FORTISALBERTA INC.

Financial Statements
For the years ended December 31, 2015 and 2014

MANAGEMENT'S REPORT

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

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

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

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

The 2015 annual financial statements were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of FortisAlberta Inc. Ernst & Young LLP, independent auditors appointed by the shareholder of FortisAlberta Inc. upon recommendation of the Audit Committee, have performed an audit of the 2015 annual financial statements and their report follows.

(signed)
Phonse Delaney
President and Chief Executive Officer

(signed)
Janine Sullivan
Vice President, Finance and Chief Financial Officer

February 10, 2016
Calgary, Canada

INDEPENDENT AUDITORS' REPORT

To the Shareholder of FortisAlberta Inc.,

We have audited the accompanying financial statements of FortisAlberta Inc. which comprise the balance sheets as at December 31, 2015 and 2014, and the statements of income and comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of FortisAlberta Inc. as at December 31, 2015 and 2014 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Ernst & Young LLP

Chartered Accountants

February 10, 2016
Calgary, Canada

FORTISALBERTA INC.

BALANCE SHEETS

As at December 31 (all amounts in thousands of Canadian dollars)	2015	2014
Assets		
Current assets		
Cash	$ 4,742	$ -
Accounts receivable (note 4)	119,421	105,313
Prepaids and deposits	3,444	3,073
Income tax receivable	3,692	10,979
Regulatory assets (note 5)	9,502	877
	140,801	120,242
Regulatory assets (note 5)	280,620	203,915
Property, plant and equipment (note 6)	3,115,663	2,866,890
Intangible assets (note 7)	56,816	40,970
Other assets (note 8)	1,738	1,639
Goodwill	226,968	226,968
	$ 3,822,606	$ 3,460,624
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings (note 11)	$ 88,000	$ 23,398
Accounts payable and other current liabilities (note 9)	157,824	167,017
Regulatory liabilities (note 5)	15,004	41,406
	260,828	231,821
Other liabilities (note 10)	17,948	19,850
Regulatory liabilities (note 5)	380,939	352,479
Deferred income tax (note 17)	201,349	132,110
Long-term debt (notes 11 and 19)	1,670,545	1,521,542
	2,531,609	2,257,802
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (2014 - 63) (note 13)	173,848	173,848
Additional paid-in capital (note 14)	689,896	679,896
Accumulated other comprehensive loss (note 15)	(2,398)	(3,057)
Retained earnings	429,651	352,135
	1,290,997	1,202,822
	$ 3,822,606	$ 3,460,624

Commitments and contingencies (note 18)

Approved on behalf of the Board:

(signed)
Tracey Ball
Director

(signed)
Douglas Haughey
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)	2015	2014
Revenues		
Electric rate revenue	$ 547,322	$ 500,079
Other revenue	15,749	17,956
	563,071	518,035
Expenses		
Cost of sales (exclusive of items shown separately below)	182,875	176,076
Depreciation	158,051	144,119
Amortization	9,755	20,027
	350,681	340,222
Other income	2,982	2,885
Income before interest expense and income tax	215,372	180,698
Interest expense (note 12)	78,705	79,344
Income before income tax	136,667	101,354
Income tax recovery (note 17)	(849)	(1,043)
Net Income	$ 137,516	$ 102,397
Other comprehensive income		
Reclassification of other post-employment benefit items (note 15)	659	130
Comprehensive Income	$ 138,175	$ 102,527

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)		2015		2014
Share Capital (note 13)				
Balance, beginning of year	$	173,848	$	173,848
Share capital issued		-		-
Balance, end of year	$	173,848	$	173,848
Additional Paid-in Capital (note 14)				
Balance, beginning of year	$	679,896	$	639,896
Equity contributions		10,000		40,000
Balance, end of year	$	689,896	$	679,896
Accumulated Other Comprehensive Loss (note 15)				
Balance, beginning of year	$	(3,057)	$	(3,187)
Reclassification of other post-employment benefit items		659		130
Balance, end of year	$	(2,398)	$	(3,057)
Retained Earnings				
Balance, beginning of year	$	352,135	$	304,738
Net income		137,516		102,397
Dividends (note 13)		(60,000)		(55,000)
Balance, end of year	$	429,651	$	352,135
Total Shareholder's Equity	$	1,290,997	$	1,202,822

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)	2015	2014
Operating Activities		
Net income	$ 137,516	$ 102,397
Adjustments for non-cash items included in net income:		
Depreciation	158,051	144,119
Amortization	10,853	20,755
Deferred income tax	4,665	4,987
Equity component of allowance for funds used during construction	(2,982)	(2,832)
Gain on sale of property, plant and equipment	-	(53)
Change in long-term regulatory assets and liabilities	2,996	(32,622)
Change in other non-current operating assets and liabilities	(3,718)	498
Change in non-cash operating working capital (note 21)	(50,390)	10,881
Cash from operating activities	256,991	248,130
Investing Activities		
Property, plant and equipment	(426,119)	(337,215)
Customer contributions for property, plant and equipment	33,995	41,049
Intangible assets	(26,317)	(11,147)
Proceeds from the sale of property, plant and equipment	3,164	1,870
Net change in employee loans	(137)	627
Cash used in investing activities	(415,414)	(304,816)
Financing Activities		
Change in short-term borrowings	34,602	(4,432)
Repayment of long-term debt	-	(200,000)
Proceeds from long-term debt, net of issuance costs	148,729	273,280
Net borrowings under committed credit facility	29,834	2,838
Dividends paid (note 13)	(60,000)	(55,000)
Equity contributions (note 14)	10,000	40,000
Cash from financing activities	163,165	56,686
Change in cash and cash equivalents	4,742	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	$ 4,742	$ -

Supplemental cash flow information (note 21)

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

NOTES TO THE FINANCIAL STATEMENTS

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

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

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

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. (''Fortis''). Fortis is a leader in the North American electric and gas utility business, serving customers across Canada and in the United States and the Caribbean.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP") as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The preparation of financial statements in accordance with US GAAP requires management to make estimates and 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. Significant accounting estimates made by management include income tax, contingent liabilities due to general litigation, depreciation, amortization, employee future benefits, goodwill impairment, accrued revenue, expense accruals and other items impacted by regulation. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated.

