FORTISALBERTA INC.

Unaudited Condensed Interim Financial Statements
For the three and nine months ended September 30, 2019

FORTISALBERTA INC.
CONDENSED INTERIM BALANCE SHEETS
(UNAUDITED)

As at (all amounts in thousands of Canadian dollars)	September 30, 2019	December 31, 2018
Assets		
Current assets		
Restricted cash	$ 604	$ —
Accounts receivable	165,513	183,854
Prepaids and deposits	5,813	2,990
Income tax receivable	1,593	3,592
Regulatory assets (note 3)	1,786	781
Total current assets	175,309	191,217
Regulatory assets (note 3)	440,343	448,662
Property, plant and equipment, net	3,841,906	3,738,645
Intangible assets, net	79,731	78,040
Other assets	3,177	1,755
Goodwill	228,275	226,968
Total Assets	$ 4,768,741	$ 4,685,287
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings	$ 75,939	$ 55,739
Accounts payable and other current liabilities	205,136	221,518
Regulatory liabilities (note 3)	59,175	42,989
Total current liabilities	340,250	320,246
Other liabilities	20,567	15,169
Regulatory liabilities (note 3)	428,120	410,439
Deferred income tax	315,850	335,047
Long-term debt	2,167,964	2,167,658
Total Liabilities	3,272,751	3,248,559
Commitments and contingencies (note 8)		
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2018 – 63)	173,848	173,848
Additional paid-in capital	764,896	744,896
Accumulated other comprehensive income (loss)	(1,240)	1,549
Retained earnings	558,486	516,435
Total Shareholder's Equity	1,495,990	1,436,728
Total Liabilities and Shareholder's Equity	$ 4,768,741	$ 4,685,287

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

FORTISALBERTA INC.

CONDENSED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three Months Ended September 30, 2019	2018	Nine Months Ended September 30, 2019	2018
Revenues				
Electric rate revenue	$ 159,174	$ 154,312	$ 471,003	$ 452,441
Alternative revenue	1,709	6,163	4,058	6,998
Other revenue	5,136	4,868	12,454	12,210
Total Revenues	166,019	165,343	487,515	471,649
Expenses				
Cost of sales	48,911	51,833	152,607	154,663
Depreciation	49,018	45,579	146,002	135,528
Amortization	3,196	2,347	10,633	7,213
Total Expenses	101,125	99,759	309,242	297,404
Other income (expense)	(84)	(183)	380	(24)
Income before interest expense and income tax	64,810	65,401	178,653	174,221
Interest expense	26,393	24,904	78,093	74,552
Income before income tax	38,417	40,497	100,560	99,669
Income tax expense	1,136	1,920	2,259	1,800
Net Income	$ 37,281	$ 38,577	$ 98,301	$ 97,869
Other comprehensive income (loss)				
Reclassification of amounts related to post-employment benefits	(2,855)	60	(2,789)	178
Comprehensive Income	$ 34,426	$ 38,637	$ 95,512	$ 98,047

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

FORTISALBERTA INC.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(all amounts in thousands of Canadian dollars)	**2019**	**2018**	**2019**	**2018**
Share Capital				
Balance, beginning of period	$ 173,848	$ 173,848	$ 173,848	$ 173,848
Share capital issued	—	—	—	—
Balance, end of period	$ 173,848	$ 173,848	$ 173,848	$ 173,848
Additional Paid-in Capital				
Balance, beginning of period	$ 764,896	$ 744,896	$ 744,896	$ 719,896
Equity contributions	—	—	20,000	25,000
Balance, end of period	$ 764,896	$ 744,896	$ 764,896	$ 744,896
Accumulated Other Comprehensive Income (Loss)				
Balance, beginning of period	$ 1,615	$ (72)	$ 1,549	$ (190)
Reclassification of amounts related to post-employment benefits	(2,855)	60	(2,789)	178
Balance, end of period	$ (1,240)	$ (12)	$ (1,240)	$ (12)
Retained Earnings				
Balance, beginning of period	$ 539,955	$ 490,699	$ 516,435	$ 466,407
Net income	37,281	38,577	98,301	97,869
Dividends	(18,750)	(17,500)	(56,250)	(52,500)
Balance, end of period	$ 558,486	$ 511,776	$ 558,486	$ 511,776
Total Shareholder's Equity	$ 1,495,990	$ 1,430,508	$ 1,495,990	$ 1,430,508

