FORTISALBERTA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2019

August 1, 2019

The following Management's Discussion and Analysis ("MD&A") of FortisAlberta Inc. (the "Corporation") should be read in conjunction with the following: (i) the unaudited condensed interim financial statements and notes thereto for the three and six months ended June 30, 2019, prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"); (ii) the audited financial statements and notes thereto for the year ended December 31, 2018, prepared in accordance with US GAAP; and (iii) the MD&A for the year ended December 31, 2018. In December 2017, the Ontario Securities Commission approved the extension of the Corporation's exemptive relief to continue reporting under US GAAP rather than International Financial Reporting Standards ("IFRS") until the earlier of January 1, 2024 and the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation. All financial information presented in this MD&A has been derived from the unaudited condensed interim financial statements for the three and six months ended June 30, 2019 and the audited financial statements for the year ended December 31, 2018 prepared in accordance with US GAAP, and is expressed in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

The forward-looking information in the MD&A includes, but is not limited to, statements regarding: the expected timing of filing of regulatory applications and receipt of regulatory decisions; the expectation that sufficient cash will be generated to pay all operating costs and interest expense from internally generated funds; the expectation that sufficient cash to finance ongoing capital expenditures will be generated from a combination of long-term debt and short-term borrowings, internally generated funds and equity contributions; the expectation that the Corporation will continue to have access to the required capital on reasonable market terms; and the Corporation's forecast gross capital expenditures for 2019. The forecasts and projections that make up the forward-looking information are based on assumptions that include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the electricity system to ensure its continued performance; economic conditions; no significant variability in interest rates; sufficient liquidity and capital resources; maintenance of adequate insurance coverage; the ability to obtain licenses and permits; retention of existing service areas; continued maintenance of information technology infrastructure; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Risk factors that could cause results or events to differ from current expectations are detailed in the "Business Risk" section of the MD&A for the year ended December 31, 2018 and in continuous disclosure materials filed from time to time with Canadian securities regulatory authorities. Key risk factors include, but are not limited to: regulatory approval and rate orders; loss of service areas; political risk; a severe and prolonged economic downturn; environmental risks; capital resources and liquidity risks; operating and maintenance risks; weather conditions in geographic areas where the Corporation operates; risk of failure of information and operations technology infrastructure; cybersecurity risk; insurance coverage risk; risk of loss of permits and rights-of-way; labour relations risk; and human resources risk.

All forward-looking information in the MD&A is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

THE CORPORATION

The Corporation is a regulated electricity distribution utility in the Province of Alberta. Its business is the ownership and operation of electricity facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Corporation does not own or operate generation or transmission assets and is not involved in the direct sale of electricity. It is intended that the Corporation remain a regulated electricity utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

The Corporation operates a largely rural low-voltage distribution network of approximately 125,000 kilometres in central and southern Alberta, which serves approximately 565,000 electricity customers comprised of residential, commercial, farm, oil and gas, and industrial consumers.

As a significant portion of the Corporation's distribution revenue is derived from fixed or largely fixed billing determinants, changes in quantities of energy delivered are not entirely correlated with changes in revenue. Revenue is a function of numerous variables, many of which are independent of actual energy deliveries.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. (''Fortis''). Fortis is a leader in the North American regulated electric and gas utility business, with 2018 revenue of $8.4 billion and total assets of approximately $53.0 billion. Approximately 8,700 Fortis employees serve utility customers in five Canadian provinces, nine US states and three Caribbean countries.

The Corporation is regulated by the Alberta Utilities Commission (the "AUC") pursuant to the *Alberta Utilities Commission Act* (the "*AUC Act*"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act* (the "*EUA*"), the *Public Utilities Act* (the *"PUA"*), the *Hydro and Electric Energy 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. The Corporation recognizes amounts to be recovered from, or refunded to, customers in those periods in which related applications are filed with, or decisions are received from, the AUC. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using US GAAP for entities not subject to rate regulation.

REGULATORY MATTERS

Performance-Based Regulation

Effective January 1, 2013, the AUC prescribed that distribution utilities in Alberta, including the Corporation, move to a form of rate regulation referred to as performance-based regulation ("PBR") for an initial five-year term, from 2013 to 2017. Effective January 1, 2018, the AUC approved a second PBR term, from 2018 to 2022.

Under PBR, a formula incorporating an inflation factor and a productivity factor (I-X) (the "formula"), that estimates inflation (I) annually and assumes a set level of productivity improvements (X), is used to determine distribution rates on an annual basis. Each year this formula is applied to the preceding year's distribution rates.

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

In December 2016, the AUC issued Decision 20414-D01-2016 (the "Second-Term PBR Decision") outlining the manner in which distribution rates will be determined by utilities regulated under PBR (the "PBR Utilities") during the second PBR term, from 2018 to 2022.