(b) Regulation

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

Effective January 1, 2013, the AUC prescribed that distribution utilities in Alberta, including the Corporation, move to a form of rate regulation referred to as performance-based regulation ("PBR") for a five-year term. Under PBR, a formula that estimates inflation annually and assumes productivity improvements is used to determine distribution rates on an annual basis. Each year this formula is applied to the preceding year's distribution rates. The 2012 distribution rates are the base rates upon which the formula was first applied and they were set using a traditional cost-of-service model whereby the AUC established the Corporation's revenue requirements, being those revenues corresponding to the costs associated with the distribution business, and provided a rate of return on a deemed equity component of capital structure ("ROE") applied to rate base assets. The Corporation's ROE for ratemaking purposes was 8.75% for 2012 with a deemed equity ratio of 41%. For 2013, 2014 and 2015, the Corporation's ROE has been set at 8.30% with a deemed equity ratio of 40%. The impact of changes to ROE 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 the formula.

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

(b) Regulation (cont'd)

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

Generic Cost of Capital

In March 2015, the AUC issued Decision 2191-D01-2015 (the "2015 GCOC Decision") related to the 2013-2015 Generic Cost of Capital ("GCOC") proceeding. In this decision, the AUC set the Corporation's allowed ROE for ratemaking purposes for 2013-2015 at 8.30%, down from the interim allowed ROE of 8.75%, and set the deemed equity ratio at 40%, down from 41%.

The AUC also determined that it would not re-establish a formula-based approach to setting annual ROE at this time. Instead, the allowed ROE of 8.30% and deemed equity ratio of 40% would remain in effect on an interim basis for 2016 and beyond.

For Alberta utilities under PBR, including FortisAlberta, the impact of the changes to the allowed ROE and capital structure resulting from the 2015 GCOC Decision applies to the portion of rate base that is funded by capital tracker revenue only. For assets not being funded by capital tracker revenue, no revenue adjustment is required for the change in allowed ROE and deemed equity ratio, from that set in an earlier GCOC decision.

The Corporation, along with other Alberta Utilities (the "Utilities"), filed a Review and Variance application related to the 2015 GCOC Decision on grounds including that the AUC erred by using hindsight to arrive at the ROE. In January 2016, the AUC dismissed the Review and Variance application. The Corporation also filed an application with the Court of Appeal of Alberta (the "Court") for leave to appeal aspects of the 2015 GCOC Decision related to retrospective ratemaking and the risk associated with utility asset disposition matters. An appeal hearing is scheduled to be heard in May 2016.

In April 2015, the AUC initiated a GCOC proceeding to set the allowed ROE and capital structure for ratemaking purposes for 2016 and 2017. While the AUC approved a request by the Utilities to negotiate the matters at issue in the GCOC proceeding for 2016, a negotiated settlement was not reached and a 2016 and 2017 GCOC proceeding commenced. A hearing is scheduled for June 2016 and a decision is expected from the AUC before the end of 2016.

Capital Tracker Applications

The funding of capital expenditures during the PBR term is a material aspect of the PBR plan for the Corporation. The PBR plan provides a capital tracker mechanism to fund the recovery of costs associated with certain qualifying capital tracker expenditures.

In March 2015, the AUC issued Decision 3220-D01-2015 (the "2015 Capital Tracker Decision") related to the Corporation's 2013, 2014 and 2015 capital tracker application. The 2015 Capital Tracker Decision: (i) indicated that the majority of the Corporation's applied for capital trackers met the established criteria and were, therefore, approved for collection from customers as a K factor; (ii) approved the Corporation's accounting test to determine qualifying K factor amounts; and (iii) confirmed certain inputs to be used in the accounting test, including the conclusion that the weighted average cost of capital be based on actual debt rates and the allowed ROE and capital structure approved in the 2015 GCOC Decision.

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

(b) Regulation (cont'd)

In April 2015, the Corporation filed the required Compliance Filing related to the 2015 Capital Tracker Decision, which was approved in September 2015 substantially as filed. Capital tracker revenue of $17.4 million was approved for 2013 on an actual basis, and capital tracker revenue of $42.2 million and $62.2 million was approved on a forecast basis for 2014 and 2015, respectively. The Corporation collected $14.6 million and $29.2 million in 2013 and 2014, respectively, and collected $62.0 million in 2015, related to capital tracker expenditures.

In May 2015, the Corporation filed a 2014 True-Up and 2016-2017 Capital Tracker Application with the AUC. The Corporation sought: (i) capital tracker revenue for 2016 and 2017 of $71.5 million and $89.9 million, respectively; (ii) a reduction to the 2014 capital tracker revenue of $5.4 million to reflect actual capital tracker expenditures; and (iii) approval of additional revenue related to capital tracker amounts that had not been fully approved in the 2015 Capital Tracker Decision. A hearing related to this proceeding concluded in October 2015 and a decision from the AUC is expected in the first quarter of 2016.