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

FORTISALBERTA INC.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(all amounts in thousands of Canadian dollars)	**2019**	**2018**	**2019**	**2018**
Operating Activities				
Net income	$ 37,281	$ 38,577	$ 98,301	$ 97,869
Adjustments for non-cash items included in net income				
Depreciation	49,018	45,579	146,002	135,528
Amortization	3,385	2,554	11,201	7,833
Deferred income tax	1,136	2,917	2,259	4,342
Equity component of allowance for funds used during construction	—	—	(742)	(599)
Net gain on sale of property, plant and equipment	(33)	—	(33)	(78)
Change in long-term regulatory assets and liabilities	1,360	(11,231)	(5,885)	(10,050)
Change in other non-current operating assets and liabilities	528	892	1,764	(143)
Change in non-cash operating working capital (note 9)	1,355	57,036	21,838	(61,548)
Cash from operating activities	94,030	136,324	274,705	173,154
Investing Activities				
Additions to property, plant and equipment	(89,969)	(97,796)	(282,847)	(311,025)
Customer contributions for property, plant and equipment	8,831	10,317	35,986	23,518
Additions to intangible assets	(4,415)	(4,699)	(13,706)	(14,197)
Proceeds from disposition of property, plant and equipment	952	658	2,830	2,700
Net change in employee loans	253	342	(151)	4
Cash used in investing activities	(84,348)	(91,178)	(257,888)	(299,000)
Financing Activities				
Change in bank indebtedness	(20,326)	(10,461)	(4,800)	—
Proceeds from long-term debt, net of issuance costs	—	149,058	(15)	148,937
Payment of deferred financing fees	(2)	(5)	(148)	(155)
Borrowings under committed credit facility	247,000	393,000	651,000	1,127,000
Repayments under committed credit facility	(217,000)	(535,000)	(626,000)	(1,177,000)
Dividends	(18,750)	(17,500)	(56,250)	(52,500)
Equity contributions	—	—	20,000	25,000
Cash from (used in) financing activities	(9,078)	(20,908)	(16,213)	71,282
Change in cash, cash equivalents and restricted cash	604	24,238	604	(54,564)
Cash, cash equivalents and restricted cash, beginning of period	—	3,933	—	82,735
Cash, cash equivalents and restricted cash, end of period	$ 604	$ 28,171	$ 604	$ 28,171

Supplemental cash flow information (note 9)

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

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

The Corporation 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These unaudited condensed interim 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"). These unaudited condensed interim financial statements of the Corporation do not include all disclosures required under US GAAP for annual financial statements and should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2018. In management's opinion, the unaudited condensed interim financial statements reflect all normal recurring adjustments that are necessary to fairly present the Corporation's results of operations and financial position. Operating results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results expected for the full year ending December 31, 2019.

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 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 and 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. There were no material changes to the Corporation's critical accounting estimates for the nine months ended September 30, 2019 as compared to September 30, 2018 and December 31, 2018, except as discussed below.

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

(b) Use of management estimates

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

Depreciation and amortization in 2018 was based on depreciation and amortization rates derived from capital asset balances as at December 2014 and depreciation parameters established in a 2012 depreciation review. Effective January 1, 2019, depreciation and amortization rates were changed based on the results of a depreciation review, which updated rates for changes in capital asset balances and depreciation parameters. The impact to the three months ended September 30, 2019 financial results was an increase to depreciation of approximately $1.1 million and an increase to amortization of approximately $1.0 million as compared to 2018. The impact to the nine months ended September 30, 2019 financial results was an increase to depreciation of approximately $3.2 million and an increase to amortization of approximately $3.2 million as compare to 2018.

(c) Regulation

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 any 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.

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

(c) Regulation (cont'd)

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 notional going-in rate base was also calculated using an AUC prescribed methodology, including both actuals and historical averages. A K-Bar amount is established for each year of the term based on the revenue requirement associated with the resulting projected notional rate base for Type 2 capital programs.

2019 Annual Rates Application

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

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

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, pending further regulatory process.

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

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

Electric Distribution System Purchases

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

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

(c) Regulation (cont'd)

Electric Distribution System Purchases (cont'd)

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 Corporation's acquisitions of the Municipality of Crowsnest Pass ("CNP") and the Town of Fort Macleod ("Fort Macleod") electric distribution systems.

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

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 filed by the AESO (the “Decision”). The Decision approved 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 determined that the Corporation would transfer the unamortized AESO contributions as at December 31, 2017, $403.8 million, relating to investments made by the Corporation under the ACCP, to the incumbent TFO in FortisAlberta's service area, AltaLink Management Ltd ("AML"). The Decision directed 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 Decision 22942-D02-2019 (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 transfer of unamortized historical AESO contributions and the opportunity for future investments.

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. This suspension will remain in effect until the AUC expedited review of the Decision is completed.

