FORTISALBERTA INC.

Audited Financial Statements
For the years ended December 31, 2020 and 2019

Deloitte.

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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, 2020 and 2019, 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, 2020 and 2019, 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, 2021

FORTISALBERTA INC.

BALANCE SHEETS

As at December 31 (all amounts in thousands of Canadian dollars)	2020	2019
Assets		
Current assets		
Restricted cash (note 3 and 22)	$ 611	$ 607
Accounts receivable (note 4)	167,427	184,364
Prepaids and deposits	4,433	2,795
Income tax receivable	4,659	—
Regulatory assets (note 5)	37,030	19,405
Total current assets	214,160	207,171
Regulatory assets (note 5)	352,824	314,324
Property, plant and equipment, net (note 6)	4,192,568	3,994,093
Intangible assets, net (note 7)	93,198	84,643
Other assets (note 8)	2,774	2,992
Goodwill	228,357	228,275
Total Assets	$ 5,083,881	$ 4,831,498
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings (note 11)	$ 46,509	$ 92,226
Accounts payable and other current liabilities (note 9)	223,718	258,072
Income tax payable	—	220
Regulatory liabilities (note 5)	32,354	46,156
Total current liabilities	302,581	396,674
Other liabilities (note 10)	67,024	20,359
Regulatory liabilities (note 5)	449,750	428,305
Deferred income tax (note 18)	349,419	307,695
Long-term debt (note 11 and 20)	2,342,335	2,168,055
Total Liabilities	3,511,109	3,321,088
Commitments and contingencies (note 19)		
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2019 – 63) (note 14)	173,848	173,848
Additional paid-in capital (note 15)	774,896	764,896
Accumulated other comprehensive loss (note 16)	(762)	(321)
Retained earnings	624,790	571,987
Total Shareholder's Equity	1,572,772	1,510,410
Total Liabilities and Shareholder's Equity	$ 5,083,881	$ 4,831,498

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)	2020	2019
Revenues (note 12)		
Electric rate revenue	$ 636,884	$ 627,036
Alternative revenue	(973)	4,795
Other revenue	16,914	17,837
Total Revenues	652,825	649,668
Expenses		
Cost of sales	204,688	196,605
Depreciation	197,833	200,252
Amortization	14,475	14,078
Total Expenses	416,996	410,935
Other income	1,392	1,298
Income before interest expense and income tax	237,221	240,031
Interest expense (note 13)	103,644	103,826
Income before income tax	133,577	136,205
Income tax expense (note 18)	774	5,653
Net Income	$ 132,803	$ 130,552
Other comprehensive loss		
Reclassification of amounts related to post-employment benefits (note 16)	(441)	(1,870)
Comprehensive Income	$ 132,362	$ 128,682

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)	2020	2019
Share Capital (note 14)		
Balance, beginning and end of year	$ 173,848	$ 173,848
Additional Paid-in Capital (note 15)		
Balance, beginning of year	$ 764,896	$ 744,896
Equity contributions	10,000	20,000
Balance, end of year	$ 774,896	$ 764,896
Accumulated Other Comprehensive Income (Loss) (note 16)		
Balance, beginning of year	$ (321)	$ 1,549
Reclassification of amounts related to post-employment benefits	(441)	(1,870)
Balance, end of year	$ (762)	$ (321)
Retained Earnings		
Balance, beginning of year	$ 571,987	$ 516,435
Net income	132,803	130,552
Dividends (note 14)	(80,000)	(75,000)
Balance, end of year	$ 624,790	$ 571,987
Total Shareholder's Equity	$ 1,572,772	$ 1,510,410

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)	2020	2019
Operating Activities		
Net income	$ 132,803	$ 130,552
Adjustments for non-cash items included in net income		
Depreciation	197,833	200,252
Amortization	15,469	14,898
Deferred income tax (note 18)	(84)	5,433
Equity component of allowance for funds used during construction	(2,171)	(1,839)
Net gain on sale of property, plant and equipment	—	(33)
Change in long-term regulatory assets and liabilities	4,487	(267)
Change in other non-current operating assets and liabilities	45,865	2,537
Change in non-cash operating working capital (note 21)	(68,845)	41,059
Cash from operating activities	325,357	392,592
Investing Activities		
Additions to property, plant and equipment	(399,619)	(399,016)
Acquisition of property, plant and equipment	—	(4,770)
Customer contributions for property, plant and equipment	32,570	45,577
Additions to intangible assets	(19,914)	(19,081)
Proceeds from disposition of property, plant and equipment	3,616	4,051
Net change in employee loans	(74)	(17)
Cash used in investing activities	(383,421)	(373,256)
Financing Activities		
Net change in bank indebtedness	6,283	(7,513)
Net change in demand notes	(89,000)	89,000
Borrowing under bilateral credit facility	150,000	—
Repayment under bilateral credit facility	(150,000)	—
Proceeds from long-term debt, net of issuance cost	173,785	(216)
Borrowings under committed credit facility	1,250,000	759,000
Repayments under committed credit facility	(1,213,000)	(804,000)
Dividends (note 14)	(80,000)	(75,000)
Equity contributions (note 15)	10,000	20,000
Cash from (used in) financing activities	58,068	(18,729)
Change in cash, cash equivalents and restricted cash	4	607
Cash, cash equivalents and restricted cash, beginning of year	607	—
Cash, cash equivalents and restricted cash, end of year	$ 611	$ 607

Supplemental cash flow information (note 21)

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 "*AUCA*"). 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 *AUCA*, includes the approval of distribution tariffs for regulated distribution utilities such as the Corporation, including the rates and terms and conditions on which service is to be provided by those utilities.

