# FORTISALBERTA INC.

**Unaudited Interim Financial Statements**
**For the three and nine months ended September 30, 2014**

# BALANCE SHEETS (UNAUDITED)

| As at<br>(all amounts in thousands of Canadian dollars) | September 30,<br>2014 | December 31,<br>2013 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 231,156 | $ - |
| Accounts receivable | 120,247 | 127,906 |
| Prepaids and deposits | 5,016 | 4,370 |
| Income tax receivable | 11,647 | - |
| Deferred income tax | 8,152 | 9,853 |
| Regulatory assets (note 3) | 1,204 | 3,017 |
| | 377,422 | 145,146 |
| Accounts receivable | 22 | 619 |
| Income tax receivable | 1,604 | 1,538 |
| Regulatory assets (note 3) | 193,545 | 158,130 |
| Property, plant and equipment | 2,806,778 | 2,695,211 |
| Intangible assets | 43,308 | 48,745 |
| Transaction costs | 12,238 | 11,174 |
| Goodwill | 226,968 | 226,968 |
| | $ 3,661,885 | $ 3,287,531 |
| **Liabilities and Shareholder's Equity** | | |
| Current liabilities | | |
| Short-term borrowings | $ - | $ 24,830 |
| Accounts payable and other current liabilities | 178,357 | 167,758 |
| Current installments of long-term debt | 200,000 | 200,000 |
| Income tax payable | - | 100 |
| Regulatory liabilities (note 3) | 59,947 | 41,510 |
| | 438,304 | 434,198 |
| Other liabilities | 19,961 | 19,273 |
| Regulatory liabilities (note 3) | 349,621 | 358,095 |
| Deferred income tax | 132,800 | 101,670 |
| Long-term debt | 1,533,978 | 1,259,000 |
| | 2,474,664 | 2,172,236 |
| **Shareholder's Equity** | | |
| Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2013 - 63) | 173,848 | 173,848 |
| Additional paid-in capital | 674,896 | 639,896 |
| Accumulated other comprehensive loss | (2,997) | (3,187) |
| Retained earnings | 341,474 | 304,738 |
| | 1,187,221 | 1,115,295 |
| | $ 3,661,885 | $ 3,287,531 |

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

# STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (all amounts in thousands of Canadian dollars) | **2014** | **2013** | **2014** | **2013** |
| **Revenues** | | | | |
| Electric rate revenue | $ 126,413 | $ 116,021 | $ 374,306 | $ 342,751 |
| Other revenue | 4,529 | 4,025 | 11,594 | 12,672 |
| | 130,942 | 120,046 | 385,900 | 355,423 |
| **Expenses** | | | | |
| Cost of sales (exclusive of items shown separately below) | 43,093 | 39,002 | 128,228 | 117,692 |
| Depreciation | 35,887 | 32,068 | 107,697 | 95,388 |
| Amortization | 5,045 | 4,253 | 14,922 | 12,825 |
| | 84,025 | 75,323 | 250,847 | 225,905 |
| Other income | - | - | 1,410 | 1,729 |
| Income before interest expense and income taxes | 46,917 | 44,723 | 136,463 | 131,247 |
| Interest expense | 20,065 | 18,794 | 59,245 | 53,989 |
| Income before income taxes | 26,852 | 25,929 | 77,218 | 77,258 |
| Income taxes | | | | |
| Current income tax recovery | (1,888) | (583) | (6,698) | (1,384) |
| Deferred income tax expense | 1,527 | 836 | 5,930 | 2,121 |
| | (361) | 253 | (768) | 737 |
| **Net Income** | $ 27,213 | $ 25,676 | $ 77,986 | $ 76,521 |
| Other comprehensive income | | | | |
| Reclassification of other post-employment benefit items | 63 | 71 | 190 | 214 |
| **Comprehensive Income** | $ 27,276 | $ 25,747 | $ 78,176 | $ 76,735 |

