MANAGEMENT'S REPORT

The accompanying annual financial statements of FortisAlberta Inc. (the "Corporation") have been prepared by management, who are responsible for the integrity of the information presented. These annual financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

In meeting its responsibility for the reliability and integrity of the annual financial statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The systems of the Corporation focus on the need for training of qualified and professional staff and the effective communication of management guidelines and policies. The internal control system also includes an internal audit function and an established code of business conduct. The effectiveness of the internal controls of the Corporation is evaluated on an ongoing basis.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit, Risk and Environment Committee (the "Audit Committee"), which is composed of four members, all of which are independent. The Audit Committee oversees the external audit of the Corporation's annual financial statements and the accounting, financial reporting and disclosure processes and policies of the Corporation. The Audit Committee meets with management, the shareholder's auditors and the internal auditor to discuss the results of the external audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Corporation's annual financial statements are reviewed by the Audit Committee with each of management and the shareholder's auditors before the statements are recommended to the Board of Directors for approval. The shareholder's auditors have full and free access to the Audit Committee.

The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices, which have a material effect on the Corporation's annual financial statements and to review and report to the Board of Directors on policies relating to the accounting, financial reporting and disclosure processes. The Audit Committee has the duty to review financial reports requiring the Board of Directors approval prior to submission to the securities commissions or other regulatory authorities, to assess and review management judgments material to reported financial information and to review the shareholder's auditors' independence and auditors' fees.

The 2013 annual financial statements were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of FortisAlberta Inc. Ernst & Young LLP, independent auditors appointed by the shareholder of FortisAlberta Inc. upon recommendation of the Audit Committee, have performed an audit of the 2013 annual financial statements and their report follows.

(signed)
Karl Smith
President and Chief Executive Officer

(signed)
Ian Lorimer
Vice President, Finance and Chief Financial Officer

February 3, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholder of FortisAlberta Inc.,

We have audited the accompanying financial statements of FortisAlberta Inc. which comprise the balance sheets as at December 31, 2013 and 2012, and the statements of income and comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of FortisAlberta Inc. as at December 31, 2013 and 2012 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Chartered Accountants

February 3, 2014

Calgary, Canada

BALANCE SHEETS

As at December 31 (all amounts in thousands of Canadian dollars)	2013	2012
Assets		
Current assets		
Cash	$ -	$ 44,072
Accounts receivable (notes 3 and 18)	127,906	118,464
Prepaids and deposits	4,370	3,805
Deferred income tax (note 15)	9,853	1,637
Regulatory assets (note 4)	3,017	1,468
	145,146	169,446
Accounts receivable (note 3)	619	691
Income tax receivable	1,538	1,409
Regulatory assets (note 4)	158,130	119,460
Property, plant and equipment (note 5)	2,695,211	2,421,054
Intangible assets (note 6)	48,745	55,387
Transaction costs	11,174	10,304
Goodwill	226,968	226,968
	$ 3,287,531	$ 3,004,719
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings (note 9)	$ 24,830	$ -
Accounts payable and other current liabilities (note 7)	167,758	273,829
Current installments of long-term debt (notes 9 and 17)	200,000	-
Income tax payable	100	1,472
Regulatory liabilities (note 4)	41,510	6,716
	434,198	282,017
Other liabilities (note 8)	19,273	17,532
Regulatory liabilities (note 4)	358,095	351,669
Deferred income tax (note 15)	101,670	68,776
Long-term debt (notes 9 and 17)	1,259,000	1,309,151
	2,172,236	2,029,145
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (2012 - 63) (note 11)	173,848	173,848
Additional paid-in capital (note 12)	639,896	544,896
Accumulated other comprehensive loss (note 13)	(3,187)	(4,176)
Retained earnings	304,738	261,006
	1,115,295	975,574
	$ 3,287,531	$ 3,004,719

Commitments and contingencies (note 16)

Approved on behalf of the Board:

(signed)
Judith Athaide
Director

(signed)
Douglas Haughey
Director

The accompanying notes are an integral part of these annual financial statements.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended December 31 (all amounts in thousands of Canadian dollars)	2013	2012
Revenues		
Electric rate revenue	$ 459,097	$ 425,453
Other revenue	16,581	23,573
	475,678	449,026
Expenses		
Cost of sales (exclusive of items shown separately below)	161,236	158,098
Depreciation	132,341	117,305
Amortization	17,415	15,952
	310,992	291,355
Other income	3,125	3,503
Income before interest expense and income taxes	167,811	161,174
Interest expense (note 10)	73,183	64,700
Income before income taxes	94,628	96,474
Income taxes (note 15)	896	307
Net Income	$ 93,732	$ 96,167
Other comprehensive income		
Reclassification of other post-employment benefit items (note 13)	989	127
Comprehensive Income	$ 94,721	$ 96,294

The accompanying notes are an integral part of these annual financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years ended December 31 (all amounts in thousands of Canadian dollars)		2013		2012
Share Capital (note 11)				
Balance, beginning of year	$	173,848	$	173,848
Share capital issued		-		-
Balance, end of year	$	173,848	$	173,848
Additional Paid-in Capital (note 12)				
Balance, beginning of year	$	544,896	$	544,896
Equity contributions		95,000		-
Balance, end of year	$	639,896	$	544,896
Accumulated Other Comprehensive Loss (note 13)				
Balance, beginning of year	$	(4,176)	$	(4,303)
Reclassification of other post-employment benefit items		989		127
Balance, end of year	$	(3,187)	$	(4,176)
Retained Earnings				
Balance, beginning of year	$	261,006	$	209,839
Net income		93,732		96,167
Dividends (note 11)		(50,000)		(45,000)
Balance, end of year	$	304,738	$	261,006
Total Shareholder's Equity	$	1,115,295	$	975,574