The Corporation recognized capital tracker revenue of approximately $59.2 million in 2015, of which $8.7 million was related to updates to the 2013 and 2014 capital tracker approved amounts. The capital tracker revenue for 2015 of approximately $50.5 million incorporates an update for related 2015 capital tracker expenditures as compared to the approved forecast reflected in current rates. This resulted in a deferral of $11.5 million of 2015 capital tracker revenue as a regulatory liability.

Further adjustment to the capital tracker amounts for 2013, 2014 and 2015, for amounts re-applied for or presented for true-up, will result in an adjustment to revenue. Such an adjustment will be recognized when an AUC decision is received or when sufficient information is available to allow management to estimate the required adjustment in accordance with US GAAP.

(c) Cash and Cash Equivalents

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

(d) Accounts Receivable and Allowance for Doubtful Accounts

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

(e) Property, Plant and Equipment

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

Depreciation estimates are based primarily on depreciation parameters, including the service life of assets and expected net salvage percentages, which are periodically calculated in a depreciation study and approved by the AUC. The depreciation rates are subject to change when a new depreciation study is completed by the Corporation and approved by the AUC or when a technical update to the depreciation study is completed. A technical update develops depreciation rates for the current capital asset balances based on the approved depreciation parameters. Changes to depreciation rates are accounted for on a prospective basis.

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

(e) Property, Plant and Equipment (cont'd)

Depreciation is provided on a straight-line basis at various rates ranging from 1.72% to 34.57% in 2015 (2014 - 1.88% to 43.17%). The depreciation rates used to record depreciation expense in 2014 were established by a depreciation study based on capital asset balances as at December 2010. Given the change in capital asset balances since December 2010, it was determined that the completion of a technical update to the depreciation study was appropriate. Effective January 1, 2015, depreciation rates were updated based on the results of the technical update, which incorporated the effect of capital asset balances as at December 2014.

Depreciation rates include an amount allowed for regulatory purposes for non-asset retirement obligation ("non-ARO") removal costs. The amount provided for in depreciation expense is recorded as a long-term regulatory liability. Actual non-ARO removal costs are recorded against the regulatory liability when incurred.

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

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.

(f) Intangible Assets

Intangible assets subject to amortization are recorded at cost, which includes direct labour and allocated overhead, less accumulated amortization. Intangible assets not subject to amortization are recorded at cost. Costs incurred to renew or extend the term of intangible assets are capitalized and amortized over the useful life of the asset. Amortization estimates are based primarily on depreciation parameters, including the service life of assets and expected net salvage percentages, which are periodically calculated in a depreciation study and approved by the AUC. The amortization rates are subject to change when a new depreciation study is completed by the Corporation and approved by the AUC or when a technical update to the depreciation study is completed. A technical update develops amortization rates for the current capital asset balances based on the approved depreciation parameters. Changes to amortization rates are accounted for on a prospective basis.

Amortization is provided on a straight-line basis at various rates ranging from 0.00% (fully amortized) to 15.99% in 2015 (2014 - 2.88% to 43.04%). The amortization rates used to record amortization expense in 2014 were established by a depreciation study based on capital asset balances as at December 2010. Given the change in capital asset balances since December 2010, it was determined that the completion of a technical update to the depreciation study was appropriate. Effective January 1, 2015, amortization rates were updated based on the results of the technical update, which incorporated the effect of capital asset balances as at December 2014, while maintaining the estimated service life from the last approved depreciation study.

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

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

(g) Impairment of Long-Lived Assets

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

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

(h) Asset Retirement Obligations

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

(i) Goodwill

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

The Corporation is required to perform an annual impairment test and any impairment provision is charged to net income. In conducting the annual impairment test the Corporation has the option of performing a qualitative assessment before calculating fair value. If the qualitative factors indicate that fair value is 50% or more likely to be greater than the carrying value, a calculation of fair value is not required. In addition to the annual impairment test, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value of the goodwill was below its carrying value. No such event or changes in circumstances occurred during 2015 or 2014 and no impairment provisions were required in either year.

As at October 1, 2015 an annual impairment test of the fair value of the Corporation was completed by an independent consultant and the fair value was determined to be in excess of carrying value. It was concluded that goodwill was not impaired.

(j) Employee Future Benefits

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

The funded status of defined benefit pension and OPEB plans are recognized on the balance sheet. The funded status is measured as the difference between the fair value of the plan assets and the benefit obligation. With respect to the defined benefit plans, any unrecognized actuarial gains and losses and past 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, which is expected to be recovered or refunded in future rates, is not subject to deferral treatment.

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

(k) Revenue Recognition

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

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

(l) Goods and Services Tax

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

(m) Leases

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

(n) Financial Instruments

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

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

(o) Debt Issuance Costs

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

Effective October 1, 2015, the Corporation early adopted Accounting Standard Update ("ASU") 2015-03 *Simplifying the Presentation of Debt Issuance Costs* that requires debt issuance costs be presented on the balance sheet as a direct reduction from the carrying amount of the debt liability, consistent with debt discounts or premiums. The adoption of this update was applied retrospectively and resulted in the reclassification of debt issuance costs of approximately $12.4 million from long-term other assets to long-term debt on the Corporation's balance sheet as at December 31, 2014.

(p) Income Tax

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

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

(p) Income Tax (cont'd)

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 tax receivable, to be recovered when the Corporation becomes taxable for regulatory purposes.