For the second PBR term, the going-in rates were based on a notional 2017 revenue requirement. The components of the notional 2017 revenue requirement were determined using an AUC prescribed forecast methodology that was primarily based on entity-specific historical experience, with an 8.50% rate of return on a deemed equity component of capital structure ("ROE") of 37% equity and 63% debt applied to notional 2017 rate base assets. The impact of changes to ROE and capital structure during a PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from the formula. For 2019, the Corporation's ROE has been maintained at 8.50%, with a deemed equity ratio of 37%.

The second PBR term incorporates mechanisms consistent with those in the first PBR term, except that incremental capital funding to recover costs related to capital expenditures that are not recovered through the formula will be available through two mechanisms. The capital tracker mechanism from the first term will continue for capital expenditures identified as Type 1. Type 1 capital must be extraordinary, not previously included in the utility's rate base, and required by a third party. Type 2 capital includes all capital in the notional going-in rate base with a provision for a prescribed level of annual capital additions funded through a K-Bar mechanism. A K-Bar amount is established for each year of the term based on the resulting projected notional rate base for Type 2 capital programs.

In February 2018, the AUC issued Decision 22394-D01-2018 (the "Second-Term Compliance Decision") confirming the manner in which distribution rates will be determined pursuant to the Second-Term PBR Decision. In the Second-Term Compliance Decision, the AUC refused all utility requests for certain anomalous cost adjustments to be applied in the determination of the going-in revenue requirement and confirmed the K-Bar capital funding mechanism. The AUC also determined that depreciation matters would not be considered in rebasing. The Corporation filed a Review and Variance Application in respect of these matters and sought permission to appeal the Second-Term Compliance Decision to the Alberta Court of Appeal.

In March 2018, the Corporation submitted a Rebasing Compliance Filing (the "Rebasing Compliance Filing") in accordance with the Second-Term Compliance Decision. In October 2018, the AUC issued Decision 23355-D02-2018 (the "Rebasing Compliance Decision") confirming the Corporation's calculation of the notional 2017 revenue requirement and the 2018 K-Bar amount, and directed the Corporation to true-up its PBR rates for 2018 and 2019 accordingly in an update to its 2019 Annual Rates Application. The 2019 Annual Rates Application is discussed below.

In October 2018, the AUC issued Decision 23479-D02-2018 in respect of the Review and Variance Application for the Second-Term Compliance Decision that led to the AUC initiating a review proceeding in February 2019 to clarify the definition of, and criteria for, anomaly adjustments for the purposes of establishing going-in rates for the second PBR term. PBR Utilities will have the opportunity to apply for anomaly adjustments in accordance with the clarification determined in this proceeding. All other matters put forth for review were denied. The Corporation filed its evidence for this review proceeding in March 2019. The AUC will hold a stakeholder consultation meeting in September 2019, prior to the continuation of the review proceeding.

In May 2019, the AUC initiated a review of the Second-Term PBR Decision and the Second-Term Compliance Decision to determine the method to incorporate approved changes to depreciation parameters into rates during the 2018 to 2022 PBR term. The Corporation filed its evidence for this review proceeding in June 2019.

Phase II applications propose revised rate design and rate class cost allocations that will determine how much of the revenue requirement should be recovered from each customer class and the billing determinants that will apply to each class. In the Second-Term PBR Decision, PBR Utilities were invited to submit a Phase II application subsequent to the approval of the Rebasing Compliance Filing. The outcome of the Phase II application will apply for the entirety of the second PBR term. The Corporation anticipates filing a Phase II application in the fourth quarter of 2019.

Capital Tracker Applications
In June 2018, the Corporation filed a 2017 Capital Tracker True-Up Application to update 2017 K factor revenue for actual 2017 capital tracker expenditures. In January 2019, the AUC issued Decision 23649-D01-2019, which disallowed capital tracker treatment for costs associated with the battery operated tools portion of the Capital Tools program. The Corporation filed a compliance filing in February 2019.

In June 2019, the AUC issued Decision 24369-D01-2019 approving the 2017 K factor revenue true-up as filed in the Corporation's 2017 capital tracker compliance filing with the exception of revenue associated with the Corporation's Alberta Electric System Operator ("AESO") Contributions program, which remains subject to further regulatory process.

In April 2018, the AUC initiated a Review and Variance proceeding to address the treatment of AESO contributions in rebasing. In November 2018, the AUC issued Decision 23505-D01-2018, which approved the use of a hybrid deferral account approach to incremental capital funding for AESO contributions during the second PBR term. This approach provides for recovery of capital costs associated with AESO contribution projects that received permit and license prior to January 1, 2018 through deferral account treatment. For contribution projects that receive permit and license during the 2018 to 2022 PBR term, capital cost recovery will be provided through the K-Bar mechanism.

