FORTISALBERTA INC.

Audited Financial Statements
For the years ended December 31, 2019 and 2018

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Independent Auditor's Report

To the Shareholder of FortisAlberta Inc.:

Opinion

We have audited the financial statements of FortisAlberta Inc. (the "Company"), which comprise the balance sheets as at December 31, 2019 and 2018, and the statements of income and comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Raj S. Bhogal.

Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

February 12, 2020

FORTISALBERTA INC.
BALANCE SHEETS

As at December 31 (all amounts in thousands of Canadian dollars)	2019	2018 As adjusted see Note 3
Assets		
Current assets		
Restricted cash (note 3)	$ 607	$ —
Accounts receivable (note 5)	184,364	183,854
Prepaids and deposits	2,795	2,990
Income tax receivable	—	3,592
Regulatory assets (note 6)	19,405	781
Total current assets	207,171	191,217
Regulatory assets (note 6)	314,324	345,590
Property, plant and equipment, net (note 7)	3,994,093	3,840,181
Intangible assets, net (note 8)	84,643	79,576
Other assets (note 9)	2,992	1,755
Goodwill	228,275	226,968
Total Assets	$ 4,831,498	$ 4,685,287
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings (note 13)	$ 92,226	$ 55,739
Accounts payable and other current liabilities (note 11)	258,072	221,518
Income tax payable	220	—
Regulatory liabilities (note 6)	46,156	42,989
Total current liabilities	396,674	320,246
Other liabilities (note 12)	20,359	15,169
Regulatory liabilities (note 6)	428,305	410,439
Deferred income tax (note 20)	307,695	335,047
Long-term debt (note 13 and 22)	2,168,055	2,167,658
Total Liabilities	3,321,088	3,248,559
Commitments and contingencies (note 21)		
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (2018 – 63) (note 16)	173,848	173,848
Additional paid-in capital (note 17)	764,896	744,896
Accumulated other comprehensive income (loss) (note 18)	(321)	1,549
Retained earnings	571,987	516,435
Total Shareholder's Equity	1,510,410	1,436,728
Total Liabilities and Shareholder's Equity	$ 4,831,498	$ 4,685,287

Approved on behalf of the Board

Mona Hale
Director

Roger Thomas
Director

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

FORTISALBERTA INC.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended December 31 (all amounts in thousands of Canadian dollars)	2019	2018 As adjusted see Note 3
Revenues (note 14)		
Electric rate revenue	$ 627,036	$ 597,100
Alternative revenue	4,795	8,343
Other revenue	17,837	17,086
Total Revenues	649,668	622,529
Expenses		
Cost of sales	196,605	206,560
Depreciation	200,252	185,954
Amortization	14,078	9,698
Total Expenses	410,935	402,212
Other income	1,298	962
Income before interest expense and income tax	240,031	221,279
Interest expense (note 15)	103,826	100,213
Income before income tax	136,205	121,066
Income tax expense (note 20)	5,653	1,038
Net Income	$ 130,552	$ 120,028
Other comprehensive income (loss)		
Reclassification of amounts related to post-employment benefits (note 18)	(1,870)	1,739
Comprehensive Income	$ 128,682	$ 121,767

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

FORTISALBERTA INC.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years ended December 31 (all amounts in thousands of Canadian dollars)	2019	2018
Share Capital (note 16)		
Balance, beginning of year	$ 173,848	$ 173,848
Share capital issued	—	—
Balance, end of year	$ 173,848	$ 173,848
Additional Paid-in Capital (note 17)		
Balance, beginning of year	$ 744,896	$ 719,896
Equity contributions	20,000	25,000
Balance, end of year	$ 764,896	$ 744,896
Accumulated Other Comprehensive Income (Loss) (note 18)		
Balance, beginning of year	$ 1,549	$ (190)
Reclassification of amounts related to post-employment benefits	(1,870)	1,739
Balance, end of year	$ (321)	$ 1,549
Retained Earnings		
Balance, beginning of year	$ 516,435	$ 466,407
Net income	130,552	120,028
Dividends (note 16)	(75,000)	(70,000)
Balance, end of year	$ 571,987	$ 516,435
Total Shareholder's Equity	$ 1,510,410	$ 1,436,728

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

FORTISALBERTA INC.

STATEMENTS OF CASH FLOWS

Years ended December 31 (all amounts in thousands of Canadian dollars)	2019	2018 As adjusted see Note 3
Operating Activities		
Net income	$ 130,552	$ 120,028
Adjustments for non-cash items included in net income		
Depreciation	200,252	185,954
Amortization	14,898	12,029
Deferred income tax expense	5,433	4,709
Equity component of allowance for funds used during construction	(1,839)	(1,349)
Net gain on sale of property, plant and equipment	(33)	(384)
Change in long-term regulatory assets and liabilities	(267)	(4,224)
Change in other non-current operating assets and liabilities	2,537	(2,911)
Change in non-cash operating working capital (note 23)	41,059	(98,475)
Cash from operating activities	392,592	215,377
Investing Activities		
Additions to property, plant and equipment	(399,016)	(420,704)
Acquisition of property, plant and equipment	(4,770)	(3,746)
Customer contributions for property, plant and equipment	45,577	31,611
Additions to intangible assets	(19,081)	(19,156)
Proceeds from the disposition of property, plant and equipment	4,051	4,256
Net change in employee loans	(17)	218
Cash used in investing activities	(373,256)	(407,521)
Financing Activities		
Net change in bank indebtedness	(7,513)	10,739
Proceeds from demand note	89,000	—
Proceeds from long-term debt, net of issuance costs	—	148,825
Payment of deferred financing fees	(216)	(155)
Borrowings under committed credit facility	759,000	1,350,000
Repayments under committed credit facility	(804,000)	(1,355,000)
Dividends (note 16)	(75,000)	(70,000)
Equity contributions (note 17)	20,000	25,000
Cash from (used in) financing activities	(18,729)	109,409
Change in cash, cash equivalents and restricted cash	607	(82,735)
Cash, cash equivalents and restricted cash, beginning of year	—	82,735
Cash, cash equivalents and restricted cash, end of year	$ 607	$ —

Supplemental cash flow information (note 23)

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

FortisAlberta Inc. (the "Corporation" or "FortisAlberta") 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. It is intended that the Corporation remain a regulated electric utility for the foreseeable future, focusing on the delivery of safe, reliable and cost-effective electricity services to its customers in Alberta.

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

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. (''Fortis''). Fortis is a leader in the North American regulated electric and gas utility business serving customers in five Canadian provinces, nine US states and three Caribbean countries.

2. REGULATORY MATTERS

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *PUA*, the *HEEA* 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 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.

