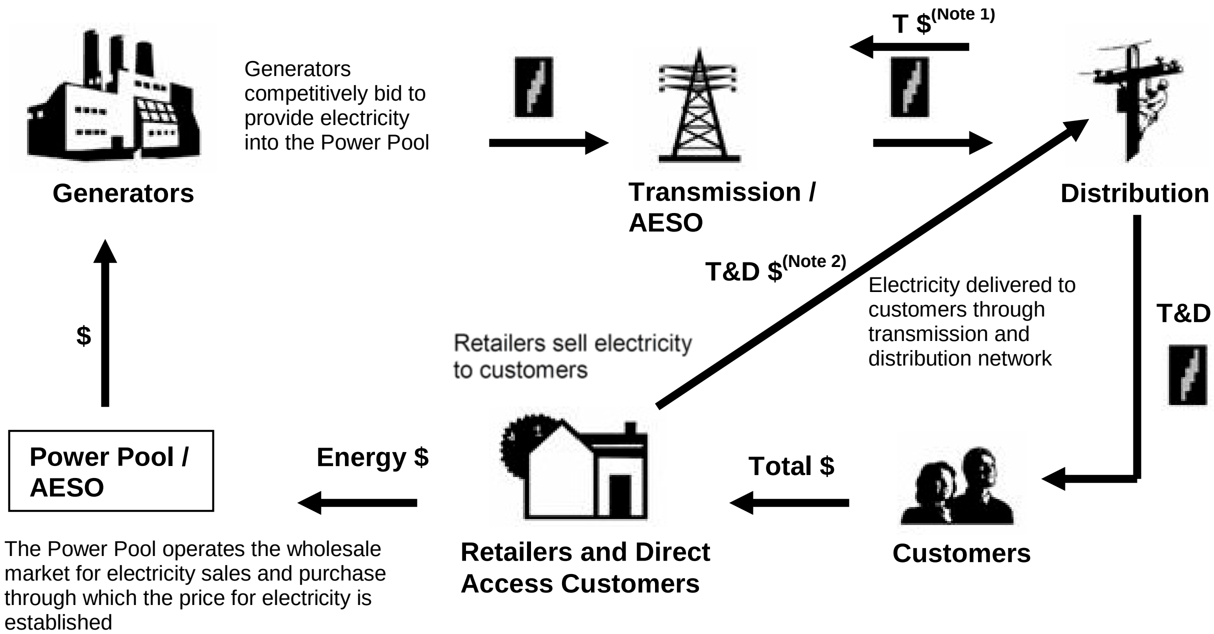
The distribution network in Alberta is comprised of the networks owned by FortisAlberta, ATCO Electric Ltd. and multiple local distribution utilities, including companies owned by the cities of Calgary and Edmonton, rural electrification associations and a number of smaller municipalities. All electricity customers have the right to choose their electricity retailer, with the distribution utility continuing to provide distribution services. While electricity distribution networks are regulated monopolies independent retailers sell electricity to end-use customers on a competitive basis.

Distribution utilities are required to continue to provide or arrange for retail services to RRO Customers that are eligible for the RRO. RRO Customers can choose to continue to purchase electricity from the regulated distribution utility or from its appointed regulated retailer at the RRO rate.

Electricity distribution utilities, such as FortisAlberta, collect their distribution revenues from retailers (including self-retailers as defined below) that sell electricity to, and collect payment from, end-use customers. The credit risk associated with a retailer's payment obligations to a distribution utility is mitigated by regulatory provisions that require the retailer to support its payment obligations by way of prudential measures if certain criteria are met. These prudential measures generally involve a distribution utility obtaining security from a retailer, often in the form of a letter of credit, a third party guarantee from an entity that has an investment grade rating or a cash deposit. In the event that a distribution utility incurs credit losses, such utility may apply to the regulator to recover these bad debts in rates, but there is no guarantee that this will be approved by the regulator.

- *Retail* — Retailing is the selling or offering for sale of electricity to the end-use customers. In Alberta, retailers purchase power through the Power Pool operated by the AESO or through direct supply contracts, arrange for distribution and sell electricity and other services directly to end-use customers. Retailers are not limited in the design of rate packages offered to customers and may combine the provision of electricity with virtually any other service. Service providers are registered as electricity retailers in Alberta, most of which are registered to provide service only to large commercial and industrial customers. There are also end-use customers who act as their own retailer. These "self-retailers" are typically large commercial or industrial entities. Self-retailers interact with other participants in the Alberta electricity industry, such as distribution utilities, in the same manner as other retailers.

In Alberta's electricity marketplace, these segments and their respective market participants interact in a number of ways. The following diagram represents an overview of this interaction:



Note 1: "T $" represents the cost of transmission services paid by distribution companies to the AESO.

Note 2: "T&D $" represents the cost of transmission and distribution wire services that are charged to customers and collected from retailers and direct access customers.

REGULATION OF ALBERTA'S ELECTRICITY INDUSTRY

BACKGROUND

Historically, Alberta's electricity industry consisted of a mix of private and municipally owned utilities. Three vertically integrated utilities involved in the generation, transmission, distribution and retail sale of electricity supplied more than 90% of the electricity to Alberta's integrated power grid, also known as the AIES. Other municipal utilities and small independent power producers provided the remainder. Within this structure, a utility would enter into a series of contracts with its larger distribution customers in its service area, with rates for different customer classes set by the regulator. Under applicable industry regulation, utilities were generally permitted to recover their investments and operating costs and to earn a reasonable return on investment.

Commencing in 1996, Alberta restructured its electricity industry. Alberta's historical system of vertically-integrated, fully-regulated utilities has been replaced with a competitive market in the generation and retail sale of electricity, while the distribution and transmission sectors continue to be regulated.

KEY ENTITIES

Alberta Utilities Commission (AUC)

The AUC is the chief provincial regulator of the natural gas, electric, and water utilities operating in the Alberta, including FortisAlberta. It is an independent, quasi-judicial agency of the Government of Alberta. The principal responsibility of the AUC is to regulate and adjudicate on matters related to utilities within Alberta and to ensure that the delivery of Alberta's utility services takes place in a manner that is fair, responsible and in the public interest. In order to ensure that customers receive safe and reliable service at fair and reasonable rates, the AUC regulates both rates and terms and conditions of service of natural gas, electric, and water utility services. This regulation includes the transmission and distribution sectors of Alberta's electricity industry, the major intra-Alberta gas transmission system and major municipal electricity distributors. Through regulation, the AUC seeks to balance the interests of customers and utilities in establishing rates and terms and conditions of service. The AUC provides this oversight through the application and hearing process, standards setting and regulation, monitoring and surveillance and enforcement.

Alberta Electric System Operator (AESO)

The AESO is a not-for-profit statutory corporation that is responsible for overseeing the safe, reliable and efficient operation of the AIES, and for operating the Power Pool. The AESO is responsible for managing the transmission system and it recovers its costs through a tariff approved by the AUC. The AESO operates the Power Pool and recovers its costs through a surcharge on all electricity traded thereon. In addition, the AESO administers load settlement and it recovers the cost of this from charges levied on distribution network owners.

As operator of the hourly energy spot market, the AESO receives electricity supply offers and demand bids, sets the schedule for the dispatch of generating units, schedules generating units to provide system support services, carries out the financial settlement for electricity exchanged through the Power Pool and reports the hourly Power Pool price for electricity.

In its role as system operator, the AESO is responsible for maintaining the physical stability and balance of the electricity system by dispatching generation and import offers to match supply to provincial and export demand on a real-time basis. In addition, the AESO coordinates real-time operations with the owners of transmission facilities, and procures and coordinates required system support services, all with a view to ensuring the safe, reliable and efficient operation of the interconnected electricity system.

Market Surveillance Administrator (MSA)

The MSA is an independent entity appointed by the provincial government that reports directly to the Chairman of the AUC in respect of budgetary matters. The MSA has a broad mandate to monitor market activity and investigate complaints in order to ensure that: market operations are efficient and equitable; market participants comply with relevant rules and regulations; the rules governing Alberta's electricity industry work to discourage anti-competitive practices; and electricity retail functions are competitive.

Balancing Pool

The Balancing Pool is an independent government agency set up to administer long-term power purchase arrangements that it holds, and is responsible for satisfying any obligations associated with such power purchase arrangements.

REGULATORY PROCESS

The distribution of electricity is regulated by the AUC, principally under the *EUA*. The Corporation's electricity distribution business and all of its distribution assets are regulated in their entirety by the AUC.

The AUC's jurisdiction includes the approval of distribution tariffs for regulated distribution utilities, including the rates and terms and conditions on which service is to be provided by those utilities. The AUC's objective is to approve a fair and reasonable tariff that is not unduly preferential or arbitrarily or unjustly discriminatory. The *EUA* requires regulated distribution utilities, such as FortisAlberta, to file a distribution tariff for approval by the AUC.

Until January 1, 2013, the AUC - approved distribution tariffs, including those of FortisAlberta, were based on a cost-of-service regulatory model. Under this model, distribution utilities applied for recovery of prudently incurred expenditures. These expenditures included:

- *Depreciation and Amortization* - an allowance for a return of capital and the depreciation or amortization on the rate base assets that is approved by the AUC, net of any customer contribution amortization.

- *Income Taxes* - the allowance for the recovery of deemed income taxes in respect of the regulated operations of the distribution utility.

- *Operating Expense* - the prudent operating costs associated with operating a distribution utility; and

- *Total Return* - the return on capital invested by the distribution utility in its approved rate base assets, net of customer contributions, and financed through a capital structure comprised of debt and equity.

As of January 1, 2013, all distribution utilities in Alberta are regulated under PBR for a five-year term. The PBR model of rate-making employs a formula to determine customer rates on an annual basis. The customer, or base, rates for each class were derived from the 2012 approved revenue requirement. Base rates are adjusted annually by a PBR formula approved by the AUC.