In January 2019, the Corporation submitted a compliance filing pursuant to Decision 23505-D01-2018 for its final 2016 and 2017 AESO contribution capital tracker amounts. Final approval of these amounts, which are included in the calculation of the notional 2017 revenue requirement and the 2018 and 2019 K-Bar amounts, will impact the Corporation's going-in rates for the 2018 to 2022 PBR term. A decision is expected in the fourth quarter of 2019.

2019 Annual Rates Application

In October 2018, the Corporation filed an updated 2019 Annual Rates Application in accordance with the Rebasing Compliance Decision. The rates and riders, proposed to be effective on an interim basis for January 1, 2019, include a decrease of approximately 0.5% to the distribution component of customer rates. The decrease in the distribution component of customer rates, incorporating the determinations of the Rebasing Compliance Decision, reflected: (i) an I-X of 1.83%; (ii) a refund of $0.2 million for the true-up of going-in rates; (iii) a refund of $1.9 million for the true-up of the 2018 K-Bar; (iv) a 2019 K-Bar placeholder of $35.9 million; (v) a refund of $11.7 million for the difference between the 2016 and 2017 K factor amounts approved or applied for and the amounts collected; (vi) a refund of $1.1 million of K factor carrying costs; and (vii) a net collection of Y factor amounts of $4.6 million, including $5.9 million for the efficiency carry-over mechanism associated with results achieved in the first PBR term.

In December 2018, the AUC issued Decision 23893-D01-2018 approving the Corporation's 2019 rates, as filed in the 2019 Annual Rates Application, on an interim basis.

Generic Cost of Capital

In December 2018, the AUC initiated a proceeding to consider establishing a formula-based approach to setting the approved ROE, beginning for the year 2021, and to consider whether any process changes are necessary for determining capital structure in years in which the ROE formula is in place. In April 2019, the Commission issued a process schedule indicating that evidence will be filed in this proceeding in January 2020 for the 2021 to 2022 test period. The AUC also confirmed that the proceeding will include a traditional assessment of ROE and deemed capital structure for the 2021 test period. In addition, the AUC will consider whether a formula-based adjustment mechanism to determine the approved ROE will be implemented with respect to 2022 and subsequent years.

Electric Distribution System Purchases

If the Corporation and a municipality or a Rural Electrification Association ("REA") come to an agreement to transfer electric distribution system assets to the Corporation, the transfer and purchase are subject to regulatory oversight. The municipality or REA is required to apply to the AUC to cease and discontinue its operations. Concurrently, the Corporation is required to apply to the AUC to alter its electric service area to include the electric service area of the municipality or REA and obtain approval of the purchase price for the distribution system assets and the related rate treatment.

In July 2016, the Municipality of Crowsnest Pass ("CNP") decided to cease the operation of, and to transfer, the CNP electric distribution system and related assets (the "system") to the Corporation for a proposed purchase price of $3.7 million, plus GST, and the related applications were filed with the AUC. In June 2018, the AUC issued Decision 21785-D01-2018 in respect of the transfer of the CNP system to the Corporation. The AUC provided conditional approval of the transfer of the CNP system but did not approve a final purchase price for ratemaking purposes. In July 2018, the AUC provided final approval of the transfer of the CNP system to the Corporation and the Corporation completed the purchase of the CNP system. In October 2018, the Corporation filed a request for approval of an adjusted purchase price for ratemaking purposes of $2.4 million in accordance with AUC directions. In the first quarter of 2019, the Corporation recognized a $1.3 million adjustment to property, plant and equipment that was recorded in goodwill to reflect the fair value of the CNP system.

In March 2018, the Town of Fort Macleod ("Fort Macleod") approved the sale and transfer of the Fort Macleod electric distribution system and related assets (the "system") to the Corporation for $4.8 million, plus GST. In June 2018, an application to transfer the Fort Macleod system to the Corporation was filed with the AUC. In October 2018, an application for approval of the purchase price for ratemaking purposes was filed with the AUC by the Corporation. This transaction will be executed upon receipt of AUC approval.

In December 2018, the AUC issued a letter announcing the initiation of a generic proceeding to establish the rate treatment methodology in respect of distribution system purchases by distribution utilities under 2018 to 2022 PBR plans. Pending the outcome of the generic proceeding, the AUC suspended the outstanding proceedings related to the facilities and ratemaking approvals for both the CNP system and the Fort Macleod system.

In March 2019, the AUC released Bulletin 2019-03, inviting participants to comment on a preliminary issues list and further process. Bulletin 2019-03 confirmed that the generic proceeding will not re-examine how the acquisition costs should be evaluated for prudency nor will it reconsider the parameters, rate adjustment mechanisms, and capital funding mechanisms in the 2018 to 2022 PBR plans. In April 2019, a final issues list was released by the AUC. The Corporation filed evidence in May 2019 regarding the matters included on the final issues list.