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

# STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

| (all amounts in thousands of Canadian dollars) | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| **Share Capital** | | | | |
| Balance, beginning of period | $ 173,848 | $ 173,848 | $ 173,848 | $ 173,848 |
| Share capital issued | - | - | - | - |
| Balance, end of period | $ 173,848 | $ 173,848 | $ 173,848 | $ 173,848 |
| **Additional Paid-in Capital** | | | | |
| Balance, beginning of period | $ 674,896 | $ 599,896 | $ 639,896 | $ 544,896 |
| Equity contributions | - | - | 35,000 | 55,000 |
| Balance, end of period | $ 674,896 | $ 599,896 | $ 674,896 | $ 599,896 |
| **Accumulated Other Comprehensive Loss** | | | | |
| Balance, beginning of period | $ (3,060) | $ (4,033) | $ (3,187) | $ (4,176) |
| Reclassification of other post-employment benefit items | 63 | 71 | 190 | 214 |
| Balance, end of period | $ (2,997) | $ (3,962) | $ (2,997) | $ (3,962) |
| **Retained Earnings** | | | | |
| Balance, beginning of period | $ 328,011 | $ 286,851 | $ 304,738 | $ 261,006 |
| Net income | 27,213 | 25,676 | 77,986 | 76,521 |
| Dividends | (13,750) | (12,500) | (41,250) | (37,500) |
| Balance, end of period | $ 341,474 | $ 300,027 | $ 341,474 | $ 300,027 |
| **Total Shareholder's Equity** | $ 1,187,221 | $ 1,069,809 | $ 1,187,221 | $ 1,069,809 |

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

# STATEMENTS OF CASH FLOWS (UNAUDITED)

| (all amounts in thousands of Canadian dollars) | Three Months Ended September 30, 2014 | 2013 | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net income | $ 27,213 | $ 25,676 | $ 77,986 | $ 76,521 |
| Non-cash items included in net income: | | | | |
| Depreciation | 35,887 | 32,068 | 107,697 | 95,388 |
| Amortization | 5,268 | 4,463 | 15,572 | 13,458 |
| Deferred income tax | 1,527 | 836 | 5,930 | 2,121 |
| Equity component of allowance for funds used during construction | - | - | (1,357) | (1,729) |
| Gain on sale of property, plant and equipment | - | - | (53) | - |
| Changes in operating assets and liabilities and non-cash working capital balances: | | | | |
| Current: | | | | |
| Accounts receivable | (5,732) | 1,030 | 8,143 | 6,871 |
| Prepaids and deposits | 995 | 1,076 | (646) | (860) |
| Income tax receivable and payable | (3,102) | (2,410) | (11,747) | (10,214) |
| Regulatory assets | 762 | (1,649) | 1,813 | (7,042) |
| Accounts payable and other current liabilities | 12,770 | (26,901) | 11,376 | (85,156) |
| Regulatory liabilities | (21,613) | (11,074) | 18,315 | 26,886 |
| Non-current: | | | | |
| Income tax receivable | (1) | (20) | (66) | (112) |
| Regulatory assets | (3,084) | (1,580) | (8,392) | (5,831) |
| Other liabilities | 429 | 192 | 688 | 2,636 |
| Regulatory liabilities | (7,382) | (9,939) | (21,124) | (32,592) |
| Cash from operating activities | 43,937 | 11,768 | 204,135 | 80,345 |
| **Investing Activities** | | | | |
| Property, plant and equipment | (80,648) | (75,034) | (236,156) | (300,039) |
| Customer contributions for property, plant and equipment | 9,305 | 11,438 | 27,133 | 32,200 |
| Intangible assets | (1,906) | (2,062) | (8,077) | (6,568) |
| Proceeds from the sale of property, plant and equipment | 156 | 314 | 1,216 | 1,080 |
| Net change in employee loans | 801 | 86 | 481 | (140) |
| Cash used in investing activities | (72,292) | (65,258) | (215,403) | (273,467) |
| **Financing Activities** | | | | |
| Change in short-term borrowings | (329) | - | (4,830) | - |
| Proceeds from long-term debt, net of issuance costs | 273,702 | 148,976 | 273,665 | 148,912 |
| Net borrowings under committed credit facility | (112) | (94,225) | (20,161) | (225) |
| Dividends paid | (13,750) | (12,500) | (41,250) | (37,500) |
| Equity contributions | - | - | 35,000 | 55,000 |
| Cash from financing activities | 259,511 | 42,251 | 242,424 | 166,187 |
| Change in cash and cash equivalents | 231,156 | (11,239) | 231,156 | (26,935) |
| Cash and cash equivalents, beginning of period | - | 28,376 | - | 44,072 |
| Cash and cash equivalents, end of period | $ 231,156 | $ 17,137 | $ 231,156 | $ 17,137 |

*Supplemental cash flow information (note 9)*

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

# NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

## 1. ENTITY DEFINITION AND NATURE OF OPERATIONS

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation

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

### (b) Regulation

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *Public Utilities Act*, the *Hydro and Electric Energy Act* and the *AUC Act*. The AUC administers these acts and regulations covering such matters as revenue requirements, customer rates, construction of assets, operations and financing. The timing of recognition of certain assets, liabilities, revenue 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 capitalization of 41%. For 2013 and 2014, an ROE of 8.75% and a deemed equity capitalization of 41% were established by the AUC on an interim basis.