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

Effective October 1, 2015, the Corporation early adopted ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* that requires deferred tax assets and liabilities be classified and presented as long term on the balance sheet. The adoption of this update was applied retrospectively and resulted in the reclassification of current deferred income tax assets of $10.6 million to long-term deferred income tax liabilities and current deferred income tax regulatory liabilities of $0.7 million to long-term deferred income tax regulatory assets on the balance sheet as at December 31, 2014.

(q) Future Accounting Pronouncements

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

Revenue from Contracts with Customers

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create ASC Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This update completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard is to be applied on a full retrospective or modified retrospective basis and was originally effective for annual and interim periods ending after December 15, 2016. In August 2015, FASB issued ASU 2015-14, *Deferral of the Effective Date*. The amendments in the update defer the effective date of ASU 2014-09 by one year to annual and interim periods beginning on or after December 15, 2017. Early adoption is permitted as of the original effective date. 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, and is considered to be in the scope of ASU 2014-09. The Corporation has not yet selected a transition method and is assessing the impact that the adoption of this standard will have on its financial statements and related disclosures. The Corporation plans to have this assessment completed by the end of 2016.

3. BUSINESS AQUISITIONS

On October 1, 2015, the Corporation purchased the Kingman Rural Electrification Association ("REA") Ltd.'s electricity distribution system for $5.1 million. On November 1, 2015, the Corporation purchased the VNM Rural Electrification Association Ltd.'s electricity distribution system for $16.0 million. The AUC approved the transfer of these assets to the Corporation. The completion of these transactions allows the Corporation to provide service to the customers formerly served by the REAs.

These acquisitions have been accounted for using the acquisition method, whereby the financial results from these assets have been included in the financial statements of the Corporation since the acquisition date. The fair value of these assets were deemed to be the purchase price and both electricity distribution systems have been recorded as capital expenditures, with $12.0 million included in property, plant and equipment and $9.1 million included in intangible assets as at December 31, 2015.

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

4. ACCOUNTS RECEIVABLE

	2015	2014
Trade accounts receivable	$ 118,417	$ 104,416
Employee receivables	757	619
Related parties (note 16)	133	78
Other receivables	114	200
	$ 119,421	$ 105,313

5. REGULATORY ASSETS AND LIABILITIES

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

	2015	2014	Remaining Recovery Period (Years)
Regulatory assets			
Deferred income tax (i)	$ 211,506	$ 145,211	Life of related assets
Deferred overhead (ii)	66,310	54,178	Life of related assets
K factor deferrals (iii)	9,292	-	1-2
Regulatory defined benefit pension deferrals (iv)	2,940	4,727	Benefit payment period
Y factor deferrals (v)	74	3	1-2
A1 rider deferral (vi)	-	673	1
Total regulatory assets	290,122	204,792	
Less: current portion	9,502	877	
Long-term regulatory assets	$ 280,620	$ 203,915	

	2015	2014	Remaining Settlement Period (Years)
Regulatory liabilities			
Non-ARO removal cost provision (vii)	$ 353,801	$ 338,746	Life of related assets
AESO charges deferral (viii)	25,354	49,162	1-4
K factor deferrals (iii)	11,894	-	1-2
A1 rider deferral (vi)	3,548	3,530	1-2
Y factor deferrals (v)	1,346	2,447	1-2
Total regulatory liabilities	395,943	393,885	
Less: current portion	15,004	41,406	
Long-term regulatory liabilities	$ 380,939	$ 352,479	

(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. This balance is not subject to a regulatory return, and the related deferred income tax liability and asset balances are not subject to a regulatory return.

(ii) Deferred overhead

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

(iii) K factor deferrals

These balances represent the deferral of capital tracker revenue that is expected to be collected from and refunded to customers in future periods, and were comprised of an asset balance of $8.7 million related to 2013 and 2014 and a liability balance of $11.5 million related to 2015, along with the related carrying costs.

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

5. REGULATORY ASSETS AND LIABILITIES (cont'd)

(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. This balance is not subject to a regulatory return, and the related defined benefit liability is not subject to a regulatory return.

(v) Y factor deferrals

These balances relate to the future recovery or settlement of items determined to flow through directly to customers.

(vi) A1 rider deferral

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

(vii) Non-ARO removal cost provision

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

(viii) AESO charges deferral

This balance represents revenue collected in excess of expenses incurred for various items, such as transmission costs incurred and flowed through to customers, that are expected to be refunded in future customer rates. To the extent that the amount of actual costs incurred exceed revenue collected in rates for these items, the excess is deferred as a regulatory asset to be collected in future rates. As at December 31, 2015, the regulatory liability primarily represented the over collection of the AESO charges deferral accounts for 2014 and 2015.

6. PROPERTY, PLANT AND EQUIPMENT

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

2015	Cost	Accumulated Depreciation	Net Book Value
Distribution system	$ 4,065,953	$ (1,169,942)	$ 2,896,011
AESO contributions	440,402	(54,502)	385,900
Buildings and furniture	152,161	(55,046)	97,115
Vehicles	81,592	(27,956)	53,636
Materials and supplies	31,869	-	31,869
Computer hardware	27,063	(13,001)	14,062
Tools and instruments	21,184	(10,539)	10,645
Land	14,364	-	14,364
Construction in progress	72,648	-	72,648
Customer contributions	(832,196)	371,609	(460,587)
	$ 4,075,040	$ (959,377)	$ 3,115,663

