FORTISALBERTA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and twelve months ended December 31, 2021

February 10, 2022

The following Management's Discussion and Analysis ("MD&A") of FortisAlberta Inc. (the "Corporation" or "FortisAlberta") has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations and should be read in conjunction with the Corporation's Audited Financial Statements and notes thereto for the twelve months ended December 31, 2021. Financial information for 2021 and comparative periods contained in this MD&A has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In December 2017, the Ontario Securities Commission ("OSC") 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 ("IASB") 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 Audited Financial Statements for the twelve months ended December 31, 2021 and is expressed in Canadian dollars unless otherwise indicated.

In this MD&A, FAHI refers to the Corporation's parent, Fortis Alberta Holdings Inc. and Fortis refers to the Corporation's ultimate parent, Fortis Inc.

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 2022.

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; no severe and prolonged economic downturn; 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 and operations technology infrastructure; no material impact from the novel coronavirus ("COVID-19") pandemic and global supply chain shortages; no material impacts related to future processes unfolding with the tax authorities; 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 and Risk Management" section of this MD&A 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; utility asset disposition risk; a downturn in economic conditions including the strength and operations of the oil and natural gas production industry and related commodity prices; risks relating to widespread outbreak of an illness or communicable disease, any other public health crisis, or pandemic outbreaks, including the COVID-19 pandemic; supply chain risk; loss of service areas; change in government policies; capital resources and liquidity risks; insurance coverage risk; continued reporting in accordance with US GAAP risk; operating and maintenance risks; risk of loss of permits and rights-of-way; environmental; weather conditions and climate-change; wildfire risks; risk of failure of information and operations technology infrastructure; cybersecurity risk; labour relations risk; human resources risk; and other risks described in the Corporation's most recent Annual Information Form.

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 because of new information, future events or otherwise after the date hereof.

CORPORATE OVERVIEW

The Corporation is a regulated electric distribution utility in the Province of Alberta. Its business is the ownership and operation of electric 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.

The Corporation operates a largely rural and suburban low-voltage distribution network of approximately 127,000 kilometres in central and southern Alberta, which serves approximately 577,200 residential, commercial, farm, oil and gas, and industrial sites.

The Corporation is an indirect, wholly-owned subsidiary of Fortis, a leader in the North American electric and natural gas utility business. Fortis shares are listed on the Toronto Stock Exchange and the New York Stock Exchange.

The Corporation is regulated by the Alberta Utilities Commission ("AUC") pursuant to the *Alberta Utilities Commission Act* ("*AUCA*"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act ("EUA")*, the *Public Utilities Act*, the *Hydro and Electric Energy Act ("HEEA")* and the *AUCA*, 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.

On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a pandemic, which resulted in a series of public health and emergency measures being put in place to combat the spread of the virus. In response to the COVID-19 pandemic, the Corporation has taken steps to protect the health and safety of employees and the public. There continues to be uncertainty surrounding the pandemic, particularly the resurgences of variants of the virus and the efficacy and distribution of COVID-19 vaccines. The extent of the COVID-19 pandemic continues to inform the Corporation's assessment of the financial impacts on its operations, financial condition, supply chain and liquidity. Potential economic impacts of the COVID-19 pandemic are discussed in the "Business Risk and Risk Management" section of this MD&A.

REGULATORY MATTERS

Performance-Based Regulation

Since January 1, 2018, the Corporation has operated under a second performance-based regulation ("PBR") rate plan approved by the AUC for a five-year term from 2018 to 2022, inclusive. The PBR plan adjusts FortisAlberta's rates annually using an "I-X" escalation formula (the "formula"), that incorporates an inflation factor ("I") and a productivity factor ("X"). Each year this formula is applied to the preceding year's distribution rates.

The Corporation's base distribution rates, subject to escalation by the formula, for the second PBR term are based on a notional 2017 revenue requirement approved by the AUC. The impact of changes to return on equity ("ROE"), cost of debt and capital structure during the PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from going-in rates escalated by the formula. For 2021, the Corporation's ROE was approved at 8.50%, with a capital structure of 37% equity and 63% debt.

In the second PBR term, incremental capital funding to recover costs related to capital expenditures that are not recovered through going-in rates escalated by the formula is available through two mechanisms. A capital tracker mechanism similar to that made available during the first 2013-2017 PBR term, continues 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. All capital in the notional going-in rate base with a provision for a prescribed level of annual capital additions is classified as "Type 2" capital and is funded through a K-Bar mechanism. A K-Bar amount is established for each year of the PBR term based on the revenue requirement associated with this projected notional rate base for Type 2 capital programs. The notional 2017 rate base and the level of annual capital additions were calculated using an AUC prescribed methodology, including both actual and historical averages.

The second PBR term also includes mechanisms for the recovery or settlement of items determined to flow through directly to customers ("Y factor"). The AUC also approved a Z factor, a PBR re-opener and an efficiency carry-over mechanism. The Z factor permits an application for recovery of costs related to significant unforeseen events. The PBR re-opener permits an application to re-open and review the PBR plan to address specific problems with the design or operation of the PBR plan. The use of the Z factor and PBR re-opener mechanisms is associated with certain thresholds. The efficiency carry-over mechanism provides an incentive by permitting a utility to continue to benefit from efficiency gains achieved during the PBR term. If a utility achieves a ROE over the PBR term greater than the approved ROE for ratemaking purposes by prescribed parameters, the utility is eligible to collect additional PBR revenue for the two years after the end of the PBR term.

2023 Cost-of-Service Application

In 2022, the Corporation entered into the final year of its second five-year PBR term. The completion of rebasing at the transition point from one ratemaking term into another re-aligns a utility's reasonable costs to provide service with the revenues it is permitted to collect in customer rates as a starting point for setting rates in future periods. In June 2021, the AUC issued Decision 26354-D01-2021 confirming that the Alberta distribution utilities will be rebased in 2023 using a cost-of-service ("COS") methodology. In addition, the decision outlined the approach to the preparation of utilities' 2023 revenue requirement. The AUC prescribed a minimum level of detail each utility must include in its application to support its respective 2023 revenue requirement forecasts. The 2023 forecasts were developed based on the nature, size, or complexity of the associated cost in order to facilitate a streamlined review of the utilities' applied-for revenue requirements.

The Corporation filed its one-year 2023 COS Application in November 2021, which requested approval of an overall revenue requirement of approximately $660 million and an average rate base of approximately $4,131 million. The Corporation's 2023 COS Application also included requests to approve funding for expenditures to update its Advanced Metering Infrastructure, implement a distribution voltage management program, accommodate integration of distributed energy resources, enhanced wildfire mitigation programs, establish demand-side management programs, enable remote community reliability projects, and further information technology investments.

In December 2021, the AUC released a schedule that projects completion of the 2023 COS Application's proceeding by May 2022. The regulatory process to review this application is currently underway and the AUC's schedule expects a decision in the third quarter of 2022.

Third PBR Term

In July 2021, the AUC issued Decision 26356-D01-2021 confirming that the Alberta distribution utilities will return to a third PBR term commencing in 2024 upon completion of the 2023 COS year. The AUC has initiated a new proceeding to consider the design of the third PBR term. The AUC has identified three main issues: (i) a review of incremental capital funding provisions; (ii) a review of the inflation factor; and (iii) consideration of a mechanism to share earnings. The Corporation, along with the other Alberta distribution utilities, will submit evidence in the fourth quarter of 2022 that considers the design of a PBR plan for a third term, with a decision expected in the third quarter of 2023.