The Corporation 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 *AUCA*. 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 accounting principles generally accepted in the United States of America ("US GAAP") for entities not subject to rate regulation.

Performance-Based Regulation

Effective January 1, 2018, the AUC approved a second performance-based regulation ("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 second PBR term includes mechanisms for the recovery or settlement of items determined to flow through directly to customers ("Y factor"). The AUC also approved a Z factor, a PBR re-opener and an efficiency carry-over mechanism. The Z factor permits an application for recovery of costs related to significant unforeseen events. The PBR re-opener permits an application to re-open and review the PBR plan to address specific problems with the design or operation of the PBR plan. The use of the Z factor and PBR re-opener mechanisms is associated with certain thresholds. The efficiency carry-over mechanism provides an incentive by permitting a utility to continue to benefit from efficiency gains achieved during the PBR term. If a utility achieves a return on equity ("ROE") over the PBR term greater than the approved ROE for ratemaking purposes, the utility is eligible to collect additional PBR revenue for the two years after the end of the PBR 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% ROE and a capital structure of 37% equity and 63% debt applied to the notional 2017 rate base, the calculation of which is described below. 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 the PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from going-in rates escalated by the formula. For 2020, the Corporation's ROE has been maintained at 8.50%, with a capital structure of 37% equity and 63% debt.

In the second PBR term, incremental capital funding to recover costs related to capital expenditures that are not recovered through going-in rates escalated by the formula will be available through two mechanisms. The capital tracker mechanism from the first PBR term, from 2013 to 2017, 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 2017 rate base and the level of annual capital additions were calculated using an AUC prescribed methodology, including both actuals and historical averages.

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 ("ISO") Tariff Application filed by the Alberta Electric System Operator (“AESO”) (the “ISO Decision”). The ISO Decision included approval of a proposed change to the method in which the AESO's customer contribution policy ("ACCP") is accounted for between distribution facility owners ("DFO") and transmission facility owners (“TFO”) that would prevent the Corporation's future investment under the ACCP. The ISO Decision also determined that the Corporation would transfer the unamortized AESO contributions balance 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.

On September 25, 2019, the Corporation filed a request for immediate review and variance of the ISO 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 ISO 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 review of the ISO Decision. 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 confirming that it would not conclude its reconsideration prior to the end of 2019. In the same communication, the AUC confirmed its intention to issue supplementary information requests (“IRs”) to the Corporation and AML in January 2020. In February 2020, following the provision of responses to these IRs, the Corporation filed a motion requesting an oral hearing to permit the AUC to address the complex issues that had arose during the proceeding. In May 2020, the AUC confirmed that the outstanding matters will be determined by a written process and requested the Corporation and AML provide expert tax evidence. In July 2020, the Corporation and AML filed the expert tax evidence requested by the AUC.

On November 4, 2020, the AUC issued Decision 24932-D01-2020 (the “ISO Review and Variance Decision”) rescinding the proposed changes to the ACCP and granting the Corporation retention of its unamortized historical AESO contributions, denying the proposed retroactive changes for 2018 to 2020. The ISO Review and Variance Decision also directed the Corporation to change the depreciation rate for AESO contributions to reflect the parameters associated with the underlying transmission facilities. Accordingly, the Corporation has adjusted the estimated service life and the associated depreciation rate of the unamortized AESO contributions resulting in the recognition of a $14.0 million refund to customers as at December 31, 2020 for the related decrease in depreciation expense. Refer to Note 5(ix) for the financial impact on the incremental capital deferral regulatory liability.

In November 2020, the AUC initiated a new proceeding to consider whether the ACCP should be modified on a prospective basis and, if approved, the date on which any new policy related to AESO contributions would commence.

AESO Transmission Cost Allocation Practices for DCG Customers
The ISO Decision also included findings relating to the application of the AESO's transmission cost allocation practices at point of delivery substations that may impact ratemaking treatment of distribution connected generation ("DCG") costs. In November 2019, the Corporation filed an application for review and variance to address the AUC’s determination that transmission costs resulting from the connection of distributed generation to the distribution grid should be allocated to DCG customers at the discretion of the DFO. In the second and third quarters of 2020, the Corporation participated in a series of stakeholder consultations held by the AESO intended to resolve this matter. In December 2020, the AUC issued Decision 25848-D01-2020 approving adjustments to the AESO's transmission cost allocation practices for DCG customers on a prospective basis. In 2021, as directed by the AUC, the Corporation will unwind its AESO supply transmission service deferral account for amounts paid to the AESO for supply transmission service costs that would have otherwise been allocated to DCG customers, with no resulting impact on net income.

Generic Cost of Capital
In December 2018, the AUC initiated a proceeding to consider establishing a formula-based approach to setting the approved ROE and to consider whether any process changes are necessary for determining capital structure in years in which the ROE formula is in place. In April 2019, the AUC confirmed that the proceeding will also include a traditional assessment of ROE and deemed capital structure for the 2021 to 2022 test period. The Corporation made submissions with respect to this proceeding in January 2020. In March 2020, the AUC suspended this proceeding in consideration of the ongoing effects of the novel coronavirus ("COVID-19") pandemic and associated economic uncertainty in respect of the national and global financial markets. In October 2020, the AUC confirmed the currently approved ROE of 8.50% and deemed capital structure of 37% equity and 63% debt for 2021.

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 price for ratemaking purposes 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 have been 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 amount to account for the estimated accumulated depreciation at the time that the assets are to be transferred to the Corporation.