Distribution System Inquiry

In December 2018, the AUC issued Bulletin 2018-17, which initiated an inquiry into various matters relating to the continuing evolution of the electric distribution grid in Alberta. The AUC stated that "[T]he purpose of the inquiry is to map out the key issues related to the future of the electric distribution grid, to aid in developing the necessary regulatory framework to accommodate the evolution of the electric system." In March 2019, the Commission expanded the scope of this proceeding to include matters relating to natural gas distribution utilities and provided further direction regarding the process that will be followed as the inquiry unfolds.

The AUC confirmed that this inquiry will be completed in three modules. Module One will consider the range of anticipated technological changes expected to occur over the next several years, as well as attempt to understand the drivers and timing of associated capital costs. Module Two will consider the kinds of legislative, policy and regulatory frameworks that will be required to support the ongoing evolution of Alberta's distribution grids and how they may interact with existing utility business models. Module Three will focus on understanding how rate designs can be used to send signals promoting efficient capital investment and prevent uneconomic bypass of existing utility infrastructure. The Corporation filed a submission relating to Module One matters in July 2019. The Corporation expects that the AUC's consideration of the matters engaged in the Distribution System Inquiry will extend into 2021.

2018 Independent System Operator Tariff Application

The Corporation is participating in an application brought before the AUC for approval of the AESO's 2018 Independent System Operator tariff. This proceeding is directed toward addressing matters relating to the application of the AESO's Customer Contribution Policy to the Corporation and the AESO's current transmission cost allocation practices. A determination in this proceeding may have an impact on the Corporation's going-in rates and K-Bar amounts for the second PBR term. A decision is expected in the third quarter of 2019.

SIGNIFICANT CONTRACTS

The EUA provides that an owner of an electric distribution system 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 and to appoint a retailer as default supplier to customers otherwise unable to obtain electricity services. In May 2019, the Corporation entered into an arrangement whereby it continues to convey this obligation to EPCOR Energy Alberta GP Inc. under an eight-year Customer Rights Agreement beginning in 2021. The Agreement provides for successive options to renew every three-years and is subject to AUC approval.

RESULTS OF OPERATIONS

	Three months ended June 30			Six months ended June 30		
($ thousands)	2019	2018	Variance	2019	2018	Variance
Total revenues	162,362	154,216	8,146	321,496	306,306	15,190
Cost of sales	49,822	49,394	428	103,696	102,830	866
Depreciation	48,356	45,105	3,251	96,984	89,949	7,035
Amortization	3,752	2,486	1,266	7,437	4,866	2,571
Other income (expense)	(116)	(89)	(27)	464	159	305
Income before interest expense and income tax	60,316	57,142	3,174	113,843	108,820	5,023
Interest expense	26,214	25,005	1,209	51,700	49,648	2,052
Income before income tax	34,102	32,137	1,965	62,143	59,172	2,971
Income tax expense (recovery)	(201)	(107)	(94)	1,123	(120)	1,243
Net income	34,303	32,244	2,059	61,020	59,292	1,728

Net income for the three months ended June 30, 2019 increased $2.1 million compared to the same period in 2018. The increase was primarily due to higher revenue associated with rate base growth, customer additions, and customer usage and demand. In addition, in 2018 there was a negative adjustment related to prior year capital tracker revenue. These increases were partially offset by higher depreciation and amortization due to continued capital investment and an overall increase in depreciation and amortization rates, and higher interest expense related to the long-term debt issuance in September 2018.

Net income for the first half of 2019 increased $1.7 million compared to the same period in 2018. The increase was primarily due to higher revenue associated with rate base growth, customer additions, and customer usage and demand, net of a negative adjustment related to the incremental capital deferral. These increases were partially offset by higher depreciation and amortization expense due to continued investment in capital assets and an overall increase in depreciation and amortization rates, and higher interest expense related to the long-term debt issuance in September 2018. There was also an increase in income tax expense due to lower period deductions for AESO contributions.

The following table outlines the significant variances in the Results of Operations for the three months ended June 30, 2019 as compared to June 30, 2018:

Item	Variance ($ millions)	Explanation
Total revenues	8.1	Electric rate revenue and alternative revenue increased by $8.8 million primarily due to revenue associated with rate base growth, customer additions, and customer usage and demand. In addition, in 2018 there was a negative adjustment related to prior year capital tracker revenue.
Depreciation	3.3	The increase was due to continued investment in capital assets and an overall increase in depreciation rates. Refer to the Critical Accounting Estimates section of this MD&A for further information.
Amortization	1.3	The increase was due to continued investment in intangible assets and an overall increase in amortization rates. Refer to the Critical Accounting Estimates section of this MD&A for further information.
Interest Expense	1.2	The increase was primarily attributable to the issuance of long-term debt in September 2018.