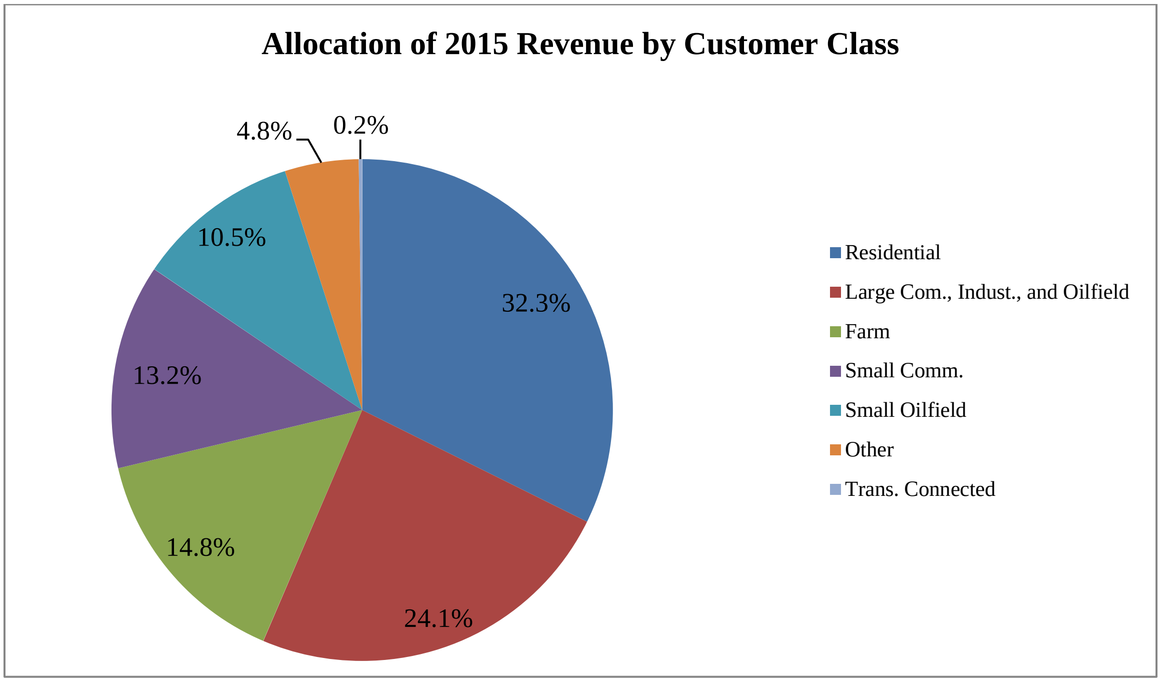
Under the PBR model prescribed by the AUC, each year during the five-year PBR term, customer rates are determined by applying a multiplier, which is equivalent to an inflation factor less a productivity factor (I-X), to the prior year's rates. Each year's inflation factor (I) is determined using Statistics Canada indices while the productivity factor (X) is set at 1.16% for each year of the five-year PBR term. Other components of the formula to determine customer rates include amounts to be collected in customer rates for approved: (i) flow-through items to be collected, or refunded, annually (Y factor); (ii) capital expenditures that qualify as a capital tracker (K factor); and (iii) exogenous costs outside of the control of the utility (Z factor).

In addition to the application to determine the revenue requirement, the regulatory process also includes a second phase application, known as Phase II, which determines the specific rates to be charged to different classes of consumers, thereby establishing the rate structure. An approved Phase II rate structure results in rate schedules applicable to different customer classes as well as terms and conditions that govern the services provided to customers. The determination of rate structure is complex, typically involving the allocation of the revenue requirement to customer classes based on various class characteristics, followed by the design of specific rates to recover the allocated costs in a reasonable and equitable manner. Rates are designed based on a set of rate design principles, with the primary principle being to collect revenue from a particular customer class based on the costs that have been allocated to that class. The revenue by customer class is determined by multiplying the approved rates by billing determinants, which are structured and applied differently to each customer class in order to reflect the major cost drivers associated with them or to recognize other rate design criteria such as simplicity and rate stability.

Billing determinants are either fixed or variable, with fixed billing determinants providing more revenue stability and minimizing the impact of fluctuations in the volume of electricity distributed. FortisAlberta's distribution revenue can be considered stable as approximately 85% of distribution revenue is derived from fixed or largely fixed billing determinants. FortisAlberta's billing determinants include:

- energy (variable charges);
- demand (largely fixed charges);
- basic monthly charges (fixed charges); and
- contract kilometers (fixed distance-based charges).

For example, monthly distribution charges to residential customers are based on a basic monthly charge ($/month) plus all energy (¢/kWh) delivered, whereas distribution charges to large industrial customers are based on monthly peak demand ($/kW/month) and the length of conductor required for each customer ($/km/month). The chart below provides an illustrative example of how cost allocation in Phase II results in recovery of the revenue requirement from customer classes (the chart does not necessarily represent all the customer classes, or the relative size of such customer classes, involved in recovery of the revenue requirement).



Recent Regulatory Proceedings

Performance Based Regulation (PBR)

In early 2010, the AUC initiated a Rate Regulation Initiative to reform utility rate regulation for distribution utilities in Alberta. The AUC indicated its intention to transition from the traditional form of cost-of-service regulation to PBR. In September 2012, the AUC issued Decision 2012-237 (the "PBR Decision") which approved the transition to PBR for a five-year term beginning January 2013. The PBR model of rate-making employs a formula to determine customer rates on an annual basis. The formula is premised on adjusting rates by an inflation factor less a productivity factor ("I-X"). Also, certain prescribed costs are eligible for deferral treatment, and are either collected or refunded in future customer rates.

The formula established by the AUC in the PBR Decision raised 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 these capital expenditures, the Corporation sought further clarification regarding this mechanism in various subsequent proceedings including: its PBR Compliance Application filed in November 2012; a Review and Variance Application also filed in November 2012; and an application for leave to appeal with the Alberta Court of Appeal. In addition, the Corporation also filed a 2013 Capital Tracker Application for specific categories of capital expenditures as it was directed to do by the AUC in the PBR Decision.

In December 2013, the AUC issued Decision 2013-435 (the "Capital Tracker Decision"). In the Capital Tracker Decision, the AUC prescribed an approach by which distribution utilities are required to apply for capital tracker revenue.

Generic Cost of Capital

In March 2015, the AUC issued Decision 2191-D01-2015 (the "2015 GCOC Decision") related to the 2013-2015 Generic Cost of Capital ("GCOC") proceeding. In this decision, the AUC set the Corporation's allowed ROE for ratemaking purposes for 2013-2015 at 8.30%, down from the interim ROE of 8.75%, and set the deemed equity ratio at 40%, down from 41%.

The AUC also determined that it would not re-establish a formula-based approach to setting annual ROE at this time. Instead, the allowed ROE of 8.30% and deemed equity ratio of 40% would remain in effect on an interim basis for 2016 and beyond.

For Alberta utilities under PBR, including FortisAlberta, the impact of the changes to the allowed ROE and capital structure resulting from the 2015 GCOC Decision applies to the portion of rate base that is funded by capital tracker revenue only. For assets not being funded by capital tracker revenue, no revenue adjustment is required for the change in allowed ROE and deemed equity ratio from that set in an earlier GCOC decision.

The Corporation, along with other Alberta Utilities (the "Utilities"), filed a Review and Variance Application related to the 2015 GCOC Decision on grounds including the position that the AUC erred by using hindsight to arrive at the ROE. In January 2015, the AUC dismissed the Review and Variance Application. The Corporation also filed an application with the Alberta Court of Appeal for permission to appeal aspects of the 2015 GCOC Decision related to retrospective ratemaking and the risk associated with utility asset disposition matters, as discussed below. An appeal hearing is scheduled to be heard in May 2016.

In April 2015, the AUC initiated a 2016 GCOC proceeding to set the allowed ROE and capital structure for ratemaking purposes for 2016 and 2017. A hearing is scheduled for June 2016 and a decision is expected from the AUC before the end of 2016.

Capital Tracker Applications

The funding of capital expenditures during the PBR term is a material aspect of the PBR plan for the Corporation. The PBR plan provides a capital tracker mechanism to fund the recovery of costs associated with certain qualifying capital tracker expenditures.

In March 2015, the AUC issued Decision 3220-D01-2015 (the "2015 Capital Tracker Decision") related to the Corporation's 2013, 2014 and 2015 capital tracker application. The 2015 Capital Tracker Decision: (i) indicated that the majority of the Corporation's applied for capital trackers met the established criteria and were, therefore, approved for collection from customers as a K factor; (ii) approved the Corporation's accounting test to determine qualifying K factor amounts; and (iii) confirmed certain inputs to be used in the accounting test, including the conclusion that the weighted average cost of capital be based on actual debt rates and the allowed ROE and capital structure approved in the 2015 GCOC Decision.

In April 2015, the Corporation filed the required Compliance Filing related to the 2015 Capital Tracker Decision, which was approved in September substantially as filed. Capital tracker revenue of $17.4 million was approved for 2013 on an actual basis and capital tracker revenue of $42.2 million and $62.2 million was approved on a forecast basis for 2014 and 2015, respectively. The Corporation collected $14.6 million and $29.2 million in 2013 and 2014, respectively, and collected $62.0 million in 2015, related to capital tracker expenditures.

In May 2015, the Corporation filed a 2014 True-Up and 2016-2017 Capital Tracker Application with the AUC. The Corporation sought: (i) capital tracker revenue for 2016 and 2017 of $71.5 million and $89.9 million, respectively; (ii) a reduction to the 2014 capital tracker revenue of $5.4 million to reflect actual capital tracker expenditures; and (iii) approval of additional revenue related to capital tracker amounts that had not been fully approved in the 2015 Capital Tracker Decision.

A hearing related to the combined capital tracker application was held in October 2015 and an AUC decision is expected during the first quarter of 2016.

The Corporation recognized capital tracker revenue of approximately $59.2 million in 2015, of which $8.7 million was related to updates to the 2013 and 2014 approved capital tracker amounts. The capital tracker revenue for 2015 of approximately $50.5 million incorporates an update for related 2015 capital tracker expenditures as compared to the approved forecast reflected in current rates. This resulted in a deferral of $11.5 million of 2015 capital tracker revenue as a regulatory liability.

Utility Asset Disposition Proceedings

In Decision 2011-474 (the "2011 GCOC Decision"), the AUC made statements regarding cost responsibility for stranded assets, which the Utilities challenged as being incorrectly made. Stranded assets are generally understood to be utility assets no longer used to provide utility services as a result of extraordinary circumstances. 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 also conflicted with the provisions of the *EUA*. As a result, the Utilities filed a leave to appeal motion with the Alberta Court of Appeal. In addition, the Utilities filed a Review and Variance application with the AUC, which prompted the AUC to initiate a Utility Asset Disposition proceeding to further examine the issues raised by the Utilities.