The accompanying notes are an integral part of these annual financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31 (all amounts in thousands of Canadian dollars)	**2013**	**2012**
Operating Activities		
Net income	$ 93,732	$ 96,167
Non-cash items included in net income:		
Depreciation	132,341	117,305
Amortization	18,970	16,643
Deferred income tax	(6,528)	(7,352)
Equity component of allowance for funds used during construction	(3,125)	(3,499)
Gain on sale of property, plant and equipment	-	(4)
Changes in operating assets and liabilities and non-cash working capital balances:		
Current:		
Accounts receivable	(8,134)	23,105
Prepaids and deposits	(565)	926
Income tax receivable and payable	(1,372)	1,570
Regulatory assets	(1,549)	46,356
Accounts payable and other current liabilities	(108,341)	90,326
Regulatory liabilities	34,471	(10,394)
Non-current:		
Income tax receivable	(129)	(129)
Regulatory assets	(7,141)	(12,273)
Other liabilities	1,741	1,362
Regulatory liabilities	(8,112)	41,335
Cash from operating activities	136,259	401,444
Investing Activities		
Property, plant and equipment	(419,224)	(435,655)
Customer contributions for property, plant and equipment	29,019	42,156
Intangible assets	(9,691)	(9,947)
Proceeds from the sale of property, plant and equipment	1,367	1,642
Net change in employee loans	(37)	142
Cash used in investing activities	(398,566)	(401,662)
Financing Activities		
Change in short-term borrowings	4,830	(5,568)
Proceeds from long-term debt, net of issuance costs	148,681	124,002
Net borrowings under committed credit facility	19,724	(29,144)
Dividends paid (note 11)	(50,000)	(45,000)
Equity contributions (note 12)	95,000	-
Cash from financing activities	218,235	44,290
Change in cash and cash equivalents	(44,072)	44,072
Cash and cash equivalents, beginning of year	44,072	-
Cash and cash equivalents, end of year	$ -	$ 44,072

Supplemental cash flow information (note 19)

The accompanying notes are an integral part of these annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

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

The Corporation is regulated by the Alberta Utilities Commission (the "AUC") pursuant to the *Alberta Utilities Commission Act* (the "*AUC Act*"). The AUC's jurisdiction, pursuant to the *Electric Utilities Act* (the "*EUA*"), the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation including the rates and terms and conditions on which service is to be provided by those utilities.

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. (''Fortis''), which is a diversified, international electricity and gas distribution utility holding company having investments in distribution, transmission and generation utilities, real estate and hotel operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures with respect to contingent assets and liabilities at the date of the financial statements, and the amount of revenues and expenses during the reported periods. 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 adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Significant accounting estimates made by management include income taxes, contingent liabilities due to general litigation, depreciation, amortization, employee future benefits, goodwill impairment, accrued revenue, expense accruals and other items impacted by regulation. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated.

(b) Regulation

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*. The AUC administers these acts and regulations covering such matters as revenue requirements, customer rates, construction of assets, operations and financing. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using US GAAP for entities not subject to rate regulation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Regulation (cont'd)

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

(c) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments with original maturities of three months or less.

(d) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are measured at fair value and are reported at the gross outstanding amount adjusted for an allowance for doubtful accounts if necessary. Accounts receivable are subsequently measured at amortized cost, using the effective interest method. Accounts receivable are written off in the period in which the receivable is determined to be uncollectible. If required, the Corporation maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information. Interest is charged on overdue accounts receivable balances.

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. The cost of constructed assets includes direct labour, materials, allocated overhead, and a portion of the depreciation of assets, such as tools and vehicles, used in the construction of other assets. Costs also include Alberta Electric System Operator ("AESO") contributions which are investments that the Corporation is required to make as a transmission customer to partially fund the construction of transmission facilities. Certain of the Corporation's assets may be acquired or constructed with financial assistance in the form of contributions from customers. These contributions are recorded as a reduction of property, plant and equipment and are depreciated over the life of the related assets. Materials and supplies are included within property, plant and equipment and are recorded at moving average cost.

Depreciation is provided on a straight-line basis at various rates ranging from 1.88% to 43.17% in 2013 (2012 - 1.88% to 43.17%) as approved by the AUC, based on depreciation studies prepared by the Corporation. Changes to depreciation rates approved by the AUC are accounted for on a prospective basis. Depreciation rates include an amount allowed for regulatory purposes for non-asset retirement obligation ("non-ARO") removal costs. The amount provided for in depreciation expense is recorded as a long-term regulatory liability. Actual non-ARO removal costs are recorded against the regulatory liability when incurred.

Generally, when a regulated asset is retired or disposed of, there is no gain or loss recorded in net income. Any difference between the cost and accumulated depreciation of the asset, net of salvage proceeds, is charged to accumulated depreciation. It is expected that any gain or loss that is charged to accumulated depreciation will be reflected in future depreciation expense when it is refunded or collected in customer rates.

The Corporation capitalizes and includes in property, plant and equipment an allowance for funds used during construction ("AFUDC"), which represents an amount allowed for regulatory purposes for financing costs during construction. AFUDC is recovered in customer rates over the life of the assets through depreciation expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Intangible Assets

Intangible assets subject to amortization are recorded at cost, which includes direct labour and allocated overhead, less accumulated amortization. Intangible assets not subject to amortization are recorded at cost. Costs incurred to renew or extend the term of intangible assets are capitalized and amortized over the useful life of the asset.

Amortization is provided on a straight-line basis at various rates ranging from 2.88% to 43.04% in 2013 (2012 - 2.88% to 43.04%) as approved by the AUC, based on amortization studies prepared by the Corporation. Changes to amortization rates approved by the AUC are accounted for on a prospective basis.

Generally, when a regulated asset is retired or disposed of, there is no gain or loss recorded in net income. Any difference between the cost and accumulated amortization of the asset, net of salvage proceeds, is charged to accumulated amortization. It is expected that any gain or loss that is charged to accumulated amortization will be reflected in future amortization expense when it is refunded or collected in rates.

The Corporation capitalizes and includes in intangible assets an AFUDC, which represents an amount allowed for regulatory purposes for financing costs during construction. AFUDC is recovered in customer rates over the life of the assets through amortization expense.

(g) Impairment of Long-Lived Assets

The Corporation reviews the valuation of long-lived assets subject to depreciation or amortization when events or changes in circumstances may indicate or cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss, if any, would be recorded as the excess of the carrying value of the asset over its fair value.

(h) Asset Retirement Obligations

Asset retirement obligations ("AROs") related to the Corporation's distribution assets are recorded at fair value in the period in which they are incurred, unless the fair value cannot be reasonably determined. If a liability is recognized, a corresponding asset retirement cost is added to the carrying amount of the related long-lived asset, and is depreciated over the estimated useful life of the related asset. Accretion of the liability due to the passage of time is an operating expense, and is recorded over the estimated time period until settlement of the legal obligation. The Corporation has AROs associated with the removal of certain distribution system assets from rights-of-way at the end of the life of the assets. As it is expected that these assets will be in service indefinitely, an estimate of the fair value of asset removal costs cannot be reasonably determined at this time.

(i) Goodwill

Goodwill represents the excess, at the date of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to the business acquisition. Goodwill is recorded at initial cost less any previous amortization and any write-down for impairment. The goodwill recognized in the financial statements results from push-down accounting applied when the Corporation was acquired by Fortis in 2004.