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 funded under K-Bar. However, the AUC approved continuing with Y factor rate treatment for the difference between the incremental distribution revenue arising from customer additions and the incremental revenue requirement associated with the electric distribution systems of the Municipality of Crowsnest Pass and the Town of Fort Macleod ("Fort Macleod") as these acquisitions were initiated prior to the generic proceeding.

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 goods and services tax ("GST"). In 2018, an application to transfer the Fort Macleod system to the Corporation and an associated application for approval of the purchase price for ratemaking purposes was filed with the AUC. These applications, however, were held in abeyance until completion of the generic proceeding to establish the rate treatment methodology for distribution system purchases and were resumed in 2019 following the issuance of Decision 24405-D01-2019. 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. In July 2020, the AUC approved a purchase price of the Fort Macleod system, adjusted for true-ups to the RCN-D value, for ratemaking purposes of $4.7 million, with recovery through a Y factor. The Corporation recognized a $0.1 million adjustment to property, plant and equipment that was recorded in goodwill to reflect the fair value of the Fort Macleod system.

2020 Annual Rates Application
In September 2019, the Corporation submitted its 2020 Annual Rates Application. The rates and riders, proposed to be effective on an interim basis for January 1, 2020, included an increase of approximately 4.9% to the distribution component of customer rates. The increase in the distribution component of customer rates reflected: (i) an I-X of 1.06%; (ii) a collection of $0.2 million for the true-up of going-in rates; (iii) a net collection of $1.5 million for the true-up of the 2018 and 2019 K-Bar amounts; (iv) a 2020 K-Bar placeholder of $58.4 million; (v) a refund of $11.5 million for the 2018, 2019 and 2020 AESO contributions hybrid deferral; and (vi) a net refund of Y factor amounts of $1.3 million.

In December 2019, the AUC issued Decision 24876-D01-2019 approving the Corporation's 2020 rates, as filed in the 2020 Annual Rates Application, on an interim basis.

Utility Payment Deferral Program
On March 18, 2020, the Alberta government announced a program to help residential, farm and small commercial customers avoid additional financial hardship during the COVID-19 pandemic (the "Utility Payment Deferral Program" or the "Program"). Under the Program, those customers who were unable to pay their utility bill could defer payment for up to 90 days, with payment due within one year thereafter.

The Alberta government and the AUC worked with industry stakeholders, including the Alberta electric and gas utilities and the AESO, to develop deferral mechanisms for electricity retailers and the AESO to manage the cash flow impacts that would otherwise result from customers' reliance on the Program.

Utility bills are comprised of charges related to the provision of energy, distribution service and transmission service. The electric retail utilities have accumulated the cash flow impacts and related carrying costs of the uncollected delivery and distribution charges of customer bills deferred under the Program for future recovery through regulatory mechanisms. The Corporation is a distribution utility that outsources all its retail functions under an AUC-approved arrangement. Consequently, the deferral of electricity and distribution delivery charges has no impact to the Corporation's cash flow or collectability of its accounts receivable.

In accordance with the *EUA,* the Corporation is required to arrange, and pay for, transmission service with the AESO and to collect revenue from customers to address these transmission costs. The Corporation collects this revenue by invoicing the customers' retailers through the transmission component of the Corporation's AUC-approved rates. Under the Utility Payment Deferral Program, electricity retailers deferred an amount equivalent to the transmission service component of deferred customer bills from their payments to the Corporation. The Corporation then deferred payment of corresponding amounts for what otherwise would be due to the AESO for future recovery via the deferral program administered by the AESO.

The 90-day term of the Utility Payment Deferral Program ended on June 18, 2020. Repayments of amounts deferred under the Program are in progress with $0.3 million outstanding, as at December 31, 2020. As electricity retailers remit the transmission service component of customer repayments to the Corporation, the Corporation remits payment of corresponding amounts to the AESO. Customers have until June 18, 2021 to repay their deferred utility bills.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
These financial statements have been prepared by management in accordance with 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 permanent 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. There were no material changes to the Corporation's critical accounting estimates for the year ended December 31, 2020 as compared to December 31, 2019.

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 Battery Energy Storage Project (the "Waterton Project"), refer to Note 22. As required by the contribution agreement with Alberta Innovates, restricted cash is held in an interest-bearing savings account.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are measured at fair value and reported at the gross outstanding amount adjusted for an allowance for credit losses. Accounts receivable are subsequently measured at amortized cost using the effective interest method. The Corporation assesses credit loss risk and maintains an accumulated allowance for credit losses for uncollectible customer accounts receivable based on accounts receivable aging, historical experience and collection data, current economic conditions (including forward-looking information) and other currently available customer specific information. Interest is charged on overdue accounts receivable balances.

Accounts receivable are written off to bad debt expense in the Statements of Income and Comprehensive Income in the period the receivable is determined to be uncollectible.

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. Management annually assesses if updates are required to depreciation rates based on changes in capital asset balances and new information related to the service life of assets 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 2020 (2019 - 1.54% to 34.98%).

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. The 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. Management annually assesses if updates are required to amortization rates based on changes in capital asset balances and new information related to the service life of assets 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 2020 (2019 - 1.40% to 17.09%).

Generally, when a regulated asset is retired or disposed of in the normal course, there is no gain or loss recorded in net income. The 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. If that is the case, goodwill is written down to estimated fair value and an impairment loss is recognized. No such event or change in circumstances occurred during the year ended December 31, 2020.

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, 2020 and 2019.

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.