In November 2013, the AUC issued Decision 2013-417 (the "UAD Decision") regarding the Utility Asset Disposition proceeding. The decision confirmed that no changes to existing regulations, rules and practices relative to the recovery of utility asset costs in the ordinary course of business are required. The decision indicated, however, that utilities will be responsible for the gains or losses related to the extraordinary retirement of utility assets. The Utilities also filed a leave to appeal motion with the Alberta Court of Appeal concerning the UAD Decision.

A hearing of the Utilities' appeal to the 2011 GCOC Decision and the UAD Decision was heard in June 2015. In September 2015, the Alberta Court of Appeal issued a decision dismissing the appeal of the Utilities.

The Court's decision has no immediate impact on the Corporation's financial position. However, the Corporation is exposed to the risk that unrecovered costs associated with utility assets subsequently deemed by the AUC to have been subject to an extraordinary retirement will not be recoverable from customers.

In November 2015, the Utilities filed an application for leave to appeal the Alberta Court of Appeal's decision with the Supreme Court of Canada. The outcome and timing of this leave application is unknown.

Rural Electrification Association Purchases

In September 2015, the AUC approved the discontinuation of the operations of Kingman Rural Electrification Association ("REA"), and the sale and transfer of Kingman REA's electricity distribution system to the Corporation for a purchase price of $5.1 million. The sale closed on October 1, 2015.

In October 2015, the AUC approved the discontinuation of the operations of VNM REA, and the sale and transfer of VNM REA's electricity distribution system to the Corporation for a purchase price of $16.0 million. The sale closed on November 1, 2015.

2016 Annual Rates Application

In December 2015, the AUC approved the Corporation's 2016 Annual Rates Application substantially as filed on an interim basis. The rates and riders, effective January 1, 2016, include an increase of approximately 4.6% to the distribution component of customer rates. This increase reflects: (i) a combined inflation and productivity factor of 0.9%; (ii) a K factor placeholder of $64.4 million, which is 90% of the depreciation and return associated with the 2016 forecast capital tracker expenditures as filed for in the

2014 True-Up and 2016-2017 Capital Tracker Application; (iii) $16.8 million for adjustments to 2013, 2014 and 2015 capital tracker revenue as filed for in the Corporation's Compliance Filing related to the 2015 Capital Tracker Decision; and (iv) a net collection of Y factor amounts of $0.3 million.

Beyond the 2013-2017 PBR Term

With the current PBR term expiring in 2017, in 2015 the AUC initiated a Generic Proceeding to establish parameters for the next generation of PBR plans. The Utilities will be making submissions regarding matters for the next PBR term in the first quarter of 2016 and a hearing is scheduled for July 2016.

MARKET FOR SECURITIES

None of the issued and outstanding securities of the Corporation, including the Debentures, are listed on any exchange.

DIVIDEND POLICY

The following table summarizes the cash dividends declared at the discretion of the Board for the past three years on the Corporation's Class "A" Common Shares. Dividends were paid in four equal instalments in February, May, August and November of each of the past three years.

	Dividends Declared		
Share Capital	2015	2014	2013
Class "A" Common Shares	60,000,000	55,000,000	50,000,000

Certain of the Corporation's debt covenants contain restrictions on the payment of dividends if consolidated debt exceeds 75% of consolidated capitalization. Certain further restrictions apply on dividends which are not in the ordinary course of business. The Corporation remains in compliance with these covenants.

DESCRIPTION OF CAPITAL STRUCTURE

GENERAL DESCRIPTION

The Corporation has authorized share capital consisting of an unlimited number of Common Shares, Class "A" Common Shares and First Preferred Shares. The holders of the Common Shares are entitled to receive notice of, and to attend, all annual and special meetings of the shareholders of the Corporation and to one vote in respect of each Common Share held at all such meetings. The holders of the Class "A" Common Shares are entitled to receive notice of, and to attend, all annual and special meetings of the shareholders of the Corporation and to one vote in respect of each Class "A" Common Share held at all such meetings, other than a meeting of the First Preferred Shares, as a class. The holders of the First Preferred Shares as a class are not entitled to receive notice of, to attend, nor to vote at any meeting of the shareholders of the Corporation, other than those meetings called for the purpose of authorizing the voluntary liquidation and dissolution of the Corporation.

The issued and outstanding capital of FortisAlberta consists of 63 Class "A" Common Shares with no par value. There are no Common Shares or First Preferred Shares outstanding. Fortis Alberta Holdings Inc., the Corporation's parent company and an indirect, wholly-owned subsidiary of Fortis, owns all the issued and outstanding Class "A" Common Shares of the Corporation.

RATINGS

The following information relating to the Corporation's credit ratings is provided as it relates to the Corporation's financing costs and liquidity. Specifically, credit ratings affect the Corporation's ability to obtain short-term and long-term financing and the cost of such financing. A reduction in the current ratings on the Corporation's debt by its rating agencies or a negative change in the ratings outlook could adversely affect the Corporation's cost of financing and its access to sources of liquidity and capital. In addition, changes in credit ratings may affect the Corporation's ability to, and the associated costs of, entering into normal course derivative or hedging transactions or its ability to maintain ordinary course contracts with customers and suppliers on acceptable terms.

The Corporation’s credit ratings as at April 6, 2016 are set out in the following table:

Rating Agency	Rating
DBRS	A (low), Stable Trend
S&P	A-, Negative Outlook

The ratings are not recommendations to purchase, hold or sell Debentures, because ratings do not comment on the Corporation’s Debentures market price or suitability for a particular investor. The Corporation understands that ratings are based on, among other things, information furnished to the rating agencies by the Corporation and information obtained by the rating agencies from public sources. Ratings may be changed, suspended or withdrawn at any time by the rating agencies. Payments have been made to the rating agencies for the purpose of assigning ratings to the Corporation’s Debentures and the annual maintenance associated with these ratings.

DBRS’s long-term debt ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities. DBRS states that its long-term debt ratings are meant to give an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. DBRS ratings do not take factors such as pricing or market risk into consideration and the ratings are expected to be used by purchasers as one part of their investment decision. Every DBRS rating is based on quantitative and qualitative considerations that are relevant for the borrowing entity. According to DBRS, a rating of A by DBRS is in the middle of three subcategories within the third highest of ten major categories; such rating is assigned to debt instruments considered to be of satisfactory credit quality and for which protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. Entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated entities. The assignment of a “(high)” or “(low)” modifier within each rating category indicates relative standing within such category. DBRS ratings trends provide guidance regarding the outlook for the rating. A Positive Trend represents an indication that there is a greater likelihood that the rating could change in the future than would be the case if a Stable Trend was assigned.

S&P’s long-term debt ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities. S&P states that its long-term debt rating evaluates the obligor's capacity and willingness to meet its financial commitments as they come due. Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. According to S&P, a rating of A by S&P is the third highest of ten major categories. An obligor rated 'A' has strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories. The assignment of a “(+)” or “(-)” modifier within each rating category indicates relative standing within such category. S&P's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term, typically six months to two years. In determining a rating outlook, consideration is given to any changes in the economic or fundamental business conditions.

FortisAlberta has paid each of DBRS and S&P their customary fees in connection with the provisions of the above ratings. FortisAlberta has not made any payment to DBRS or S&P in the past two years for services unrelated to the provision of such ratings.

RISK FACTORS

The Corporation is subject to a variety of risks and uncertainties that may have material and adverse effects, financial or otherwise, on the results of the Corporation's operations.

REGULATORY APPROVAL AND RATE ORDERS

The regulated operations of the Corporation are subject to the uncertainties faced by regulated utility companies. Those uncertainties include approval by the AUC of customer rates that provide a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on the portion of approved rate base funded by the equity component of the capital structure. The ability of the Corporation to recover the actual costs of providing services and to earn the approved ROE depends on the Corporation's ability to operate using the revenues provided in the PBR mechanisms.

Through the regulatory process, the AUC approves the allowed ROE for rate-making purposes and capital structure. Regulatory treatment that allows the Corporation to earn a fair risk-adjusted rate of return, comparable to that available on alternative investments of similar risk, is essential for maintaining access to capital.

Effective January 1, 2013, distribution utilities in Alberta, including the Corporation, are regulated under a form of rate regulation referred to as PBR for a five-year term.

The fundamental risk faced by regulated utilities, that regulator-approved rates will not provide sufficient revenue to recover all of the five-year PBR costs associated with providing service, still exists under PBR. During the PBR term, the formula that determines annual customer rates exposes the Corporation to the following specific risks: (i) that the Corporation will experience inflationary increases in excess of the inflationary factor set by the AUC in the formula; (ii) that the Corporation will be unable to achieve the productivity improvements expected over the PBR term; (iii) that the costs related to the Corporation's capital expenditures will be in excess of that provided for in the base formula and that those excess capital expenditures will not qualify, or be approved, as a capital tracker where necessary; and (iv) that material unforeseen costs will be incurred and that they will not qualify, or be approved, as a Z factor. As discussed in the "Regulatory Process" section, the AUC has initiated a generic proceeding to establish parameters for the next generation of PBR plans. There is no certainty that the next generation PBR plan will be similar to the current plan or that its design will be favourable for the Corporation.

Capital expenditures, including the cost of upgrades to existing facilities and the addition of new facilities, continue to require the approval of the AUC for inclusion in rate base. There is no assurance that the Corporation will receive regulatory orders in a timely manner, and the Corporation may incur costs prior to having approved rates. A failure to obtain approval of capital expenditures may adversely affect the Corporation's results of operations or financial position.

In the interest of regulatory efficiency, the AUC can employ generic proceedings to address regulatory matters that impact multiple utilities. While generic proceedings allow for regulatory efficiencies, there is the risk that a collective result will not adequately address individual utility circumstances.

As discussed in the "Regulatory Process" section, the Alberta Court of Appeal dismissed the appeals of the Utilities with respect to utility asset dispositions. Now, the Corporation is exposed to the risk that any unrecovered cost of assets subsequently deemed by the AUC to have been subject to an extraordinary retirement will not be recoverable from customers. Currently, the Corporation has no asset retirements considered to be extraordinary.