The Corporation is required to perform an annual impairment test and any impairment provision is charged to net income. In conducting the annual impairment test the Corporation has the option of performing a qualitative assessment before calculating fair value. If the qualitative factors indicate that fair value is 50% or more likely to be greater than the carrying value, a calculation of fair value is not required. In addition to the annual impairment test, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value of the goodwill was below its carrying value. No such event or changes in circumstances occurred during 2013 or 2012 and no impairment provisions were required in either year.

As at October 1, 2013 a full impairment valuation of the fair value of the Corporation was completed by an independent external consultant and the fair value was determined to be in excess of carrying value. It was concluded that goodwill was not impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Employee Future Benefits

All accrued obligations for defined benefit pension and other post-employment benefit ("OPEB") plans are determined using the projected benefits method prorated on services. Future salary levels affect the amount of employee future benefits for the defined benefit pension plans. In valuing the OPEB and defined benefit pension costs, the Corporation uses management's best estimate assumptions. For the liability discount rate, the Corporation uses the long-term market rate of high quality debt instruments at the measurement date. The Corporation uses third party quoted values to value plan assets. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized into net income over the expected average remaining service period of the active employees receiving benefits under the plan. Unamortized past service costs are amortized into net income over the expected average remaining service period of the active employees receiving benefits as at the date of amendment.

The funded status of defined benefit pension and OPEB plans are recognized on the balance sheet. The funded status is measured as the difference between the fair value of the plan assets and the benefit obligation. With respect to the defined benefit plans, any unrecognized actuarial gains and losses and past services costs and credits that arise during the period are subject to deferral treatment. In the case of the OPEB plan, unrecognized actuarial gains and losses and past services costs and credits are not subject to deferral treatment and are recognized as a component of other comprehensive income ("OCI").

The Corporation recovers in customer rates employee future benefit costs based on estimated cash payments. Any difference between the expense recognized under US GAAP for defined benefit pension plans and that recovered in current rates, which is expected to be recovered or refunded in future rates, is subject to deferral treatment. Any difference between the expense recognized under US GAAP for the OPEB plan and that recovered in current rates, which is expected to be recovered or refunded in future rates, is not subject to deferral treatment.

(k) Revenue Recognition

Revenues are recognized in the period services are provided, at AUC-approved rates where applicable, and when collectability is reasonably assured.

According to the *EUA*, the Corporation is required to arrange and pay for transmission service with the AESO and collect transmission revenue from its customers, which is done by invoicing the customers' retailers through the Corporation's transmission component of its AUC-approved rates. As the Corporation is solely a distribution company, and as such does not own or operate any transmission facilities, it is largely a conduit for the flow through of transmission costs to the end-use customers as the transmission facility owner does not have the direct relationship with the customers. As a result, the Corporation reports revenues and expenses related to transmission services on a net basis in other revenue.

(l) Goods and Services Tax

In the course of its operations, the Corporation collects goods and services tax ("GST") from its customers. When customers are billed, a current liability for GST is recognized which corresponds to the revenue derived from the services provided by the Corporation. When expenses are incurred by the Corporation, a current asset for GST is recorded which corresponds to the expenditures derived from the goods or services received by the Corporation. The Corporation's revenues and expenses exclude GST. This net asset or liability is settled with the appropriate government authority.

(m) Leases

Leases that transfer to the Corporation substantially all of the risks and benefits incidental to ownership of the leased item are capitalized at an amount equal to the present value of the minimum lease payments. Capital leases are amortized over the term of the lease. Operating lease payments are recognized as an expense in net income over the term of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial instruments are recorded initially at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Subsequent measurement depends on how the financial instrument has been classified. The Corporation's financial instruments, which include accounts receivable, accounts payable, accrued liabilities, short-term borrowings, dividends payable, other long-term liabilities and long-term debt are measured at amortized cost, using the effective interest method.

(o) Transaction Costs

The Corporation incurs transaction costs when entering into or renewing debt agreements. Transaction costs are deferred on the balance sheet when incurred and amortized to interest expense using the effective interest method over the life of the associated debt.

(p) Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes in accordance with ASC 740, *Income Taxes*. Income tax expense is recovered through customer rates based on income taxes that are currently payable for regulatory purposes. Therefore, current customer rates do not include the recovery of deferred income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in rates when they become payable. The Corporation recognizes an offsetting regulatory asset for the amount of income taxes that are expected to be collected in rates once they become payable.

Income tax interest and penalties are expensed as incurred and included in interest expense. Investment tax credits are deducted from the related assets and are recognized as a reduction of tax expense as the Corporation becomes taxable for rate setting purposes.

Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recognized only when the more likely than not recognition threshold is met. The tax benefits are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The difference between a tax position taken, or expected to be taken, and the benefit recognized and measured pursuant to this guidance represents an unrecognized tax benefit.

(q) Changes in Accounting Policies

Effective January 1, 2013, the Corporation prospectively adopted Accounting Standards Update 2013-02 which amended ASC 220, *Comprehensive Income*. The amendments improve the reporting of reclassifications out of accumulated other comprehensive income ("AOCI") and require entities to report, in one place, information about reclassifications out of AOCI and to disclose additional information about changes in AOCI balances by component and significant items reclassified out of AOCI. An entity must now disaggregate the total change of each component of OCI and separately present reclassification adjustments and current period OCI. The amendments did not have a material effect on the Corporation's financial statements for the year ended December 31, 2013.

3. ACCOUNTS RECEIVABLE

	2013	2012
Trade accounts receivable	$ 126,295	$ 116,279
Related parties (note 14)	643	1,142
Employee receivables	667	563
Other receivables	920	1,171
Total receivables	128,525	119,155
Less: current portion	127,906	118,464
Total non-current receivables	$ 619	$ 691

4. REGULATORY ASSETS AND LIABILITIES

Based on previous, existing or expected AUC decisions, the Corporation has recorded the following amounts that are expected to be recovered from, or refunded to, customers in future periods. The remaining recovery and settlement periods are those expected and the actual recovery or settlement periods could differ based on future AUC decisions.