Performance-Based Regulation

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

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

The first PBR term included mechanisms for the recovery or settlement of items determined to flow through directly to customers ("Y factor") and the recovery of costs related to capital expenditures that were not being recovered through the formula ("K factor" or "capital tracker"). The AUC also approved a Z factor, a PBR re-opener and an efficiency carry-over mechanism. The Z factor permitted an application for recovery of costs related to significant unforeseen events. The PBR re-opener permitted an application to re-open and review the PBR plan to address specific problems with the design or operation of the PBR plan. The use of the Z factor and PBR re-opener mechanisms was associated with certain thresholds. The efficiency carry-over mechanism provided an incentive by permitting a utility to continue to benefit from efficiency gains achieved during the PBR term for two years following the end of that term. If a utility achieves a return on equity over a PBR term greater than the approved return, the utility is eligible to collect additional PBR revenue, calculated to a maximum of 50 basis points on the equity portion of the notional rate base, for the first two years of the subsequent term.

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

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

2019 Annual Rates Application

In October 2018, the Corporation filed an updated 2019 Annual Rates Application in accordance with AUC Decision 23355-D02-2018 (the "Rebasing Compliance Decision"). The rates and riders, proposed to be effective on an interim basis for January 1, 2019, included a decrease of approximately 0.5% to the distribution component of customer rates. The decrease in the distribution component of customer rates, incorporating the determinations of the Rebasing Compliance Decision, reflected: (i) an I-X of 1.83%; (ii) a refund of $0.2 million for the true-up of going-in rates; (iii) a refund of $1.9 million for the true-up of the 2018 K-Bar; (iv) a 2019 K-Bar placeholder of $35.9 million; (v) a refund of $11.7 million for the difference between the 2016 and 2017 K factor amounts approved or applied for and the amounts collected; (vi) a refund of $1.1 million of K factor carrying costs; and (vii) a net collection of Y factor amounts of $4.6 million, including $5.9 million for the efficiency carry-over mechanism associated with results achieved in the first PBR term.

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

Capital Tracker Applications

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

In June 2019, the AUC issued Decision 24369-D01-2019 approving the 2017 K factor revenue true-up as filed in the Corporation's 2017 Capital Tracker Compliance Filing with the exception of revenue associated with the Corporation's Alberta Electric System Operator ("AESO") Contributions program that was subject to the AUC Review and Variance proceeding discussed below.

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

In January 2019, the Corporation submitted a compliance filing pursuant to Decision 23505-D01-2018 for its final 2016 and 2017 AESO contribution capital tracker amounts. In October 2019, the AUC issued Decision 24281-D01-2019, which finalized the Corporation's 2016 and 2017 AESO Contributions Program capital tracker amounts, and, in turn, updated going-in rates for the second PBR term, the AESO Hybrid Deferral account, and K-Bar. In December 2019, the Corporation submitted a compliance filing pursuant to Decision 24281-D01-2019 that resulted in a decrease to capital tracker revenue for 2016 and 2017, included in alternative revenue, of $0.7 million. The consequential earnings impact of the resulting changes to going-in rates for the second PBR term, the AESO Hybrid Deferral account and K-Bar was $0.5 million.

Electric Distribution System Purchases

When the Corporation and a municipality or a Rural Electrification Association ("REA") come to an agreement to transfer electric distribution system assets to the Corporation, the transfer and purchase are subject to regulatory oversight. The municipality or REA is required to apply to the AUC to cease and discontinue its operations. Concurrently, the Corporation is required to apply to the AUC to alter its electric service area to include the electric service area of the municipality or REA. Distribution assets transferred to the Corporation in connection with acquisitions are valued using the Replacement Cost New minus Depreciation ("RCN-D") method. The Corporation completes RCN-D valuations by first estimating the costs it would incur to replace applicable assets at current standards. The RCN value is thereafter reduced by a depreciation factor to account for the estimated accumulated depreciation at the time that the assets are to be transferred to the utility. The Corporation applies to the AUC for recovery of the RCN-D value in rates.

In December 2018, the AUC issued a letter announcing the initiation of a generic proceeding to establish the rate treatment methodology in respect of distribution system purchases by distribution utilities under 2018 to 2022 PBR plans. This proceeding was concluded with the issuance of Decision 24405-D01-2019 in September 2019. In Decision 24405-D01-2019, the AUC determined that incremental capital requirements related to system acquisitions would be addressed under K-Bar on a go forward basis. However, the AUC approved Y factor rate treatment for the difference between the incremental distribution revenue arising from customer additions and the revenue requirement associated with the electric distribution systems of the Municipality of Crowsnest Pass ("CNP") and the Town of Fort Macleod ("Fort Macleod").

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

In March 2018, Fort Macleod approved the sale and transfer of the Fort Macleod electric distribution system and related assets (the "system") to the Corporation for an RCN-D value of $4.8 million, plus GST. In June 2018, an application to transfer the Fort Macleod system to the Corporation was filed with the AUC by Fort Macleod. In October 2018, an application for approval of the purchase price for ratemaking purposes was filed with the AUC by the Corporation. These applications, however, were held in abeyance until completion of the generic proceeding to establish the rate treatment methodology for distribution system purchases. Once Decision 24405-D01-2019 was issued, the process to consider applications concerning the sale and transfer of the Fort Macleod system resumed. In October 2019, the AUC approved the discontinuation of operations and transfer of the Fort Macleod system to the Corporation. The sale closed on November 12, 2019 at the agreed purchase price of $4.8 million plus GST. The AUC's consideration of the final purchase price for ratemaking purposes is ongoing.

2018 Independent System Operator Tariff Application
On September 22, 2019, the AUC issued Decision 22942-D02-2019, with respect to the 2018 Independent System Operator Tariff Application filed by the AESO (the "Decision"). The Decision included approval of a proposed change to the method in which the AESO's customer contribution policy is accounted for between distribution facility owners ("DFO") and transmission facility owners ("TFO") that would prevent the Corporation's future investment under the AESO's customer contribution policy ("ACCP"). The previous ACCP permitted the DFOs, including the Corporation, to invest in transmission assets (AESO contributions) under certain circumstances.

As part of approving the proposed changes, the AUC also determined that the Corporation would transfer the unamortized AESO contributions as at December 31, 2017, $403.8 million, representing prior investments made by the Corporation under the ACCP, to the incumbent TFO in the Corporation's service area, AltaLink Management Ltd ("AML"). The Decision directed the AESO and AML to develop a joint proposal for the implementation of the revised ACCP.

On September 25, 2019, the Corporation filed a request for immediate review and variance of the Decision (the "Immediate Review and Variance Letter") with the AUC requesting that an expedited proceeding be undertaken to reevaluate the proposed changes to the ACCP. The Immediate Review and Variance Letter identified a number of significant matters to the Corporation that require reconsideration and clarification by the AUC, including the financial and ratemaking impacts of the transfer of unamortized historical AESO contributions as at December 31, 2017 and the treatment of amounts invested, or to be invested, post January 1, 2018.