As an owner of an electricity distribution network under the EUA, the Corporation is required to act, or to authorize a substitute party to act, as a provider of electricity services, including the sale of electricity, to eligible customers under a regulated rate and to appoint a retailer as default supplier to provide electricity services to customers otherwise unable to obtain electricity services. In order to remain solely a distribution utility, the Corporation appointed EPCOR as its regulated rate provider. As a result of this appointment, EPCOR assumed all of the Corporation's rights and obligations in respect of these services. In the unlikely event that EPCOR is unable or unwilling to act as regulated rate provider or as default supplier, and no other party is willing to act as regulated rate provider or as default supplier, the Corporation would be required under the EUA to act as a provider of electricity services to eligible customers under a regulated rate or to provide electricity services to customers otherwise unable to obtain electricity services. If the Corporation could not secure outsourcing for these functions, the Corporation would need to administer these retail responsibilities by adding necessary staff, facilities and/or equipment.

LOSS OF SERVICE AREAS

The Corporation serves customers residing within various municipalities throughout its service areas. From time to time, municipal governments in Alberta give consideration to creating their own electric distribution utilities by purchasing the assets of the Corporation located within their municipal boundaries. Upon the termination of, or in the absence of, a franchise agreement, a municipality has the right, subject to AUC approval, to purchase the Corporation's assets within its municipal boundaries pursuant to the Municipal Government Act with the price to be as agreed to by the Corporation and the municipality, failing which such price is to be determined by the AUC.

Additionally, under the HEEA, if a municipality that owns an electric distribution system expands its boundaries, the municipality can acquire the Corporation's assets in the annexed area. In such circumstances, the HEEA provides that the AUC may determine that the municipality should pay compensation to the Corporation for any facilities transferred on the basis of replacement cost less depreciation. Given the historical population and economic growth of Alberta and its municipalities, the Corporation is affected by transactions of this type from time to time.

Within certain portions of the Corporation's service territory, REAs have been granted by the AUC the right to provide electric distribution service to their eligible members. Members eligible to receive electric distribution service from an REA are those who meet the specific eligibility criteria defined in the integrated operating agreements between the Corporation and the REA. In general, this eligibility criteria has limited the provision of service to customers whose land is used for agricultural activity or as a rural estate property. This historical arrangement has been challenged by some self-operating REAs that are seeking to expand their services to a broader range of customers within the service area that overlaps that of the Corporation. The Corporation is actively resisting these efforts of these self-operated REAs, as it believes the legislative scheme in Alberta does not support this type of competition between the regulated utility and these small rural electricity cooperatives. There is a risk that the efforts of these self-operating REAs to expand their services to a broader range of customers could increase their ability to serve customers in competition with the Corporation.

The consequence to the Corporation of a municipality purchasing its distribution assets or an REA serving more customers in its service territory would be an erosion of its rate base, which would reduce the capital upon which the Corporation could earn a regulated return. A significant reduction of rate base could have a material adverse effect on the Corporation's financial position.

POLITICAL RISK

The regulatory framework under which the Corporation operates is impacted by significant shifts in government policy and/or changes in government, which creates uncertainty about public policy priorities and directions, particularly around electricity and environmental issues. The regulations that govern the competitive wholesale and retail electricity markets in Alberta continue to evolve and the extent to which the Government of Alberta may participate in, and make adjustments to, the regulations cannot be foreseen.

If significant changes were to occur in these regulations it could adversely affect the ability of the Corporation to recover its costs or to earn a reasonable return on its capital.

ECONOMIC CONDITIONS

Alberta's economy is impacted by a number of factors including the level of oil and gas activity in the province, which is influenced by the market prices of oil and gas. A general and extended decline in Alberta's economy, or in the Corporation's service areas in particular, would be expected to have the effect of reducing requests for electricity services over time. Significantly reduced requests for services in the Corporation's service areas could materially reduce the capital spending forecast, specifically related to customer growth, externally driven and AESO contributions. A reduction in capital spending would, in turn, affect the Corporation's rate base, earnings growth and related revenues from customers.

ENVIRONMENTAL RISKS

The Corporation is subject to numerous laws, regulations and guidelines governing the generation, management, storage, transportation, recycling and disposal of hazardous substances and other waste materials, and otherwise relating to the protection of the environment. Environmental damages and associated costs could arise due to a variety of events, including the impact of severe weather on the Corporation's facilities, human error or misconduct, or equipment failure. Costs arising from compliance with such environmental laws, regulations and guidelines may become material to the Corporation. In addition, the process of obtaining environmental permits and approvals, including any necessary environmental assessments, can be lengthy, contentious and expensive. The Corporation would seek to recover in customer rates the costs associated with environmental protection, compliance and damage; however, there is no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs may have a material adverse effect on the Corporation's results of operations, cash flow and financial position.

The Corporation is also subject to the risk of contamination of air, soil and water primarily related to the use and/or disposal of petroleum-based products, mainly transformer and lubricating oil, in the Corporation's day-to-day operating and maintenance activities. Contamination typically occurs through the accidental release of transformer or lubricating oils either through human error or equipment failure. The Corporation could be found to be responsible for remediation of contaminated properties, whether or not such contamination was actually caused by the Corporation. Environmental laws make owners, operators and senior management subject to prosecution or administrative action for breaches of environmental laws, including the failure to obtain regulatory approvals. Changes in environmental laws governing contamination could lead to significant increases in costs to the Corporation. To identify, mitigate and monitor environmental performance the Corporation has established an Environmental Management System ("EMS"). The Corporation's EMS is consistent with the principles of the International Organization for Standardization 14001 standard. As at December 31, 2015, there were no environmental liabilities recorded in the Corporation's financial statements and there were no unrecorded environmental liabilities known to management.

Electricity distribution facilities have the potential to cause fires mainly as a result of equipment failure, falling trees and lightning strikes to distribution lines or equipment, and other causes. Risks associated with fire damage are related to weather, the extent of forestation and grassland cover, habitation, and third-party facilities located on or near the land on which the facilities are situated. The Corporation may become liable for fire suppression costs, regeneration and timber value costs, and third-party claims in connection with fires on lands on which its facilities are located if it is found that such facilities were the cause of a fire, and such claims, if successful, could be material.

The Corporation has a wildfire agreement with the Government of Alberta, which limits the Corporation's liability for the Crown's forest fire suppression costs in the forest protection area. The agreement allows the Corporation to limit its liability to 25% of the fire suppression costs to a maximum of $100,000 per incident following approval by the Crown of the Corporation's annual wildfire management plan for wildfire prevention. Absent this approval, or work not completed as per the annual wildfire management plan, the

Corporation's liability is limited to 50% of the fire suppression costs to a maximum of $200,000 per incident. The Corporation's wildfire management plan is presented for approval annually, prior to the wildfire season, with the most recent approval being received in March 2015 and effective April 1, 2015. While the Corporation maintains insurance for costs associated with fires, including fire suppression costs and liability for third-party claims, the insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions, and there can be no assurance that the liabilities that may be incurred by the Corporation will be covered by its insurance. For further information, refer to the "Risk Factors – Insurance Coverage Risk" section of this AIF.

Capital Resources and Liquidity

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. Funds generated from operations after payment of expected expenses, including interest payments on any outstanding debt, will not be sufficient to fund the repayment of all outstanding liabilities when due and all anticipated capital expenditures. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including regulatory approval or exemption, the regulatory environment in Alberta, the results of operations and financial position of the Corporation and Fortis, conditions in the capital and bank credit markets, the ratings assigned by rating agencies, and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to fund capital expenditures and repay existing debt.

Operating and Maintenance Risk

The Corporation's distribution assets require maintenance, improvement and replacement. Accordingly, to ensure the continued performance of the physical assets, the Corporation determines expenditures that must be made to maintain and replace the assets. The Corporation could experience service disruptions and increased costs if it is unable to maintain its asset base. The inability to obtain AUC approval to include in rates the capital expenditures that the Corporation believes are necessary to maintain, improve and replace its distribution assets, the failure by the Corporation to properly implement or complete approved expenditure programs, or the occurrence of significant unforeseen equipment failures despite the maintenance program could have a material adverse effect on the Corporation.

The Corporation is responsible for operating and maintaining its assets in a safe manner, including the development and/or application of appropriate standards, processes and procedures to ensure the safety of the Corporation's employees, contractors, and the general public. The failure to do so may disrupt the Corporation's ability to safely distribute electricity, which could have a material adverse effect on the Corporation.

The Corporation continually develops expenditure programs and assesses current and future operating and maintenance expenses that will be incurred in the ongoing operation of its distribution assets. Such analysis is based on assumptions as to costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters which are uncertain. If actual costs exceed AUC approved expenditures, it is uncertain as to whether any additional costs will be approved by the AUC and recovered through rates. The inability to recover these additional costs could have a material adverse effect on the financial condition and results of operations of the Corporation.

Weather

The Corporation's physical assets are exposed to the effects of severe weather conditions and other acts of nature. Although the physical assets have been constructed and are operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. In addition, many of the physical assets are located in remote areas that make it more difficult to perform maintenance and repairs if such assets are damaged. Losses resulting from repair costs and lost revenues could substantially exceed insurance coverage. Furthermore, the Corporation could be subject to claims from its customers for damages caused by the failure to transmit or distribute electricity to them in accordance with the Corporation's contractual obligations.

In the event of a material uninsured loss or liability caused by severe weather conditions or other acts of nature, the Corporation would likely apply to the AUC to recover such losses through rates. However, there can be no assurance that the AUC would approve any such application, in whole or in part. Any major damage to the Corporation's physical assets could result in lost revenues, repair costs and customer claims that are substantial in amount, which could have a material adverse effect on the Corporation.

Information Technology and Cyber-Security Risk

The Corporation's ability to operate effectively is dependent upon developing and maintaining information systems and infrastructure that support the operation of its distribution facilities, provide the electricity market with billing and load settlement information, and support the financial and general operating aspects of the business.

Exposure of the Corporation's information technology systems to external threats poses a risk to the security of these systems and information. Such cyber-security threats include unauthorized access to information technology systems due to hacking, viruses and other causes that can result in service disruptions, system failures and the disclosure, deliberate or inadvertent, of confidential business and customer information.

The Corporation is required to protect information technology systems, and to safeguard the confidentiality of employee and customer information in order to operate effectively and to comply with regulatory and legal requirements. The Corporation has security measures, policies and controls designed to protect and secure the integrity of its information technology systems; however, cyber-security threats frequently change and require ongoing monitoring and detection capabilities. In the event the Corporation's information technology security measures are breached, it could experience service disruptions, property damage, corruption or unavailability of critical data or confidential employee and customer information. If the breach is material in nature it could adversely affect the financial performance of the Corporation and its reputation and standing with customers and the regulator, and expose it to claims of third party damage, all of which could adversely affect the Corporation if the situation is not resolved in a timely manner, or if the financial impact of such adverse effects is not alleviated through insurance policies or through recovery from customers in future rates.