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

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

2014	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Distribution system	$ 3,795,600	$ (1,111,251)	$ 2,684,349
AESO contributions	385,559	(40,446)	345,113
Buildings and furniture	148,335	(54,268)	94,067
Vehicles	76,766	(26,273)	50,493
Materials and supplies	36,989	-	36,989
Computer hardware	24,627	(10,200)	14,427
Tools and instruments	20,098	(9,969)	10,129
Land	14,308	-	14,308
Construction in progress	68,230	-	68,230
Customer contributions	(811,311)	360,096	(451,215)
	$ 3,759,201	$ (892,311)	$ 2,866,890

Depreciation rates are a composite rate based upon the weighted average of the individual rates for each class of asset within the group. Rates were updated January 1, 2015, as described in Note 2(e) and were as follows:

(%)	**2015**	**2014**
Distribution system	3.85	3.71
AESO contributions	3.40	3.61
Buildings and furniture	3.53	3.69
Vehicles	9.30	10.57
Computer hardware	20.90	24.21
Tools and instruments	9.86	9.85
Customer contributions	2.56	2.62

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

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

2015	**Cost**	**Accumulated Amortization**	**Net Book Value**
Computer software	$ 117,260	$ (80,908)	$ 36,352
Land rights	27,689	(7,225)	20,464
	$ 144,949	$ (88,133)	$ 56,816

2014	**Cost**	**Accumulated Amortization**	**Net Book Value**
Computer software	$ 105,446	$ (75,152)	$ 30,294
Land rights	17,361	(6,685)	10,676
	$ 122,807	$ (81,837)	$ 40,970

Amortization of intangible assets was $9.8 million for 2015 (2014 - $20.0 million). Amortization is expected to average approximately $11.1 million for each of the next five years.

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

7. INTANGIBLE ASSETS (cont'd)

Computer software is amortized using a composite rate based upon the weighted average of the individual rates for each class of asset within the group. Land rights are amortized on a straight-line basis over the term of the contract. Rates were updated January 1, 2015, as described in Note 2(f). The amortization rates of intangible assets were as follows:

(%)	2015	2014
Computer software	8.58	19.34
Land rights	2.40	2.85

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

(Years)	2015		2014	
	Service Life Ranges	Weighted Average Remaining Service Life	Service Life Ranges	Weighted Average Remaining Service Life
Computer software	5-10	3.5	5-10	3.4
Land rights	36	28.1	36	24.1
Total	5-36	5.4	5-36	4.4

8. OTHER ASSETS

	2015	2014
Income tax receivable	$ 1,712	$ 1,616
Employee receivables	26	23
	$ 1,738	$ 1,639

9. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	2015	2014
Trade accounts payable	$ 117,570	$ 125,922
Employee compensation and benefits payables	20,573	20,806
Interest payable	17,819	18,797
Other	1,862	1,492
	$ 157,824	$ 167,017

10. OTHER LIABILITIES

	2015	2014
OPEBs (note 15)	$ 10,698	$ 10,645
Deferred lease revenue [(1)]	4,051	4,293
Defined benefit liability (note 15)	2,740	4,527
Other	459	385
	$ 17,948	$ 19,850

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

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

11. DEBT

	Coupon Rate (%)	Maturity Date (Year)	2015 Effective Rate (%)	2015	2014
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	109,898	109,896
Series 08-1	5.85	2038	5.94	99,532	99,522
Series 09-1	7.06	2039	7.15	99,988	99,988
Series 09-2	5.37	2039	5.42	124,951	124,949
Series 10-1	4.80	2050	4.85	124,916	124,915
Series 11-1	4.54	2041	4.59	124,981	124,981
Series 12-1	3.98	2052	4.02	124,928	124,927
Series 13-1	4.85	2043	4.90	149,841	149,838
Series 14-1	4.11	2044	4.15	124,979	124,979
Series 14-2	3.30	2024	3.37	149,988	149,987
Series 15-1	4.27	2045	4.31	149,823	-
Drawings under the committed credit facility	Variable	2020		53,000	23,000
Fortis demand note	Variable	2016		35,000	-
Cash balances in overdraft position	N/A	N/A		-	398
Total debt				1,771,825	1,557,380
Short-term borrowings				(88,000)	(23,398)
Debt issuance costs				(13,280)	(12,440)
Long-term debt				$ 1,670,545	$ 1,521,542

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

In September 2015, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation sold $150.0 million senior unsecured debentures. The debentures bear interest at a rate of 4.27%, to be paid semi-annually, and mature in 2045. Proceeds of the issue were used to repay existing indebtedness incurred under the committed credit facility to finance capital expenditures and for general corporate purposes.

As at December 31, 2015, the Corporation had an unsecured committed credit facility with an available amount of $250.0 million maturing in August 2020. Drawings under the committed credit facility are available by way of prime loans, bankers' acceptances and letters of credit. Prime loans bear an interest rate of prime and bankers' acceptances are issued at the applicable bankers' acceptance discount rate plus a stamping fee of 1.0%. The weighted average effective interest rate for the year ended December 31, 2015 on the committed credit facility was 2.4% (2014 – 3.0%). As at December 31, 2015, there were $53.0 million in drawings under the committed credit facility (December 31, 2014 - $23.0 million) and $0.4 million drawn in letters of credit (December 31, 2014 - $0.4 million).

As at December 31, 2015, the Corporation had a $35.0 million (December 31, 2014 - $nil) demand note outstanding with Fortis. The demand note was unsecured, due on demand and the Corporation incurred interest that approximated the Corporation's cost of short-term borrowing.