Phase II Distribution Tariff Application

A Phase II Distribution Tariff Application ("DTA") is undertaken periodically to propose revisions to rate design and rate class cost allocations that will determine how much of the Corporation's revenue requirement will be recovered from each customer rate class. The DTA also establishes the billing determinants that will apply to each rate class. The Corporation filed a Phase II DTA in October 2020, which proposed a revised rate design intended to achieve improved alignment between revenues collected from, and costs assigned to, specific rate classes. During this process, the AUC considered issues outside of traditional rate design, including (i) the continued application of Payment in Lieu of Notice ("PILON") system exit charges and (ii) the recovery methodology for certain distribution costs attributable to Rural Electrification Associations ("REA"), which are currently collected from other load customers under the Corporation's regulated tariff.

In July 2021, the AUC issued Decision 25916-D01-2021 in which it directed the Corporation to update certain aspects of its cost allocation study, rate calculations, customer and retailer terms and conditions, and billing determinant forecast methodology in a compliance filing, which was filed in September 2021. The AUC also approved in Decision 25916-D01-2021 changes to the Corporation's applied-for rate design but subject to a requirement to manage 2022 inter-rate class impacts to "nil", to the extent possible, and to incorporate the associated rate adjustments in the Corporation's 2023 COS Application.

In this decision, the AUC also directed the Corporation to cease applying PILON system exit charges, effective January 1, 2022. These PILON exit charge provisions, which were originally intended to provide the Corporation with revenue support following downward adjustments to large customers' minimum demand requirements or, alternatively, the departure of large customers, were found by the AUC to be largely ineffective under, and incompatible with, the Corporation's price-cap PBR plan. The Corporation does not anticipate any material impacts to the financial statements.

Finally, the AUC directed the Corporation to remove amounts attributable to system costs incurred by REAs from the Corporation's regulated revenue requirement in its 2023 COS rebasing application. This determination follows an earlier AUC ruling in 2020 that held that REAs were not customers of the Corporation and, therefore, cannot be charged amounts under the Corporation's regulated tariff. The Corporation is permitted to recover the costs that would otherwise be attributable to REAs from its other load customers until the end of 2022. The Corporation has incorporated the financial impact of this decision in its 2023 COS Application and will continue to assess the potential effect of this decision on its future financial results and related disclosures.

2021 Annual Rates Application

In December 2020, the AUC issued Decision 25843-D01-2020 approving the Corporation's 2021 rates and riders, effective on an interim basis for January 1, 2021, including an increase of approximately 0.9% to the distribution component of customer rates. The increase in the distribution component of customer rates reflects: (i) an I-X of 2.12%; (ii) a refund of $1.5 million for the true-up of going-in rates; (iii) a refund of $5.4 million for the true-up of the 2018, 2019 and 2020 K-Bar amounts; (iv) a 2021 K-Bar placeholder of $76.8 million; (v) a net refund of $14.6 million for the true-up of the 2018, 2019, and 2020 Alberta Electric System Operator ("AESO") contributions hybrid deferral; (vi) a placeholder refund of $11.6 million for the 2021 AESO contributions hybrid deferral; (vii) a refund of $1.2 million for the true-up of the Corporation's approved 2016 and 2017 K factor amounts; and (viii) a net refund of Y factor amounts of $1.5 million.

2022 Annual Rates Application

In December 2021, the AUC issued Decision 26817-D01-2021 approving the Corporation's 2022 rates and riders, effective on an interim basis for January 1, 2022, including an increase of approximately 6.6% to the distribution component of customer rates. The increase in the distribution component of customer rates reflected: (i) an I-X of 1.46%; (ii) a refund of $4.6 million for the true-up of the 2020 and 2021 K-Bar amounts; (iii) a 2022 K-Bar placeholder of $89.1 million; (iv) a net collection of $32.8 thousand for the true-up of the 2020 and 2021 AESO contributions hybrid deferral; (v) a placeholder refund of $13.2 million for the 2022 AESO contributions hybrid deferral; and (vi) a net collection of Y factor amounts of $0.8 million.

2022 Generic Cost of Capital

In December 2020, the AUC initiated the 2022 Generic Cost of Capital ("GCOC") proceeding to assess the establishment of cost of capital parameters for 2022.

In March 2021, the AUC issued Decision 26212-D01-2021 confirming that approval of an 8.50% ROE and 37% equity ratio for the Corporation for 2021 will be extended on a final basis through the end of 2022. In making this decision, the AUC cited current persistent market instability as making the completion of an efficient GCOC proceeding difficult.

2023 and Beyond Generic Cost of Capital

In January 2022, the AUC initiated a two-stage GCOC proceeding to establish the cost of capital parameters for (i) 2023, and (ii) 2024 and beyond. In the first stage, the AUC is proposing that the currently approved ROE and equity ratio, of 8.50% and 37%, respectively, be extended to 2023 to recognize the continued economic volatility and uncertainty surrounding the COVID-19 pandemic. Parties are invited to comment on this proposal in February 2022, with a decision expected by the end of the first quarter of 2022.

The second stage of the GCOC proceeding will explore a formula-based approach to cost of capital for 2024 and beyond. The formula-based approach is intended to set a fair return in a credible and transparent manner and to reduce costs to utilities and customers associated with fully litigated GCOC proceedings. The 2024 and beyond GCOC proceeding is scheduled to commence in the third quarter of 2022 and parties are to submit evidence in response to questions posed by the AUC in the fourth quarter of 2022. This proceeding is anticipated to conclude with an oral hearing in the second quarter of 2023.

Revised Tariff Recovery Mechanism for Future AESO Customer Contributions

In April 2021, the AUC issued Decision 26061-D01-2021 confirming that a change to the distribution facility owner ("DFO") tariff recovery mechanism applicable to future AESO customer contribution payments will be applied on a prospective basis. Under the revised tariff recovery mechanism, which is to be applied to all AESO contributions made after the date of the decision, the amounts paid, as well as associated debt financing costs, will be recoverable from customers. The AUC confirmed that any AESO customer contributions made prior to the release of the decision will continue to be treated as rate base additions in accordance with past practice, attracting both an equity and debt return.

A further requirement of Decision 26061-D01-2021 was for DFOs to propose, as part of a standalone proceeding, regulatory accounting treatments to address AESO customer contributions in the post-decision period. In October 2021, the AUC issued Decision 26521-D01-2021 confirming that future AESO customer contributions should be expensed in the year that they are made, effective 2023, and that any required adjustments to annual rates will be implemented as a Y factor, rather than included as an item of rate base. The AUC also established that AESO customer contributions may be eligible for deferral account treatment in years where collection of these amounts would otherwise cause rate shock if immediately expensed.

In 2021, the balance of the Corporation's AESO customer contributions subject to the accounting treatment change were in a liability position because of refunds of AESO customer contribution amounts to FortisAlberta and, in absence of these regulatory decisions, would have been recognized as a credit to property, plant, and equipment. Accordingly, the financial statement impact of these regulatory decisions was an increase of approximately $2.2 million in property, plant, and equipment and an equivalent increase in regulatory liabilities in the fourth quarter of 2021. The regulatory liability is expected to be refunded, including associated carrying costs, through customer rates in 2023.