Insurance Coverage Risk

The Corporation maintains insurance coverage at all times with respect to certain potential liabilities and the accidental loss of value of certain of its assets, in amounts and with such insurers, as it considers appropriate, taking into account relevant factors, including the practices of owners of similar assets and operations. However, the Corporation's distribution assets are not covered by insurance, as is customary in North America, as the coverage is not readily available nor is the cost of the coverage considered economically viable.

It is anticipated that existing insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available on terms as favourable as the Corporation's existing arrangements, or that insurance companies will meet their obligation to pay claims. Further, there can be no assurance that available insurance will cover all losses or liabilities that may arise in the conduct of the Corporation's business. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by the Corporation, or a claim that falls within a significant self-insured retention could have a material adverse effect on the Corporation's results of operations, cash flow, and financial position.

In the event of a material uninsured loss or liability, the Corporation would likely apply to the AUC to recover the loss or liability through increased rates. However, there can be no assurance that the AUC would approve any such application, in whole or in part. The inability to recover these additional costs could have a material adverse effect on the Corporation's results of operations, cash flow and financial position.

PERMITS AND RIGHTS-OF-WAY

The acquisition, ownership and operation of distribution assets requires numerous permits, approvals and certificates from federal, provincial and municipal government agencies and from First Nations. The Corporation may not be able to obtain or maintain all required approvals. If there is a delay in obtaining any required approval, or if the Corporation fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the operation of its assets and the distribution of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation.

It is frequently necessary for portions of the Corporation's power lines to cross certain private and public lands. In those cases, the Corporation must secure permission to cross such lands through easements or rights-of-way. The inability to secure such easements or rights-of-way could increase the costs to provide distribution service beyond amounts forecast in customer rates.

Certain of the Corporation's distribution assets may be located on land that is not known to be deeded and for which it has not acquired appropriate rights. In addition, the Corporation has distribution assets on First Nations' lands, for which access permits are held by TransAlta. In order for the Corporation to acquire these access permits, both the individual First Nations and the Department of Indigenous and Northern Affairs Canada must grant approval. The Corporation may not be able to acquire the access permits from TransAlta and may be unable to negotiate land usage agreements with property owners or, if negotiated, such agreements may be on terms that are less than favourable to the Corporation and, therefore, may have a material adverse effect on the Corporation.

LABOUR RELATIONS

Approximately 80% of the employees of the Corporation are members of the UUWA. The Corporation's four-year Collective Agreement with the UUWA expires on December 31, 2017. The Corporation considers its relationships with the UUWA to be satisfactory but there can be no assurance that current relations will continue in future negotiations or that the terms under the new agreement will, upon its expiry, be renewed at all or on terms favourable to the Corporation. The inability to maintain a collective bargaining agreement on acceptable terms could result in increased labour costs or costs associated with service interruptions arising from labour disputes not provided for in customer rates, which could have a material adverse effect on the Corporation's results of operations, cash flow and financial position.

HUMAN RESOURCES

The Corporation's ability to deliver service in a cost-effective manner is dependent on the ability of the Corporation to attract, develop and retain a skilled workforce. Given the demographics of the Corporation's workforce, there will likely be an increase in retirement from the critical workforce segments in future years. Meeting the capital program and customer expectations could be challenging if the Corporation does not continue to attract and retain qualified personnel.

DIRECTORS AND OFFICERS

DIRECTORS

The following table sets out the name, municipality of residence, term of office and number of Fortis shares beneficially owned, directly or indirectly, or controlled or directed, for each of the directors of FortisAlberta as at December 31, 2015. Also included are principal occupations within the five preceding years from the date hereof. All directors are elected annually.

Name and Municipality of Residence	Director Since	Fortis shares beneficially owned, directly or indirectly, or controlled or directed	Principal Occupation or Employment for Past five years	
Tracey C. Ball Edmonton, AB	2011	4,950 shares	***Corporate Director*** *September 2014 to present*	
			Canadian Western Bank *(A chartered bank, insurance and trust company)* *June 2004 to September 2014*	Executive Vice President and Chief Financial Officer
Phonse Delaney Calgary, AB	2014	53,258 shares	***FortisAlberta*** *June 30, 2014 to present*	President and Chief Executive Officer
			FortisAlberta *May 2011 to June 29, 2014*	Executive Vice President, Operations, Engineering and Information Technology
			FortisAlberta *June 2008 to May 2011*	Vice President, Operations and Engineering
Bill H. Giebelhaus Sherwood Park, AB	2013	1,200 shares	***Clark Builders*** *(An international construction services company)* *1978 to present*	Chief Operating Officer
Douglas J. Haughey Calgary, AB	2010	10,000 shares	***Corporate Director*** *June 1, 2013 to present*	
			The Churchill Corporation *(A construction and industrial services company)* *August 2012 to June 1, 2013*	Chief Executive Officer
			Provident Energy Ltd. *(A midstream natural gas liquids (NGL) company)* *April 2010 to April 2012*	President and Chief Executive Officer
			Windshift Capital Corp. *(An energy infrastructure investment company)* *December 2008 to April 2010*	President and Chief Executive Officer

Name and Municipality of Residence	Director Since	Fortis shares beneficially owned, directly or indirectly, or controlled or directed	Principal Occupation or Employment for Past five years	
Susan M. MacKenzie Calgary, AB	2014	1,250 shares	***Corporate Director*** *2011 to present* ***Independent Consultant*** *September 2010 to present* ***Oilsands Quest Inc.*** *(An independent development-stage company)* *April 2010 to September 2010*	 Chief Operating Officer
Barry V. Perry St. John's, NL	2011	175, 965.95 shares	***Fortis Inc.*** *(A gas and electric distribution utility holding company)* *January 1, 2015 to present* ***Fortis Inc.*** *(A gas and electric distribution utility holding company)* *June 30, 2014 to December 31, 2014* ***Fortis Inc.*** *(A gas and electric distribution utility holding company)* *January 2004 to June 30, 2014*	President and Chief Executive Officer President Vice President, Finance and Chief Financial Officer
Roger D. Thomas Calgary, AB	2013	1,500 shares	***Corporate Director*** *July, 2009 to present*	
Donald J. (Jim) Turner Cochrane, AB	2011	Nil	***Rancher*** *1978 to present* ***Natural Resources Conservation Board*** *(A regulatory agency)* *July 2002 to November 2015*	Rancher Board Member

Name and Municipality of Residence	**Director Since**	**Fortis shares beneficially owned, directly or indirectly, or controlled or directed**	**Principal Occupation or Employment for Past five years**	
Michael Mulcahy Kelowna, BC	2015	43,706 shares	***FortisBC Energy Inc.*** *(A gas distribution utility company)* *August 2014 to present*	President and Chief Executive Officer
			November 2011 to August 2014	Executive Vice President, Human Resources, Customer & Corporate Services
			For more than five years prior to November 2011	Executive Vice President, Customer & Corporate Services
			FortisBC Inc. *(An electric utility company)* *August 2014 to present*	President and Chief Executive Officer
			November 2011 to August 2014	Executive Vice President, Human Resources, Customer & Corporate Services
			For more than five years prior to November 2011	Executive Vice President, Customer & Corporate Services
			FortisBC Holdings Inc. *(An integrated energy and gas utility company)* *July 2015 to present*	President and Chief Executive Officer
Shelley Ralston Red Deer County, AB	2015	Nil	***Xerox Canada*** *(A document technology and services company)* *March 2010 to present*	Director of Talent and Culture

OFFICERS

The following table sets out the name and municipality of residence of each of the officers of FortisAlberta as at December 31, 2015 and indicates the office(s) held and principal occupations within the five preceding years from the date hereof.

Name and Municipality of Residence	Office Held	Principal Occupation or Employment for Past five years	
Phonse Delaney Calgary, AB Canada	President and Chief Executive Officer	***FortisAlberta*** *June 2014 to present*	President and Chief Executive Officer
		FortisAlberta *May 2011 to June 2014*	Executive Vice President, Operations, Engineering and Information Technology
		FortisAlberta *June 2008 to May 2011*	Vice President, Operations and Engineering
Janine Sullivan Calgary, AB Canada	Vice President, Finance and Chief Financial Officer	***FortisAlberta*** *June 2015 to present*	Vice President, Finance and Chief Financial Officer
		FortisAlberta *September 2006 to June 2015*	Director, Regulatory & Financial Planning
Cam Aplin Calgary, AB Canada	Vice President, Field Operations	***FortisAlberta*** *May 2011 to present*	Vice President, Field Operations
		FortisAlberta *May 2010 to May 2011*	Director, Project Management
		FortisAlberta *January 2008 to May 2010*	Regional Director Operations, North
Karl Bomhof Calgary, AB Canada	Vice President, Corporate Services	***FortisAlberta*** *August 2015 to present*	Vice President, Corporate Services
		FortisAlberta *April 2013 to August 2015*	Vice President, General Counsel and Corporate Secretary
		FortisAlberta *July 2010 to April 2013*	General Counsel and Corporate Secretary
		FortisAlberta *September 2008 to July 2010*	Director, Human Resources
Mike Pashak Calgary, AB Canada	Vice President, Customer Service	***FortisAlberta*** *February 2012 to present*	Vice President, Customer Service
		FortisAlberta *September 2004 to February 2012*	Director, Operations
Curtis Eck Calgary, AB Canada	Vice President, Engineering	***FortisAlberta*** *July 2014 to present*	Vice President, Engineering
		FortisAlberta *April 2014 to June 2014*	Director, Engineering
		FortisAlberta *January 2012 to March 2014*	Director, Operations
		Belize Electric Company Limited *July 2011 to December 2011*	Manager, Operations
		Belize Electricity Limited *October 2007 to June 2011*	Vice President, Customer Care and Operations

Name and Municipality of Residence	Office Held	Principal Occupation or Employment for Past five years	
Rob Tisdale Calgary, AB Canada	Vice President, Customer and Information Services	***FortisAlberta*** *June 2015 to present*	Vice President, Customer and Information Services
		FortisAlberta *July 2014 to June 2015*	Vice President, Information Technology
		FortisAlberta *December 2008 to July 2014*	Director, Information Technology

The directors and officers of FortisAlberta, as a group, do not beneficially own, directly or indirectly, or exercise control or direction over any issued and outstanding shares of the Corporation. The directors and officers of FortisAlberta, as a group, beneficially own, directly or indirectly, or exercise control or direction over less than 1% of the issued and outstanding Fortis shares.