### (b) Regulation (cont'd)

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

### (c) Changes in Accounting Policies

These unaudited interim financial statements have been prepared following the same accounting policies as those used in preparing the Corporation's 2013 audited annual financial statements.

### Future Accounting Pronouncements

**Revenue from Contracts with Customers**

In May 2014, FASB issued Accounting Standards Update ("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 update is effective for annual and interim periods beginning on or after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. Early adoption is not permitted. The Corporation is assessing the impact that the adoption of this standard will have on its financial statements.

**Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern**

In August 2014, FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in this update are intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related disclosures. This update is effective for annual and interim periods beginning on or after December 15, 2016. Early adoption is permitted. The Corporation does not expect that the adoption of this update will have a material impact on its financial statements.

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

## 3. 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.

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Regulatory assets** | | |
| Deferred income taxes | $ 137,501 | $ 110,477 |
| Deferred overhead | 51,170 | 43,061 |
| Regulatory defined benefit pension deferrals | 5,068 | 4,766 |
| A1 rider deferral | 1,010 | 885 |
| Y factor deferrals | - | 1,136 |
| 2013 distribution adjustment rider deferral | - | 822 |
| **Total regulatory assets** | 194,749 | 161,147 |
| **Less: current portion** | 1,204 | 3,017 |
| **Long-term regulatory assets** | $ 193,545 | $ 158,130 |

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Regulatory liabilities** | | |
| Non-asset retirement obligation removal cost provision | $ 335,444 | $ 322,793 |
| Alberta Electric System Operator charges deferral | 68,612 | 73,281 |
| A1 rider deferral | 2,938 | 36 |
| Y factor deferrals | 1,880 | 2,850 |
| Deferred income taxes | 694 | 572 |
| K factor deferral | - | 73 |
| **Total regulatory liabilities** | 409,568 | 399,605 |
| **Less: current portion** | 59,947 | 41,510 |
| **Long-term regulatory liabilities** | $ 349,621 | $ 358,095 |

A detailed description of the nature of the Corporation's regulatory assets and liabilities was provided in Note 4 of the Corporation's 2013 audited annual financial statements.

## 4. DEBT

In July 2014, the Corporation renegotiated and amended its syndicated credit facility, extending the maturity date of the facility to August 2019 from August 2018. The amended agreement contains substantially similar terms and conditions as the previous agreement.

In September 2014, the Corporation entered into an agreement with a syndicate of agents, pursuant to which the Corporation sold $275.0 million senior unsecured debentures in a dual tranche of $150.0 million and $125.0 million. The $150.0 million tranche debentures bear interest at a rate of 3.30%, to be paid semi-annually, and mature in 2024. The $125.0 million tranche debentures bear interest at a rate of 4.11%, to be paid semi-annually, and mature in 2044. Proceeds of the issue were used to repay $200.0 million senior unsecured debentures that matured in October 2014, to finance capital expenditures and for general corporate purposes.

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

# 5. EMPLOYEE FUTURE BENEFITS

### Costs Recognized

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

### Components of Net Periodic Costs

| | Defined Benefit Pension Plans | | OPEB Plan | |
|---|---|---|---|---|
| **Three months ended September 30** | **2014** | **2013** | **2014** | **2013** |
| Service cost | $ 232 | $ 270 | $ 138 | $ 141 |
| Interest cost | 422 | 318 | 112 | 94 |
| Expected return on plan assets | (306) | (274) | - | - |
| Amortizations: | | | | |
| Past service cost | 2 | 20 | 63 | 40 |
| Actuarial loss | 280 | 422 | - | 32 |
| Net benefit cost recognized | 630 | 756 | 313 | 307 |
| Regulatory adjustments | (618) | (520) | - | - |
| Net benefit cost recognized in financial statements | 12 | 236 | 313 | 307 |
| Defined contribution cost | 1,937 | 1,805 | - | - |
| **Total employee future benefit cost** | $ 1,949 | $ 2,041 | $ 313 | $ 307 |