The Corporation has externally imposed capital requirements by virtue of the Trust Indenture and the committed credit facility that limit the amount of debt that can be incurred relative to equity. The Corporation was in compliance with these externally imposed capital requirements for the year ended December 31, 2015.

There are no scheduled principal repayments over the next five years.

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

12. INTEREST EXPENSE

	2015	2014
Interest – long-term debt	$ 80,963	$ 79,612
Interest – other	450	2,178
Less: AFUDC	(2,708)	(2,446)
	$ 78,705	$ 79,344

Debt issuance costs are amortized using the effective interest method over the life of the associated debt. Interest expense on long-term debt included $420 related to amortization of debt issuance costs in 2015 (2014 - $581).

13. SHARE CAPITAL

Authorized – unlimited number of:

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

Issued:

- 63 Class A common shares, with no par value

In 2015, the Corporation declared and paid dividends totaling $60.0 million (2014 - $55.0 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, 2015 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.

14. 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 2015, the Corporation received $10.0 million in equity contributions from Fortis Alberta Holdings Inc. (2014 - $40.0 million).

15. EMPLOYEE FUTURE BENEFITS

Description

The Corporation sponsors a pension plan with a defined contribution and a defined benefit component. The defined contribution component is applicable to the majority of the Corporation's employees and is available to all new employees. The defined benefit component 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 provided to retired employees.

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

15. EMPLOYEE FUTURE BENEFITS (cont'd)

The most recent actuarial valuation of the defined benefit pension plan for funding purposes was completed as of December 31, 2012. Information from the funding valuation was used in the actuarial valuation completed for expense calculation purposes. The next actuarial valuation for funding purposes will be completed in 2016, as of a date no later than December 31, 2015.

Plan Asset Information

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

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

The long-term rate of return on plan assets assumed for 2015 was 3.40% (2014 – 4.05%). This assumption considers inflation, bond yields, historical returns and other variables.

The fair value of plan assets as at December 31, 2015 and 2014 were as follows:

	2015	2014
Government bonds	$ 29,342	$ 27,530
Corporate bonds	8,491	8,059
Total [(1)]	$ 37,833	$ 35,589

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

Included in the corporate bonds class of plan assets as at December 31, 2015 were $182 (December 31, 2014 - $181) of FortisAlberta Inc. bonds and $234 (December 31, 2014 - $219) of related party bonds.

Reconciliation of Funded Status

	Defined Benefit Pension Plans		OPEB Plan	
	2015	**2014**	**2015**	**2014**
Change in benefit obligation [(1)]				
Balance, beginning of year	$ 40,316	$ 34,958	$ 11,506	$ 10,768
Current service cost	661	628	623	555
Interest cost	1,591	1,689	397	449
Member contributions	40	40	-	-
Benefits paid	(1,362)	(1,325)	(437)	(389)
Net transfer in	-	5	-	-
Actuarial (gain) loss	(473)	4,321	(406)	123
Balance, end of year [(2)]	$ 40,773	$ 40,316	$ 11,683	$ 11,506
Change in fair value of plan assets				
Balance, beginning of year	$ 35,589	$ 30,192	$ -	$ -
Employer contributions	2,341	1,954	437	389
Member contributions	40	40	-	-
Benefits paid	(1,362)	(1,325)	(437)	(389)
Actuarial return on plan assets	1,225	4,723	-	-
Net transfer in	-	5	-	-
Balance, end of year	$ 37,833	$ 35,589	$ -	$ -
Funded status	$ (2,940)	$ (4,727)	$ (11,683)	$ (11,506)

(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 $40.5 million as at December 31, 2015 (December 31, 2014 - $40.0 million).*

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

15. EMPLOYEE FUTURE BENEFITS (cont'd)

Amounts Recognized on the Balance Sheet

	Defined Benefit Pension Plans		OPEB Plan	
	2015	**2014**	**2015**	**2014**
Accounts payable and other current liabilities (note 9)	$ (200)	$ (200)	$ (985)	$ (861)
Other liabilities (note 10)	(2,740)	(4,527)	(10,698)	(10,645)
Net liabilities	$ (2,940)	$ (4,727)	$ (11,683)	$ (11,506)

Expected Benefits Payments

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

	Defined Benefit Pension Benefits	OPEB Benefits
2016	$ 1,853	$ 985
2017	1,990	1,147
2018	2,155	1,293
2019	2,177	1,261
2020	2,200	1,224
2021-2025	12,000	4,852

Pension Plan Contributions

Minimum funding contributions for the defined benefit pension plan were approximately $1.6 million for each of 2014, 2015 and 2016, and the 2016 contributions have been funded by excess contributions made in 2014 and 2015. The Corporation estimates that contributions of $1.0 million will be made toward the OPEB plan in 2016.

Costs Recognized

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

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
	2015	**2014**	**2015**	**2014**
Service cost	$ 661	$ 628	$ 623	$ 555
Interest cost	1,591	1,689	397	449
Expected return on plan assets	(910)	(924)	-	-
Amortizations:				
Past service cost	-	9	253	253
Actuarial loss	709	1,118	-	-
Net benefit cost recognized	2,051	2,520	1,273	1,257
Regulatory adjustments	291	(566)	-	-
Net benefit cost recognized in financial statements	2,342	1,954	1,273	1,257
Defined contribution cost	9,147	8,595	-	-
Total employee future benefit cost	$ 11,489	$ 10,549	$ 1,273	$ 1,257

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

15. EMPLOYEE FUTURE BENEFITS (cont'd)

Accumulated Other Comprehensive Loss

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

	Defined Benefit Pension Plans		OPEB Plan	
	2015	**2014**	**2015**	**2014**
Actuarial loss	$ (4,421)	$ (5,918)	$ (413)	$ (819)
Past service cost	-	-	(1,985)	(2,238)
Accumulated other comprehensive loss	(4,421)	(5,918)	(2,398)	(3,057)
Regulatory adjustment	4,421	5,918	-	-
Accumulated other comprehensive loss	$ -	$ -	$ (2,398)	$ (3,057)

Actuarial losses of $238 and past service costs of nil are expected to be amortized from accumulated other comprehensive income into net benefit cost in 2016 related to the defined benefit pension plans.