The EUA provides that an owner of an electric distribution system is required to act, or to authorize a substitute party to act, as a provider of electricity services, including the wholesale purchase and retail sale of electricity, to eligible customers under a regulated rate option and as a default supplier to customers otherwise unable to obtain electricity services. In May 2019, the Corporation entered into an arrangement whereby it continues to convey these obligations to EPCOR Energy Alberta GP Inc. ("EPCOR") under an eight-year Customer Rights Agreement (the "Agreement") beginning January 1, 2021. The Agreement provides for successive options to renew every three-years and compensation is recalculated for the renewal term.

Revenue is recognized evenly over the term of the Agreement as there is one performance obligation satisfied over time as EPCOR simultaneously receives and consumes the benefits of the Agreement. The revenue from the renewal periods is not recognized until EPCOR can use and benefit from the Agreement, which is the beginning of each renewal term. Any changes to revenues associated with the contract will be treated as variable revenue.

The transaction price has been allocated to the performance obligation, being each year of the Agreement, based on the stand-alone selling price of the performance obligation. Any consideration received in advance of performance by the Corporation is attributed to unfulfilled performance obligations and has been recorded as a contract liability within Other Liabilities and Accounts Payable and Other Current Liabilities on the Balance Sheets, refer to Notes 9, 10 and 12.

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 Canada Revenue Agency.

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 include accounts receivable, accounts payable, accrued liabilities, short-term borrowings, dividends payable, other long-term liabilities and long-term debt, which 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*. For regulatory purposes, income tax expense is recovered through customer rates based on income tax that is currently payable. As such, 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. The Corporation recognizes an offsetting regulatory asset for the amount of income tax that is expected to be collected in future rates.

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 utilizes the investment tax credits in a future period.

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

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, 2020.

Accounting for Credit Losses

Effective January 1, 2020, the Corporation adopted ASC 326, *Financial Instruments - Credit Losses*, which requires the use of reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. The Corporation records an allowance for credit losses to reduce accounts receivable on the Balance Sheets for amounts estimated to be uncollectible. The allowance is estimated based on historical collection patterns, the current and forecasted economic environment, and other conditions. Accounts receivable are written off in the period in which they are deemed uncollectible. The ASC was adopted using a modified retrospective approach and did not have a material impact on the financial statements.

Cloud Computing Arrangements

Effective January 1, 2020, the Corporation adopted Accounting Standard Update ("ASU") 2018-15, *Customer's 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. Eligible implementation costs are recorded to other assets on the Balance Sheets and amortized to cost of sales on the Statements of Income and Comprehensive Income over the economic life of the cloud computing arrangement. The ASU was adopted using a prospective approach and 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.

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 has substantially completed its analysis and does not expect the adoption of the ASU to have a material impact on the financial statements.

4. 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:

	2020	2019
Accrued unbilled accounts receivable	$ 136,121	$ 168,324
Billed accounts receivable	26,047	10,716
Employee receivables	947	873
Other [(1)]	5,078	4,776
Allowance for credit losses [(2)]	(766)	(325)
Total accounts receivable	$ 167,427	$ 184,364

(1) *Includes customer contributions, amounts due from related parties and GST.*
(2) *Allowance for doubtful accounts for 2019.*

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

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.

The accounts receivable balance includes $0.3 million due from retailers for the transmission service costs component of those customer bills deferred as part of the Alberta government's Utility Payment Deferral Program in response to the COVID-19 pandemic. This amount in accounts receivable is fully offset by the balance in the AESO retail consumers deferral program included in regulatory liabilities, as described in Note 5. As discussed in Note 2, the Utility Payment Deferral Program does not impact the Corporation's cash flows or the collectability of its accounts receivable.

Allowance for Credit Losses

Accounts receivable are recorded net of an allowance for credit losses. The credit loss allowance for the year ended December 31, 2020 considers current and forecasted economic conditions. The 2020 credit loss provision is reflective of normal course operations and was not directly impacted by the COVID-19 pandemic.

The change in allowance for credit losses balance is as follows:

		2020
Balance, beginning of year	$	(325)
Credit loss provision		(631)
Write-offs, net of recoveries		190
Balance, end of year	$	(766)

The allowance for doubtful accounts balance changed during 2019 as follows:

		2019
Balance, beginning of year	$	(29)
Bad debt provision		(321)
Write-offs, net of recoveries		25
Balance, end of year	$	(325)

5. 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.

		2020		2019	Remaining Recovery Period (years)
Regulatory assets					
Deferred income tax (i)	$	352,009	$	310,202	Life of related assets
AESO charges deferral (ii)		34,620		20,662	1
AESO supply transmission service deferral (iii)		2,145		—	1
Regulatory defined benefit pension deferrals (iv)		1,080		2,594	Benefit payment period
PBR rebasing deferral (v)		—		193	1
Y factor deferral (vi)		—		78	1-2
Total regulatory assets		389,854		333,729	
Less: current portion		37,030		19,405	
Long-term regulatory assets	$	352,824	$	314,324	

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

	2020	2019	Remaining Settlement Period (years)
Regulatory liabilities			
Non-ARO provision (viii)	$ 444,492	$ 424,228	Life of related assets
Incremental capital deferral (ix)	22,554	5,170	1-2
AESO charges deferral (ii)	9,612	39,970	1-2
PBR rebasing deferral (v)	1,547	962	1
A1 rider deferral (vii)	1,210	1,263	1-2
Y factor deferral (vi)	1,207	1,683	1-2
K factor deferral (x)	1,182	1,185	1
AESO retail consumers deferral program (xi)	300	—	1
Total regulatory liabilities	482,104	474,461	
Less: current portion	32,354	46,156	
Long-term regulatory liabilities	$ 449,750	$ 428,305	

(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, 2020, the regulatory asset represented the under collection of the AESO charges deferral account for 2019 and the regulatory liability primarily represented the over collection of the AESO charges deferral account for 2018 and 2020.

