

**FORTISALBERTA INC.**

**Unaudited Interim Financial Statements  
For the three and six months ended June 30, 2015**

**FORTISALBERTA INC.**  
**BALANCE SHEETS**  
**(UNAUDITED)**

As at (all amounts in thousands of Canadian dollars)	June 30, 2015	December 31, 2014
<b>Assets</b>		
Current assets		
Accounts receivable	\$ 120,303	\$ 105,313
Prepays and deposits	4,974	3,073
Income tax receivable	16,009	10,979
Deferred income tax	6,067	10,578
Regulatory assets (note 3)	1,269	877
	148,622	130,820
Regulatory assets (note 3)	252,125	204,637
Property, plant and equipment	2,985,399	2,866,890
Intangible assets	42,033	40,970
Other assets	14,003	14,079
Goodwill	226,968	226,968
	\$ 3,669,150	\$ 3,484,364
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities		
Short-term borrowings	\$ 120,878	\$ 23,398
Accounts payable and other current liabilities	163,697	167,017
Regulatory liabilities (note 3)	38,969	42,128
	323,544	232,543
Other liabilities	20,559	19,850
Regulatory liabilities (note 3)	357,158	352,479
Deferred income tax	179,149	142,688
Long-term debt	1,533,992	1,533,982
	2,414,402	2,281,542
<b>Shareholder's Equity</b>		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2014 - 63)	173,848	173,848
Additional paid-in capital	689,896	679,896
Accumulated other comprehensive loss	(2,931)	(3,057)
Retained earnings	393,935	352,135
	1,254,748	1,202,822
	\$ 3,669,150	\$ 3,484,364

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

FORTISALBERTA INC.  
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
<b>Revenues</b>				
Electric rate revenue	\$ 131,201	\$ 124,403	\$ 274,008	\$ 247,893
Other revenue	4,283	3,710	8,126	7,065
	135,484	128,113	282,134	254,958
<b>Expenses</b>				
Cost of sales (exclusive of items shown separately below)	43,156	41,926	89,448	85,135
Depreciation	39,981	36,046	78,694	71,810
Amortization	2,495	4,981	4,886	9,877
	85,632	82,953	173,028	166,822
Other income	442	53	1,307	1,410
Income before interest expense and income taxes	50,294	45,213	110,413	89,546
Interest expense	20,255	20,163	39,003	39,180
Income before income taxes	30,039	25,050	71,410	50,366
Income taxes				
Current income tax recovery	(2,875)	(3,718)	(5,030)	(4,810)
Deferred income tax expense	2,497	3,416	4,640	4,403
	(378)	(302)	(390)	(407)
<b>Net Income</b>	\$ 30,417	\$ 25,352	\$ 71,800	\$ 50,773
Other comprehensive income				
Reclassification of other post-employment benefit items	63	64	126	127
<b>Comprehensive Income</b>	\$ 30,480	\$ 25,416	\$ 71,926	\$ 50,900

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

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

(all amounts in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Share Capital</b>				
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
<b>Additional Paid-in Capital</b>				
Balance, beginning of period	\$ 679,896	\$ 639,896	\$ 679,896	\$ 639,896
Equity contributions	10,000	35,000	10,000	35,000
Balance, end of period	\$ 689,896	\$ 674,896	\$ 689,896	\$ 674,896
<b>Accumulated Other Comprehensive Loss</b>				
Balance, beginning of period	\$ (2,994)	\$ (3,124)	\$ (3,057)	\$ (3,187)
Reclassification of other post-employment benefit items	63	64	126	127
Balance, end of period	\$ (2,931)	\$ (3,060)	\$ (2,931)	\$ (3,060)
<b>Retained Earnings</b>				
Balance, beginning of period	\$ 378,518	\$ 316,409	\$ 352,135	\$ 304,738
Net income	30,417	25,352	71,800	50,773
Dividends	(15,000)	(13,750)	(30,000)	(27,500)
Balance, end of period	\$ 393,935	\$ 328,011	\$ 393,935	\$ 328,011
<b>Total Shareholder's Equity</b>	<b>\$ 1,254,748</b>	<b>\$ 1,173,695</b>	<b>\$ 1,254,748</b>	<b>\$ 1,173,695</b>