RESULTS OF OPERATIONS

	Three months ended December 31			Twelve months ended December 31		
($ thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Total revenues	172,185	153,379	18,806	707,735	652,825	54,910
Cost of sales	60,205	55,016	5,189	220,611	204,688	15,923
Depreciation	54,394	41,304	13,090	215,014	197,833	17,181
Amortization	4,051	3,676	375	16,053	14,475	1,578
Other income	898	934	(36)	1,525	1,392	133
Income before interest expense and income tax	54,433	54,317	116	257,582	237,221	20,361
Interest expense	26,084	25,713	371	106,357	103,644	2,713
Income before income tax	28,349	28,604	(255)	151,225	133,577	17,648
Income tax expense (recovery)	5,396	(4,541)	9,937	10,524	774	9,750
Net income	22,953	33,145	(10,192)	140,701	132,803	7,898

The following table outlines net income and significant variances in the Results of Operations for the three months ended December 31, 2021 as compared to December 31, 2020:

Item	Variance ($ millions)	Explanation
Net income	10.2	Net income for the three months ended December 31, 2021, decreased $10.2 million compared to the same period in 2020 primarily due to: • an increase in income tax expense primarily due to the timing and reduction in available tax deductions during the fourth quarter of 2021; and • an increase in cost of sales primarily due to an increase in inventory obsolescence, higher labour costs, and higher fleet operating costs, as well as the timing of incurred expenditures; partially offset by: • an increase in electric rate revenue compared to the same period of 2020 when there was a decrease in revenue associated with the effects of a regulatory decision; • higher other revenue related to the Customer Rights Agreement with the Corporation's RRO retailer EPCOR Energy Alberta GP Inc ("EPCOR"), which came into effect on January 1, 2021; and • rate base growth.
Total revenues	18.8	The increase was primarily due to higher electric rate revenue associated with rate base growth and an increase in revenue for the refund of prior year regulatory liabilities owing to customers in the current period, as well as an increase in other revenue for the Customer Rights Agreement.
Cost of sales	5.2	The increase was primarily due to an increase in inventory obsolescence, higher labour costs, and general operating expenses, driven in part by the timing of expenditures and an increase in fleet costs driven by fuel prices and lower usage for capital-related work.
Depreciation	13.1	The increase was primarily due to a higher depreciable asset base compared to the prior period driven by continued rate base investment, partially offset by a change in estimate to depreciation for AESO contribution investments that was effective in the fourth quarter of 2020.
Income tax expense (recovery)	9.9	The increase is primarily due to the timing and reduction in available tax deductions in the fourth quarter of 2021.

The following table outlines net income and significant variances in the Results of Operations for the twelve months ended December 31, 2021 as compared to December 31, 2020:

Item	Variance ($ millions)	Explanation
Net income	7.9	Net income for the twelve months ended December 31, 2021 increased $7.9 million compared to the same period in 2020 primarily due to an increase in total revenues resulting from: • rate base growth; • electric rate revenue associated with an increase in average energy deliveries from residential customers, primarily due to favourable weather variances and higher customer additions, as well as an increase in demand revenues from small commercial customers; • an increase in electric rate revenue compared to 2020 when there was a decrease in revenue associated with the effects of a regulatory decision; and • other revenue related to the Customer Rights Agreement with the Corporation's RRO retailer which came into effect on January 1, 2021; partially offset by: • an increase in income tax expense due to a reduction in available tax deductions in 2021 compared to the prior year; and • an increase in cost of sales primarily due to an increase in inventory obsolescence, higher contractor costs, and higher labour costs.
Total revenues	54.9	The increase was primarily due to: • higher electric rate revenue due to higher energy deliveries associated with favourable weather variances and an increase in residential customer additions, and higher demand revenues from small commercial customers, partially offset by lower demand revenue from oil and gas industrial customers; and • an increase in other revenue increased primarily due to the recognition of revenue associated with the Customer Rights Agreement with the Corporation's RRO retailer which became effective January 1, 2021 and • rate base growth. Total revenues also increased due to higher franchise fees and linear tax which are flowed through to customers and do not affect net income. Approximately 85% of the Corporation's distribution revenue is derived from fixed or largely fixed billing determinants. Revenue is a function of numerous variables, many of which are independent of actual energy deliveries. However, the change in revenue in the quarter as described above is primarily attributable to energy deliveries that are more variable in nature.
Cost of sales	15.9	The increase was primarily due to an increase in inventory obsolescence, higher contractor costs associated with vegetation management, an increase in fleet costs due to higher fuel costs and operating vehicle usage, and higher labour costs. Additionally, there was an increase in operating expenses for franchise fees and linear tax which are flowed through to customers and do not affect net income.
Depreciation	17.2	The increase was primarily due to a higher depreciable asset base compared to the prior year driven by continued rate base investment and a change in estimate to depreciation for AESO contribution investments that was effective in the fourth quarter of 2020.
Interest Expense	2.7	The increase was primarily due to the issuance of debentures in December 2020, which was used to repay borrowings on credit facilities which carried a lower interest rate, as well as increase in borrowings to support continued investment in the Corporation's capital program.
Income tax expense	9.8	The increase was primarily due to a reduction in available tax deductions during 2021 compared to the prior year.

SUMMARY OF QUARTERLY RESULTS

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

($ thousands)	Total Revenues	Net Income
December 31, 2021	172,185	22,953
September 30, 2021	184,927	46,546
June 30, 2021	176,598	35,993
March 31, 2021	174,025	35,209
December 31, 2020	153,379	33,145
September 30, 2020	168,976	35,271
June 30, 2020	164,210	32,908
March 31, 2020	166,260	31,479

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. While approximately 85% of the Corporation's distribution revenue is derived from fixed or largely fixed billing determinants, seasonality can affect the revenue recognized in the Corporation's quarterly operations. As approved by the AUC, the allowance for funds used during construction ("AFUDC") is recognized in the first and fourth quarters of the year.

December 30, 2021 / 2020

Net income for the three months ended December 31, 2021, decreased $10.2 million compared to the same period in 2020 primarily due to an increase in income tax expense due to the timing and reduction of available tax deductions during the fourth quarter of 2021; and an increase in cost of sales primarily due to higher material costs associated with inventory obsolescence, higher labour costs, and higher fleet operating costs, as well as the timing of incurring expenditures. The decrease in net income was partially offset by an increase in electric rate revenue compared to the same period of 2020 when there was a decrease in revenue associated with the effects of a regulatory decision; higher other revenue related to the Customer Rights Agreement with the Corporation's RRO retailer, and rate base growth.

September 30, 2021 / 2020

Net income for the three months ended September 30, 2021, increased $11.3 million compared to the same period in 2020 primarily due to: (i) an increase in electric rate revenue from residential and small commercial customers, primarily related to favourable weather variances and customer additions; (ii) rate base growth; and (iii) a reduction in cost of sales (before flow through items) due to a decrease in labour costs and vegetation management contractor costs. The increase in quarterly net income also accounts for the reversal of income tax expense that occurred in the fourth quarter of 2020.

June 30, 2021 / 2020

Net income for the three months ended June 30, 2021, increased $3.1 million compared to the same period in 2020. The increase was primarily due to: (i) electric rate revenue related to rate base growth; (ii) higher residential customers; and (iii) other revenue related to the Customer Rights Agreement with the Corporation's RRO retailer, EPCOR, which became effective January 1, 2021. These increases were partially offset by an increase in cost of sales primarily due to an increase in the provision for inventory obsolescence, higher labour costs and an increase in fleet costs due to higher fuel costs and operating vehicle usage.