The following table outlines the significant variances in the Results of Operations for the six months ended June 30, 2019 as compared to June 30, 2018:

Item	Variance ($ millions)	Explanation
Total revenues	15.2	Electric rate revenue and alternative revenue increased by $15.2 million primarily due to revenue associated with rate base growth, customer additions, and customer usage and demand, partially offset by a negative adjustment related to the incremental capital deferral.
Depreciation	7.0	The increase was due to continued investment in capital assets and an overall increase in depreciation rates. Refer to the Critical Accounting Estimates section of this MD&A for further information.
Amortization	2.6	The increase was due to continued investment in intangible assets and an overall increase in amortization rates. Refer to the Critical Accounting Estimates section of this MD&A for further information.
Interest expense	2.1	The increase was primarily attributable to the issuance of long-term debt in September 2018.
Income tax expense	1.2	The increase is primarily due to lower current period deductions for AESO contributions.

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	Total Revenues	Net Income
June 30, 2019	162,362	34,303
March 31, 2019	159,134	26,717
December 31, 2018	150,880	22,159
September 30, 2018	165,343	38,577
June 30, 2018	154,216	32,244
March 31, 2018	152,090	27,048
December 31, 2017	151,887	29,392
September 30, 2017	152,499	35,011

Changes in total revenues and net income quarter over quarter are a result of many factors, including energy deliveries, number of customer sites, regulatory decisions, ongoing investment in energy infrastructure, inflation and changes in income tax. As approved by the AUC, the allowance for funds used during construction ("AFUDC") is recognized in the first and fourth quarters of the year. There is no significant seasonality in the Corporation's operations.

June 30, 2019 / 2018

Net income for the three months ended June 30, 2019 increased $2.1 million compared to the same period in 2018. The increase was primarily due to higher revenue associated with rate base growth, customer additions, and customer usage and demand. In addition, in 2018 there was a negative adjustment related to prior year capital tracker revenue. These increases were partially offset by higher depreciation and amortization due to continued capital investment and an overall increase in depreciation and amortization rates, and higher interest expense related to the long-term debt issuance in September 2018.

March 31, 2019 / 2018

Net income for the three months ended March 31, 2019 decreased $0.3 million compared to the same period in 2018. The decrease in net income was mainly due to an increase in depreciation and amortization expense resulting from continued investment in capital assets and an overall increase in depreciation and amortization rates. There was also an increase in income tax expense due to lower current period deductions for AESO contributions. These decreases in net income were partially offset by an increase in revenue associated with rate base growth, customer additions, and customer usage and demand, net of a negative adjustment related to the true-up of the incremental capital deferral.

December 31, 2018 / 2017

Net income for the three months ended December 31, 2018 decreased $7.2 million compared to the same period in 2017. The decrease was primarily due to costs associated with a voluntary retirement program completed in the fourth quarter of 2018, an increase in interest expense related to the long-term debt issuance in September 2018 and an increase in depreciation due to continued investment in capital assets.

September 30, 2018 / 2017

Net income for the three months ended September 30, 2018 increased $3.6 million compared to the same period in 2017. The increase was primarily due to the true-up of 2016 and 2017 capital tracker revenues, revenue associated with rate base growth and customer additions, and the efficiency carry-over mechanism associated with performance in the first PBR term. These increases were partially offset by higher operating costs driven by higher contract manpower costs, primarily those associated with vegetation management, and higher labour costs, an increase in income tax expense due to temporary differences relating to capital assets and deferrals, and an increase in interest expense related to the long-term debt issuance in September 2017.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheet as at June 30, 2019 as compared to December 31, 2018:

Item	Variance ($ millions)	Explanation
Assets:		
Accounts receivable	(20.5)	The decrease was primarily driven by timing of collections from customers.
Regulatory assets (current and long-term)	(5.2)	The decrease was primarily due to a decrease in the deferred income tax regulatory deferral of $14.4 million, due to a reduction in future provincial tax rates, partially offset by an increase in deferred overhead costs of $9.4 million.
Property, plant and equipment, net	65.7	The increase was due to continued investment in system infrastructure, partially offset by depreciation and customer contributions.
Liabilities and Shareholder's Equity:		
Accounts payable and other current liabilities	(15.0)	The decrease was primarily driven by lower labour and capital accruals.
Regulatory liabilities (current and long-term)	18.1	The increase was primarily due to increases in the AESO charges deferral of $13.8 million and the non-asset retirement obligation provision of $8.8 million, partially offset by a decrease in the K Factor deferral of $6.3 million.
Deferred income tax	(13.3)	The decrease was primarily due to the reduction of future provincial tax rates, partially offset by temporary differences relating to capital assets and deferrals.
Debt (including short-term borrowings)	10.7	The increase is primarily related to the demand note outstanding with Fortis.
Total shareholder's equity	43.6	The increase was primarily due to net income of $61.0 million and equity injections of $20.0 million, less dividends paid of $37.5 million.