(iii) AESO supply transmission service deferral
This balance represents amounts paid to the AESO for supply transmission service costs that would have otherwise been allocated to DCG customers and are expected to be recovered in 2021 pursuant to AUC Decision 25848-D01-2020, as discussed in Note 2.

(iv) 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.

(v) PBR rebasing deferral
This balance represents the over and under collection of 2018, 2019 and 2020 base distribution revenue from customers as a result of adjustments to the notional 2017 revenue requirement approved in going-in rates.

(vi) 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, hearing cost claims, legal cost claims and the purchase of the Municipality of Crowsnest Pass and Town of Fort Macleod systems.

(vii) 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.

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

(viii) 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.

(ix) Incremental capital deferral
This balance is comprised of 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 2021 and 2022. During the year ended December 31, 2020, the incremental capital deferral increased by $17.4 million due primarily to the refund associated with the ISO Review and Variance Decision, as discussed in Note 2.

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

(xi) AESO retail consumers deferral program
This balance represents amounts owing to the AESO for the transmission service costs component of those customer bills deferred as part of the Alberta government's Utility Payment Deferral Program in response to the COVID-19 pandemic. The balance of this account is fully offset by a corresponding amount to be collected from retailers by the Corporation, as described in Note 4. As discussed in Note 2, the Utility Payment Deferral Program does not impact the Corporation’s cash flows or collectability of its accounts receivable.

6. PROPERTY, PLANT AND EQUIPMENT

2020	Cost	Accumulated Depreciation	Net Book Value
Distribution system	$ 5,334,256	$ (1,516,049)	$ 3,818,207
AESO contributions	538,623	(126,418)	412,205
Buildings and furniture	190,742	(70,059)	120,683
Buildings under operating leases	3,770	(1,299)	2,471
Indirect capitalized overhead	167,459	(26,849)	140,610
Vehicles	89,198	(24,876)	64,322
Computer hardware	32,674	(17,351)	15,323
Materials and supplies	43,613	—	43,613
Tools and instruments	25,736	(11,783)	13,953
Land	20,373	—	20,373
Construction in progress	53,400	—	53,400
Customer contributions	(940,060)	427,468	(512,592)
	$ 5,559,784	$ (1,367,216)	$ 4,192,568

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

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

Depreciation rates are a composite rate based upon the weighted average of the individual rates for each class of asset within the group. As at December 31, depreciation rates were as follows:

(%)	**2020**	**2019**
Distribution system	3.71	3.70
AESO contributions [1]	2.56	3.26
Buildings and furniture	3.42	3.51
Buildings under operating leases	3.21	3.22
Indirect capitalized overhead	3.43	3.46
Vehicles	9.90	10.13
Computer hardware	20.33	21.01
Tools and instruments	10.00	9.82
Customer contributions	2.50	2.50

(1) During 2020, the Corporation reflected a change in estimate to the depreciation for the AESO contribution investments as a result of the ISO Review and Variance Decision described in Note 2.

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.

7. INTANGIBLE ASSETS

2020	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Computer software	$ 110,248	$ (46,865)	$ 63,383
Land rights	33,696	(10,624)	23,072
Indirect capitalized overhead	2,715	(446)	2,269
Intangibles construction in progress	4,474	—	4,474
	$ 151,133	$ (57,935)	$ 93,198

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

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

Amortization of intangible assets was $14.5 million for 2020 (2019 - $14.1 million). Amortization is expected to average approximately $11.8 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. As at December 31, the amortization rates of intangible assets were as follows:

(%)	**2020**	**2019**
Computer software	13.08	12.97
Land rights	1.40	1.40
Indirect capitalized overhead	3.43	3.46

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

(Years)	**2020**		**2019**	
	Service Life Ranges	**Weighted Average Remaining Service Life**	**Service Life Ranges**	**Weighted Average Remaining Service Life**
Computer software	5-10	3.0	5-10	3.6
Land rights	60	48.2	60	48.9
Indirect capitalized overhead	5-10	3.0	5-10	3.6
Total	5-60	4.1	5-60	5.0

8. OTHER ASSETS

	2020	**2019**
Income tax receivable	$ 1,783	$ 1,746
Right-of-use ("ROU") assets	991	1,246
	$ 2,774	$ 2,992

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

9. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	2020	2019
Trade accounts payable	$ 133,052	$ 176,596
Customer deposits	33,729	39,981
Employee compensation and benefits payable	26,189	14,465
Interest payable	23,427	25,784
Contract liability (note 12)	6,251	—
Operating lease liability	408	646
Other	662	600
	$ 223,718	$ 258,072

10. OTHER LIABILITIES

	2020	2019
Contract liability (note 12) (1)	$ 46,109	$ —
OPEB plan liability (note 16)	12,463	11,115
Deferred lease revenue (2)	2,842	3,084
Defined benefit pension plans liability (note 16)	815	1,941
Operating lease liability	583	600
Other (3)	4,212	3,619
	$ 67,024	$ 20,359

(1) *In December 2020, the Corporation received an upfront payment of $52.4 million from EPCOR pursuant to the terms of the Customer Rights Agreement, of which $6.3 million is recorded as a current liability (note 9).*

(2) *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.*

(3) *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)