March 31, 2021 / 2020

Net income for the three months ended March 31, 2021, increased $3.7 million compared to the same period in 2020. The increase was primarily due to an increase in electric rate revenue associated with rate base growth, residential customer additions and higher residential energy deliveries because of weather variances, partially offset by a reduction in demand for commercial and oil and gas customers. In addition, other revenue increased because of the recognition of revenue associated with the Customer Rights Agreement which became effective January 1, 2021. These increases were partially offset by higher cost of sales primarily due to the timing of contractor costs associated with vegetation management and higher depreciation expense due to continued capital investment.

FINANCIAL POSITION

The following table outlines the significant changes in the Balance Sheet between December 31, 2021 and December 31, 2020:

Item	Variance ($ millions)	Explanation
Assets:		
Accounts receivable	(15.4)	The decrease was primarily driven by the volume and timing of collections of transmission-related amounts from customers.
Regulatory assets (current and long-term)	(2.3)	The decrease was primarily due to a decrease in the AESO charges deferral of $32.8 million; partially offset by an increase of $31.5 million in the deferred income tax regulatory asset.
Property, plant and equipment, net	125.8	The increase was primarily due to continued investment associated with the Corporation's capital expenditure program, partially offset by depreciation and customer contributions.
Intangible assets, net	12.5	The increase was primarily due to continued investment in computer software, partially offset by amortization.
Liabilities and Shareholder's Equity:		
Accounts payable and other current liabilities	(9.1)	The decrease was primarily driven by lower amounts payable to the AESO for customer transmission charges.
Regulatory liabilities (current and long-term)	14.7	The increase was primarily due to increases in the non-asset retirement obligation provision of $25.8 million and the AESO charges deferral of $5.2 million, partially offset by a decrease in the incremental capital deferral of $14.9 million.
Other liabilities	(5.3)	The decrease is primarily related to the amortization of payment received from EPCOR in 2020 for the rights to provide the regulated retail option services to the Corporation's eligible customers under the Customer Rights Agreement.
Deferred income tax	31.6	The increase was primarily due to higher deductible temporary differences relating to capital asset expenditures and changes in regulatory deferral accounts.
Debt (including short-term borrowings)	17.7	The increase was primarily due to an increase in short-term borrowings under the committed credit facility to finance the debt component of the Corporation's capital program.
Total shareholder's equity	56.7	The increase was due to earnings of $140.7 million less dividends paid of $85.0 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 December 31			Twelve months ended December 31		
($ thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Cash, beginning of period	—	610	(610)	611	607	4
Cash from (used in):						
Operating activities	158,125	151,342	6,783	412,506	325,357	87,149
Investing activities	(99,603)	(103,220)	3,617	(345,062)	(383,421)	38,359
Financing activities	(58,522)	(48,121)	(10,401)	(68,055)	58,068	(126,123)
Cash [(1)], end of period	—	611	(611)	—	611	(611)

(1) *Cash is comprised of restricted cash.*

Operating Activities

For the three months ended December 31, 2021, net cash provided from operating activities was $6.8 million higher compared to the same period in 2020. The increase was primarily due to changes in regulatory deferral accounts, including those related to AESO transmission charges and supply transmission service costs, and changes in accounts payable due to payment of transmission costs to AESO. This is partially offset by the decrease in net earnings and the receipt of $52.4 million in December 2020 associated with the Customer Rights Agreement.

For the twelve months ended December 31, 2021, net cash provided from operating activities was $87.1 million higher compared to the same period in 2020. The increase was primarily due to changes in the AESO transmission charges and the supply transmission service costs deferral accounts; the timing and amount of transmission costs payable to the AESO; and an increase in net earnings. This is partially offset by the receipt of $52.4 million in December 2020 associated with the Customer Rights Agreement.

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 and/or capital expenditures.

Investing Activities

	Three months ended December 31			Twelve months ended December 31		
($ thousands)	**2021**	**2020**	**Variance**	**2021**	**2020**	**Variance**
Capital expenditures:						
Sustainment [(1)(5)]	54,069	54,392	(323)	191,097	173,027	18,070
Customer growth [(2)]	28,364	22,976	5,388	105,429	101,740	3,689
Externally driven [(3)(5)]	20,865	19,744	1,121	53,501	57,974	(4,473)
AESO contributions [(4)]	1,825	3,132	(1,307)	(103)	39,359	(39,462)
Gross capital expenditures	105,123	100,244	4,879	349,924	372,100	(22,176)
Less: customer contributions	(10,654)	(7,942)	(2,712)	(35,615)	(34,140)	(1,475)
Net capital expenditures	94,469	92,302	2,167	314,309	337,960	(23,651)
Adjustment to net capital expenditures for:						
Indirect capitalized overhead	7,593	6,477	1,116	28,193	26,928	1,265
Non-cash working capital	(9,411)	(1,438)	(7,973)	3,701	(13,637)	17,338
Costs of removal, net of salvage proceeds	1,910	5,551	(3,641)	16,083	24,463	(8,380)
Capitalized depreciation, capital inventory, AFUDC and other	5,040	328	4,712	(17,224)	7,707	(24,931)
Cash used in investing activities	99,601	103,220	(3,619)	345,062	383,421	(38,359)

(1) *Includes planned maintenance, urgent replacements, Supervisory Control and Data Acquisition (SCADA), facilities, vehicles, and information technology.*

(2) *Includes new customer connections.*

(3) *Includes upgrades associated with substations, line moves, new connections for independent power producers, and capacity increases.*

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

(5) *Certain comparative amounts for the prior year have been reclassified to conform to the current year's presentation.*

For the three months ended December 31, 2021, net cash used in investing activities decreased by $3.6 million as compared to the same period in 2020 primarily due to a decrease in non-cash working capital and an increase in salvage proceeds. Gross capital expenditures were higher primarily due to an increase in customer growth driven mainly by residential-related expenditures.

For the twelve months ended December 31, 2021, net cash used in investing activities decreased $38.4 million as compared to the same period in 2020. Gross capital expenditures were lower primarily due to a decrease in AESO contribution expenditures and externally driven capital related to reductions in line moves, upgrades associated with substations and capacity increases, partially offset by increases in sustainment capital associated with planned maintenance and software, customer growth mainly driven by small commercial-related expenditures, and changes in non-cash working capital. In addition, there were higher capital inventory expenditures during 2020.

It is expected that ongoing capital expenditures will be financed through a combination of cash flow from operations, proceeds from the issuance of long-term debt, borrowings on the committed credit facility, and equity contributions from Fortis via FAHI.

2021 sustainable investments

Included in the 2021 gross capital expenditures are approximately: (i) $9 million of expenditures to enable the integration and connection of renewable energy resources, including distributed energy resources and independent power producers, which enable the connection of wind and solar energy-producing facilities to the distribution system and support a reduction in carbon emissions; (ii) $3 million related to wildfire mitigation in the Corporation's service territory; and (iii) $5 million to support the Waterton Battery Energy Storage Project ("Waterton Project") which utilizes a battery energy storage system and an advanced distribution controls system to facilitate reliable access to the grid and provide economic and social benefits to the community.

The Waterton Project will enable the Corporation to test the technology, economics and collective distribution grid benefits of solar power system, utility scale battery storage, smart inverter, SCADA, and grid operating systems. The Corporation was awarded $3 million in total funding for the Waterton Project from Alberta Innovates, Emissions Reduction Alberta, and the Department of Natural Resources Renewable Energy and Smart Grid Deployment Programs, all of which support utilities in reducing carbon emissions and optimizing electricity usage while encouraging innovation.