On October 2, 2019, the AUC confirmed that it had commenced an expedited review of the Decision on its own motion and requested that the Corporation provide information regarding the significant matters raised in the Immediate Review and Variance Letter. On October 8, 2019, the Corporation filed the additional information requested by the AUC, accompanied by a request for the AUC to suspend the implementation of the proposed changes to the ACCP, pending the AUC's consideration of the review and variance. On October 25, 2019, the AUC granted the suspension of the implementation of the proposed changes to the ACCP as requested by the Corporation. In December 2019, the AUC issued a letter indicating that prior to making a final decision it requires additional information from the Corporation and AML with respect to the evidence submitted.

The Corporation has determined that the occurrence of a loss contingency in respect of the revised ACCP is not determinable due to the ongoing AUC review of the Decision. Based on the number of significant matters identified, an estimate of loss cannot be reasonably determined as at December 31, 2019 and no estimate has been included in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("US GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). In December 2017, the Ontario Securities Commission approved the extension of the Corporation's exemptive relief to continue reporting under US GAAP rather than International Financial Reporting Standards ("IFRS") until the earlier of January 1, 2024 and the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation.

The preparation of the 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. 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.

Critical accounting estimates made by management include current and deferred income tax, contingent liabilities due to general litigation, depreciation, amortization, pension and other post-employment benefits ("OPEB"), goodwill impairment, accrued revenue, expense accruals, and regulatory assets and liabilities. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

The Corporation has elected to change its accounting policy regarding the presentation of capitalized indirect overhead from within long-term regulatory assets to property, plant and equipment and intangible assets (Note 7 and Note 8). Given the AUC's approach to rebasing for the second PBR term, the Corporation believes this presentation is preferable and better reflects the nature of the capitalized indirect overhead as an item of property, plant and equipment and intangible assets. This presentation is consistent with the Corporation's regulatory reporting. The Corporation's original presentation was based on the AUC's approval of the capitalized indirect overhead deferral in 2010. The Corporation believes this change in presentation is immaterial and has been retroactively applied as follows:

Balance Sheet

	As at and for the year ended December 31, 2018		
	As Reported	Reclassification	As Adjusted
Property, plant and equipment	3,738,645	101,536	3,840,181
Intangible assets	78,040	1,536	79,576
Regulatory assets (long-term)	448,662	(103,072)	345,590
Total Assets	**4,685,287**	**—**	**4,685,287**

Statement of Cash Flows

	For the year ended December 31, 2018		
	As Reported	Reclassification	As Adjusted
Depreciation	182,250	3,704	185,954
Amortization	11,973	56	12,029
Change in long-term regulatory assets and liabilities	(16,634)	12,410	(4,224)
Cash from operating activities	**199,207**	**16,170**	**215,377**
Additions to and acquisitions of property, plant and equipment	(408,521)	(15,929)	(424,450)
Additions to intangible assets	(18,915)	(241)	(19,156)
Cash used in investing activities	**(391,351)**	**(16,170)**	**(407,521)**

The change in presentation did not impact net income; however, $3.8 million of depreciation and amortization related to the indirect capitalized overhead was reclassified from cost of sales to depreciation and amortization expense.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash is comprised of a contribution received from Alberta Innovates exclusively for project costs related to the Waterton Energy Storage Project. As required by the agreement with Alberta Innovates, restricted cash is held in an interest-bearing savings account.

Accounts Receivable and Allowance for Doubtful Accounts

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. The cost of constructed assets includes direct labour, materials, direct and indirect overhead and a portion of the depreciation of assets, such as tools and vehicles, used in the construction of other assets. Costs also include AESO contributions, which are investments that the Corporation is required to make as a transmission customer to partially fund the construction of transmission facilities. 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 estimates are based on depreciation rates derived from capital asset balances and depreciation parameters, including the service life of assets and expected net salvage percentages, which are periodically established in depreciation reviews prepared by an independent expert. Outside of these periodic reviews, management annually assesses if updates are required to depreciation rates based on changes in capital asset balances, while maintaining the previously determined depreciation parameters and, if necessary, changes in the depreciation rates are accounted for prospectively.

Depreciation is provided on a straight-line basis at various rates ranging from 1.54% to 34.98% in 2019 (2018 - 1.72% to 34.57%), established in depreciation reviews prepared by an independent expert.

Depreciation in 2018 was based on depreciation rates derived from capital asset balances as at December 2014 and depreciation parameters established in a 2012 depreciation review. Effective January 1, 2019, depreciation rates were changed based on the results of a depreciation review, which updated rates for changes in capital asset balances and depreciation parameters. The impact to the financial results for the year ended December 31, 2019 was an increase to depreciation of approximately $4.5 million as compared to 2018.

Depreciation rates include an allowed provision 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 in the normal course 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.

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.

Intangible Assets

Intangible assets subject to amortization are recorded at cost, which includes direct labour and direct and indirect 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 estimates are based on amortization rates derived from capital asset balances and depreciation parameters, including the service life of assets and expected net salvage percentages, which are periodically established in depreciation reviews prepared by an independent expert. Outside of these periodic reviews, management annually assesses if updates are required to amortization rates based on changes in capital asset balances, while maintaining the previously determined depreciation parameters and, if necessary, changes in the amortization rates are accounted for prospectively.

Amortization is provided on a straight-line basis at various rates ranging from 1.40% to 17.09% in 2019 (2018 - 0.00% to 15.99%), established in depreciation reviews prepared by an independent expert.

Amortization in 2018 was based on amortization rates derived from capital asset balances as at December 2014 and depreciation parameters established in a 2012 depreciation review. Effective January 1, 2019, amortization rates were changed based on the results of a depreciation review, which updated rates for changes in capital asset balances and depreciation parameters. The impact to the financial results for the year ended December 31, 2019 was an increase to amortization of approximately $4.3 million as compared to 2018.

Generally, when a regulated asset is retired or disposed of in the normal course, 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.

The Corporation capitalizes and includes in intangible assets an amount for AFUDC, which represents the 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.

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.

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.

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. 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. No such event or change in circumstances occurred during the years ended December 31, 2019 and 2018.

The Corporation performs an annual quantitative assessment and the estimated fair value of the Corporation is compared to its carrying value. If the fair value of the Corporation is less than the carrying value, the excess is recognized as a goodwill impairment.

The Corporation's assessment of impairment of goodwill is performed annually in October and indicated that no impairment was required for the years ended December 31, 2019 and 2018.

Pension and Other Post-Employment Benefits

All accrued obligations for defined benefit pension and 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 defined benefit pension and OPEB 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 resulting from plan amendments 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 each of the defined benefit pension and OPEB plans is 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 service 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 service costs and credits are not subject to deferral treatment and are recognized as a component of other comprehensive income.

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 is not subject to deferral treatment and is recognized in net income in the year.

Revenue Recognition

The majority of the Corporation's revenue is generated from the distribution of electricity to end-use customers based on published tariff rates, as approved by the AUC. Revenues are recognized in the period services are provided, at AUC approved rates where applicable, and when collectability is reasonably assured.