	2013	2012	Remaining Recovery Period (Years)
Regulatory assets			
Deferred income taxes (i)	$ 110,477	$ 78,949	Life of related assets
Deferred overhead (ii)	43,061	32,321	Life of related assets
Regulatory defined benefit pension deferrals (iii)	4,766	6,058	Benefit payment period
Y factor deferrals (iv)	1,136	1,151	1
A1 rider deferral (v)	885	2,236	1
2013 distribution adjustment rider deferral (vi)	822	-	1
AESO charges deferral (vii)	-	213	-
Total regulatory assets	161,147	120,928	
Less: current portion	3,017	1,468	
Long-term regulatory assets	$ 158,130	$ 119,460	

	2013	2012	Remaining Settlement Period (Years)
Regulatory liabilities			
Non-ARO removal cost provision (viii)	$ 322,793	$ 308,254	Life of related assets
AESO charges deferral (vii)	73,281	43,798	1-4
Y factor deferrals (iv)	2,850	5,317	1-2
Deferred income taxes (i)	572	250	Life of related assets
K factor deferral (ix)	73	-	1-2
A1 rider deferral (v)	36	766	1-2
Total regulatory liabilities	399,605	358,385	
Less: current portion	41,510	6,716	
Long-term regulatory liabilities	$ 358,095	$ 351,669	

(i) Deferred income taxes

This balance represents the amount of future income taxes expected to be recovered from, or refunded to, customers in future rates when the income taxes become receivable or payable.

(ii) Deferred overhead

This balance represents deferred overhead costs that are expected to be collected from customers over the life of the related property, plant and equipment.

(iii) Regulatory defined benefit pension deferrals

This balance represents the deferred portion of the expense related to the defined benefit pension plan and the supplemental pension plan that is expected to be recovered from customers in future rates. Once recovered in rates, these deferred expenses will be recognized in net income. As prescribed by the AUC, expenses are recovered in rates and recognized in net income based on the cash payments.

(iv) Y factor deferrals

These balances relate to the future recovery or settlement of items determined to flow through directly to customers. Certain of the 2012 regulatory assets and liabilities are now considered Y factor deferrals.

4. REGULATORY ASSETS AND LIABILITIES (cont'd)

(v) A1 rider deferral

This balance represents the difference between the A1 rider revenue, which is the collection of linear taxes from customers in current rates based on municipality, and the actual linear tax incurred that is expected to be collected from customers in future rates. To the extent that the amount of revenue collected in rates for these items does not exceed actual costs incurred, the difference is deferred as a regulatory asset to be collected from customers in future rates. To the extent that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability to be refunded to customers in future rates. This balance is not subject to a regulatory return.

(vi) 2013 distribution adjustment rider deferral

This balance represents the recognition of the Corporation's revenue impact for the first quarter of 2013 associated with the combined inflation and productivity factor in the PBR formula. This balance is not subject to a regulatory return.

(vii) AESO charges deferral

This balance represents expenses incurred in excess of revenue collected for various items, such as transmission costs incurred and flowed through to customers, that are expected to be collected in future customer rates. To the extent that the amount of revenue collected in rates for these items exceeds actual costs incurred, the excess is deferred as a regulatory liability to be refunded in future rates. As at December 31, 2013, the regulatory liability primarily represented the over collection of the AESO charges deferral accounts for 2011, 2012 and 2013.

(viii) Non-ARO removal cost provision

This balance represents the difference between actual non-ARO removal costs incurred and those collected in customer rates. Depreciation expense includes an allowed provision for the collection of non-ARO removal costs from customers. The amount collected from customers is credited to this deferral account while actual removal costs incurred are charged to this deferral account.

(ix) K factor deferral

This balance represents the over collection of the approved placeholder for the 2013 K factor amount.

5. PROPERTY, PLANT AND EQUIPMENT

The cost and accumulated depreciation amounts are those used for regulatory rate setting purposes.

2013	Cost	Accumulated Depreciation	Net Book Value
Distribution system	$ 3,559,544	$ (1,057,839)	$ 2,501,705
AESO contributions	363,434	(26,911)	336,523
Buildings and furniture	147,584	(50,759)	96,825
Vehicles	75,000	(22,292)	52,708
Materials and supplies	44,200	-	44,200
Computer hardware	23,050	(7,222)	15,828
Tools and instruments	19,051	(8,867)	10,184
Land	13,220	-	13,220
Construction in progress	55,741	-	55,741
Customer contributions	(779,833)	348,110	(431,723)
	$ 3,520,991	$ (825,780)	$ 2,695,211

5. PROPERTY, PLANT AND EQUIPMENT (cont'd)

2012	Cost	Accumulated Depreciation	Net Book Value
Distribution system	$ 3,297,333	$ (1,006,363)	$ 2,290,970
AESO contributions	214,319	(15,334)	198,985
Buildings and furniture	133,833	(48,092)	85,741
Vehicles	76,158	(18,369)	57,789
Materials and supplies	39,507	-	39,507
Computer hardware	27,384	(14,340)	13,044
Tools and instruments	18,391	(7,791)	10,600
Land	13,220	-	13,220
Construction in progress	133,207	-	133,207
Customer contributions	(759,098)	337,089	(422,009)
	$ 3,194,254	$ (773,200)	$ 2,421,054

Depreciation rates are a composite rate based upon the weighted average of the individual rates for each class of asset within the group, and were as follows:

(%)	2013	2012
Distribution system	3.72	3.73
AESO contributions	4.01	2.99
Buildings and furniture	3.51	3.59
Vehicles	10.62	10.83
Computer hardware	21.56	23.73
Tools and instruments	10.00	9.85
Customer contributions	2.66	2.64

Distribution system assets are those used to distribute electricity at lower voltages (generally below 25 kilovolts). These assets include poles, towers and fixtures, low-voltage wires, transformers, underground conductors, street lighting, meters, metering equipment and other related equipment.

6. INTANGIBLE ASSETS

The cost and accumulated amortization amounts are those used for regulatory rate setting purposes.

2013	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 98,829	$ (60,119)	$ 38,710
Land rights	16,240	(6,205)	10,035
	$ 115,069	$ (66,324)	$ 48,745

2012	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 92,936	$ (47,066)	$ 45,870
Land rights	15,271	(5,754)	9,517
	$ 108,207	$ (52,820)	$ 55,387

6. INTANGIBLE ASSETS (cont'd)

Computer software is amortized using a composite rate based upon the weighted average of the individual rates for each class of asset within the group. Land rights are amortized on a straight-line basis over the term of the contract. The amortization rates of intangible assets were as follows:

(%)	2013	2012
Computer software	18.14	17.62
Land rights	2.87	2.86

The service life ranges of intangible assets and the weighted-average remaining service lives of intangible asset acquisitions during the years ended were as follows:

	2013		2012	
(Years)	Service Life Ranges	Weighted Average Remaining Service Life of Acquisitions	Service Life Ranges	Weighted Average Remaining Service Life of Acquisitions
Computer software	5-10	5.8	5-10	6.8
Land rights	36	35.5	36	35.5
Total	5-36	7.8	5-36	12.6

The Corporation's estimated aggregate amortization expense for each of the next five years is expected to be approximately $19.3 million.

7. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	2013	2012
Trade accounts payable	$ 129,439	$ 242,770
Interest payable	17,954	15,796
Employee compensation and benefits payables	18,973	14,220
Other	1,392	1,043
	$ 167,758	$ 273,829

8. OTHER LIABILITIES

	2013	2012
OPEBs (note 13)	$ 10,023	$ 10,149
Defined benefit liability (note 13)	4,591	5,908
Deferred lease revenue	4,535	1,475
Other	124	-
	$ 19,273	$ 17,532

The Corporation entered into a 20-year lease agreement with a third party in 2012 which permits the third party to use a portion of one the Corporation's facilities. Pursuant to the terms of the lease agreement, the Corporation received upfront payments of $1.5 million and $3.3 million in 2012 and 2013, respectively. The third party occupied the premise in the fourth quarter of 2013 and, as such, the deferred lease revenue is now being recognized as other revenue on a straight-line basis over the lease term.

9. DEBT

	Coupon Rate (%)	Maturity Date (Year)	2013 Effective Rate (%)	2013	2012
Senior unsecured debentures					
Series 04-1	5.33	2014	5.47	$ 200,000	$ 200,000
Series 04-2	6.22	2034	6.31	200,000	200,000
Series 06-1	5.40	2036	5.48	100,000	100,000
Series 07-1	4.99	2047	5.04	109,894	109,893
Series 08-1	5.85	2038	5.94	99,513	99,504
Series 09-1	7.06	2039	7.15	99,988	99,988
Series 09-2	5.37	2039	5.42	124,948	124,948
Series 10-1	4.80	2050	4.85	124,914	124,913
Series 11-1	4.54	2041	4.59	124,981	124,980
Series 12-1	3.98	2052	4.02	124,926	124,925
Series 13-1	4.85	2043	4.90	149,836	-
Drawings under the committed credit facility	Variable	2018		20,000	-
Cash balances in overdraft position	N/A	2014		4,830	-
Total debt				1.483.830	1,309,151
Current installments of long-term debt				(200,000)	-
Short-term borrowings				(24,830)	-
Long-term debt				$ 1,259,000	$ 1,309,151

Under the Terms and Conditions of the Trust Indenture, the Corporation has the option to call the outstanding debentures in whole, or in part, for early redemption for the principal amount redeemed plus a redemption premium if applicable. The debentures have semi-annual interest payments.

In September 2013, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation sold $150.0 million of senior unsecured debentures, Series 13-1. Proceeds of the issue were used to repay existing indebtedness incurred under the committed credit facility to finance capital expenditures and for general corporate purposes.

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

As at December 31, 2013, the Corporation had an unsecured committed credit facility with an available amount of $250.0 million maturing in August 2018. Drawings under the committed credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans bear an interest rate of prime and bankers' acceptances are issued at the applicable bankers' acceptance discount rate plus a stamping fee of 1.0%. The weighted average effective interest rate for the year ended December 31, 2013 on the committed credit facility was 2.2% (2012 - 2.3%). As at December 31, 2013 there were $20.0 million in drawings under the committed credit facility (December 31, 2012 - nil) and $0.2 million drawn in letters of credit (December 31, 2012 - $0.4 million).

The Corporation has externally imposed capital requirements by virtue of the Trust Indenture and the committed credit facility that limit the amount of debt that can be incurred relative to equity. The Corporation was in compliance with these externally imposed capital requirements for the year ended December 31, 2013.

Scheduled principal repayments in each of the next five years are as follows:

2014	$ 200,000
2015	-
2016	-
2017	-
2018	-

10. INTEREST EXPENSE

	2013	2012
Interest - long-term debt	$ 74,684	$ 67,653
Interest - other	1,234	227
Less: AFUDC	(2,735)	(3,180)
	$ 73,183	$ 64,700

Transaction costs are amortized using the effective interest method over the life of the associated debt. Interest expense on long-term debt included $552 related to amortization of transaction costs in 2013 (2012 - $552).

11. SHARE CAPITAL

Authorized – unlimited number of:

- Common shares
- Class A common shares
- First Preferred non-voting shares, redeemable, cumulative dividend at 10% of the redemption price. Subject to applicable law, the Corporation shall have the right to redeem, at any time, all or any part of the then outstanding first preferred shares for $348.9 million together with any accrued and unpaid dividends up to the redemption date.

Issued:

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

In 2013, the Corporation declared and paid dividends totaling $50.0 million (2012 - $45.0 million) to Fortis Alberta Holdings Inc., the Corporation's parent and an indirectly wholly owned subsidiary of Fortis.

The Corporation must comply with the *Alberta Business Corporations Act* (the "*ABCA*") legislation and the terms and conditions of the committed credit facility and Trust Indenture in order to declare and pay dividends. In order to be compliant, the Corporation must be solvent as defined by the *ABCA* and cannot be in default of the committed credit facility or Trust Indenture as defined by their respective agreements. As at December 31, 2013 the Corporation was in full compliance with the solvency requirements of the *ABCA* and the terms and conditions set out in the committed credit facility and Trust Indenture agreements and was not subject to dividend declaration or payment restrictions.

12. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital relates to the pushdown of the excess purchase price paid over the carrying value paid by the Corporation's parent on acquisition of the Corporation and equity contributions from Fortis Alberta Holdings Inc. for which no additional shares were issued. In 2013, the Corporation received $95.0 million in equity contributions from Fortis Alberta Holdings Inc. (2012 - nil).

13. EMPLOYEE FUTURE BENEFITS

Description

The Corporation sponsors a pension plan with a defined contribution and a funded defined benefit component. The defined contribution component is applicable to the majority of the Corporation's employees and is available to all new employees. The defined benefit component is applicable to certain long-service employees and is closed to new employees. The defined contribution component is based on a percentage of pensionable earnings, which includes base pay and eligible bonuses, while the defined benefit component is based on final average pensionable earnings. The Corporation also provides an unfunded OPEB plan that includes certain health and dental coverage provided to retired employees and an unfunded supplemental defined benefit pension plan provided to eligible employees.

The most recent actuarial valuation of the defined benefit component of the pension plan for funding purposes was completed as of December 31, 2012. Information from the funding valuation was used in the actuarial valuation completed for expense calculation purposes. The next actuarial valuation for funding purposes is required to be completed as of a date no later than December 31, 2015.