Capital Expenditures Forecast

The Corporation's 2022 forecast of gross capital expenditures is approximately $445 million, inclusive of allowance for funds used during construction and capitalized overheads and excluding customer contributions in aid of construction. The 2022 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, ability to procure materials and engage contractors, and other factors that could cause actual results to differ from forecast.

2022 sustainable investments

Included in the 2022 projected gross capital expenditures forecast are approximately (i) $7 million of expenditures to enable the integration and connection of renewable energy resources, including distributed energy resources and independent power producers, which enable the connection of wind and solar energy-producing facilities to the distribution system and support a reduction in carbon emissions; and (ii) $4 million related to wildfire mitigation in the Corporation's service territory.

Financing Activities

For the three months ended December 31, 2021, cash from financing activities decreased $10.4 million compared to the same period in 2020 as there was an increase in cash from operating activities available to finance the investing activities in 2021. During the three months ended December 31,2021, the Corporation paid dividends of $21.3 million (2020 - $20.0 million) to its parent company FAHI.

For the twelve months ended December 31, 2021, cash from financing activities decreased $126.1 million compared to the same period in 2020 as there was an increase in cash from operating activities available to finance the reduced investing activities in 2021. During the twelve months ended December 31,2021, the Corporation paid dividends of $85.0 million (2020 - $80.0 million) to its parent company FAHI.

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 wholesale purchase and retail sale of electricity, to eligible customers under a regulated rate option and as a default supplier to customers otherwise unable to obtain electricity services. In May 2019, the Corporation entered an arrangement whereby it continues to convey these obligations to EPCOR under an eight-year Customer Rights Agreement beginning in 2021. The Agreement provides for successive options to renew every three-years after the initial eight-year term. In December 2019, the AUC issued Decision 24839-D01-2019 approving those aspects of the Agreement that require regulatory approval, being the provision of regulated rate option electricity services. In December 2020, the Corporation received an upfront payment of $52.4 million from EPCOR pursuant to the terms of the Agreement.

CONTRACTUAL OBLIGATIONS

The Corporation's contractual obligations as at December 31, 2021 were as follows:

	Total	2022	2023	2024	2025	2026	> 2026
Principal payments on long-term debt (1)	$ 2,360,000	—	—	150,000	—	—	2,210,000
Interest payments on long-term debt	2,212,695	105,930	105,930	105,930	100,980	100,980	1,692,945
Operating leases	601	253	128	130	90	—	—
Other commitments (2)(3)	50,777	5,243	4,322	3,284	2,231	2,231	33,466
Total	$ 4,624,073	111,426	110,380	259,344	103,301	103,211	3,936,411

(1) *Payments are shown exclusive of discounts.*

(2) *The Corporation and an Alberta transmission service provider have entered into an agreement to allow for joint attachments of distribution facilities to the transmission system. The agreement remains in effect, in perpetuity, until the Corporation no longer has attachments to the transmission system. Due to the unlimited duration of this contract, the calculation of future payments after year 2026 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indeterminable period.*

(3) *Other contractual obligations include performance and restricted share unit obligations, defined benefit pension contributions, and operating leases for facilities and office premises. During the third quarter of 2020, the Corporation filed an actuarial valuation of the defined benefit component of the pension plans for funding purposes as at December 31, 2019 with Alberta Finance. The actuarial valuation set the minimum funding contributions for 2020 through 2022 at approximately $0.6 million per year.*

CAPITAL MANAGEMENT

The Corporation's objective when managing capital is to ensure ongoing access to capital to allow it to build and maintain the electric 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 December 31	2021		2020	
	$ millions	%	$ millions	%
Total debt	2,406.6	59.6	2,388.8	60.3
Shareholder's equity	1,629.5	40.4	1,572.8	39.7
	4,036.1	100.0	3,961.6	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 December 31, 2021, the Corporation was in compliance with these externally imposed capital requirements.

In July 2021, the Corporation renegotiated and amended its syndicated credit facility, extending the maturity date of the facility to August 2026 from August 2024. The amended agreement contains substantially similar terms and conditions as the previous agreement.

As at December 31, 2021, the Corporation had an unsecured committed credit facility with an available amount of $250.0 million maturing in August 2026. Borrowings on 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 twelve months ended December 31, 2021, on the committed credit facility was 2.2% (2020 - 2.6%). As at December 31, 2021, the Corporation had $51.0 million drawn on the committed credit facility (December 31, 2020 - $37.0 million) and $0.3 million drawn in letters of credit (December 31, 2020 - $0.4 million).

CREDIT RATINGS

Debentures issued by the Corporation are rated by DBRS Morningstar and Standard and Poor's ("S&P"). The ratings assigned to the debentures issued by the Corporation are reviewed by these agencies on an ongoing basis.

The table below summarizes the ratings assigned to the Corporation's debentures as at December 31, 2021:

Rating Agency	Credit Rating	Type of Rating	Outlook
DBRS Morningstar	A (low)	Senior Unsecured Debt	Stable
S&P	A-	Senior Unsecured Debt	Stable

During 2021, DBRS Morningstar and S&P issued updated credit rating reports confirming the Corporation's rating and outlook.

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 $0.3 million as at December 31, 2021 (December 31, 2020 – $0.4 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 at December 31:

($ thousands)	2021	2020
Accounts receivable		
Loans *(1)*	37	31
Related parties	1	4
	38	35
Accounts payable and other current liabilities		
Related parties (2)	1,281	2,445

(1) *These loans are to officers of the Corporation for employee share purchase plan loans.*

(2) *This reflects charges from related parties associated with information technology services.*

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

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

	Three months ended December 31		Twelve months ended December 31	
($ thousands)	2021	2020	2021	2020
Included in other revenue *(1)*	140	24	528	241
Included in cost of sales *(2)*	900	1,241	4,928	4,927
Included in interest expense *(3)*	—	—	185	512

(1) *Includes services provided to related parties for information technology, material sales and intercompany employee services.*

(2) *Includes charges from related parties for corporate governance expenses, information technology services, consulting services, travel and accommodation expenses, charitable donations, membership fees and professional development costs.*

(3) *Reflects interest expense paid on demand notes from Fortis.*

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

FINANCIAL INSTRUMENTS

The following table represents the fair value measurements of the Corporation's financial instruments as at December 31:

Long-term debt ($ thousands)	2021	2020
Fair value [(1)]	2,873,390	3,098,239
Carrying value [(2)]	2,358,757	2,358,721

[(1)] *The fair value of the long-term debt was estimated using level 2 inputs. It is calculated using indicative prices provided by a third party for the same or similarly rated issues of debt with similar maturities. Since the Corporation does not intend to settle the long-term debt prior to maturity, the excess of the estimated fair value above the carrying value does not represent an actual liability.*

[(2)] *Carrying value is presented gross of debt issuance costs of $15,959 (December 31, 2020 – $16,386).*

The fair value of the Corporation's financial instruments reflects 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. The Corporation's critical accounting estimates are discussed below.

The Corporation considered the impact of the COVID-19 pandemic on critical accounting estimates and there were no material impacts on the financial results for the three and twelve months ended December 31, 2021.

Regulation

Generally, the accounting policies of the Corporation are subject to examination and approval by the AUC. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected for entities not subject to rate regulation. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustment, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. The final amounts approved by the AUC for deferral as regulatory assets and liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are recognized in the period they become known.