The majority of the Corporation's contracts have a single performance obligation as the promise to transfer individual goods or services is not separately identifiable from other obligations in the contracts and therefore not distinct. Substantially all of the Corporation's performance obligations are satisfied over time as energy is delivered because of the continuous transfer of control to the customer, generally using an output measure of progress of kilowatt hours delivered. The billing of energy sales is based on customer meter readings, which occur systematically throughout each month.

In accordance with 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 utility and, as such, does not own or operate any transmission facilities, it is largely a conduit for the flow through of transmission costs to end-use customers as the TFO does not have a direct relationship with the customers. Therefore, the Corporation reports revenues and expenses related to transmission services on a net basis in other revenue in the Statements of Income and Comprehensive Income.

Goods and Services Tax

In the course of its operations, the Corporation collects GST from its customers. When customers are billed, a current liability for GST is recognized that 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 that 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.

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.

Debt Issuance Costs

Any costs, debt discounts and premiums related to the issuance of long-term debt are recognized against long-term debt and are amortized over the life of the related long-term debt.

Income Tax

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

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 recognition 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. The difference between an income tax position taken, or expected to be taken, and the benefit recognized and measured pursuant to this guidance represents an unrecognized income tax benefit.

Adoption of Accounting Pronouncements

The following accounting pronouncements have been adopted by the Corporation for the financial year beginning on January 1, 2019.

Leases

Effective January 1, 2019, the Corporation adopted ASC 842, *Leases*, which requires lessees to recognize a lease liability, initially measured at the present value of future lease payments, and a right-of-use ("ROU") asset for all leases with a lease term greater than 12 months.

The new lease standard also requires additional quantitative and qualitative disclosures for both lessees and lessors. The Corporation applied the transition provisions of the new lease standard as of the adoption date and did not retrospectively adjust prior periods. The Corporation elected a package of practical expedients that allowed it to not reassess: (i) whether existing contracts are or contain a lease; (ii) the lease classification of existing leases; or (iii) the initial direct costs for existing leases. Furthermore, the Corporation elected a practical expedient that permitted it to not evaluate existing land easements that were not previously accounted for as leases. The new lease standard will be applied on a prospective basis to all new or modified land easements after January 1, 2019. Finally, the Corporation utilized the hindsight practical expedient to determine the lease term. Upon adoption, the Corporation did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net income or cash flows.

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

Leases with a term of twelve months or less are not recorded on the balance sheet but are recognized as lease expense on a straight-line basis over the lease term. As at December 31, 2019, the Corporation's land easements have not resulted in the recognition of a ROU asset as the current easement contracts do not convey a right to control the land.

The Corporation as a lessor accounts for the lease arrangement as an operating lease. See Note 10 for additional information related to the Corporation's leasing arrangements.

Pensions and Other Postretirement Plan Disclosures
The Corporation early adopted Accounting Standard Update ("ASU") 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans* on a retrospective basis for all periods presented, as required by the ASU. The ASU amends and clarifies disclosure requirements related to defined benefit pension and other postretirement benefit plans. The adoption of this ASU did not have a material impact on the financial statements.

Future Accounting Pronouncements
The Corporation considers the applicability and impact of all ASUs issued by the FASB. The following updates have been issued by the FASB but have not yet been adopted by the Corporation. Any ASUs not included below were assessed and determined to be not applicable to the Corporation or are not expected to have a material impact on the financial statements.

Accounting for Credit Losses
ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* was issued in June 2016, providing guidance that requires entities to record credit losses based on an expected credit loss methodology, rather than an incurred loss model, resulting in more timely recognition of credit losses. The expected credit losses will be recognized net to accounts receivable on the Balance Sheets. The new guidance is effective January 1, 2020 and will be applied using a modified retrospective approach. The Corporation has substantially completed its analysis and does not expect the adoption of this ASU to have a material impact on the financial statements.

Cloud Computing Arrangements
ASU 2018-15, *Customer’s Accounting for Implementation Costs incurred in a Cloud Computing Arrangement that is a Service Contract*, was issued in August 2018, providing guidance on the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. Principally, the ASU aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance is effective January 1, 2020 and will be applied on a prospective basis. The Corporation has substantially completed its analysis and does not expect the adoption of this ASU to have a material impact on the financial statements.

Simplifying the Accounting for Income Taxes
ASU 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes* was issued in December 2019, providing amendments to reduce complexity in the accounting standard. The new guidance is effective January 1, 2021 and the sections applicable to the Corporation will be applied on a prospective basis. The Corporation is currently evaluating the impact of these amendments on accounting for current and deferred income taxes.

4. BUSINESS ACQUISITION
On November 12, 2019, the Corporation purchased the Town of Fort Macleod electric distribution system for $4.8 million, plus GST. The AUC approved the transfer of these assets to the Corporation but did not approve a final purchase price for ratemaking purposes. The transfer of these assets allows the Corporation to provide service to the customers formerly served by the Town of Fort Macleod.

This acquisition has been accounted for using the acquisition method and the financial results from these assets have been included in the financial statements of the Corporation since the acquisition date. The fair value of these assets was deemed to be the purchase price and allocated to property, plant and equipment on a provisional basis at the date of acquisition.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

5. ACCOUNTS RECEIVABLE

The timing of revenue recognition, billings and cash collections results in billed and unbilled accounts receivable. The opening and closing balances of the Corporation's accounts receivable as at December 31 were as follows:

	2019	2018
Accrued unbilled accounts receivable	$ 168,324	$ 170,291
Billed accounts receivable	10,391	8,171
Employee receivables	873	856
Other [1]	4,776	4,536
Total accounts receivable	$ 184,364	$ 183,854

[1] *Includes customer contributions, amounts due from related parties and GST.*

The difference between the opening and closing balances of the Corporation's customers' accounts receivable primarily results from the timing difference between the Corporation's delivery of service and a customer's payment.

6. REGULATORY ASSETS AND LIABILITIES

Regulatory assets represent amounts that are expected to be recovered from customers in future periods. Regulatory liabilities represent the current recovery of future costs or amounts that are expected to be refunded to customers in future periods. Based on existing or expected AUC decisions, the Corporation has recorded the following regulatory assets and liabilities.

	2019	2018 As adjusted see Note 3	Remaining Recovery Period (years)
Regulatory assets			
Deferred income tax [(i)]	$ 310,202	$ 342,987	Life of related assets
AESO charges deferral [(ii)]	20,662	773	1-2
Regulatory defined benefit pension deferrals [(iii)]	2,594	2,031	Benefit payment period
PBR rebasing deferral [(iv)]	193	—	1
Y factor deferral [(v)]	78	84	1-2
A1 rider deferral [(vi)]	—	496	1
Total regulatory assets	333,729	346,371	
Less: current portion	19,405	781	
Long-term regulatory assets	$ 314,324	$ 345,590	

	2019	2018	Remaining Settlement Period (years)
Regulatory liabilities			
Non-ARO provision [(vii)]	$ 424,228	$ 407,613	Life of related assets
AESO charges deferral [(ii)]	39,970	26,477	1-4
Incremental capital deferral [(viii)]	5,170	3,204	1-2
Y factor deferral [(v)]	1,683	2,097	1-2
A1 rider deferral [(vi)]	1,263	706	1-2
K factor deferral [(ix)]	1,185	13,073	1-2
PBR rebasing deferral [(iv)]	962	258	2
Total regulatory liabilities	474,461	453,428	
Less: current portion	46,156	42,989	
Long-term regulatory liabilities	$ 428,305	$ 410,439	

(i) Deferred income tax
This balance represents the amount of deferred income tax expected to be recovered from, or refunded to, customers in future rates when the income tax becomes receivable or payable.