COMMITTEES

The Board has two standing committees: the Audit, Risk and Environment Committee and the Governance and Human Resources Committee.

***Audit, Risk and Environment Committee* –** The Audit, Risk and Environment Committee's mandate is to assist the Board in discharging its fiduciary duties to the Corporation relating to financial reporting and disclosure. The Committee is charged with: (i) reviewing all published financial statements and reports that require Board approval; (ii) the operation of the pension plan and the financial performance of the pension plan assets; (iii) the adequacy of the Corporation's internal control systems, and corporate policies relating to code of conduct; (iv) the environment and risk/insurance management; and (v) the preservation of assets.

The members of the Audit, Risk and Environment Committee as at December 31, 2015 were Tracey Ball (Chair), Douglas Haughey, Roger Thomas, Susan MacKenzie and Michael Mulcahy.

***Governance and Human Resources Committee* –** The GHR Committee's mandate is to review, report and make recommendations to the Board on: (i) corporate governance policies; (ii) compensation, benefits and perquisites of senior officers of the Corporation; (iii) the respective duties of the Chair of the Board, the Chief Executive Officer, the Board and other senior officers of the Corporation; (iv) assessing the effectiveness of the Board and proposing new nominees for election or appointment to the Board; and (v) reporting to the Corporation's shareholders regarding corporate governance and executive compensation matters.

The Corporation recognizes the importance of appointing knowledgeable and experienced individuals to the GHR Committee. Committee composition includes members that have the necessary background and skills to provide effective oversight of corporate governance and executive compensation, including adherence with sound risk management principles. All Committee members have significant senior leadership experience. More specifically, Mr. Giebelhaus, Mr. Perry and Mr. Mulcahy each have direct operational or functional experience overseeing compensation at organizations similar in complexity to FortisAlberta.

In fulfilling its duties and responsibilities with respect to executive compensation, the GHR Committee seeks periodic input, advice, and recommendations from various sources, including the Board, executive officers, and the executive compensation consultants. The GHR Committee retains discretion in its executive compensation decisions and is not bound by the input, advice, or recommendations received from the external independent consultants.

The members of the GHR Committee as at December 31, 2015 were Bill Giebelhaus (Chair), Barry Perry, Donald (Jim) Turner, and Shelley Ralston.

CONFLICTS OF INTEREST

The directors and officers of Corporation are engaged in, and will continue to engage in, other activities in the industries in which the Corporation operates and, as a result of these and other activities, the directors and officers of the Corporation may become subject to conflicts of interest. The *ABCA* provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his or her interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the *ABCA*. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the *ABCA*. As at the date hereof, the Corporation is not aware of any existing or potential material conflicts of interest between the Corporation and any director or officer of the Corporation.

REPORT ON EXECUTIVE COMPENSATION

It is the responsibility of the GHR Committee to review, recommend and administer the compensation policies in respect of the Corporation's executive officers. The GHR Committee's recommendations as to annual base salary, short-term incentives, grants under the Performance Share Unit (PSU) Plan and grants under the Restricted Share Unit (RSU) Plan are submitted to the Board of the Corporation for approval. Proposed grants of stock options to the Corporation's executive officers under the Stock Option Plan of Fortis are submitted by the Corporation's Board to the Human Resources Committee of the Board of Directors of Fortis for approval.

The Corporation's executive compensation policies are designed to provide competitive levels of compensation, a significant portion of which is dependent upon individual and corporate performance. The GHR Committee recognizes the need to provide a total compensation package that will attract and retain qualified and experienced executive officers as well as align the compensation level of each executive officer to that officer's level of responsibility. The GHR Committee regularly reviews survey data gathered by independent professional compensation consultants in respect of a wide group of comparable Canadian commercial industrial companies.

The Corporation has a policy of compensating executive officers at approximately the median, 50th percentile of comparable Canadian commercial industrial companies. For clarity, this reference group does not include organizations in the financial service and broader public sectors, and includes organizations from the energy, mining and manufacturing sectors. Annually, the GHR Committee uses the compensation data from this reference group to compare each executive officer to corresponding positions within the reference group. This framework serves as a guide for the GHR Committee's deliberations. The actual total compensation or amount of each compensation component for an individual executive officer may be more or less than the median amount.

Total annual compensation for the executive officers is composed primarily of the following components:

- annual base salary;
- an annual incentive plan that provides the opportunity to earn a cash bonus;
- share-based awards that provide the opportunity to earn cash at the end of a three-year period (RSU Plan);
- share-based awards that provide the opportunity to earn cash based on performance metrics at the end of a three-year period (PSU Plan);
- options-based awards to purchase Common Shares of Fortis; and
- pension arrangements.

Total annual compensation for the executive officers involves a significant proportion that is at-risk due to the use of short-term, medium-term and long-term incentive components. In 2015, approximately 60% of the President and Chief Executive Officer's total annual compensation, 45% of the Vice President, Finance and Chief Financial Officer, 40% of the Vice President, Corporate Services and approximately 40% of the other Vice Presidents' total annual compensation was to be at-risk. Total annual compensation includes both the cash compensation paid to the executive officers in the year and the estimated compensation for the medium and long-term incentive components. The estimated value of the option-based long-term incentive component is determined using the Black-Scholes pricing model at the date of grant of options.

The executive compensation regime is structured in a manner that recognizes the greater ability of the President and Chief Executive Officer to affect corporate performance by making a greater portion of that individual's compensation dependent upon corporate performance.

COMPENSATION REVIEW FRAMEWORK

Annual Review

FortisAlberta monitors, reviews, and evaluates its executive compensation program annually to ensure that it provides reasonable compensation ranges at appropriate levels and remains competitive and effective.

As part of the annual review process, the Corporation engages Hay Group, its primary compensation consultant, to provide comparative analyses of market compensation data reflecting the pay levels and practices of Canadian commercial industrial companies. Using this data, a detailed review of FortisAlberta's competitive compensation positioning against its peer group is undertaken. Hay Group provides Fortis and its subsidiaries' management preliminary recommendations on the basis of pay competitiveness, emerging market trends and best practices. The Corporation also receives general market and job specific compensation data from Towers Watson for its officers, as well as recommendations from Towers Watson on executive compensation.

Management then takes into account the corporate performance against pre-determined objectives and together with the Chief Executive Officer, recommends a set of new performance objectives for the following year. Individual performance reviews, incentive award payouts, and compensation adjustments, if any, are also determined at this stage. The Chief Executive Officer does not make recommendations to the GHR Committee with respect to his own compensation.

In the final step, the GHR Committee reviews the recommendations set forward by management and the compensation consultants prior to seeking approval from the Board regarding the current year's compensation payouts and the succeeding year's performance objectives. The GHR Committee and the Board may exercise discretion when making compensation decisions in appropriate circumstances and make deviations from the prescribed incentive award formulas, if necessary.

COMPENSATION RISK CONSIDERATIONS

Risk is considered throughout FortisAlberta's annual compensation review processes to ensure that effective control systems are in place to mitigate the perceived risks inherent in the compensation structure. The GHR Committee has identified the following external and internal risk controls within the Corporation's executive compensation program:

External Compensation Risk Mitigating Controls

With respect to the Corporation's regulatory environment, there exists an extensive regulatory framework as well as reporting and approval mechanisms. FortisAlberta's ongoing compliance with existing regulatory requirements and emerging best practices ensure that risks within its compensation program are being continually monitored and controlled.

Internal Compensation Risk Mitigating Controls

The compensation program is designed such that risk is taken into consideration throughout the compensation review process:

Annual Salary	Annual salaries are targeted approximately at market median levels and, as such, do not encourage excessive risk-taking.
Short-Term Incentives	*Board Discretion:* The GHR Committee retains the discretion to make upward or downward adjustments to the prescribed incentive payout formulas and actual payouts based on its assessment of the risk assumed to generate financial results, circumstances that may have influenced individual performance, as well as external factors that may have impacted the Corporation's financial performance. *Award Cap:* Short-term incentives awarded to executives are capped at 150% of target; however, the GHR Committee retains the discretion to award up to a maximum of 200% of target in recognition of individual response to exceptional challenges or opportunities and may make deviations in appropriate circumstances.
Medium and Long-Term Incentives	*Share and Option Based Awards:* PSUs are awarded to executives to emphasize their ability to affect overall corporate performance. The deferred component of PSUs, RSUs and Stock Options provides for an appropriate alignment between incentive payouts and the timeline of risks for the Corporation. *Stock Ownership Requirements:* Effective January 1, 2015, executive officers are required to beneficially own, directly or indirectly, a minimum number of Fortis shares based on position. For the President and Chief Executive Officer, the minimum shareholding amount is two times their annual base salary, and for all other executives the minimum amount is equal to their annual salary. Minimum share ownership must be achieved within five years of appointment to an eligible position. Any executive officer that fails to comply with share ownership requirements will not be eligible for future equity-based compensation awards until the later of (i) the end of the one year period commencing on the date of such failure or (ii) such time as the executive officer is again in compliance with the share ownership policy. *Anti-Hedging Policy:* The Corporation's executive officers are not permitted to hedge against declines in the market value of equity securities received as compensation.

COMPENSATION CONSULTANTS

As noted above, the Corporation currently engages Hay Group as its primary consultant on matters relating to executive compensation. Hay Group has served as the primary external independent advisor since 2004.

The Corporation also engages Towers Watson to consult on certain compensation issues and to perform certain administrative functions related the Corporation's compensation program. The Corporation also engages Towers Watson for compensation consulting services related to regulatory rate applications and submissions. The Corporation has engaged Towers Watson for such services since 2006.

The following table sets forth information concerning fees paid by the Corporation to compensation consultants in 2014 and 2015:

Type of Fee by Consultant	**2015 Consultant Fees ($)**	**2014 Consultant Fees ($)**
Executive Compensation Consulting (1)	30,521	2,016
All Other Fees	0	0

(1) Amounts are inclusive of payments to the Hay Group of $30,521 (2015) and $2,016 (2014).