11. DEBT AND CAPITAL MANAGEMENT

	Coupon Rate (%)	Maturity Date (Year)	2020 Effective Rate (%)	2020	2019
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	109,905	109,904
Series 08-1	5.85	2038	5.94	99,593	99,579
Series 09-1	7.06	2039	7.15	99,989	99,989
Series 09-2	5.37	2039	5.42	124,956	124,955
Series 10-1	4.80	2050	4.85	124,921	124,920
Series 11-1	4.54	2041	4.59	124,984	124,983
Series 12-1	3.98	2052	4.02	124,933	124,932
Series 13-1	4.85	2043	4.90	149,857	149,853
Series 14-1	4.11	2044	4.15	124,981	124,981
Series 14-2	3.30	2024	3.37	149,994	149,993
Series 15-1	4.27	2045	4.32	149,840	149,837
Series 16-1	3.34	2046	3.39	149,768	149,762
Series 17-1	3.67	2047	3.71	200,000	200,000
Series 18-1	3.73	2048	3.78	150,000	150,000
Series 20-1	2.63	2051	2.67	175,000	—
Drawings under the long-term credit facility	Variable	2024		37,000	—
Fortis demand note (note 17)	Variable	on demand		—	89,000
Cash balances in overdraft position	N/A	N/A		9,509	3,226
Total debt				2,405,230	2,275,914
Short-term borrowings				(46,509)	(92,226)
Debt issuance costs				(16,386)	(15,633)
Long-term debt				$ 2,342,335	$ 2,168,055

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 December 2020, the Corporation entered into an agreement with a syndicate of agents to sell $175.0 million of senior unsecured debentures at a rate of 2.63%, to be paid semi-annually, and mature in 2051. The net proceeds of the issuance were used to primarily repay existing indebtedness incurred under the bilateral and long-term credit facilities.

As at December 31, 2020, the Corporation had an unsecured committed credit facility with an available amount of $250.0 million maturing in August 2024. Drawings under the long-term 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, 2020 on the long-term credit facility was 2.6% (2019 - 3.7%). As at December 31, 2020, the Corporation had $37.0 million drawn on the long-term credit facility (December 31, 2019 - $nil) and $0.4 million drawn in letters of credit (December 31, 2019 - $0.4 million).

In March 2020, the Corporation negotiated a $150.0 million non-revolving one-year bilateral credit facility. In December 2020, the Corporation repaid all borrowings and the facility was terminated upon repayment. The weighted average effective interest rate for the year ended December 31, 2020 on the bilateral credit facility was 1.1%.

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

As at December 31, 2020, the Corporation had no demand notes outstanding with Fortis (December 31, 2019 - $89.0 million). Demand note bears interest approximating the bankers' acceptance discount rate plus a stamping fee of 1.0%.

The Corporation has externally imposed capital requirements by virtue of its Trust Indenture and committed credit facility such that consolidated debt cannot exceed 75% of the Corporation's consolidated capitalization ratio, which is based on the Corporation's total capital structure. As at December 31, 2020, 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.

12. REVENUES

	2020	2019
Electric rate revenue	$ 636,884	$ 627,036
Alternative revenue	(973)	4,795
Other revenue	16,914	17,837
Total Revenues	$ 652,825	$ 649,668

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-bar revenue associated with the true-up from forecast to actual weighted-average cost of capital as alternative revenue. Once billed, alternative revenue will be reported in electric rate revenue and the associated regulatory asset or liability will be adjusted.

Refer to Note 5 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.

	2020	2019
Third party services	$ 5,375	$ 7,499
REA services	4,719	4,432
Miscellaneous revenue	3,674	2,710
Joint use revenue	2,360	2,403
Lease revenue	545	492
Related party revenue	241	301
	$ 16,914	$ 17,837

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

Contract Liability

The transaction price for the Customer Rights Agreement consists of an initial upfront payment of $52.4 million recorded as a contract liability. There was no related revenue recognized during the year ended December 31, 2020.

	2020	2019
Current contract liability (note 9)	$ 6,251	$ —
Long-term contract liability (note 10)	46,109	—
Total contract liability	$ 52,360	$ —

13. INTEREST EXPENSE

	2020	2019
Interest - long-term debt	$ 101,643	$ 101,324
Interest - short-term debt	3,240	1,987
Interest - other	724	2,221
Less: debt component of AFUDC	(1,963)	(1,706)
	$ 103,644	$ 103,826

Interest expense on long-term debt included $0.7 million related to amortization of debt issuance costs in 2020 (2019 - $0.6 million).

14. 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 2020, the Corporation declared and paid dividends totaling $80.0 million (2019 - $75.0 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, 2020, 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.

15. 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 2020, the Corporation received $10.0 million in equity contributions from Fortis Alberta Holdings Inc. (2019 - $20.0 million).

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

16. 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, 2019. The next actuarial valuation for funding purposes is required to be completed as at a date no later than December 31, 2022.

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. Interest 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:

	2020	2019
Government bonds	$ 36,638	$ 34,739
Corporate bonds	10,940	10,882
Total (1)	$ 47,578	$ 45,621

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

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

Reconciliation of Funded Status

	Defined Benefit Pension Plans		OPEB Plan	
	2020	**2019**	**2020**	**2019**
Change in benefit obligation [(1)]				
Balance, beginning of year	$ 47,762	$ 43,297	$ 11,774	$ 9,430
Current service cost	579	529	812	552
Interest cost	1,425	1,625	355	333
Member contributions	23	25	—	—
Plan amendments	—	154	—	4,231
Benefits paid	(3,752)	(1,752)	(529)	(603)
Net transfer out	—	(154)	—	—
Actuarial loss (gain)	2,621	4,038	780	(2,169)
Balance, end of year [(2)]	$ 48,658	$ 47,762	$ 13,192	$ 11,774
Change in fair value of plan assets				
Balance, beginning of year	$ 45,621	$ 41,266	$ —	$ —
Employer contributions	761	1,028	529	603
Member contributions	23	25	—	—
Benefits paid	(3,752)	(1,752)	(529)	(603)
Actual return on plan assets	4,925	5,054	—	—
Balance, end of year	$ 47,578	$ 45,621	$ —	$ —
Funded status	$ (1,080)	$ (2,141)	$ (13,192)	$ (11,774)

(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 $48.6 million as at December 31, 2020 (December 31, 2019 - $47.6 million).*

The primary factors contributing to the change in the funded status of the defined benefit pension plans include the plan assets earning a return in excess of the expected return for 2020 of $4.1 million, offset by a decrease in the discount rate from 3.10% to 2.50% and the impact of change in membership data resulting in a $2.6 million increase to the defined benefit pension obligation.