Actuarial losses of nil and past service costs of $253 are expected to be amortized from accumulated other comprehensive income into net benefit cost in 2016 related to the OPEB plan.

Other Comprehensive Income

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

	Defined Benefit Pension Plans		OPEB Plan	
	2015	**2014**	**2015**	**2014**
Net actuarial gain (loss) arising during the year	$ 788	$ (522)	$ 406	$ (123)
Amortizations:				
Past service cost	-	9	253	253
Actuarial loss	709	1,118	-	-
Other comprehensive income	1,497	605	659	130
Regulatory adjustment	(1,497)	(605)	-	-
Total other comprehensive income	$ -	$ -	$ 659	$ 130

Weighted Average Assumptions

	Defined Benefit Pension Plans		OPEB Plan	
	2015	**2014**	**2015**	**2014**
Discount rate during the year	4.00%	4.90%	3.40%	4.10%
Discount rate as at December 31	4.10%	4.00%	3.30%	3.40%
Expected long-term rate of return on plan assets	3.40%	4.05%	-	-
Rate of compensation increase	3.25%	3.25%	-	-
Initial weighted average health care trend rate during the year	-	-	6.20%	6.30%
Initial weighted average health care trend rate at December 31	-	-	6.10%	6.20%
Ultimate weighted average health care trend rate	-	-	5.00%	5.00%
Year ultimate rate reached	-	-	2027	2027

2015 Effects of Changing the Health Care Trend Rate by 1%

	1% Increase in Rate	**1% Decrease in Rate**
Increase (decrease) in projected benefit obligation	521	(491)
Increase (decrease) in interest and current service costs	44	(39)

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

16. RELATED PARTY TRANSACTIONS

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

	2015	2014
Accounts receivable and other assets		
Other loans (1)	$ 16	$ 20
Related parties	117	58
	$ 133	$ 78
Accounts payable and other current liabilities		
Related parties	$ -	$ 1,451

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

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

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

	2015	2014
Included in other revenue (1)	$ 477	$ 469
Included in cost of sales (2)	3,549	4,270
Included in interest expense (3)	42	32

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

(2) *Includes charges from Fortis and subsidiaries of Fortis related to corporate governance expenses, stock-based compensation costs, consulting services, travel and accommodation expenses, and pension costs*

(3) *Reflects interest expense paid on demand notes from Fortis. The 2015 demand note was borrowed in October 2015, to be repaid in the first quarter of 2016. The 2014 demand note was borrowed and repaid during the first quarter of 2014.*

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

17. INCOME TAX

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

	2015	2014
Deferred income tax assets (liabilities):		
Net regulatory assets and liabilities	$ 8,906	$ 13,915
OPEB liability	4,321	3,835
Intangible assets	10,846	10,169
Property, plant and equipment	(220,952)	(156,366)
Debt issuance costs	(3,837)	(3,123)
Income tax credits	(633)	(540)
Net deferred income tax liability	$ (201,349)	$ (132,110)

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

17. INCOME TAX (cont'd)

Components of the income tax recovery were as follows:

	2015	2014
Current income tax recovery	$ (5,514)	$ (6,030)
Deferred income tax expense before adjustment	70,784	40,297
Regulatory adjustment for the recovery of deferred income tax in future customer rates	(66,119)	(35,310)
Deferred income tax expense	4,665	4,987
Total income tax recovery	$ (849)	$ (1,043)

Income tax 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.

	2015	2014
Income before income tax per financial statements	$ 136,667	$ 101,354
Statutory income tax rate	26.0%	25.0%
Income tax, at statutory income tax rate	$ 35,533	$ 25,339
Difference between capital cost allowance and amounts claimed for accounting purposes	(14,850)	(15,582)
Items capitalized for accounting purposes but expensed for income tax purposes	(20,934)	(11,302)
Other	(31)	502
Change in statutory income tax rate	(567)	-
Income tax recovery	$ (849)	$ (1,043)
Effective income tax rate	(0.6%)	(1.0%)

As at December 31, 2015, the Corporation had no non-capital loss carry forwards (December 31, 2014 - nil).

As at December 31, 2015, total investment tax credits receivable related to the employment of eligible apprentices and acquisition of eligible assets were $1.7 million (December 31, 2014 - $1.6 million). These credits are subject to carry forward and expire between 2026 and 2035.

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

Taxation years 2010 and prior, with the exception of 2008, are no longer subject to examination in Canada. An examination of the open tax years by the Canada Revenue Agency could result in a change in the liability for unrecognized tax benefits. The Corporation does not believe that any open tax years could result in any adjustments that would be significant to the financial statements. The Corporation does not have any unrecognized tax benefits as at December 31, 2015 and, as such, has not accrued any associated interest or penalties.