The elements of executive compensation, for which all executive officers are eligible, and their respective compensation objectives are set out below:

Compensation Element	**Description**	**Compensation Objectives**
Annual Base Salary & Annual Incentive		
Annual Base Salary	- Salary is a market-competitive, fixed level of compensation.	- Retain and attract highly qualified leaders - Motivates strong business performance
Annual Incentive	- Combined with salary, the target level of annual incentive provides a market-competitive total cash opportunity. - Annual incentive payout depends on individual and corporate performance.	- Retain and attract highly qualified leaders - Motivate strong business performance through achievement of short-term objectives - Simple to communicate and administer - Compensation dependent on individual and corporate performance

Mid-term Equity Based Incentive		
Share-Based Awards (PSUs)	- Incentive is based on Fortis' performance over a three-year period against predetermined measures. - The amount of annual grant is determined as a specified percentage of the participant's annual base salary divided by the volume-weighted average price of Fortis' common shares for the five trading days immediately preceding the date of the grant. The grant date is January 1st of each year. - Cash payout upon completion of the three-year performance period.	- Align executive and shareholder interests - Attract and retain highly qualified leaders - Encourage strong long-term business performance - Balance compensation for short and long-term strategic results - Compensation dependent on corporate performance - Simple to communicate and administer
Share-Based Awards(RSUs)	- The amount of annual grant is determined as specified percentage of the participant's annual base salary divided by the volume-weighted average price of Fortis' common shares for the five trading days immediately preceding the date of the grant. The grant date is January 1st of each year. - Cash payout upon completion of the three-year period.	- Align executive and shareholder interests - Attract and retain highly qualified leaders - Balance compensation for short and long-term strategic results - Simple to communicate and administer
Stock Options		
Option-based Awards	- Annual equity grants are made in the form of stock options to purchase common shares of Fortis. - Beginning in 2015, the amount of annual grant is determined as a specified percentage of the participant's annual base salary divided by the binomial valuation of Fortis' share price. - Prior to 2015, the amount of annual grant was dependent on the level of the executive and any applicable share ownership guideline. - Options vest over a 4 year period and expire after 7 years for options issued prior to 2006 and 10 years for options issued after 2012.	- Align executive and shareholder interests - Attract and retain highly qualified leaders - Motivate strong long-term business performance - Align long-term interests of officers with those of Fortis shareholders - Balance compensation for short and long-term strategic results. - Simple to communicate and administer
Pension Arrangements		
Registered Retirement Savings Plan	- Contribution to a registered retirement savings plan equal to 6.5% of a participant's annual base salary and annual incentive which is matched by the participant up to the maximum annual contribution limit allowed by the Canada Revenue Agency.	- Retain highly qualified leaders. - Simple to communicate and administer - Motivates strong business performance - Balance compensation for short-, medium- and long-term strategic results.
Defined Contribution Pension Plan (DC SERP)	- Accrual of 13% of annual base salary and annual incentive in excess of the allowed Canada Revenue Agency annual limit. - At time of retirement, paid in one lump sum or in equal payments over a period not greater than 15 years.	- Retain highly qualified leaders. - Simple to communicate and administer

Annual Base Salary

Base salaries for the executive officers are established annually by reference to the range of salaries paid generally by comparable Canadian commercial industrial companies and are targeted to the median of the comparator group.

Annual Incentive Plan

The executive officers of the Corporation participate in a short-term incentive plan which provides for annual cash bonuses. The amount of each bonus is determined by way of an annual assessment of corporate and personal performance in relation to targets approved by the Board and is expressed as a percentage of each executive officer's base salary. The Corporation's annual net earnings must reach a minimum threshold level before any payout is made under the plan. For competitive reasons the minimum threshold level is not disclosed.

Corporate performance is determined with reference to the performance of the Corporation relative to weighted targets in respect of customer satisfaction, productivity, reliability and safety. For 2015, there were four corporate targets: (i) a customer satisfaction index as measured by quarterly customer surveys (15% weighting); (ii) a measure of annual net income (40% weighting); (iii) electrical system average interruption duration index of 2.05 calculated in accordance with national industry standards (15% weighting); (iv) an all injury frequency rate of 1.18 calculated in accordance with national industry standards (30% weighting).

Personal performance is determined with reference to individual contribution to corporate objectives. For the President and Chief Executive Officer, 70% of the annual cash bonus is based on corporate targets and 30% is based upon personal targets. For each of the other executive officers, 50% of the annual cash bonus is based upon corporate targets and 50% is based upon personal targets.

In 2015, the target cash bonus, which is payable upon the achievement of 100% of corporate and personal targets, was 60% of base salary for the President and Chief Executive Officer, 40% for Vice President, Finance and Chief Financial Officer, 40% for Vice President, Corporate Services and 35% of base salary for all other Vice Presidents. At the discretion of the Board, executive officers may be awarded up to an additional 50 per cent of target incentive pay in recognition of exceptional performance contributions.

Medium- and Long-term Incentive Plan

Effective January 1, 2015, the Corporation changed its medium and long-term incentive granting practices to provide a target long-term incentive (“LTI”) value, expressed as a percentage of base salary, which is then granted in pre-determined proportions of PSUs, RSUs and stock options. The LTI value for the President and Chief Executive Officer is 85% of his base salary. The Vice President, Finance and Chief Financial Officer granted LTI having a market value at the time of grant equal to 40% of his base salary. Each of the other named executive officers was granted LTI having a market value at the time of grant equal to 30% of their base salary. The LTI value is granted to all the executive officers through a combination of 50% in PSUs, 25% in RSUs and 25% in Stock Options.

Share-Based Awards

PSUs: Effective January 1, 2013, the Corporation adopted a PSU plan (“2013 PSU Plan”). Each PSU represents a unit with an underlying value equivalent to the value of a Fortis common share. Grants of PSUs are determined as a specified percentage of the participant’s annual base salary divided by the volume-weighted average trading price of Fortis common shares for the five trading days immediately preceding the date of the grant. Notional dividends are assumed to accrue to the holder of the PSU and to be reinvested on the quarterly dividend payment dates of the common shares. Payment will be made three years after the grant in an amount of 0-120% of the number of PSUs accumulated, including reinvestment of notional dividends, times the volume-weighted average trading price of Fortis common shares, as determined appropriate by the GHR Committee upon measurement of Fortis' performance, as compared to a comparable group of utility holding companies, over such three-year period against predetermined measures. Previous grants of PSUs are not taken into consideration when new PSUs are awarded. Effective January 1, 2015, the Corporation adopted a 2015 PSU Plan. The terms of the plan are largely consistent with the 2013 PSU Plan, with modifications related to the criteria by which Fortis' performance is measured and the maximum payment amount extended to 150%.

RSUs: Effective January 1, 2015, the Corporation adopted a RSU plan. Each RSU represents a unit with an underlying value equivalent to the value of a Fortis common share. Grants of RSUs and the accumulation of notional dividends are consistent with the PSU plan. Payment will be made three years after the grant in an amount of the number of RSUs accumulated, including reinvestment of notional dividends, times the volume-weighted average trading price of Fortis common shares.

Option-Based Awards

Long-term incentives take the form of grants of options under a Fortis Stock Option Plan, pursuant to which options to acquire Fortis common shares may be granted to executive officers, in order to encourage increased share ownership to participants as an incentive to maximize shareholder value. Beginning in 2015, the amount of annual grant is determined as a specified percentage of the participant's annual base salary divided by the binomial valuation of Fortis' share price. In March 2015, the President and Chief Executive Officer of the Corporation was granted options entitling him to purchase that number of common shares of Fortis having a market value at the time of grant equal to 21.25% of his base salary. The Vice President, Finance and Chief Financial Officer entitling his to purchase that number of common shares of Fortis having a market value at the time of grant equal to 10% of his base salary. Each of the other executive officers was granted options entitling the executive to purchase that number of common shares having a market value at the time of grant equal to 7.5% of such executive's base salary. Previous grants of stock options are not taken into consideration when new options are awarded.

The stock option plan in place for 2011 and prior years was the 2006 Stock Option Plan which became effective May 2nd, 2006. Under this plan, options are exercisable for seven years from the date of the option grant subject to a vesting requirement whereby options vest at a rate of 25% per year over the four year period commencing on the first anniversary of the date of grant.

Pension Arrangements

Executive officers also participate in various pension arrangements as outlined on pages 37 and 38 of this Annual Information Form.

The GHR Committee believes that the Corporation's compensation regime appropriately takes into account the performance of the Corporation and the contribution of the President and Chief Executive Officer and other executive officers of the Corporation toward that performance.

COMPENSATION OF NAMED EXECUTIVE OFFICERS

The following table sets forth information concerning the annual and long-term compensation earned for services rendered in respect of each of the individuals who were, for the year ended December 31, 2015, the President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer and the Corporation's one other most highly paid executive officers.

Name and Principal Position	Year	Salary ($)	Annual Incentive Plan ($) [1]	All Other Compensation ($) [2, 3]	Total Compensation ($)
Phonse Delaney [4] President and Chief Executive Officer	2015	395,000	355,000	101,106	851,106
	2014	354,600	233,500	93,017	681,117
Ian Lorimer [5] Vice President, Finance and Chief Financial Officer	2015	110,913	61,400	87,558	259,871
	2014	250,000	125,800	71,491	447,291
Janine Sullivan [6], [7] Vice President, Finance and Chief Financial Officer	2015	214,515	130,000	56,534	401,049
	2014	184,350	66,825	46,834	298,009
Karl Bomhof [8] Vice President, Corporate Services	2015	250,000	137,000	46,578	433,578
	2014	221,500	132,900	53,748	408,148

Footnotes to Compensation Table:

(1) Represents amounts earned under the Corporation's short-term incentive program and any other discretionary award in the form of a cash bonus. See REPORT ON EXECUTIVE COMPENSATION – Annual Incentive Plan.

(2) Represents all compensation paid or accrued to named executive officers relating to the defined contribution supplemental employee retirement plan. See REPORT ON EXECUTIVE COMPENSATION – Pension Arrangements.

(3) Includes (i) the dollar value on imputed interest benefits from loans provided to the named executive officers and the dollar value of insurance premiums paid by the Corporation with respect to term life insurance; (ii) 10% match by the Corporation on contributions made to purchase Fortis shares through the Employee Share Purchase Plan; (iii) payment in lieu of vacation; (iv) contributions made by the Corporation to RRSP and SERP for the named executive officers. Perquisites for Ms. Sullivan are disclosed for 2014 and 2015 as they exceed the minimum disclosure threshold of 10% of the total annual salary of the named executive officers. Perquisites for other named executive officers are not disclosed as it is less than the threshold of 10% of the total annual salary.