The primary factors contributing to the change in the funded status of the OPEB plan is the actuarial loss of $0.8 million, primarily due to a decrease in the discount rate, offset by lower actual retiree claim costs than assumed.

Amounts Recognized on the Balance Sheet

	Defined Benefit Pension Plans		OPEB Plan	
	2020	**2019**	**2020**	**2019**
Accounts payable and other current liabilities	$ (265)	$ (200)	$ (729)	$ (659)
Other liabilities (note 10)	(815)	(1,941)	(12,463)	(11,115)
Net Liabilities	$ (1,080)	(2,141)	$ (13,192)	(11,774)

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

	Defined Benefit Pension Benefits	OPEB Benefits
2021	2,484	729
2022	2,502	788
2023	2,505	834
2024	2,535	865
2025	2,556	821
2026-2030	13,028	3,598

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

Pension Plan Contributions

The Corporation made total contributions to the defined benefit pension plan of $0.7 million and contributions to the OPEB plan of $0.5 million for the year ended December 31, 2020. Minimum funding contributions of approximately $0.6 million will be made to the defined benefit pension plan and $0.7 million to the OPEB plan in 2021.

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
	2020	2019	2020	2019
Service cost	$ 579	$ 529	$ 812	$ 552
Interest cost	1,425	1,625	355	333
Expected return on plan assets	(809)	(1,077)	—	—
Amortizations:				
Past service cost	—	154	682	456
Actuarial loss (gain)	8	—	(343)	(264)
Net benefit cost recognized	1,203	1,231	1,506	1,077
Regulatory adjustment	3	(203)	—	—
Net benefit cost recognized in financial statements	1,206	1,028	1,506	1,077
Defined contribution cost	9,732	9,784	—	—
Total employee future benefit cost	$ 10,938	$ 10,812	$ 1,506	$ 1,077

Accumulated Other Comprehensive Loss

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

	Defined Benefit Pension Plans		OPEB Plan	
	2020	2019	2020	2019
Actuarial gain (loss)	$ (1,602)	$ (3,104)	$ 5,203	$ 6,326
Past service cost	—	—	(5,965)	(6,647)
Accumulated other comprehensive loss	(1,602)	(3,104)	(762)	(321)
Regulatory adjustment	1,602	3,104	—	—
Accumulated other comprehensive loss	$ —	$ —	$ (762)	$ (321)

Other Comprehensive Loss

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

	Defined Benefit Pension Plans		OPEB Plan	
	2020	2019	2020	2019
Net actuarial gain (loss) arising during the year	$ 1,495	$ (61)	$ (780)	$ 2,169
New prior service cost	—	(154)	—	(4,231)
Amortizations:				
Past service cost	—	154	682	456
Actuarial loss (gain)	8	—	(343)	(264)
Other comprehensive income (loss)	1,503	(61)	(441)	(1,870)
Regulatory adjustment	(1,503)	61	—	—
Total other comprehensive loss	$ —	$ —	$ (441)	$ (1,870)

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

Weighted Average Assumptions

	Defined Benefit Pension Plans		OPEB Plan	
	2020	**2019**	**2020**	**2019**
Discount rate during the year	3.10 %	3.90 %	3.10 %	3.70 %
Discount rate as at December 31	2.50 %	3.10 %	2.50 %	3.10 %
Expected long-term rate of return on plan assets [(1)]	2.30 %	3.20 %	—	—
Rate of compensation increase	2.50 %	2.50 %	—	—
Initial weighted average health care trend rate during year	—	—	5.61 %	5.69 %
Initial weighted average health care trend rate at December 31	—	—	5.53 %	5.61 %
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.*

17. 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 are measured at the exchange amount and are as follows:

	2020	2019
Accounts receivable		
Loans [(1)]	$ 31	$ 41
Related parties	4	239
	$ 35	$ 280
Accounts payable and other current liabilities		
Related parties [(2)]	$ 2,445	$ —
Short-term borrowings		
Related party [(3)] (note 11)	$ —	$ 89,000

(1) *These loans are to officers of the Corporation for employee share purchase plan loans.*
(2) *This reflects charges from related parties associated with information technology services.*
(3) *This was for a demand note from Fortis that was repaid in the first quarter of 2020.*

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 of $3.2 million (December 31, 2019 – $nil) are included in intangible assets and measured at the exchange amount at the date of the transaction.

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

	2020	2019
Included in other revenue [(1)]	241	301
Included in cost of sales [(2)]	4,927	4,750
Included in interest expense [(3)]	512	268

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

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

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

18. 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:

	2020	2019
Deferred income tax assets (liabilities)		
Net regulatory assets and liabilities	$ 9,425	$ 4,521
OPEB	3,708	3,762
Intangible assets	(19,775)	(16,569)
Property, plant and equipment	(341,483)	(298,152)
Debt issuance costs	(4,266)	(4,097)
Income tax credits	2,316	2,267
Loss carry forwards	—	17
Other	656	556
Net deferred income tax liability	$ (349,419)	$ (307,695)

Components of the income tax expense were as follows:

	2020	2019
Current income tax expense	$ 858	$ 220
Deferred income tax expense before adjustment	42,489	(26,619)
Regulatory adjustment for the recovery of deferred income tax in future customer rates	(42,573)	32,052
Deferred income tax expense (recovery)	(84)	5,433
Total income tax expense	$ 774	$ 5,653

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.