The Corporation has determined that the occurrence of a loss contingency is not determinable due to the AUC’s expedited review of the Decision. Based on the number of significant matters identified in the Immediate Review and Variance Letter, an estimate of loss cannot be reasonably determined as at September 30, 2019 and no estimate has been included in the unaudited condensed interim financial statements.

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

(d) Changes in Accounting Policies

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

Leases

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

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

Leases with a term of twelve months or less are not recorded on the balance sheet but are recognized as lease expense on a straight-line basis over the lease term. As at September 30, 2019, the Corporation's easements have not resulted in the recognition of a ROU asset as the current easement contracts do not convey a right to control. See Note 5 for additional information related to the Corporation's leasing arrangements.

(e) Future Accounting Pronouncements

The Corporation considers the applicability and impact of all Accounting Standard Updates ("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 either not applicable to the Corporation or are not expected to have a material impact on the financial statements.

Financial Instruments

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

Pensions and Other Postretirement Plan Disclosures

ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans,* was issued in August 2018, is effective January 1, 2021 with earlier adoption permitted, and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined benefit pension or other postretirement plans and clarifies disclosure requirements. In addition, the amendments remove (a) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs over the next fiscal period, (b) the amount and timing of plan assets expected to be returned to the employer, and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. The Corporation is early adopting ASU 2018-14 in 2019 and further assessing disclosure requirements.

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

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

(e) Future Accounting Pronouncements (cont'd)

Cloud Computing Arrangements

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

3. REGULATORY ASSETS AND LIABILITIES

Regulatory assets represent amounts which are expected to be recovered from customers in future periods. Regulatory liabilities represent the current recovery of future costs or amounts which 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.

	September 30, 2019	December 31, 2018
Regulatory assets		
Deferred income tax	$ 321,531	$ 342,987
Deferred overhead	116,759	103,072
Regulatory defined benefit pension deferrals	2,193	2,031
AESO charges deferral	706	773
Y factor deferral	563	84
A1 rider deferral	208	496
PBR rebasing deferral	169	—
Total regulatory assets	442,129	449,443
Less: current portion	1,786	781
Long-term regulatory assets	$ 440,343	$ 448,662

	September 30, 2019	December 31, 2018
Regulatory liabilities		
Non-ARO provision	$ 418,042	$ 407,613
AESO charges deferral	57,324	26,477
Incremental capital deferral	5,016	3,204
K factor deferral	3,681	13,073
Y factor deferral	1,768	2,097
A1 rider deferral	1,421	706
PBR rebasing deferral	43	258
Total regulatory liabilities	487,295	453,428
Less: current portion	59,175	42,989
Long-term regulatory liabilities	$ 428,120	$ 410,439

A detailed description of the nature of the Corporation's regulatory assets and liabilities was provided in Note 5 of the Corporation's 2018 audited annual financial statements. The incremental capital deferral is comprised of the K-Bar deferral and the AESO contributions deferral as disclosed individually in the Corporation's 2018 audited annual financial statements.

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

4. PENSION AND OTHER POST EMPLOYMENT BENEFITS

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	
Three months ended September 30	**2019**	**2018**	**2019**	**2018**
Service cost	$ 124	$ 158	$ 114	$ 127
Interest cost	412	387	83	85
Expected return on plan assets	(269)	(236)	—	—
Amortizations:				
Past service cost	—	—	95	95
Actuarial loss (gain)	—	147	(62)	(35)
Net benefit cost recognized	267	456	230	272
Regulatory adjustments	—	(314)	—	—
Net benefit cost recognized in financial statements	267	142	230	272
Defined contribution cost	2,231	2,216	—	—
Total employee future benefit cost	$ 2,498	$ 2,358	$ 230	$ 272

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
Nine months ended September 30	**2019**	**2018**	**2019**	**2018**
Service cost	$ 374	$ 473	$ 344	$ 383
Interest cost	1,238	1,163	249	256
Expected return on plan assets	(808)	(708)	—	—
Amortizations:				
Past service cost	—	—	285	285
Actuarial loss (gain)	—	441	(186)	(107)
Net benefit cost recognized	804	1,369	692	817
Regulatory adjustments	(9)	(95)	—	—
Net benefit cost recognized in financial statements	795	1,274	692	817
Defined contribution cost	7,547	7,686	—	—
Total employee future benefit cost	$ 8,342	$ 8,960	$ 692	$ 817

Pension Plan and OPEB Contributions

The Corporation made total contributions to the defined benefit pension plans of $0.3 million and $0.8 million for the three and nine months ended September 30, 2019, respectively. Minimum funding contributions of approximately $1.1 million will be made towards the defined benefit pension plans and contributions of $0.9 million toward the OPEB plan in 2019.