(4) All of Mr. Delaney's compensation is received in his capacity as an officer of the Corporation. Mr. Delaney is not compensated for also serving as a director of the Corporation while he was President and CEO.

(5) Mr. Lorimer resigned as Vice President Finance and CFO effective May 30, 2015. His compensation for 2015 reflects the time he was employed as the Corporation's Vice President, Finance and Chief Financial Officer.

(6) Effective June 1, 2015, Ms. Sullivan was appointed Vice President, Finance and Chief Financial Officer.

(7) Ms. Sullivan's base salary effective January 1, 2015 was $190,850 and was increased to $232,000 effective June 1, 2015.

(8) Effective August 1, 2015, Mr. Bomhof was appointed Vice President, Corporate Services. Karl Bomhof's base salary effective January 1, 2015 was $233,000 and was increased to $250,000 on August 1, 2015.

COMPENSATION SECURITIES

The following table sets forth details of the securities granted to each named executive officer in the most recently completed financial year.

Name & Position	Type of compensation security	Number of compensation securities (1)	Date of grant	Issue or exercise price(2) ($)	Closing price of underlying security on date of grant (3) ($)	Closing price of underlying security at year end (3) ($)	Expiry Date (4)
Phonse Delaney President and Chief Executive Officer	Stock Options	21,388	2 Mar 2015	39.25	39.06	37.41	2 March 2025
	PSU	4,316	1 Jan 2015	38.90	39.22	37.41	31 Dec 2017
	RSU	2,158	1 Jan 2015	38.90	39.22	37.41	31 Dec 2017
Ian Lorimer (5) Vice President, Finance and Chief Financial Officer	Stock Options	6,688	2 Mar 2015	39.25	39.06	37.41	2 March 2025
	PSU	1,350	1 Jan 2015	38.90	39.22	37.41	31 Dec 2017
	RSU	675	1 Jan 2015	38.90	39.22	37.41	31 Dec 2017
Janine Sullivan (6) Vice President, Finance and Chief Financial Officer	Stock Options	N/A					
	PSU	N/A					
	RSU	N/A					
Karl Bomhof Vice President, Corporate Services	Stock Options	4,452	2 Mar 2015	39.25	39.06	37.41	2 March 2025
	PSU	898	1 Jan 2015	38.90	39.22	37.41	31 Dec 2017
	RSU	449	1 Jan 2015	38.90	39.22	37.41	31 Dec 2017

(1) Each unit of Stock Option, PSU and RSU are equivalent to one common share of Fortis. The compensation securities granted in 2015 represent less than 1 per cent of the total number of common shares issued and outstanding of Fortis.
(2) The exercise price for Stock Options and issue price for PSUs and RSUs is the volume weighted average price of the common shares of Fortis traded on the Toronto Stock Exchange for the five (5) trading days immediately preceding the date of grant.
(3) Represents the closing price of Fortis Common Shares on the TSX on the applicable dates.
(4) PSUs and RSUs granted in 2015 will be fully vested on December 31, 2017.
(5) Mr. Lorimer resigned as Vice President Finance and CFO effective May 30, 2015.
(6) Effective June 1, 2015, Ms. Sullivan was appointed Vice President, Finance and Chief Financial Officer. Ms. Sullivan did not receive Stock Option, PSUs and RSUs due to her appointment date.

PENSION ARRANGEMENTS

In 2015, the Corporation contributed to an RRSP for all of the named executive officers at an amount equal to 6.5% of their annual base salary, which contributions were matched by the Named Executive Officers up to a maximum RRSP contribution limit of $24,930 as allowed by the Canada Revenue Agency. In 2015, the Corporation contributed $12,465 for each of Mr. Delaney, Mr. Lorimer, Ms. Sullivan and Mr. Bomhof.

All of the named executive officers participate in a non-contributory DC SERP. In 2015, the DC SERP provided for the contribution by the Corporation of an amount equal to 13% of the annual base salary plus annual paid cash bonus of Mr. Delaney, Mr. Lorimer, Ms. Sullivan and Mr. Bomhof in excess of $191,769 to a notional account upon which interest will accrue at the interest rate of a 10-year Government of Canada bond, plus a premium of 0% to 3%, dependent upon years of service.

Prior to joining the Corporation, Mr. Delaney participated in a defined benefit pension plan with Newfoundland Power Inc., an affiliate of the Corporation. To avoid a disincentive to Mr. Delaney's acceptance of employment, the Corporation agreed to compensate him for loss of benefits forfeited upon termination from the Newfoundland Power defined benefit plan. Under the agreement, the Corporation will contribute an amount equivalent to his pension loss to Mr. Delaney's DC SERP after his retirement from the Corporation. This DC SERP benefit payable to Mr. Delaney varies by his age at retirement or termination, starting at nil, increasing in steps to $747,000, and decreasing back to nil. The benefit payable to Mr. Delaney with respect to this payment is required to be paid over a period of ten years or longer in equal monthly installments.

The following table sets forth details of the balances accrued due to the named executive officers pursuant to the DC SERP for the year ended December 31, 2015.

Name and Principal Position	Accumulated Value at Start of Year ($)	Compensatory ($)	Accumulated Value at Year-end ($)
Phonse Delaney President and Chief Executive Officer	462,140	83,824	545,646
Ian Lorimer Vice President, Finance and Chief Financial Officer	134,544	34,632	169,176
Janine Sullivan Vice President, Finance and Chief Financial Officer	43,751	13,422	57,193
Karl Bomhof Vice President, Corporate Services	72,655	27,892	100,547

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

None of the Corporation's officers are indebted to any loan.

TERMINATION OF EMPLOYMENT, CHANGE IN RESPONSIBILITIES AND EMPLOYMENT CONTRACTS

Other than the agreement for Mr. Delaney, disclosed in this document under Pension Arrangements, there are no employment contracts between the Corporation and its named executive officers that provide for payments at, following or in connection with any termination, resignation, retirement, change in control of the Corporation or a change in the named executive officers' responsibilities.

COMPENSATION OF DIRECTORS

The Corporation pays an annual retainer to each of its directors of $25,000. In addition to the annual retainer, each director receives remuneration of $1,250 for each directors' meeting attended, $1,250 for each committee meeting attended, and each director that was not resident in the community in which a meeting is held receives an additional $1,250 of remuneration if they travel to the community to attend the meeting.

The Chairman of the Board is not entitled to receive the annual retainer paid to directors as described above. Instead, the Chairman receives a separate annual retainer of $60,000. The Chairpersons of each Board Committee receive remuneration in addition to the annual retainer paid to directors described above. The Chairperson of the GHR Committee receives an additional annual retainer of $3,000. The Chairperson of the Audit, Risk and Environment Committee receives an additional annual retainer of $6,000.

The directors are also reimbursed for miscellaneous out-of-pocket expenses incurred in carrying out their duties as directors of the Corporation. Mr. Delaney was not paid any remuneration for services rendered in his capacity as a director in accordance with the Corporation's policy of not compensating a director that is also a member of the management of the Corporation. The following table details individual director compensation for 2015.

Name	Annual Retainer ($)	Meeting Fees ($)	All Other Compensation (1) ($)	Total ($)
Tracey C. Ball	31,000	13,750	6,250	51,000
Mary Cameron(2)	7,000	3,750	1,250	12,000
Douglas J. Haughey	60,000	13,750	1,250	75,000
Barry V. Perry	25,000	13,750	3,750	42,500
Donald J. (Jim) Turner	25,000	15,000	1,250	41,250
John C. Walker	12,500	6,250	3,750	22,500
Bill H. Giebelhaus	27,250	15,000	5,000	47,250
Roger D. Thomas	25,000	13,750	1,250	40,000
Susan M. MacKenzie	25,000	12,500	1,250	38,750
Michael Mulcahy (3)	25,000	15,000	5,000	45,000
Shelley Ralston (4)	18,750	12,500	3,750	35,000

Footnotes:

(1) All Other Compensation denotes the director's compensation for travel time to meetings located in a city outside of the location of their primary residence, if applicable.

(2) Ms. Cameron left the Board of Directors effective April 20, 2015.

(3) Mr. Mulcahy joined the Board of Directors effective February 11, 2015.

(4) Ms. Ralston joined the Board of Directors effective April 20, 2015.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, there are no material contracts which have been entered into by the Corporation.

LEGAL PROCEEDINGS

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations, none of which are currently material to the Corporation.

FORWARD-LOOKING INFORMATION

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

The forward-looking information in the Annual Information Form includes, but is not limited to statements regarding: the Corporation's expectation on remaining a regulated electric utility; the Corporation's expectations relating to the conduct, outcome and timing of regulatory hearings and other litigation matters; the Corporation's expectation to generate sufficient cash required to complete planned capital programs from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; and the Corporation's belief that it does not anticipate any difficulties in accessing the required capital on reasonable market terms. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the Corporation's current business plans; the Corporation's understanding of the regulatory environment; the advice provided to the Corporation by its advisors; the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the Corporation's ability to maintain its electricity systems to ensure their continued performance; favourable economic conditions; the level of interest rates; access to capital; maintenance of adequate insurance coverage; the ability to obtain licenses and permits; retention of existing service areas; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: legislative and regulatory developments that could affect costs, revenues and the speed and degree of competition entering the electricity distribution market; loss of service areas; costs associated with environmental compliance and liabilities; costs associated with labour disputes; adverse results from litigation; timing and extent of changes in prevailing interest rates; inflation levels; and weather and general economic conditions in geographic areas where the Corporation operates; results of financing efforts.

All forward-looking information in the Annual Information Form 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.

TRANSFER AGENTS AND REGISTRARS

Computershare Trust Company of Canada, at its office located at Calgary, Alberta, is the Trustee under the Corporation's Indentures. Registers for the registration and transfer of the Debentures will be kept at the offices of the Trustee in Calgary, Alberta. The Trustee is also the paying agent for the Debentures.

AUDITORS

The Corporation's financial statements for the year ended December 31, 2015 have been audited by Ernst & Young LLP, which were first appointed by the shareholders of the Corporation on March 31, 2005. Ernst & Young LLP has confirmed that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information related to FortisAlberta may be found on SEDAR at www.sedar.com. Financial information is provided in the December 31, 2015 audited Financial Statements and Management Discussion and Analysis, which can also be found on SEDAR.