SOURCES AND USES OF LIQUIDITY AND CAPITAL RESOURCES

The Corporation's primary sources of liquidity and capital resources are the following:

- funds generated from operations;
- the issuance and sale of debt instruments;
- bank financing and credit facility; and
- equity contributions from the Corporation's parent company.

STATEMENTS OF CASH FLOWS

	Three months ended June 30			Six months ended June 30		
($ thousands)	2019	2018	Variance	2019	2018	Variance
Cash, beginning of period	—	4,914	(4,914)	—	82,735	(82,735)
Cash from (used in):						
Operating activities	75,795	71,514	4,281	180,675	36,830	143,845
Investing activities	(83,294)	(97,263)	13,969	(173,540)	(207,822)	34,282
Financing activities	7,499	24,768	(17,269)	(7,135)	92,190	(99,325)
Cash, end of period	—	3,933	(3,933)	—	3,933	(3,933)

Operating Activities

For the three months ended June 30, 2019, net cash provided from operating activities was $4.3 million higher than for the same period in 2018. The increase was primarily due to differences in the timing of collection from customers and payment to the AESO for transmission related amounts, partially offset by the timing of collection of accounts receivable balances for distribution revenue.

For the six months ended June 30, 2019, net cash provided from operating activities was $143.8 million higher than for the same period in 2018. The increase was primarily due to differences in the timing of collection from customers and payment to the AESO for transmission related amounts and the timing of collection of accounts receivable balances for distribution revenue.

The Corporation expects to be able to pay all operating costs and interest expense out of operating cash flows, with some residual available for dividend payments to the parent company and/or capital expenditures.

Investing Activities

	Three months ended June 30			Six months ended June 30		
($ thousands)	2019	2018	Variance	2019	2018	Variance
Capital expenditures:						
Customer growth [(1)]	41,760	39,994	1,766	74,033	78,533	(4,500)
Sustainment [(2)]	41,566	43,246	(1,680)	71,410	68,181	3,229
Externally driven and other [(3)]	14,225	11,140	3,085	23,614	23,168	446
AESO contributions [(4)]	7,778	10,576	(2,798)	10,833	17,801	(6,968)
Gross capital expenditures	105,329	104,956	373	179,890	187,683	(7,793)
Less: customer contributions	(9,588)	(8,806)	(782)	(23,343)	(16,558)	(6,785)
Net capital expenditures	95,741	96,150	(409)	156,547	171,125	(14,578)
Adjustment to net capital expenditures for:						
Non-cash working capital	(7,263)	895	(8,158)	11,335	24,435	(13,100)
Costs of removal, net of salvage proceeds	5,114	5,371	(257)	12,313	12,417	(104)
Capitalized depreciation, capital inventory, AFUDC and other	(10,298)	(5,153)	(5,145)	(6,655)	(155)	(6,500)
Cash used in investing activities	83,294	97,263	(13,969)	173,540	207,822	(34,282)

(1) *Includes new customer connections.*

(2) *Includes planned maintenance, urgent replacements, capacity increases, facilities, vehicles, LED streetlight conversions and information technology.*

(3) *Includes upgrades associated with substations, line moves, new connections for independent power producers, and SCADA (Supervisory Control and Data Acquisition).*

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

For the three months ended June 30, 2019, the Corporation's gross capital expenditures were $105.3 million compared to $105.0 million for the same period in 2018. Externally driven expenditures increased $3.1 million primarily due to higher substation upgrade expenditures. Customer growth expenditures increased $1.8 million primarily due to an increase in general service customer projects. Partially offsetting these increases were decreases in AESO contributions and Sustainment expenditures. AESO contributions decreased $2.8 million due to the reduction in the scope of transmission upgrade projects compared to 2018. Sustainment expenditures decreased $1.7 million primarily due to lower information technology and urgent replacements expenditures, partially offset by higher planned maintenance and metering expenditures.

For the six months ended June 30, 2019, the Corporation's gross capital expenditures were $179.9 million compared to $187.7 million for the same period in 2018. AESO contributions decreased $7.0 million due to the reduction in the scope of transmission upgrade projects compared to 2018. Customer growth expenditures decreased $4.5 million primarily due to lower requests for new services in the general service customer categories. Partially offsetting these decreases was an increase in sustainment expenditures of $3.2 million, primarily due to higher planned maintenance and metering expenditures.

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

Capital Expenditures Forecast

The Corporation's 2019 forecast of gross capital expenditures is approximately $385.0 million. The 2019 projected capital expenditures are based on detailed forecasts, which include numerous assumptions such as projected growth in the number of customer sites, weather, cost of labour and materials, and other factors that could cause actual results to differ from forecast.

Financing Activities

For the three months ended June 30, 2019, cash from financing activities decreased $ 17.3 million compared to the same period in 2018. This decrease was primarily due to a decrease in net borrowings under the committed credit facility in 2019 of $15.0 million.