Revenue Recognition

Revenues are recognized as earned, at AUC approved rates where applicable, including amounts recognized on an accrual basis for services rendered but not yet billed. The unbilled revenue accrual at the end of each period is based on the difference between the forecast revenue and the actual amounts billed. The development of the revenue forecast is based upon numerous assumptions such as energy deliveries, customer sites, economic activity and weather conditions.

Expense Accruals

Expenses and liabilities are recognized as incurred, including amounts recognized on an accrual basis for expenses or liabilities incurred but not yet invoiced. These accruals are made based upon estimates of the value of services rendered or goods received that are not yet invoiced, or for liabilities incurred.

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. Management annually assesses if updates are required to depreciation and amortization rates based on changes in capital asset balances and new information related to the service life of assets.

Income Tax

Income tax is determined based on estimates of the Corporation's current income tax and estimates of deferred income tax resulting from temporary differences between the carrying value of assets and liabilities in the financial statements and their income tax values. A deferred income tax asset or liability is determined for each temporary difference based on enacted income tax rates and laws in effect when the temporary differences are expected to be recovered or settled. Uncertainty associated with the application of tax statutes and regulations and the outcome of tax audits and appeals, requires that judgments and estimates be made in the accrual process and in the calculation of effective tax rates. Income tax benefits associated with income tax positions taken, or expected to be taken, on an income tax return are recognized only when the more likely than not threshold is met. The income tax benefits are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Unrecognized tax benefits are evaluated quarterly, and changes are recorded based on new information, including issuance of relevant guidance by the courts or tax authorities and developments occurring in examinations of the Corporation's tax returns. Administrative actions of the tax authorities, changes in tax law or regulation, and the uncertainty associated with the application of tax statutes and regulations could change the Corporation's estimate of income taxes, including the potential for elimination or reduction to realize tax benefits.

Pension and Other Post-Employment Benefits

The Corporation's defined benefit pension plans and the other post-employment benefit plan are subject to judgments utilized in the actuarial determination of the expense and the related obligation. The primary assumptions utilized by management in determining the expense and obligation are the discount rate and the expected long-term rate of return on plan assets. Other assumptions utilized are the average rate of compensation increase, average remaining service life of the active employee group, employee and retiree mortality rates, extended health care trend rate and dental care cost trend rate. All assumptions are assessed and concluded on, in consultation with the Corporation's external actuarial advisor.

Discount rates, which are used to determine the projected benefit obligation, reflect market interest rates on high quality bonds with cash flows that match the timing and amount of expected pension benefit payments. This methodology is consistent with that used to determine the discount rates in the previous year.

Consistent with prior years, the Corporation's third-party actuary provides a range of expected long-term pension asset returns based on the actuary's internal modeling. The expected long-term return on pension plan assets used falls within a normal range as provided by the actuary.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets on the acquisition of a business. The goodwill recognized in the financial statements primarily results from push-down accounting applied when the Corporation was acquired by Fortis in 2004, as well as goodwill recognized through historical REA and municipality acquisitions. Goodwill, which is not amortized, is recorded at initial cost less any write-down for impairment.

The carrying value of goodwill is assessed for impairment annually, or more frequently if events or changes in circumstances arise that suggest the carrying value of goodwill may be impaired. If that is the case, goodwill is written down to estimated fair value and an impairment loss is recognized. No such event or change in circumstances occurred during the twelve months ended December 31, 2021.

The Corporation's assessment of impairment of goodwill is performed annually in August and indicated that no impairment was required for the years ended December 31, 2021 and 2020.

Contingencies

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations. It is management's judgment that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial statements.

CHANGES IN ACCOUNTING POLICIES

Simplifying the Accounting for Income Taxes

Effective January 1, 2021, the Corporation adopted the applicable sections of Accounting Standards Update ("ASU") 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes, which provided amendments to reduce complexity in the accounting standard. The ASU was adopted using a prospective approach and did not have a significant effect on the recognition and measurement of the Corporation's current and deferred income taxes in the current period.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Corporation considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The Corporation has assessed the ASUs issued and determined the ASUs to be either not applicable to the Corporation or not expected to have a material impact on the financial statements.

OTHER DEVELOPMENTS

Collective Agreement

The Corporation's three-year Collective Agreement with the United Utility Workers' Association ("UUWA"), who represent approximately 77% of the Corporation's employees, expired on December 31, 2020. In July 2021, the Corporation and the UUWA negotiated a new two-year Collective Agreement, which the membership ratified in August 2021. The Collective Agreement expires on December 31, 2022.

Corporate Income Tax Audit

The Corporation is currently undergoing a corporate income tax audit of its 2016, 2017 and 2018 tax years by the Canada Revenue Agency ("CRA"). The Corporation continues to work through certain tax matters with the CRA. At December 31, 2021, there are no changes to the Corporation's existing tax positions. The Corporation will continue to assess whether there are material impacts to the financial statements as future processes unfold with the tax authorities.

BUSINESS RISK AND RISK MANAGEMENT

Regulatory

The regulated operations of the Corporation are subject to the uncertainties faced by regulated utility companies. Those uncertainties include whether customer rates approved by the AUC will provide a reasonable opportunity to the Corporation for recovery of the estimated costs of providing utility services, including a fair return on the portion of approved rate base funded by the equity component of the capital structure, on a timely basis. 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 through regulatory 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. The AUC is reviewing the cost of capital for distribution utilities in Alberta through a GCOC Proceeding for 2023 and beyond and the regulatory decision could have a material adverse impact on the Corporation.

The fundamental risk faced by all regulated utilities is that the regulator-approved rates will not provide sufficient revenue to recover all the costs associated with providing service. 2022 is the final year of the second PBR term, which provides for a formula that determines annual customer rates, and as such 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 the incremental capital funding mechanism; and (iv) that material unforeseen costs will be incurred and that they will not qualify, or be approved, as a Z factor.

For 2023 and beyond, the Corporation is subject to recovery risk regarding the Corporation's 2023 COS Application proceeding, the parameters and formulas established as part of a third term of PBR beginning in 2024, and the costs of service attributable to REAs. The resolution for each of these regulatory matters, either individually or in aggregate, could have a material adverse impact on the Corporation.

Governments and regulator may not be aligned on climate mandates, creating risk for the Corporation as it incurs expenditures in the future to adapt to climate change. Strong engagement with the regulator will be necessary to mitigate the potential financial risks related to the recovery of future climate-related expenditures or potential stranded costs.

The Corporation's rate base, including the cost of replacement or upgrades to existing facilities and the addition of new facilities, continue to require the approval of the AUC. 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.

Regulated Rate Option

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 wholesale purchase and retail 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 and default provider. As a result of this appointment, EPCOR assumed all of the Corporation's contractual rights and obligations in respect of the provision 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 be required to administer these responsibilities by adding staff, facilities, and/or equipment, as necessary.

Utility Asset Disposition ("UAD")

The Corporation is exposed to the risk that the unrecovered costs associated with utility assets subsequently deemed by the AUC to have been subject to an extraordinary retirement, including removals from service resulting from sudden obsolescence, will not be recoverable from customers. This exposure persists in the wake of the AUC's Decision 2013-417 (the "UAD Decision") and the previous provincial government's decision to remove portions of Bill 13, An Act to Secure Alberta's Energy Future, which were intended to address utility asset disposition related risks by legislative means. As a result, the Corporation is exposed to the risk that the unrecovered costs associated with utility assets subsequently deemed by the AUC to have been subject to an extraordinary retirement as contemplated by the UAD Decision, including removals from service resulting from sudden obsolescence, will not be recoverable from customers. Currently, the Corporation has no asset retirements considered to be extraordinary.