13. EMPLOYEE FUTURE BENEFITS (cont'd)

Plan Asset Information

The Corporation's objectives are to minimize the volatility of the value of plan assets relative to the pension plan liabilities and to ensure that the assets are sufficient to pay plan benefits. The Corporation's target asset allocations are 100% debt instruments. This allocation has been made to ensure the objectives set out are met, while minimizing risk.

Significant concentrations of risk in the plan assets relate to interest rates on the instruments held. Rate increases generally result in a decline in fixed income assets while reducing the present value of the liabilities. Conversely, rate decreases increase fixed income assets, partially offsetting the related increase in the liabilities.

The long-term rate of return on plan assets assumed for 2013 was 3.45% (2012 - 3.45%). This assumption considers inflation, bond yields, historical returns and other variables.

The fair value of plan assets as at December 31, 2013 and 2012 were as follows:

	2013	2012
Government bonds	$ 22,915	$ 26,328
Corporate bonds	7,277	4,981
Total [1]	$ 30,192	$ 31,309

Note:

[1] *The fair value of the plan assets was estimated using level 2 inputs based on third party quoted values.*

Included in the corporate bonds class of plan assets as at December 31, 2013 were $149 (December 31, 2012 - $186) of FortisAlberta Inc. bonds and $184 (December 31, 2012 - $161) of related party bonds.

Reconciliation of Funded Status

	Defined Benefit Pension Plans		OPEB Plan	
	2013	2012	2013	2012
Change in benefit obligation [1]				
Balance, beginning of year	$ 37,367	$ 33,863	$ 10,900	$ 10,212
Current service cost	1,080	938	564	511
Interest cost	1,273	1,527	377	406
Member contributions	38	42	-	-
Benefits paid	(1,495)	(1,357)	(370)	(391)
Actual expenses paid	(356)	(333)	-	-
Net transfer in	-	13	-	-
Actuarial (gain) loss	(2,949)	2,674	(1,932)	162
Past service cost - plan amendments	-	-	1,229	-
Balance, end of year [2]	$ 34,958	$ 37,367	$ 10,768	$ 10,900
Change in fair value of plan assets				
Balance, beginning of year	$ 31,309	$ 27,141	$ -	$ -
Employer contributions	2,848	4,515	370	391
Member contributions	38	42	-	-
Benefits paid	(1,495)	(1,357)	(370)	(391)
Actual return on plan assets	(2,152)	1,288	-	-
Actual plan expenses	(356)	(333)	-	-
Net transfer in	-	13	-	-
Balance, end of year	$ 30,192	$ 31,309	$ -	$ -
Funded status	$ (4,766)	$ (6,058)	$ (10,768)	$ (10,900)

Notes:

[1] *Amounts reflect projected benefit obligation for defined benefit pension plans and accumulated benefit obligation for the OPEB plan.*

[2] *The accumulated benefit obligation for defined benefit pension plans, which includes no assumption about future salary levels, was $34.3 million as at December 31, 2013 (December 31, 2012 - $36.5 million).*

13. EMPLOYEE FUTURE BENEFITS (cont'd)

Amounts Recognized on the Balance Sheet

	Defined Benefit Pension Plans		OPEB Plan	
	2013	2012	2013	2012
Accounts payable and other current liabilities (note 7)	$ (175)	$ (150)	$ (745)	$ (751)
Other liabilities (note 8)	(4,591)	(5,908)	(10,023)	(10,149)
Net liabilities	$ (4,766)	$ (6,058)	$ (10,768)	$ (10,900)

Expected Benefits Payments

The following table provides the estimated expected benefits to be paid over the next ten years.

	Defined Benefit Pension Benefits	OPEB Benefits
2014	$ 1,669	$ 745
2015	1,837	863
2016	1,853	987
2017	2,039	1,151
2018	2,154	1,298
2019 - 2023	11,507	5,726

Pension Plan Contributions

The Corporation estimates that total contributions of $1.6 million will be made towards the defined benefit pension plans and $0.7 million towards the OPEB plan in 2014.

Costs Recognized

For defined benefit pension plans, the difference between the expense recognized under US GAAP and that recovered in current rates is subject to deferral treatment and is expected to be recovered or refunded in future rates. For the OPEB plan the difference between the expense recognized under US GAAP and that recovered in current rates is not subject to deferral treatment.

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
	2013	2012	2013	2012
Service cost	$ 1,080	$ 938	$ 564	$ 511
Interest cost	1,273	1,527	377	406
Expected return on plan assets	(1,094)	(962)	-	-
Amortizations:				
Past service cost	80	80	158	158
Actuarial loss	1,686	1,401	128	131
Net benefit cost recognized	3,025	2,984	1,227	1,206
Regulatory adjustments	(175)	1,531	-	-
Net benefit cost recognized in financial statements	2,850	4,515	1,227	1,206
Defined contribution cost	7,859	7,516	-	-
Total employee future benefit cost	$ 10,709	$ 12,031	$ 1,227	$ 1,206

13. EMPLOYEE FUTURE BENEFITS (cont'd)

Accumulated Other Comprehensive Loss

The following table provides the components of accumulated other comprehensive loss that have not been recognized as components of net benefit cost.

	Defined Benefit Pension Plans		OPEB Plan	
	2013	2012	2013	2012
Actuarial loss	$ (6,514)	$ (7,903)	$ (696)	$ (2,756)
Past service cost	(9)	(89)	(2,491)	(1,420)
Accumulated other comprehensive loss	(6,523)	(7,992)	(3,187)	(4,176)
Regulatory adjustment	6,523	7,992	-	-
Accumulated other comprehensive loss	$ -	$ -	$ (3,187)	$ (4,176)

Past service costs of $9 and actuarial losses of $1,118 are expected to be amortized from accumulated other comprehensive income into net benefit cost in 2014 related to the defined benefit pension plans.

Past service costs of $253 and actuarial losses of nil are expected to be amortized from accumulated other comprehensive income into net benefit cost in 2014 related to the OPEB plan.

Other Comprehensive Income

The following table provides the components recognized in other comprehensive income.