	2020	2019
Income before income tax per financial statements	$ 133,577	$ 136,205
Statutory income tax rate	24.0%	26.5%
Income tax, at statutory income tax rate	$ 32,058	$ 36,094
Difference between capital cost allowance and amounts claimed for accounting purposes	(21,320)	(22,724)
Items capitalized for accounting purposes but expensed for income tax purposes	(15,671)	(6,633)
Difference between regulatory accounting items and amounts claimed for income tax purposes	4,029	(2,056)
Other	1,626	519
Change in statutory income tax rate	52	453
Income tax expense	$ 774	$ 5,653
Effective income tax rate	0.6%	4.2%

As at December 31, 2020, the Corporation had no federal non-capital loss carry forwards (December 31, 2019 - $0.1 million) and no provincial non-capital loss carry forwards (December 31, 2019 - $nil).

As at December 31, 2020, total investment tax credits receivable related to the employment of eligible apprentices and acquisition of eligible assets were $1.8 million (December 31, 2019 - $1.8 million), as described in Note 8. These credits are subject to carry forward and expire between 2026 and 2040.

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.

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

Taxation years 2015 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, 2020 and, as such, has not accrued any associated interest or penalties.

19. COMMITMENTS AND CONTINGENCIES

As at December 31, 2020, the Corporation's commitments in each of the next five years and thereafter are as follows:

	Total	2021	2022	2023	2024	2025	> 2025
Principal payments on long-term debt [(1)]	$ 2,360,000	—	—	—	150,000	—	2,210,000
Interest payments on long-term debt	2,318,625	105,930	105,930	105,930	105,930	100,980	1,793,925
Operating leases	1,024	423	253	128	130	90	—
Other commitments	52,174	5,345	4,528	3,626	2,275	2,275	34,125
Total	$ 4,731,823	111,698	110,711	109,684	258,335	103,345	4,038,050

[(1)] *Carrying value is presented gross of debt issuance costs of $16,386 (December 31, 2019 – $15,633).*

Other Commitments

The Corporation and an Alberta transmission service provider have an agreement in consideration for joint attachments of distribution facilities to the transmission system. The agreement remains in effect, in perpetuity, until the Corporation no longer has attachments to the transmission system. Due to the unlimited duration of this contract, the calculation of future payments after 2025 includes payments to the end of 20 years. However, the payments under this agreement may continue into the future for an indeterminable 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, 2020 and are subject to extension based on mutually agreeable terms.

As a regulated electric distribution utility, the Corporation is obligated to provide service to customers within its service territory. In doing so, the Corporation may, at times, be required to incur operating and capital expenditures in excess of that currently funded by customer rates. These amounts may subsequently be presented to the AUC for recovery from customers.

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.

20. 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.

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

The fair value 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	**2020**	**2019**
Fair value [1]	$ 3,098,239	$ 2,722,054
Carrying value [2]	2,358,721	2,183,688

[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 $16,386 (December 31, 2019 – $15,633).*

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 assesses its retailer credit exposure and expected credit loss using historical information, forms of prudential and current economic conditions. In accordance with the Corporation's Terms and Conditions, the Corporation is required to minimize its credit 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. An acceptable form of prudential reduces the credit risk exposure of retailer billings. As at December 31, 2020, the Corporation's credit risk exposure was $1.5 million. Expected credit losses with other counterparties is evaluated using historical collection experience and internal counterparty-specific risk assessments. The Corporation's assessment is that its expected credit loss is not significant as at December 31, 2020.

21. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid (received) for

	2020	**2019**
Interest	$ 108,905	$ 103,871
Income tax	5,736	(3,592)

Non-Cash Operating Working Capital

	2020	**2019**
Accounts receivable	$ 18,582	$ (2,316)
Prepaids and deposits	(1,638)	195
Income tax receivable and payable	(4,879)	3,811
Regulatory assets	(17,625)	(18,624)
Accounts payable and other current liabilities	(49,483)	54,827
Regulatory liabilities	(13,802)	3,166
	$ (68,845)	$ 41,059

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

Non-Cash Investing Activities

	2020	2019
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 79,892	$ 64,685
Customer contributions for property, plant and equipment included in current assets	9,155	7,584
ROU assets obtained in exchange for operating lease liabilities	468	2,101

Reconciliation of Cash, Cash Equivalents and Restricted Cash

	2020	2019
Cash and cash equivalents	$ —	$ —
Restricted cash	611	607
	$ 611	$ 607

22. WATERTON BATTERY ENERGY STORAGE PROJECT

In 2019, the Corporation was awarded $2.6 million in total funding from Alberta Innovates and Emissions Reduction Alberta for the Waterton Project in the Biotechnology, Electricity, and Sustainable Transportation challenge. The Waterton Project will enable FortisAlberta to test the technology, economics and collective distribution grid benefits of solar power system, utility scale battery storage, smart inverter, SCADA (Supervisory Control and Data Acquisition) and grid operating systems. The contribution agreements outline project and funding milestones. As at December 31, 2020, $0.6 million (December 31, 2019 - $0.6 million) of a contribution has been received and recorded in restricted cash.