Economic Conditions

Alberta's economy is impacted by a number of factors including the level of oil and gas exploration and production activity in the province, which is influenced by the market prices of oil and gas, government mandated oil production limits and access to market. The Corporation's customer base includes oil and gas and large industrial customers, and the effect of government policy and energy transition plans could have an effect on customers' future consumption pattern, which in turn could impact the Corporation's future revenues and investments in electrical distribution infrastructure. A general and extended decline in Alberta's economy would be expected to have the effect of reducing requests for electricity service over time and may increase the number of salvaged sites. Significantly reduced requests for services in the Corporation's service areas and existing customers reduced demand and energy consumption could materially reduce the Corporation's revenues and its capital spending forecast. A reduction in capital spending would, in turn, affect the Corporation's rate base and earnings growth.

Approximately 85% of the Corporation's distribution revenue is derived from fixed or largely fixed billing determinants. However, the Corporation's revenues and capital program in future years may be impacted by a reduction in requests for electricity service, an increased number of salvaged sites, and reduced demand and energy consumption.

Economic Impacts of the COVID-19 Pandemic

In March 2020, the World Health Organization declared COVID-19 a pandemic. The result was significant disruptions to businesses, including the closure of non-essential businesses and educational institutions, the imposition of travel restrictions, and a global economic slowdown. The COVID-19 pandemic is an evolving situation that has caused volatility in capital markets and adversely impacted economic activity and conditions around the world. The timing, availability and administration of vaccines are expected to affect the duration and extent of the pandemic. There continues to be uncertainty surrounding the pandemic, particularly the resurgences of variants of the virus and the efficacy and distribution of COVID-19 vaccines. The impact of the COVID-19 pandemic on the Corporation's operational and financial performance is expected to evolve through the duration of the pandemic. While the following potential impacts to the Corporation may not materialize or significantly change, they are being considered and monitored. At the time of filing this MD&A, potential areas that could be impacted include, but are not limited to, availability of personnel, energy usage and revenues, customer retention, the timing of capital expenditures, supply chain, the amount and timing of operating and maintenance expenses, timing of regulatory filings and accounts receivable valuation. The COVID-19 pandemic continues to create uncertainty and risk around global supply chain which could potentially impact many areas of the Corporation, including the ability to deliver its capital plan.

Counterparty risk with retailer billings arising from the COVID-19 pandemic is mitigated through the Corporation obtaining an acceptable form of prudential, which includes a cash deposit, a letter of credit, an investment grade credit rating from a major rating agency, or a financial guarantee from an entity with an investment grade credit rating. Accordingly, the Corporation does not expect a significant change in risk related to its retailer billings. The Corporation continues to provide safe and reliable electric service to customers, restrict business travel, and allow employees and contractors who can remain off-site to continue to do so by working remotely.

The duration and extent of the pandemic will continue to inform the Corporation's assessment of the financial impacts on its operations, financial condition and liquidity. At the time of filing this MD&A, there is uncertainty around both the duration and the extent of the virus' impact and therefore it is unclear as to whether the COVID-19 pandemic will have a material adverse effect on the Corporation.

Supply Chain Risk

The Corporation procures a variety of materials and services for execution of its capital expenditure programs and operating activities from a variety of third parties. Global supply chain shortages in varying raw materials and labour across multiple industries can lead to price increases and extending lead times from vendors. Supply chain shortages can be driven by a wide variety of macroeconomic factors such as the global COVID-19 pandemic and geopolitical tariffs, as well as extreme weather events. Supply chain disruptions could negatively impact the Corporation's ability to deliver on its projected capital expenditures, which has the potential to impact the completion of sustainment and externally driven or customer growth capital projects, and operating activities.

The Corporation actively manages the procurement of related materials and services to mitigate significant delays in forecasted expenditures by increasing lead-times for orders and arranging bulk purchases amongst the Fortis utilities.

Loss of Service Areas

The Corporation serves customers residing within various municipalities throughout its service areas. Periodically, municipal governments in Alberta consider creating their own electricity distribution utilities by purchasing the assets of the Corporation located within their municipal boundaries. Upon the termination 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 based upon replacement cost less depreciation and to be as agreed to by the Corporation and the municipality. Failing an agreement between the parties, the price is to be determined by the AUC.

Additionally, under the HEEA, if a municipality that owns an electricity 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 based on replacement cost less depreciation. Given the historical population and economic growth of Alberta and its municipalities, the Corporation is occasionally affected by transactions of this type.

Within certain portions of the Corporation's service area that overlaps with REAs, consumers who chose to voluntarily become members have the right to obtain electric distribution service from an REA as defined in the integrated operating agreements between the Corporation and those REAs.

In general, eligibility criteria originally limited the provision of service to REA members whose land is used for agricultural activity. However, because of the outcome of an arbitration completed in 2016 between the Corporation and EQUS REA, Ltd. ("EQUS"), an integrated operating agreement was established between the Corporation and EQUS that does not contain eligibility criteria. As currently framed, the integrated operating agreement with EQUS may result in consumers choosing to receive service from EQUS in overlapping areas, where they previously would have been obligated to take service, except agricultural/farm service, from the Corporation.

The consequence to the Corporation of a municipality purchasing its distribution assets or the loss of the opportunity to serve consumers receiving distribution services from a REA would be a reduction in revenue associated with the loss of these customers and the consequent transfer of assets.

Government Policies Impacting the Electricity Industry

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.

Governments are implementing carbon reduction and renewable energy targets to combat climate change. Governments and regulator may not be aligned on climate mandates, creating risk for electric utilities. There is risk for the inability of the Corporation and/or its customers to keep pace with climate targets established by governments. Strong engagement with various levels of government will be necessary to mitigate the potential financial risks related to the cost recovery of climate-related expenditures or potential stranded costs.

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 all anticipated capital expenditures and the repayment of all outstanding liabilities when due. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including regulatory approval or exemption, the regulatory environment in Alberta, regulatory decisions regarding capital structure and ROE, the results of operations and financial position of the Corporation and Fortis, conditions in the capital and bank credit markets, the ratings assigned by credit rating agencies, and general economic conditions. There can be no assurance that sufficient and cost-effective capital will be available on acceptable terms to fund capital expenditures and repay existing debt. Volatility in the global financial and capital markets may increase the cost and impact the timing of debt issuances by the Corporation. The Corporation actively monitors the debt markets to appropriately plan, access, and execute financing options.

Insurance Coverage

The Corporation always maintains insurance coverage 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.

Global trends have changed insurance premiums, coverages and access to different groupings of insurance based upon claim levels seen in the insurance market. With the number of insurance incidents observed globally, the cost of insurance has increased and the ability to access markets has become more difficult. The Corporation participates in a Fortis-wide insurance program, to access the insurance markets as a collective group of companies to obtain appropriate terms.

In the event of a material uninsured loss or liability, the Corporation may apply to the AUC to recover such losses through customer rates. However, in light of the AUC's UAD Decision, there is a risk that such losses could be deemed an "extraordinary retirement" and that any unrecovered costs associated with the loss of utility assets would not be recoverable from customers.