For the six months ended June 30, 2019, cash from financing activities decreased $99.3 million compared to the same period in 2018. This decrease was primarily due to a decrease in net borrowings under the committed credit facility in 2019 of $97.0 million, primarily as a result of the timing of AESO charges payments and a decrease in capital expenditures.

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

CONTRACTUAL OBLIGATIONS

The Corporation's contractual obligations have not changed materiality from those disclosed in the MD&A for the year ended December 31, 2018.

CAPITAL MANAGEMENT

The Corporation's objective when managing capital is to ensure ongoing access to capital to allow it to build and maintain the electricity distribution facilities within the Corporation's service territory. The ratio of debt and equity financing of these investments is determined by their nature and is maintained by the Corporation through the issuance of debentures or other debt, dividends paid to, or equity contributions received from, Fortis via Fortis Alberta Holdings Inc.

The AUC determines the capital structure for Alberta utilities to finance their regulated operations. The Corporation's capital structure approved by the AUC for ratemaking purposes is 37% equity and 63% debt.

The Corporation has items on its balance sheet outside of its regulated operations, such as goodwill, that are not contemplated in the regulated capital structure. These items are financed primarily through equity contributions and result in an overall ratio that differs from the regulated capital structure.

Summary of Capital Structure

As at:	June 30, 2019		December 31, 2018	
	$ millions	%	$ millions	%
Total debt	2,234.1	60.1	2,223.4	60.7
Shareholder's equity	1,480.3	39.9	1,436.7	39.3
	3,714.4	100.0	3,660.1	100.0

The Corporation has externally imposed capital requirements by virtue of its Trust Indenture and committed credit facility such that consolidated debt cannot exceed 75% of the Corporation's consolidated capitalization ratio, which is based on the Corporation's total capital structure. As at June 30, 2019, the Corporation was in compliance with these externally imposed capital requirements.

In June 2019, the Corporation renegotiated and amended its unsecured committed credit facility, extending the maturity date of the facility to August 2024 from August 2023. The amended agreement contains substantially similar terms and conditions as the previous agreement.

As at June 30, 2019, the Corporation had an unsecured committed credit facility with an available amount of $250.0 million, maturing in August 2024. Drawings under the committed credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans bear an interest rate of prime and bankers' acceptances are issued at the applicable bankers' acceptance discount rate plus a stamping fee of 1.0%. The weighted average effective interest rate for the six months ended June 30, 2019 on the committed credit facility was 3.5% (2018 – 2.8%). As at June 30, 2019, the Corporation had $40.0 million drawings on this facility (December 31, 2018 – $45.0 million).

As at June 30, 2019, the Corporation had a $10.0 million (December 31, 2018 - $nil) demand note outstanding with Fortis. The demand note is unsecured, due on demand and the Corporation incurred interest that approximated the Corporation's cost of short-term borrowing.

CREDIT RATINGS

As at June 30, 2019, the Corporation's debentures were rated by DBRS at A (low) and by Standard and Poor's ("S&P") at A-.

OUTSTANDING SHARES

Authorized – unlimited number of:

- Common shares;
- Class A common shares; and
- First preferred non-voting shares, redeemable, cumulative dividend at 10% of the redemption price.

Issued:

- 63 Class A common shares, with no par value.

OFF-BALANCE SHEET ARRANGEMENTS

With the exception of letters of credit outstanding of $0.4 million as at June 30, 2019 (December 31, 2018 – $0.3 million), the Corporation had no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

As at: ($ thousands)	June 30, 2019	December 31, 2018
Accounts receivable		
Loans [(1)]	26	24
Related parties	—	206
	26	230
Short-term borrowings		
Related party [(2)]	10,000	—

[(1)] *These loans are to officers of the Corporation and include items such as stock option loans and employee share purchase plan loans.*
[(2)] *Demand note from Fortis that was borrowed in June 2019 and is expected to be repaid in the third quarter of 2019.*

The Corporation bills related parties on terms and conditions consistent with billings to third parties, which require amounts to be paid on a net 30 day basis with interest on overdue amounts. Terms and conditions on amounts billed to the Corporation by related parties are net 30 days with interest being charged on any overdue amounts.

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

	Three months ended June 30		Six months ended June 30	
($ thousands)	2019	2018	2019	2018
Included in other revenue [(1)]	1	3	4	117
Included in cost of sales [(2)]	1,374	1,126	2,783	2,436

[(1)] *Includes services provided to related parties, including Fortis and subsidiaries of Fortis, related to information technology, material sales and intercompany employee services.*
[(2)] *Includes charges from related parties, including Fortis and subsidiaries of Fortis, related to corporate governance expenses, consulting services, travel and accommodation expenses, charitable donations and professional development costs.*

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

FINANCIAL INSTRUMENTS

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

Long-term debt as at: ($ thousands)	June 30, 2019	December 31, 2018
Fair value [(1)]	2,728,132	2,465,514
Carrying value [(2)]	2,183,671	2,183,655

(1) *The fair value of the long-term debt was estimated using level 2 inputs based on the indicative prices for the same or similarly rated issues for debt of the same remaining maturities.*
(2) *Carrying value is presented gross of debt issuance costs of $15,861 (December 31, 2018 – $15,997).*

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Due to changes in facts and circumstances, and the inherent uncertainty in making estimates, actual results may differ materially from current estimates. Estimates and judgments are reviewed periodically and as adjustments become necessary they are recognized in the period they become known.