| | Defined Benefit Pension Plans | | OPEB Plan | |
|---|---|---|---|---|
| **Nine months ended September 30** | **2014** | **2013** | **2014** | **2013** |
| Service cost | $ 696 | $ 810 | $ 416 | $ 423 |
| Interest cost | 1,267 | 955 | 337 | 283 |
| Expected return on plan assets | (918) | (821) | - | - |
| Amortizations: | | | | |
| Past service cost | 7 | 60 | 190 | 119 |
| Actuarial loss | 839 | 1,265 | - | 96 |
| Net benefit cost recognized | 1,891 | 2,269 | 943 | 921 |
| Regulatory adjustments | (1,148) | (892) | - | - |
| Net benefit cost recognized in financial statements | 743 | 1,377 | 943 | 921 |
| Defined contribution cost | 6,638 | 6,052 | - | - |
| **Total employee future benefit cost** | $ 7,381 | $ 7,429 | $ 943 | $ 921 |

### Pension Plan Contributions

The Corporation made total contributions to the defined benefit pension plans of $0.7 million for the nine months ended September 30, 2014. Minimum funding contributions for the defined benefit pension plans in 2014 are approximately $1.6 million and have been partially funded by contributions made in excess of the Corporation's minimum funding requirements in 2013. The Corporation estimates that contributions of $0.4 million will be made toward the OPEB plan in 2014.

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

## 6. 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.

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

| **Long-term debt (including current installments)** | **September 30, 2014** | **December 31, 2013** |
|---|---|---|
| Fair value [(1)] | $ 1,989,281 | $ 1,618,054 |
| Carrying value | 1,733,978 | 1,459,000 |

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

The carrying value of financial instruments included in current assets, long-term accounts receivable, 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.

## 7. 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 September 30, 2014.

| **Credit Rating** | **Number of Counterparties** | **Gross Exposure** | **Net Exposure** |
|---|---|---|---|
| AAA to AA (low) | 2 | $ 1,506 | $ - |
| A (high) to A (low) | 9 | 36,376 | - |
| BBB (high) to BBB (low) | 8 | 9,781 | - |
| Not rated | 34 | 64,675 | 2,034 |
| **Total** | 53 | $ 112,338 | $ 2,034 |

# 7. FINANCIAL RISK MANAGEMENT (cont'd)

### Credit Risk (cont'd)

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

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

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

### Interest Rate Risk

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

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 September 30, 2014, the Corporation's debentures were rated by DBRS at A (low) and by S&P at A-. In February 2014, DBRS revised its outlook on the Corporation and changed the trend to positive from stable, reflecting DBRS's view of the Corporation having financial metrics consistently in the A rating range. In October 2014, S&P restored its outlook on the Corporation to stable following the completion of the final transactions related to Fortis' acquisition of UNS Energy 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 principal and interest payments on the Corporation's long-term debt as at December 31, 2013 were summarized in Note 16 of the Corporation's 2013 audited annual financial statements. For information on principal and interest payments associated with the September 2014 issuance of long-term debt, refer to Note 4.

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 a $250.0 million unsecured committed credit facility to support short-term financing of capital expenditures and seasonal working capital requirements. As at September 30, 2014, the Corporation had no drawings on this facility.

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

## 8. COMMITMENTS AND CONTINGENCIES

A detailed description of the nature of the Corporation's commitments and contingencies was provided in Note 16 of the Corporation's 2013 audited annual financial statements. With the exception of future principal and interest payments associated with the September 2014 issuance of senior unsecured debentures (Note 4), there have been no material changes to the nature or amounts of these items.

## 9. SUPPLEMENTAL CASH FLOW INFORMATION

| As at September 30 | 2014 | 2013 |
|---|---|---|
| Non-cash working capital – investing activities: | | |
| Additions to property, plant and equipment and intangible assets included in current liabilities | $ 57,044 | $ 51,910 |
| Customer contributions for property, plant and equipment included in current assets | 7,430 | 8,245 |

## 10. SUBSEQUENT EVENTS

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through November 5, 2014, the date the financial statements were available for issuance.