In the second quarter of 2015, the Corporation revised its estimated annual effective tax rate to reflect a change in the Alberta provincial statutory income tax rate from 10% to 12%, effective July 1, 2015, resulting from legislation that was enacted on June 29, 2015. As a result, deferred income tax expense reported for the first six months of 2015 was adjusted to reflect the effects of the change in the tax law and decreased by $0.2 million, and the total deferred income tax liability and corresponding deferred income tax regulatory asset increased by $11.7 million and $11.9 million, respectively.

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

18. COMMITMENTS AND CONTINGENCIES

As at December 31, 2015, the Corporation's commitments in each of the next five years and thereafter are as follows:

	Total	2016	2017	2018	2019	2020	> 2020
Principal payments on long-term debt (1)	$1,685,000	-	-	-	-	-	1,685,000
Interest payments on long-term debt	2,109,611	83,369	83,369	83,369	83,369	83,369	1,692,766
Operating leases and other obligations	58,351	4,355	4,213	4,383	3,639	3,306	38,455
Total	$3,852,962	87,724	87,582	87,752	87,008	86,675	3,416,221

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

Operating Leases and Other Contractual Obligations

The Corporation has operating leases for facilities and office premises. Rental expense was $1,065 in 2015 (2014 - $1,062).

The Corporation and an Alberta transmission service provider have entered into an agreement in consideration for joint attachments of distribution facilities to the transmission system. The expiry terms of this agreement state that the agreement remains in effect until the Corporation no longer has attachments to the transmission system. Due to the unlimited term of this contract, the calculation of future payments after 2020 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indefinite period of time. In addition, the Corporation and an Alberta transmission service provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. These service agreements have minimum expiry terms of five years from September 1, 2015, and are subject to extension based on mutually agreeable terms.

Legal Proceedings

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

Capital Expenditures

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

19. FAIR VALUE MEASUREMENTS

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

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

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

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

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

19. FAIR VALUE MEASUREMENTS (cont'd)

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

Long-term debt	**2015**	**2014**
Fair value [(1)]	$ 1,938,533	$ 1,856,403
Carrying value [(2)]	1,683,825	1,533,982

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

(2) *Carrying value is presented gross of debt issuance costs of $13,280 (December 31, 2014 – $12,440).*

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

Derivatives

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

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

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

20. FINANCIAL RISK MANAGEMENT

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

Credit Risk

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

The Corporation monitors its credit exposure in accordance with the Terms and Conditions of Distribution Access Service as approved by the AUC. The following table provides information on the counterparties that the Corporation extends credit to with respect to its distribution tariff billings as at December 31, 2015.

Credit Rating	**Number of Counterparties**	**Gross Exposure**	**Net Exposure**
AAA to AA (low)	2	$ 1,359	$ -
A (high) to A (low)	8	36,859	-
BBB (high) to BBB (low)	8	10,422	-
Not rated	36	67,551	2,555
Total	54	$ 116,191	$ 2,555

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

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

20. FINANCIAL RISK MANAGEMENT (cont'd)

Credit Risk (cont'd)

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

Interest Rate Risk

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

The Corporation's committed credit facility has interest rate and fee components that are sensitive to the Corporation's credit ratings. The Corporation is rated by DBRS and Standard and Poor's ("S&P") and a change in rating by either of these rating agencies could potentially increase or decrease the interest expense of the Corporation. As at December 31, 2015, the Corporation's debentures were rated by DBRS at A (low) and by S&P at A-. In December 2015, DBRS confirmed the Corporation's credit rating of A (low) but revised its outlook on the Corporation from Positive to Stable, reflecting DBRS's view of the current regulatory framework in Alberta. In February 2016, S&P revised the Corporation's outlook from Stable to Negative as a result of the announcement by Fortis that it had entered into an agreement to acquire ITC Holdings Corporation.

Liquidity Risk

Liquidity risk is the financial risk that the Corporation will encounter challenges in meeting obligations associated with financial liabilities. The Corporation anticipates it will be able to meet interest payments on outstanding indebtedness from internally generated funds but expects to rely upon the proceeds of new indebtedness to meet the principal obligations when due. The number of years to maturity of the principal outstanding and interest payments on the Corporation's long-term debt as at December 31, 2015 are summarized in Note 18.

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions. To mitigate this risk, the Corporation has an unsecured committed credit facility to support short-term financing of capital expenditures and seasonal working capital requirements. For further information on the committed credit facility, refer to Note 11.

21. SUPPLEMENTAL CASH FLOW INFORMATION

Cash Paid For:

	2015	2014
Interest	$ 83,451	$ 79,940
Income tax	-	5,073

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

21. SUPPLEMENTAL CASH FLOW INFORMATION (cont'd)

Change in Non-Cash Operating Working Capital:

	2015	2014
Accounts receivable	$ (17,521)	$ 21,882
Prepaids and deposits	(371)	1,297
Income tax receivable and payable	7,287	(11,079)
Regulatory assets	(8,625)	2,140
Accounts payable and other current liabilities	(4,758)	(3,828)
Regulatory liabilities	(26,402)	469
	$ (50,390)	$ 10,881

Non-Cash Investing Activities:

	2015	2014
Additions to property, plant and equipment and intangible assets included in current liabilities	$ (56,524)	$ (60,961)
Customer contributions for property, plant and equipment included in current assets	2,833	6,381

22. COMPARATIVE FIGURES

Certain comparative figures have been restated to comply with current year presentation. The early adoption of ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* and ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* required the restatement of certain comparative figures as described in the Summary of Significant Accounting Policies, Notes 2(o) and 2(p), respectively.

23. SUBSEQUENT EVENTS

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through February 10, 2016, the date the financial statements were available for issuance.