(ii) AESO charges deferral
These balances represent the difference in revenue collected and expenses incurred for transmission-related items that are expected to be collected or refunded in future customer rates. As at December 31, 2019, the regulatory asset primarily represented the under collection of the AESO charges deferral account for 2017 and 2018 and the regulatory liability primarily represented the over collection of the AESO charges deferral account for 2019.

(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 employee retirement 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) PBR rebasing deferral
This balance represents the over and under collection of 2018 and 2019 base distribution revenue from customers as a result of adjustments to the notional 2017 revenue requirement approved in going-in rates, on an interim basis.

(v) Y factor deferral
These balances represent the future recovery or settlement of items determined to flow through directly to customers, such as property and business taxes, AESO load settlement expenses, AUC assessment fees, farm transmission credit, and hearing cost claims.

(vi) 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.

(vii) Non-ARO provision
This balance represents the difference between the actual non-ARO provision for removal costs incurred and those collected in customer rates. Depreciation expense includes a provision for non-ARO removal costs approved for collection from customers. The amount collected from customers is credited to this deferral account, while actual removal costs incurred are debited to this deferral account.

(viii) Incremental capital deferral
This balance is comprised of both the over collection of incremental capital funding for AESO contributions related to projects prior to December 31, 2017 (the AESO Hybrid Deferral) and the over collection of K-bar revenue that is expected to be refunded to customers in 2020 and 2021.

(ix) K factor deferral
This balance represents the over collection of capital tracker revenue that is expected to be refunded to customers in 2021.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

7. PROPERTY, PLANT AND EQUIPMENT

2019	Cost	Accumulated Depreciation	Net Book Value
Distribution system	$ 5,117,044	$ (1,434,697)	$ 3,682,347
AESO contributions	501,409	(120,704)	380,705
Buildings and furniture	178,081	(64,807)	113,274
Buildings under operating leases	3,734	(1,166)	2,568
Indirect capitalized overhead	140,898	(21,556)	119,342
Vehicles	83,808	(21,594)	62,214
Computer hardware	36,065	(18,848)	17,217
Materials and supplies	33,950	—	33,950
Tools and instruments	24,778	(11,421)	13,357
Land	20,366	—	20,366
Construction in progress	51,204	—	51,204
Customer contributions	(917,667)	415,216	(502,451)
	$ 5,273,670	$ (1,279,577)	$ 3,994,093

2018	Cost	Accumulated Depreciation	Net Book Value As adjusted see Note 3
Distribution system	$ 4,863,855	$ (1,353,617)	$ 3,510,238
AESO contributions	502,366	(104,241)	398,125
Buildings and furniture	176,089	(60,730)	115,359
Indirect capitalized overhead (note 3)	118,651	(17,115)	101,536
Vehicles	87,259	(21,474)	65,785
Computer hardware	33,811	(14,512)	19,299
Materials and supplies	32,255	—	32,255
Tools and instruments	24,210	(10,363)	13,847
Land	17,796	—	17,796
Construction in progress	47,202	—	47,202
Customer contributions	(884,708)	403,447	(481,261)
	$ 5,018,786	$ (1,178,605)	$ 3,840,181

Depreciation rates are a composite rate based upon the weighted average of the individual rates for each class of asset within the group. Rates were updated January 1, 2019, as described in Note 3. As at December 31, depreciation rates were as follows:

(%)	2019	2018
Distribution system	3.70	3.63
AESO contributions	3.26	3.48
Buildings and furniture	3.51	3.39
Buildings under operating leases	3.22	—
Indirect capitalized overhead	3.46	3.37
Vehicles	10.13	9.28
Computer hardware	21.01	19.66
Tools and instruments	9.82	9.96
Customer contributions	2.50	2.57

(All amounts in thousands of Canadian dollars, unless otherwise noted)

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.

8. INTANGIBLE ASSETS

2019		**Cost**	**Accumulated Depreciation**	**Net Book Value**
Computer software	$	102,688 $	(49,335)$	53,353
Land rights		32,461	(10,159)	22,302
Indirect capitalized overhead		2,349	(359)	1,990
Intangibles construction in progress		6,998	—	6,998
	$	144,496 $	(59,853)$	84,643

2018		**Cost**	**Accumulated Depreciation**	**Net Book Value As adjusted see Note 3**
Computer software	$	105,972 $	(55,598)$	50,374
Land rights		31,171	(9,713)	21,458
Indirect capitalized overhead (note 3)		1,795	(259)	1,536
Intangibles construction in progress		6,208	—	6,208
	$	145,146 $	(65,570)$	79,576

Amortization of intangible assets was $14.1 million for 2019 (2018 - $9.7 million). Amortization is expected to average approximately $10.1 million for each of the next five years.

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. Rates were updated January 1, 2019 as described in Note 3. As at December 31, the amortization rates of intangible assets were as follows:

(%)	**2019**	**2018**
Computer software	12.97	8.37
Land rights	1.40	2.85
Indirect capitalized overhead	3.46	3.37

As at December 31, the service life ranges and the weighted average remaining service lives of intangible assets were as follows:

(Years)		**2019**		**2018**
	Service Life Ranges	**Weighted Average Remaining Service Life**	**Service Life Ranges**	**Weighted Average Remaining Service Life**
Computer software	5-10	3.6	5-10	4.2
Land rights	60	48.9	36	26.4
Indirect capitalized overhead	5-10	3.6	5-10	4.2
Total	5-60	5.0	5-36	5.7

(All amounts in thousands of Canadian dollars, unless otherwise noted)

9. OTHER ASSETS

	2019	2018
Income tax receivable	$ 1,746	$ 1,755
ROU assets (note 10)	1,246	—
	$ 2,992	$ 1,755

10. LEASES

The Corporation's operating leases are primarily comprised of leases for office facilities, which have remaining terms of one to five years. As at December 31, 2019, the Corporation's weighted average remaining lease term was two years. Certain lease agreements require the Corporation to pay certain variable lease payments to the lessor for property taxes, insurance, common area maintenance, or other operating expenses associated with the leased premises. The variable amounts are not included in the measurement of the lease liabilities and are recognized as variable lease expense when incurred.