Continued Reporting in Accordance with US GAAP

In December 2017, the OSC approved the extension of the Corporation's exemptive relief order which permits the Corporation to continue reporting in accordance with US GAAP, until the earliest of: (i) January 1, 2024; (ii) the first day of the financial year that commences after the Corporation ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the IASB for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation.

In January 2021, the IASB issued an Exposure Draft which is expected to result in a permanent mandatory standard specific to entities with activities subject to rate regulation. If OSC relief does not continue as detailed above, the Corporation would then be required to become a United States Securities and Exchange Commission registrant to continue reporting under US GAAP, otherwise the Corporation would be required to adopt IFRS.

The IASB continues to consider the feedback on the Exposure Draft and an effective date for a mandatory standard has not yet been established. The impact of a future standard on the Corporation cannot be assessed at this time.

Operating and Maintenance

The Corporation is required to operate and maintain its electric distribution system in a manner that enables the provision of safe and reliable utility service to customers and that will ensure the safety of employees, contractors and the general public. An inability to discharge these responsibilities may result in material adverse consequences for the Corporation.

The Corporation's distribution assets require normal course maintenance, improvement and replacement in accordance with applicable standards. The Corporation determines expenditures that must be made to maintain and replace equipment to ensure the continued safe and reliable operation of its distribution assets. An inability on the part of the Corporation to perform required work in a timely manner may result in increased costs and service disruptions for customers.

Longer-term shifts in climate patterns are expected to impact system and operational planning. Improving the stability of the distribution system requires proactive planning by stakeholders across the value chain. Capital investment and design standards will have to address long-term climate changes in various climate scenarios. Operationally, long-term changes in climate patterns may negatively impact asset performance. This could negatively impact reliability. Engineering design standards will continue to evolve to create a distribution system capable of delivering the clean energy future. These design standard changes will require increased engagement with regulator. Capital investment opportunities will exist to improve system resiliency and to ensure the Corporation's distribution system is able to meet carbon-reduction expectations and anticipated extreme weather.

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. The Corporation's analysis is based on assumptions as to the costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters, all of which are uncertain. If the Corporation's actual costs to provide utility services exceed AUC approved customer rates these additional costs may not be recoverable through rates. An inability to recover these additional costs could have a material adverse effect on the financial condition and results of operations of the Corporation.

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 Utilities Corporation ("TransAlta"). In order for the Corporation to acquire these access permits, both the individual First Nations and Crown-Indigenous Relations 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.

Environmental

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. Expenditures related to environmental compliance are anticipated to increase in the future. In particular, the management of Greenhouse Gases ("GHG") emissions is a global concern due to new and emerging GHG laws, regulations, and guidelines.

The Corporation continues to develop compliance strategies and assess the impact of emerging legislative changes, however significant uncertainties remain.

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 the costs associated with environmental protection, compliance and damage in customer rates; 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, hydraulic 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 equipment failure or human error. The Corporation could be found to be responsible for remediation of contaminated properties, whether 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. The Corporation has an independent external audit completed every three years on the entire EMS to ensure compliance with International Organization for Standardization 14001. The most recent external EMS audit was completed in the third quarter of 2021. As at December 31, 2021, there were no environmental liabilities recorded in the Corporation's financial statements and there were no unrecorded environmental liabilities known to management.

Weather Variability and Climate Change

The Corporation's physical assets are exposed to the effects of severe weather conditions and other acts of nature, some of which could be caused by climate-change. Although the physical assets have been constructed and are operated and maintained to withstand severe weather and other acts of nature, there is no assurance that they will successfully do so in all circumstances. Many of the physical assets are in remote areas that makes 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 may apply to the AUC to recover such losses through customer rates. However, in light of the AUC's UAD Decision there is a risk that such losses could be deemed an "extraordinary retirement" and that any unrecovered costs associated with the loss of utility assets due to severe weather conditions or other acts of nature would not be recovered from customers.

Climate change is expected to lead to more frequent and intense weather events, affect the temperature variability in the Corporation's service territory and cause changes in the consumption pattern of electricity by the Corporation's customers, which in turn could have an impact on customer rates. Responding to climate change could lead to increased costs associated with strengthening of infrastructure to ensure system reliability and resiliency, which in turn could have an impact on customer rates. An increase in the severity and frequency of weather-related events could impact future operating, maintenance, replacement, expansion and removal costs that will be incurred in the ongoing operation of the business.

Under various climate change scenarios, the demand for lower carbon energy is expected to increase and create additional opportunities for the Corporation as electrical distribution infrastructure is expected to be critical to the success in a lower carbon transition. The Corporation may further invest in its distribution infrastructure and new technologies to ensure that service reliability remains consistent.

During 2021, the Corporation participated in climate assessment workshops which examined four different future climate change scenarios. During each workshop, meteorological data such as projected changes in temperature, precipitation patterns, extreme weather events, and other climate outcomes was provided in order to assess physical risks from climate change. This exercise will continue to inform the Corporation around how to manage climate related risks.

Wildfire

Electric distribution facilities have the potential to cause fires because of equipment failure, trees falling on 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. Future climate change scenarios suggest that changes in precipitation that result in droughts could increase the risk of wildfires. The Corporation may become liable for fire suppression costs, regeneration and timber value costs, and third-party claims in connection with fires on land where 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 (the "Crown"), 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. In the absence of 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 February 2021 and effective March 1, 2021.

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.

Information and Operations Technology and Cybersecurity

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 and operations technology systems to external threats poses a risk to the security of these systems and information. Such cybersecurity threats include unauthorized access to information and operations technology systems due to hacking, viruses and other causes that can result in service disruptions, acts of war or terrorism, system failures and the deliberate or inadvertent disclosure of confidential business, employee and customer information.

The Corporation is required to protect information and operations technology systems and to safeguard the confidentiality of business, employee and customer information in order to operate effectively and to comply with regulatory and legal requirements. While the Corporation maintains insurance for costs associated with cybersecurity incidents, the Corporation has security measures, systems, policies and controls designed to protect and secure the integrity of its information and operations technology systems; however, cybersecurity threats frequently change and require ongoing monitoring and detection capabilities. In the event the Corporation's information and operations technology security measures are breached, it could experience service disruptions, property damage, or corruption or unavailability of critical data or confidential business, employee and customer information. A material breach could adversely affect the financial performance of the Corporation, its reputation and standing with customers, regulator, or financial markets and expose it to claims for third-party damage. The financial impact of a material breach in cybersecurity, act of war or terrorism could be material and may not be covered by insurance policies or, in the case of utilities, through regulatory recovery.

Cybersecurity breaches, acts of war or terrorism, grid disturbances or security breaches involving the misappropriation of sensitive, confidential and proprietary customer, employee, financial or system operating information could significantly disrupt the Corporation's business operations and have an adverse effect on its reputation. The Corporation assessed its cybersecurity measures and continues to strengthen and protect the Corporation's technological infrastructure from potential malicious attacks as employees continue to work remotely during the COVID-19 pandemic.

Labour Relations

Approximately 77% of the employees of the Corporation are members of the UUWA. The Corporation's two-year Collective Agreement with the UUWA expires on December 31, 2022. The Corporation considers its relationship with the UUWA to be satisfactory; however, there can be no assurance that current relations will not be impacted through the collective bargaining process. 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 of critical workforce segments in future years. Meeting the capital program and customer expectations could be challenging if the Corporation does not continue to attract, develop and retain qualified personnel.

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.