	Defined Benefit Pension Plans		OPEB Plan	
	2013	2012	2013	2012
Net actuarial (loss) gain arising during the year	$ (297)	$ (2,348)	$ 1,932	$ (162)
Past service cost - plan amendments	-	-	(1,229)	-
Amortizations:				
Past service cost	80	80	158	158
Actuarial loss	1,686	1,401	128	131
Other comprehensive income (loss)	1,469	(867)	989	127
Regulatory adjustment	(1,469)	867	-	-
Total other comprehensive income	$ -	$ -	$ 989	$ 127

Weighted-Average Assumptions

	Defined Benefit Pension Plans		OPEB Plan	
	2013	2012	2013	2012
Discount rate during the year	3.90%	4.50%	3.40%	3.90%
Discount rate as at December 31	4.90%	3.90%	4.10%	3.40%
Expected long-term rate of return on plan assets	3.45%	3.45%	-	-
Rate of compensation increase	3.25%	3.25%	-	-
Initial weighted average health care trend rate during the year	-	-	6.40%	6.40%
Initial weighted average health care trend rate at December 31	-	-	6.30%	6.40%
Ultimate weighted average health care trend rate	-	-	5.00%	5.00%
Year ultimate rate reached	-	-	2027	2027

2013 Effects of Changing the Health Care Trend Rate by 1%

	1% Increase in Rate	1% Decrease in Rate
Increase (decrease) in projected benefit obligation	422	(399)
Increase (decrease) in interest and current service costs	49	(45)

14. RELATED PARTY TRANSACTIONS

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

	2013	2012
Accounts receivable		
Housing loans [(1)]	$ 600	$ 670
Housing equity advance	-	435
Other loans [(2)]	21	18
Related parties	22	19
	$ 643	$ 1,142
Accounts payable and other current liabilities		
Related parties	$ 1	$ 2

Notes:

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

[(2)] *These loans are to officers of the Corporation and include stock option loans, employee share purchase plan loans and employee personal computer purchase program loans.*

The Corporation bills related parties on terms and conditions consistent with billings to third parties. These require amounts to be paid on a net 30 day basis with interest on overdue amounts charged at a rate of 1.5% per month (19.56% per annum). Terms and conditions on amounts billed to the Corporation by related parties are net 30 days with interest being charged on any overdue amounts.

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

	2013	2012
Included in other revenue [(1)]	$ 152	$ 218
Included in cost of sales [(2)]	3,219	3,412

Notes:

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

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

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

15. INCOME TAXES

Deferred income taxes arise as a result of temporary differences between the tax basis of assets and liabilities and their carrying amount for regulatory purposes. Deferred income tax assets and liabilities were comprised of:

	2013	2012
Deferred income tax assets (liabilities):		
Net regulatory liabilities	$ 18,746	$ 11,853
OPEB liability	3,589	3,633
Intangible assets	9,703	4,137
Property, plant and equipment	(120,215)	(83,440)
Net regulatory assets	(268)	(279)
Transaction costs	(2,859)	(2,574)
Income tax credits	(513)	(469)
Net deferred income tax liability	$ (91,817)	$ (67,139)
Current deferred income tax asset	$ 9,853	$ 1,637
Long-term deferred income tax liability	(101,670)	(68,776)
Net deferred income tax liability	$ (91,817)	$ (67,139)

Components of the income tax expense (recovery) were as follows:

	2013	2012
Current income tax expense	$ 7,424	$ 7,659
Deferred income tax expense before adjustment	24,460	24,796
Regulatory adjustment for the recovery of deferred income taxes in future customer rates	(30,988)	(32,148)
Deferred income tax recovery	(6,528)	(7,352)
Total income taxes	$ 896	$ 307

Income taxes differ from the amount that would be expected if determined by applying the enacted Canadian federal and provincial statutory income tax rates to income before income taxes. The following is a reconciliation of the combined statutory income tax rate to the Corporation's effective income tax rate.

	2013	2012
Income before income taxes per financial statements	$ 94,628	$ 96,474
Statutory income tax rate	25.0%	25.0%
Income taxes, at statutory income tax rate	$ 23,657	$ 24,118
Difference between capital cost allowance and amounts claimed for accounting purposes	13,092	10,982
Items capitalized for accounting purposes but expensed for income tax purposes	(36,480)	(34,381)
Non-deductible expenses	305	268
Difference between employee future benefits paid and amounts expensed for accounting purposes	255	204
Other	67	(884)
Income taxes	$ 896	$ 307
Effective income tax rate	0.9%	0.3%

As at December 31, 2013, the Corporation had no non-capital loss carry forwards (December 31, 2012 - nil).

As at December 31, 2013, total investment tax credits receivable related to the acquisition of assets were $1.5 million (December 31, 2012 - $1.4 million). These credits are subject to carry forward and expire between 2026 and 2033.

For regulatory reporting purposes, the tax value of certain property, plant and equipment at the Corporation is higher than for legal entity corporate income tax filing purposes. In a future reporting period, the difference may result in higher corporate income tax expense than that recognized for regulatory rate setting purposes and collected in customer rates.

15. INCOME TAXES (cont'd)

Taxation years 2007 and prior are no longer subject to examination in Canada. An examination of the open tax years subsequent to 2007 by the Canada Revenue Agency could result in a change in the liability for unrecognized tax benefits. The Corporation does not believe that any open tax years could result in any adjustments that would be significant to the financial statements. The Corporation does not have any unrecognized tax benefits as at December 31, 2013 and as such has not accrued any associated interest or penalties.

16. COMMITMENTS AND CONTINGENCIES

As at December 31, 2013, the Corporation's commitments in each of the next five years and thereafter are as follows:

	Total	2014	2015	2016	2017	2018	> 2018
Principal payments on long-term debt [1]	$ 1,459,000	200,000	-	-	-	-	1,259,000
Interest payments on long-term debt	1,868,337	77,537	66,876	66,876	66,877	66,877	1,523,294
Operating leases and other obligations	58,989	5,706	5,243	3,290	2,807	2,763	39,180
Total	$ 3,386,326	283,243	72,119	70,166	69,684	69,640	2,821,474

Note:

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

Operating Leases and Other Contractual Obligations

The Corporation has operating leases for facilities and office premises. Rental expense was $1,078 in 2013 (2012 - $1,106).

The Corporation and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Corporation no longer has attachments to the transmission system. Due to the unlimited term of this contract, the calculation of future payments after 2017 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. In addition, the Corporation and an Alberta transmission service provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. During the fourth quarter of 2013 the Corporation withdrew its notice to terminate these service agreements and reinstated the minimum expiry terms of five years from September 1, 2010, subject to extension based on mutually agreeable terms.

In accordance with the latest actuarial valuation for funding purposes as at December 31, 2012, the Corporation is required to make defined benefit pension contributions of $1.6 million in each of 2014 and 2015.

Legal Proceedings

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

Capital Expenditures

As an electric utility, the Corporation is obligated to provide service to customers within its service territory. As such, the Corporation may be required to incur capital expenditures in excess of that which has been forecast in its regulatory applications.