The following table details supplemental balance sheet information related to the Corporation's operating leases as at December 31:

	2019
Operating leases	
Other assets (note 9)	$ 1,246
Accounts payable and other current liabilities (note 11)	646
Other liabilities (note 12)	600

For the year ended December 31, 2019, the Corporation's total operating lease costs included in cost of sales was approximately $1.1 million (December 31, 2018 - $1.0 million). The Corporation did not enter into any new operating lease arrangements during the year ended December 31, 2019.

As at December 31, 2019, the Corporation had the following future minimum operating lease payments, which exclude payments to lessors for variable property taxes and maintenance:

	2019
2020	$ 683
2021	406
2022	155
2023	29
2024	29
Thereafter	5
Total	1,307
Less: imputed interest	(61)
Present value of operating lease liabilities [1]	1,246
Less: current operating lease liabilities	(646)
Long-term operating lease liabilities	$ 600

[1] *The present value of lease liabilities was calculated using a weighted average discount rate of 3.89%.*

The following table includes supplemental cash flow information related to the Corporation's operating leases for the year ended December 31:

	2019
Cash paid for monthly lease costs included in the measurement of operating lease liabilities	$ 802
ROU assets obtained in exchange for new operating lease liabilities (note 23)	2,101

(All amounts in thousands of Canadian dollars, unless otherwise noted)

In addition, the Corporation leases office facilities to others; those leases have remaining terms of one to fourteen years. Most leases include one or more options to renew with renewal terms that may extend the lease term for three to twenty years.

The Corporation received the following lease revenue from operating leases for the year ended December 31, 2019:

		2019
Lease revenue from operating leases (note 14)	$	492

As at December 31, 2019, the Corporation will receive the following lease revenue from operating leases:

		2019
2020	$	195
2021		195
2022		195
2023		195
2024		195
Thereafter		4,478
Total	$	5,453

11. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

		2019		2018
Trade accounts payable	$	176,596	$	120,708
Customer deposits		39,981		48,417
Interest payable		25,784		25,752
Employee compensation and benefits payable		14,465		24,284
Operating lease liability (note 10)		646		—
Other		600		2,357
	$	258,072	$	221,518

12. OTHER LIABILITIES

		2019		2018
OPEB plan liability (note 18)	$	11,115	$	8,540
Deferred lease revenue [(1)]		3,084		3,326
Defined benefit pension plans liability (note 18)		1,941		1,831
Operating lease liability (note 10)		600		—
Other [(2)]		3,619		1,472
	$	20,359	$	15,169

(1) *Deferred lease revenue is the upfront lease payments received from a third party pursuant to a 20-year lease agreement that permits the third party to use a portion of one of the Corporation's facilities. The deferred lease revenue is being recognized as other revenue on a straight-line basis over the term of the lease.*

(2) *Other includes performance and restricted share unit obligations and deferred revenue for operating and maintenance charges.*

(All amounts in thousands of Canadian dollars, unless otherwise noted)

13. DEBT AND CAPITAL MANAGEMENT

	Coupon Rate (%)	Maturity Date (Year)	2019 Effective Rate (%)	2019	2018
Senior unsecured debentures					
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	109,904	109,902
Series 08-1	5.85	2038	5.94	99,579	99,567
Series 09-1	7.06	2039	7.15	99,989	99,989
Series 09-2	5.37	2039	5.42	124,955	124,954
Series 10-1	4.80	2050	4.85	124,920	124,919
Series 11-1	4.54	2041	4.59	124,983	124,983
Series 12-1	3.98	2052	4.02	124,932	124,929
Series 13-1	4.85	2043	4.90	149,853	149,850
Series 14-1	4.11	2044	4.15	124,981	124,980
Series 14-2	3.30	2024	3.37	149,993	149,992
Series 15-1	4.27	2045	4.32	149,837	149,833
Series 16-1	3.34	2046	3.39	149,762	149,757
Series 17-1	3.67	2047	3.71	200,000	200,000
Series 18-1	3.73	2048	3.78	150,000	150,000
Drawings under the committed credit facility	Variable	2024		—	45,000
Fortis demand note (note 19)	Variable	on demand		89,000	—
Cash balances in overdraft position	N/A	N/A		3,226	10,739
Total debt				2,275,914	2,239,394
Short-term borrowings				(92,226)	(55,739)
Debt issuance costs				(15,633)	(15,997)
Long-term debt				$ 2,168,055	$ 2,167,658

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

As at December 31, 2019, the Corporation had an unsecured committed credit facility with an available amount of $250.0 million, maturing in August 2024. Drawings under the committed credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans bear an interest rate of prime and bankers' acceptances are issued at the applicable bankers' acceptance discount rate plus a stamping fee of 1.0%. The weighted average effective interest rate for the year ended December 31, 2019 on the committed credit facility was 3.7% (2018 - 3.1%). As at December 31, 2019, the Corporation had no drawings on this facility (December 31, 2018 - $45.0 million) and $0.4 million drawn in letters of credit (December 31, 2018 - $0.3 million).

As at December 31, 2019, the Corporation had an unsecured $89.0 million (December 31, 2018 - $nil) demand note outstanding with Fortis. The demand note bears interest approximating the bankers' acceptance discount rate plus a stamping fee of 1.0%.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

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, 2019, the Corporation was in compliance with these externally imposed capital requirements.

The next scheduled principal repayment within the next five years is in 2024 for $150.0 million.

14. REVENUES

		2019		2018
Electric rate revenue	$	627,036	$	597,100
Alternative revenue		4,795		8,343
Other revenue		17,837		17,086
Total revenues	$	649,668	$	622,529

Electric Rate Revenue
The Corporation's 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.

Alternative Revenue
Alternative revenue reflects those portions of the Corporation's revenue associated with regulatory mechanisms within the PBR framework that provide funding that is incremental to base rates and will impact future rates in response to past activities or completed events, if certain criteria are met. The Corporation has identified the efficiency carry-over mechanism and the portion of K factor revenue associated with the true-up from forecast to actual capital tracker additions as alternative revenue. Once billed, alternative revenue will be reported in electric rate revenue and the associated regulatory asset or liability will be adjusted.

See Note 6 for additional information related to the associated regulatory assets and liabilities.

Other Revenue
Other revenue includes third party services, REA services, joint use revenue, lease revenue, related party revenue and miscellaneous revenue. Other revenues are summarized below.

		2019		2018
Third party services	$	7,499	$	6,161
REA services		4,432		4,936
Other revenue		2,710		3,066
Joint use revenue		2,403		2,243
Lease revenue (note 10)		492		531
Related party revenue		301		149
	$	17,837	$	17,086

(All amounts in thousands of Canadian dollars, unless otherwise noted)

15. INTEREST EXPENSE

	2019	2018
Interest - long-term debt	$ 101,324	$ 97,286
Interest - short-term debt	1,987	2,722
Interest - other	2,221	1,474
Less: debt component of AFUDC	(1,706)	(1,269)
	$ 103,826	$ 100,213

Debt issuance costs are amortized using the effective interest method over the life of the associated debt. Interest expense on long-term debt included $0.6 million related to amortization of debt issuance costs in 2019 (2018 - $0.6 million).