There were no material changes to the Corporation's critical accounting estimates during the three and six months ended June 30, 2019 from those disclosed in the MD&A for the year ended December 31, 2018, except as follows.

Depreciation and Amortization
Depreciation and amortization estimates are based on depreciation and amortization rates derived from capital asset balances and depreciation parameters, including the service life of assets and expected net salvage percentages, which are periodically determined based on depreciation reviews prepared by an independent expert. Outside of these periodic reviews, management annually assesses if updates are required to depreciation and amortization rates based on changes in capital asset balances, while maintaining the previously determined depreciation parameters.

Depreciation and amortization in 2018 was based on depreciation and amortization rates derived from capital asset balances as at December 2014 and depreciation parameters established in a 2012 depreciation review. Effective January 1, 2019, depreciation and amortization rates were changed based on the results of a depreciation review, which updated rates for changes in capital asset balances and depreciation parameters. The impact to the three months ended June 30, 2019 financial results was an increase to depreciation of approximately $1.0 million and an increase to amortization of approximately $1.1 million, as compared to 2018. The impact to the six months ended June 30, 2019 financial results was an increase to depreciation of approximately $2.1 million and an increase to amortization of approximately $2.2 million, as compared to 2018.

CHANGES IN ACCOUNTING POLICIES

The Corporation's 2019 unaudited condensed interim financial statements have been prepared following the same accounting policies as those used in preparing the Corporation's 2018 audited annual financial statements, except as follows.

Leases
Effective January 1, 2019, the Corporation adopted Accounting Standards Codification ("ASC") 842, *Leases*, which requires lessees to recognize a lease liability, initially measured at the present value of future lease payments, and a right-of-use ("ROU") asset for all leases with a lease term greater than 12 months. The new lease standard also requires additional quantitative and qualitative disclosures for both lessees and lessors. The Corporation applied the transition provisions of the new lease standard as of the adoption date and did not retrospectively adjust prior periods. The Corporation elected a package of practical expedients that allowed it to not reassess: (i) whether existing contracts are or contain a lease; (ii) the lease classification of existing leases; or (iii) the initial direct costs for existing leases. Furthermore, the Corporation elected a practical expedient that permitted it to not evaluate existing land easements that were not previously accounted for as leases. The new lease standard will be applied on a prospective basis to all new or modified land easements after January 1, 2019. Finally, the Corporation utilized the hindsight practical expedient to determine the lease term. Upon adoption, the Corporation did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net income or cash flows.

When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a ROU asset and liability are recognized. At inception, the ROU asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. Future lease payments include both lease components (e.g., rent, property taxes and insurance costs) and nonlease components (e.g., common area maintenance costs), which the Corporation accounts for as a single lease component. The present value is calculated using a secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised.

Leases with a term of twelve months or less are not recorded on the balance sheet but are recognized as lease expense on a straight-line basis over the lease term. As at June 30, 2019, the Corporation's easements have not resulted in the recognition of a ROU asset as the current easement contracts do not convey a right to control.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Corporation considers the applicability and impact of all Accounting Standard Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by the FASB but have not yet been adopted by the Corporation. Any ASUs not included below were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the financial statements.

Financial Instruments
ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016, is effective January 1, 2020, and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. The Corporation is assessing the impact of adoption.

Pensions and Other Postretirement Plan Disclosures
ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans,* was issued in August 2018, is effective January 1, 2021 with earlier adoption permitted, and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined benefit pension or other postretirement plans and clarifies disclosure requirements. In addition, the amendments remove (a) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs over the next fiscal period, (b) the amount and timing of plan assets expected to be returned to the employer, and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. The Corporation is assessing the impact of adoption.

Cloud Computing Arrangements
ASU 2018-15, *Customer's Accounting for Implementation Costs incurred in a Cloud Computing Arrangement that is a Service Contract,* was issued in August 2018, is effective January 1, 2020 with earlier adoption permitted, and is to be applied either on a retrospective basis or on a prospective basis to all implementation costs incurred after the effective date of the new guidance. Principally, it aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Corporation is assessing the impact of adoption.

Note: Additional information, including the Corporation's Annual Information Form and Audited Financial Statements, is available on SEDAR at www.sedar.com and on the Corporation's website at www.fortisalberta.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into this document.