17. FAIR VALUE MEASUREMENTS

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement is required to reflect the assumptions that market participants would use in pricing a financial asset or financial liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists which prioritizes the inputs used to measure fair value.

The three levels of the fair value hierarchy are defined as follows:

Level 1: Fair value determined using unadjusted quoted prices in active markets;
Level 2: Fair value determined using pricing inputs that are observable; and
Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

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

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

Long-term debt (including current installments)	2013	2012
Fair value [1]	$ 1,618,054	$ 1,609,235
Carrying value	1,459,000	1,309,151

Note:
[1] *The fair value of the long-term debt was estimated using level 2 inputs based on the indicative prices for the same or similarly rated issues for debt of the same remaining maturities.*

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

Derivatives

The Corporation currently does not have any stand-alone derivative instruments as defined under ASC 815, *Derivatives and Hedging*.

The Corporation conducted a review of contractual agreements for embedded derivatives. Under ASC 815, a derivative must meet three specific criteria to be accounted for under this standards codification. For contracts entered into by the Corporation, all potential embedded derivatives reviewed by the Corporation were closely related with the economic characteristics and risks of the underlying contract, had no notional amount that could be used to measure the instrument, or had no value.

The Corporation currently does not enter into derivative financial instruments to reduce exposure to any of the risks impacting operations. The Corporation enters into financial instruments to finance operations in the normal course of business.

18. FINANCIAL RISK MANAGEMENT

Exposure to credit risk, interest rate risk and liquidity risk arises in the normal course of the Corporation's business.

Credit Risk

The Corporation has a concentration of credit risk as a result of its distribution service billings being to a relatively small group of retailers, or counterparties. Counterparty credit risk is the financial risk associated with the non-performance of contractual obligations by counterparties. The Corporation extends credit to select counterparties in the normal course of business.

The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The following table provides information on the counterparties that the Corporation extends credit to with respect to its distribution tariff billings as at December 31, 2013.

Credit Rating	Number of Counterparties	Gross Exposure	Net Exposure
AAA to AA (low)	2	$ 1,402	$ -
A (high) to A (low)	8	36,017	-
BBB (high) to BBB (low)	8	8,530	-
Not rated	31	60,310	1,073
Total	49	$ 106,259	$ 1,073

Gross exposure represents the projected value of retailer billings over a 37-day period. The Corporation is required to minimize its net exposure to retailer billings by obtaining an acceptable form of prudential, which includes a cash deposit, bond, letter of credit, an investment grade credit rating from a major rating agency, or a financial guarantee from an entity with an investment grade credit rating.

Retailers with investment grade credit ratings have the net exposure shown as nil since the credit rating serves to reduce the amount of prudential. For retailers that do not have an investment grade credit rating, the net exposure is calculated as the projected value of billings over a 37-day period less the prudential held by the Corporation. The Corporation assesses non-retailer billings on an individual basis for collectability and these billings are not subject to obtaining prudential.

Factors such as volatility in the global capital markets and a slowdown in the Alberta economy could cause a reduction in the credit quality of some of the Corporation's customers. In the event that the prudential obtained by the Corporation is not sufficient to cover a loss due to non-payment from the Corporation's counterparties, the Corporation would review all other options available to collect the non-payment; however, these options would not ensure that a loss could be avoided.

The accounts receivable of the Corporation are not impaired and the aging analysis of current accounts receivable, excluding GST receivable, was as follows:

	2013	2012
Not past due	$ 124,061	$ 110,647
Past due 0-60 days	2,040	3,911
Past due 61 days and over	886	2,735
Total	$ 126,987	$ 117,293

Interest Rate Risk

Interest rate risk is the financial risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's debentures bear fixed interest expense which is recovered in current distribution rates, thereby minimizing cash flow variability due to interest rate exposures. Any new issues of fixed rate debentures by the Corporation within the five-year PBR term would be exposed to cash flow variability to the extent that the inflation and productivity factor of the PBR formula may not fully provide for the interest expense. The fair value of the Corporation's current fixed rate debentures fluctuates as market interest rates change; however, the Corporation plans to hold these debentures until maturity thereby mitigating the risk of these fluctuations. The drawings under the Corporation's committed credit facility are at current market short-term interest rates, exposing the Corporation to some cash flow risk, but minimal fluctuations in fair value.

18. FINANCIAL RISK MANAGEMENT (cont'd)

Interest Rate Risk (cont'd)

The Corporation's committed credit facility has interest rate and fee components that are sensitive to the Corporation's credit ratings. The Corporation is rated by DBRS and Standard and Poor's ("S&P") and a change in rating by either of these rating agencies could potentially increase or decrease the interest expense of the Corporation. As at December 31, 2013, the Corporation was rated by DBRS at A (low) and by S&P at A-. The Corporation discontinued its engagement with Moody's Investors Service in the first quarter of 2013.

In December 2013, following the announcement by Fortis that it had entered into an agreement to acquire UNS Energy Corporation, S&P revised its outlook on Fortis and, as a result of this, placed the Corporation's credit rating on credit watch with negative implications.

Liquidity Risk

Liquidity risk is the financial risk that the Corporation will encounter challenges in meeting obligations associated with financial liabilities. The Corporation anticipates it will be able to meet interest payments on outstanding indebtedness from internally generated funds but expects to rely upon the proceeds of new indebtedness to meet the principal obligations when due. The number of years to maturity of the principal outstanding and interest payments on the Corporation's long-term debt as at December 31, 2013 are summarized in note 16 above.

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. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

To mitigate this risk, the Corporation has an unsecured committed credit facility to support short-term financing of capital expenditures and seasonal working capital requirements. For further information on the committed credit facility, refer to note 9.

19. SUPPLEMENTAL CASH FLOW INFORMATION

	2013	2012
Cash paid for:		
Interest	$ 72,006	$ 66,155
Income taxes (net of taxes refunded)	10,089	6,089
Non-cash working capital - investing activities:		
Additions to property, plant and equipment and intangible assets included in current liabilities	57,872	55,595
Customer contributions for property, plant and equipment included in current assets	7,062	5,863

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with current period presentation. During 2013, the debt component of AFUDC was reclassified within the statements of cash flows from operating activities to investing activities. The result on the statement of cash flows for the year ended December 31, 2012 was an increase in cash from operating activities, non-cash items included in net income, of $3.2 million and decreases in cash used in investing activities, property, plant and equipment and intangible assets, of $3.1 million and $0.1 million, respectively.

21. SUBSEQUENT EVENTS

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through February 3, 2014, the date the financial statements were available for issuance.