16. SHARE CAPTIAL

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.

In 2019, the Corporation declared and paid dividends totaling $75.0 million (2018 - $70.0 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, 2019, 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.

17. 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 2019, the Corporation received $20.0 million in equity contributions from Fortis Alberta Holdings Inc. (2018 - $25.0 million).

18. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Description

The Corporation sponsors a pension plan with defined contribution and defined benefit components. 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 includes a funded defined benefit plan that is applicable to certain long-service employees and is closed to new employees, and an unfunded supplementary employee retirement plan that is applicable to certain current and 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 for retired employees.

The most recent actuarial valuation of the defined benefit pension plan for funding purposes was completed as at December 31, 2017. 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 at a date no later than December 31, 2020.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

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 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.

As at December 31, the fair value of plan assets were as follows:

	2019	2018
Government bonds	$ 34,739	$ 31,850
Corporate bonds	10,882	9,416
Total (1)	$ 45,621	$ 41,266

(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, 2019 were $0.2 million (December 31, 2018 - $0.1 million) of FortisAlberta Inc. bonds and $0.3 million (December 31, 2018 - $0.3 million) of related party bonds.

Reconciliation of Funded Status

	Defined Benefit Pension Plans		OPEB Plan	
	2019	2018	2019	2018
Change in benefit obligation (1)				
Balance, beginning of year	$ 43,297	$ 45,849	$ 9,430	$ 10,595
Current service cost	529	611	552	511
Interest cost	1,625	1,547	333	341
Member contributions	25	37	—	—
Plan amendments	154	—	4,231	—
Benefits paid	(1,752)	(1,748)	(603)	(515)
Net transfer out	(154)	(300)	—	—
Actuarial loss (gain)	4,038	(2,699)	(2,169)	(1,502)
Balance, end of year (2)	$ 47,762	$ 43,297	$ 11,774	$ 9,430
Change in fair value of plan assets				
Balance, beginning of year	$ 41,266	$ 41,695	$ —	$ —
Employer contributions	1,028	1,408	603	515
Member contributions	25	37	—	—
Benefits paid	(1,752)	(1,748)	(603)	(515)
Actual return on plan assets	5,054	(126)	—	—
Balance, end of year	$ 45,621	$ 41,266	$ —	$ —
Funded status	$ (2,141)	$ (2,031)	$ (11,774)	$ (9,430)

(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 $47.6 million as at December 31, 2019 (December 31, 2018 - $44.1 million).*

The primary factors contributing to the change in the funded status of the defined benefit pension plans include the decrease in the discount rate from 3.90% to 3.10% resulting in a $4.0 million increase to the defined benefit pension obligation and the plan assets earning a return in excess of the expected return for 2019 of $4.0 million.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

The primary factors contributing to the change in the funded status of the OPEB plan are due to a plan amendment for changes in benefits for future retirees resulting in a $4.2 million increase to the OPEB obligation and the actuarial gain of $ 2.2 million is due to changes in assumptions, such as retiree claim costs and expected retirement age, that is offset by a decrease in the discount rate.

Amounts Recognized on the Balance Sheet

	Defined Benefit Pension Plans		OPEB Plan	
	2019	**2018**	**2019**	**2018**
Accounts payable and other current liabilities	$ (200)	$ (200)	$ (659)	$ (890)
Other liabilities (note 12)	(1,941)	(1,831)	(11,115)	(8,540)
Net Liabilities	$ (2,141)	(2,031)	$ (11,774)	(9,430)

Expected Benefits Payments

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

	Defined Benefit Pension Benefits	OPEB Benefits
2020	$ 2,435	$ 659
2021	2,569	729
2022	2,553	788
2023	2,562	834
2024	2,638	865
2025-2029	13,462	3,754

Pension Plan Contributions

The Corporation made total contributions to the defined benefit pension plan of $1.0 million and contributions to the OPEB plan of $0.6 million for the year ended December 31, 2019. Minimum funding contributions of approximately $1.2 million will be made to the defined benefit pension plan and $0.7 million to the OPEB plan in 2020.

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	
	2019	**2018**	**2019**	**2018**
Service cost	$ 529	$ 611	$ 552	$ 511
Interest cost	1,625	1,547	333	341
Expected return on plan assets	(1,077)	(944)	—	—
Amortizations:				
Past service cost	154	—	456	380
Actuarial loss (gain)	—	558	(264)	(143)
Net benefit cost recognized	1,231	1,772	1,077	1,089
Regulatory adjustment	(203)	(64)	—	—
Net benefit cost recognized in financial statements	1,028	1,708	1,077	1,089
Defined contribution cost	9,784	9,961	—	—
Total employee future benefit cost	$ 10,812	$ 11,669	$ 1,077	$ 1,089

(All amounts in thousands of Canadian dollars, unless otherwise noted)

Accumulated Other Comprehensive Income (Loss)

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

	Defined Benefit Pension Plans		OPEB Plan	
	2019	**2018**	**2019**	**2018**
Actuarial gain (loss)	$ (3,104)	$ (3,043)	$ 6,326	$ 4,421
Past service cost	—	—	(6,647)	(2,872)
Accumulated other comprehensive income (loss)	(3,104)	(3,043)	(321)	1,549
Regulatory adjustment	3,104	3,043	—	—
Accumulated other comprehensive income (loss)	$ —	$ —	$ (321)	$ 1,549

There are no actuarial losses and past service costs related to the defined benefit pension plans that are expected to be amortized from accumulated other comprehensive income into net benefit cost in 2020.

Actuarial gains of $0.3 million and past service costs of $0.7 million related to the OPEB plan are expected to be amortized from accumulated other comprehensive income into net benefit cost in 2020.

Other Comprehensive Income (Loss)

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

	Defined Benefit Pension Plans		OPEB Plan	
	2019	**2018**	**2019**	**2018**
Net actuarial gain (loss) arising during the year	$ (61)	$ 1,629	$ 2,169	$ 1,502
New prior service cost	(154)	—	(4,231)	—
Amortizations:				
Past service cost	154	—	456	380
Actuarial loss (gain)	—	558	(264)	(143)
Other comprehensive income (loss)	(61)	2,187	(1,870)	1,739
Regulatory adjustment	61	(2,187)	—	—
Total other comprehensive income (loss)	$ —	$ —	$ (1,870)	$ 1,739

Weighted Average Assumptions

	Defined Benefit Pension Plans		OPEB Plan	
	2019	**2018**	**2019**	**2018**
Discount rate during the year	3.90%	3.40%	3.70%	3.20%
Discount rate as at December 31	3.10%	3.90%	3.10%	3.70%
Expected long-term rate of return on plan assets[(1)]	3.20%	3.00%	—	—
Rate of compensation increase	2.50%	2.50%	—	—
Initial weighted average health care trend rate during year	—	—	5.69%	5.81%
Initial weighted average health care trend rate at December 31	—	—	5.61%	5.69%
Ultimate weighted average health care trend rate	—	—	4.00%	4.00%
Year ultimate rate reached	—	—	2040	2040