5. LEASES

The Corporation's operating leases are primarily comprised of leases for office facilities, which have remaining terms of one to six years. As at September 30, 2019, the Corporation's weighted average remaining lease term was three 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.

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

5. LEASES (cont'd)

The following table details supplemental balance sheet information related to the Corporation's operating leases as at September 30, 2019:

	September 30, 2019
Operating Leases	
Other assets	$ 1,418
Accounts payable and other current liabilities	677
Other liabilities	741

For the three and nine months ended September 30, 2019, the Corporation's total operating lease costs included in cost of sales was approximately $0.3 million and $0.9 million, respectively (three and nine months ended September 30, 2018 - $0.3 million and $0.9 million, respectively). The Corporation did not enter into any new operating lease arrangements during the nine months ended September 30, 2019.

As at September 30, 2019, the Corporation had the following future minimum operating lease payments, which exclude payments to lessors for variable property taxes and maintenance:

	September 30, 2019
Remainder of 2019	$ 184
2020	683
2021	406
2022	155
2023	29
Thereafter	34
Total	1,491
Less: imputed interest	(73)
Present value of operating lease liabilities [1]	1,418
Less: current operating lease liabilities	(677)
Long-term operating lease liabilities	$ 741

[1] *The present value of lease liabilities was calculated using a weighted average discount rate of 3.9%.*

The following table includes supplemental cash flow information related to the Corporation's operating leases for the three and nine months ended September 30, 2019:

	Three Months Ended	Nine Months Ended
Cash paid for monthly lease costs included in the measurement of operating lease liabilities	$ 201	$ 618
ROU assets obtained in exchange for new operating lease liabilities	—	2,101

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

The Corporation received the following lease revenue from operating leases for the three and nine months ended September 30, 2019:

	Three Months Ended	Nine Months Ended
Lease revenue from operating leases	$ 157	$ 373

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

5. LEASES (cont'd)

As at September 30, 2019, the Corporation will receive the following lease revenue from operating leases:

	September 30, 2019
Remainder of 2019	$ 49
2020	195
2021	195
2022	195
2023	195
Thereafter	4,673
Total	$ 5,502

6. DEBT

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.

7. 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.

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

Long-term debt	September 30, 2019	December 31, 2018
Fair value [(1)]	$ 2,792,944	$ 2,465,514
Carrying value [(2)]	2,183,679	2,183,655

[(1)] *The fair value of the long-term debt was estimated using level 2 inputs based on the indicative prices for the same or similarly rated issues for debt of the same remaining maturities.*
[(2)] *Carrying value is presented gross of debt issuance costs of $15,715 (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.

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Credit Risk

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

For accounts receivable, the Corporation's gross credit risk exposure is equal to the carrying value on the balance sheet. The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The Corporation is required to minimize its net exposure to retailer billings by obtaining an acceptable form of prudential, which includes a cash deposit, bond, letter of credit, an investment grade credit rating from a major rating agency, or a financial guarantee from an entity with an investment grade credit rating. As at September 30, 2019, the Corporation's credit risk exposure was $1.5 million.

8. COMMITMENTS AND CONTINGENCIES

A detailed description of the nature of the Corporation's commitments and contingencies was provided in Note 19 of the Corporation's 2018 audited annual financial statements. There have been no material changes to the nature or amounts of these items.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Change in Non-Cash Operating Working Capital

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Accounts receivable	$ (1,911)	$ (11,029)	$ 15,203	$ (18,581)
Prepaids and deposits	456	(137)	(2,823)	(1,581)
Income tax receivable and payable	1,999	(917)	1,999	(2,703)
Regulatory assets	(636)	7,164	(1,005)	(29,474)
Accounts payable and other current liabilities	(7,070)	67,338	(7,722)	13,433
Regulatory liabilities	8,517	(5,383)	16,186	(22,642)
	$ 1,355	$ 57,036	$ 21,838	$ (61,548)

Non-Cash Investing Activities

As at September 30	2019	2018
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 74,283	$ 71,445
Customer contributions for property, plant and equipment included in current assets	6,119	7,864

Refer to Note 5 for supplemental cash flow information related to leases.

Reconciliation of Cash, Cash Equivalents and Restricted Cash

As at September 30	2019	2018
Cash and cash equivalents	$ —	$ 28,171
Restricted cash	604	—
	$ 604	$ 28,171

10. SUBSEQUENT EVENTS

These condensed interim financial statements and notes reflect the Corporation's evaluation of events occurring subsequent to the balance sheet date through October 31, 2019, the date the financial statements were available for issuance.