[(1)] *This assumption considers inflation, bond yields, and historical returns.*

(All amounts in thousands of Canadian dollars, unless otherwise noted)

19. 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:

	2019	2018
Accounts receivable		
Loans [(1)]	$ 41	$ 24
Related parties	239	206
	$ 280	$ 230
Short-term borrowings		
Related party [(2)] (note 13)	$ 89,000	$ —

(1) *These loans are to officers of the Corporation for employee share purchase plan loans.*
(2) *Demand note from Fortis that was borrowed in December 2019, which is expected to be repaid within twelve months.*

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 day 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:

	2019	2018
Included in other revenue [(1)]	$ 301	$ 149
Included in cost of sales [(2)]	4,750	4,690
Included in interest expense [(3)]	268	—

(1) *Includes services provided to related parties, including Fortis and subsidiaries of Fortis, related to metering, information technology, material sales and intercompany employee services.*
(2) *Includes charges from related parties, including Fortis and subsidiaries of Fortis, related to corporate governance expenses, consulting services, travel and accommodation expenses, charitable donations and professional development costs.*
(3) *Reflects interest expense on demand notes from Fortis borrowed throughout 2019.*

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

20. INCOME TAX

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

	2019	2018
Deferred income tax assets (liabilities)		
Net regulatory assets and liabilities	$ 4,521	$ 7,428
OPEB	3,762	4,043
Intangible assets	(16,569)	(17,334)
Property, plant and equipment	(298,152)	(332,837)
Debt issuance costs	(4,097)	(4,862)
Income tax credits	2,267	2,405
Loss carry forwards	17	5,649
Other	556	461
Net deferred income tax liability	$ (307,695)	$ (335,047)

(All amounts in thousands of Canadian dollars, unless otherwise noted)

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

	2019	2018
Current income tax expense (recovery)	$ 220	$ (3,671)
Deferred income tax expense before adjustment	(26,619)	51,324
Regulatory adjustment for the recovery of deferred income tax in future customer rates	32,052	(46,615)
Deferred income tax expense	5,433	4,709
Total income tax expense	$ 5,653	$ 1,038

Income tax expense differs 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 tax. The following is a reconciliation of the combined statutory income tax rate to the Corporation's effective income tax rate.

	2019	2018
Income before income tax per financial statements	$ 136,205	$ 121,066
Statutory income tax rate	26.5%	27.0%
Income tax, at statutory income tax rate	$ 36,094	$ 32,688
Difference between capital cost allowance and amounts claimed for accounting purposes	(22,724)	(21,944)
Items capitalized for accounting purposes but expensed for income tax purposes	(6,633)	(11,055)
Difference between regulatory accounting items and amounts claimed for income tax purposes	(2,056)	631
Change in statutory income tax rate	453	—
Other	519	718
Income tax expense	$ 5,653	$ 1,038
Effective income tax rate	4.2%	0.9%

As at December 31, 2019, the Corporation had federal non-capital loss carry forwards of $0.1 million (December 31, 2018 - $21.8 million) and no provincial non-capital loss carry forwards (December 31, 2018 - $19.9 million). The non-capital loss carry forwards expire in 2038.

As at December 31, 2019, total investment tax credits receivable related to the employment of eligible apprentices and acquisition of eligible assets were $1.8 million (December 31, 2018 - $1.8 million). These credits are subject to carry forward and expire between 2026 and 2037.

For regulatory reporting purposes, the income tax value of certain property, plant and equipment of 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 purposes and collected in customer rates.

Taxation years 2012 and prior are no longer subject to examination in Canada. An examination of the open income tax years by the Canada Revenue Agency could result in a change in the liability for unrecognized income tax benefits. The Corporation does not believe that any open income tax years could result in any adjustments that would be significant to the financial statements. The Corporation does not have any unrecognized income tax benefits as at December 31, 2019 and, as such, has not accrued any associated interest or penalties.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

21. COMMITMENTS AND CONTINGENCIES

As at December 31,2019, the Corporation's commitments in each of the next five years and thereafter are as follows:

	Total	2020	2021	2022	2023	2024	>2024
Principal payments on long-term debt [1]	$ 2,185,000	—	—	—	—	150,000	2,035,000
Interest payments on long-term debt	2,279,466	101,324	101,324	101,324	101,324	101,324	1,772,846
Operating leases (note 10)	1,307	683	406	155	29	29	5
Other commitments	56,697	7,585	5,724	4,509	2,287	2,287	34,305
Total	$ 4,522,470	109,592	107,454	105,988	103,640	253,640	3,842,156

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

Other Commitments

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 2024 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. These service agreements have minimum expiry terms of five years from September 1, 2015 and are subject to extension based on mutually agreeable terms.

As a regulated electric distribution utility, the Corporation is required to provide service to customers within its service territory. As such, the Corporation may be required to incur capital expenditures in excess of that funded by customer rates.

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.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value Measurement

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 that 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.

(All amounts in thousands of Canadian dollars, unless otherwise noted)

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

Long-term debt	**2019**	**2018**
Fair value [(1)]	$ 2,722,054	$ 2,465,514
Carrying value [(2)]	2,183,688	2,183,655

(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 $15,633 (December 31, 2018 – $15,997).*

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.

Credit Risk

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

The Corporation monitors its credit exposure in accordance with the Corporation's terms and conditions. The Corporation is required to minimize its net exposure to retailer billings by obtaining an acceptable form of prudential, which includes a cash deposit, 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. As at December 31, 2019, the Corporation's retailer credit risk exposure was $1.4 million.

23. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid (received) for

	2019	**2018**
Interest	$ 103,871	$ 99,732
Income tax	(3,592)	161

Non-Cash Operating Working Capital

	2019	**2018**
Accounts receivable	$ (2,316)	$ (41,508)
Prepaids and deposits	195	984
Income tax receivable and payable	3,811	(3,833)
Regulatory assets	(18,624)	273
Accounts payable and other current liabilities	54,827	(49,509)
Regulatory liabilities	3,166	(4,882)
	$ 41,059	$ (98,475)

Non-Cash Investing Activities

	2019	**2018**
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 64,685	$ 83,617
Customer contributions for property, plant and equipment included in current assets	7,584	9,407
ROU assets obtained in exchange for operating lease liabilities (note 10)	2,101	—

Reconciliation of Cash, Cash Equivalents and Restricted Cash

	2019	2018
Cash and cash equivalents	$ —	$ —
Restricted cash	607	—
	$ 607	$ —

24. SUBSEQUENT EVENTS

These financial statements and notes reflect the Corporation's evaluation of events occurring subsequent to the balance sheet date through February 12, 2020, the date the financial statements were available for issuance.