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

# FORTISALBERTA INC.

## STATEMENTS OF CASH FLOWS

### (UNAUDITED)

(all amounts in thousands of Canadian dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Operating Activities</b>				
Net income	\$ 30,417	\$ 25,352	\$ 71,800	\$ 50,773
Adjustments for non-cash items included in net income:				
Depreciation	39,981	36,046	78,694	71,810
Amortization	2,670	5,195	5,216	10,304
Deferred income tax	2,497	3,416	4,640	4,403
Equity component of allowance for funds used during construction	(442)	-	(1,307)	(1,357)
Gain on sale of property, plant and equipment	-	(53)	-	(53)
Change in long-term regulatory assets and liabilities	(7,388)	(24,499)	(14,515)	(19,050)
Change in other non-current operating assets and liabilities	487	152	642	194
Change in non-cash operating working capital (note 9)	(9,002)	11,628	(32,019)	43,174
Cash from operating activities	59,220	57,237	113,151	160,198
<b>Investing Activities</b>				
Property, plant and equipment	(97,367)	(79,602)	(199,956)	(155,508)
Customer contributions for property, plant and equipment	6,392	5,684	16,266	17,828
Intangible assets	(4,297)	(3,189)	(7,277)	(6,171)
Proceeds from the sale of property, plant and equipment	444	802	796	1,060
Net change in employee loans	110	193	(415)	(320)
Cash used in investing activities	(94,718)	(76,112)	(190,586)	(143,111)
<b>Financing Activities</b>				
Change in short-term borrowings	4,543	(2,326)	15,480	(4,501)
Long-term debt issuance costs	-	(4)	-	(37)
Net borrowings under committed credit facility	35,955	(45)	81,955	(20,049)
Dividends paid	(15,000)	(13,750)	(30,000)	(27,500)
Equity contributions	10,000	35,000	10,000	35,000
Cash from (used in) financing activities	35,498	18,875	77,435	(17,087)
Change in cash and cash equivalents	-	-	-	-
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	\$ -	\$ -	\$ -	\$ -

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”). 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 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. There were no material changes to the Corporation’s significant accounting estimates during the three and six months ended June 30, 2015.

The depreciation and amortization rates used to record depreciation and amortization expense in 2014 were developed based on capital asset balances as at December 2010. Management reviewed these depreciation and amortization rates and determined that completion of a technical update to the depreciation study was appropriate given the change in capital asset balances since December 2010.

Depreciation and amortization estimates are based primarily on significant 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 and 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 depreciation and amortization rates for the current capital asset balances based on the approved depreciation parameters.

Effective January 1, 2015, depreciation and amortization rates were changed based on the results of a technical update to the last approved depreciation study, and the impact to first half 2015 financial results was an increase to depreciation of approximately \$2.3 million and a decrease to amortization of approximately \$5.1 million.

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

### (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 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 capital tracker revenue.

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 Generic Cost of Capital proceeding. In this decision, the AUC set the Corporation's allowed ROE for 2013 to 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 decided that it will 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 for 2016 and beyond, on an interim basis.

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 or capital structure from those set in an earlier GCOC decision, which had set the allowed ROE at 8.75% and deemed equity ratio of 41%.

In April 2015, the Corporation filed an application with the Alberta Court of Appeal (the "Court") for permission to appeal aspects of the 2015 GCOC Decision that related to cost responsibility for stranded assets and retrospective ratemaking. This leave to appeal has been adjourned until a decision is rendered on earlier appeals. The earlier appeals had been filed related to the GCOC Decision issued in 2011 and the Utility Asset Disposition Decision issued in 2013, similarly pertaining to cost responsibility for stranded assets. An appeal hearing with respect to these earlier appeals was heard in June 2015 and the Court reserved its decision. Given the nature of the case and extent of materials filed with the Court, a decision is expected before the end of 2015.

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

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

#### **Capital Tracker Applications**

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 criteria established in the original PBR decision and were, therefore, approved for collection from customers as a K factor; (ii) approved the Corporation's accounting test; and (iii) confirmed certain inputs to be used in the accounting test, including the conclusion that the weighted average cost of capital used in the accounting test is to be based on actual debt rates and the allowed ROE and capital structure approved in the 2015 GCOC Decision.

While the majority of the Corporation's capital trackers were approved as filed, certain capital trackers were only partially approved. The AUC indicated that additional evidence supporting these capital trackers can be provided as part of a later filing.

The Corporation filed the required Compliance Filing in April 2015. In the Compliance Filing, the Corporation requested that the adjustments to capital tracker revenue be considered in the 2016 Annual Rates Application, to be filed in September 2015, and reflected in customer rates effective January 1, 2016. A decision on the Compliance Filing is expected in the second half of 2015.

Additional capital tracker revenue of \$8.7 million was recognized in the first half of 2015 related to 2013 and 2014 capital tracker expenditures. The capital tracker revenue adjustment reflects the impacts of the 2015 Capital Tracker Decision and the 2015 GCOC Decision, taking into consideration the revenue already collected from customers via the 60% capital tracker placeholders for 2013 and 2014.

The recognition of capital tracker revenue in 2015 reflects the impact of the 2015 Capital Tracker Decision and the 2015 GCOC Decision, taking into consideration the estimated 2015 capital tracker expenditures reflected in current customer rates.

The funding of capital expenditures during the PBR term is a material aspect of the PBR plan for the Corporation. The PBR plan provides the capital tracker mechanism to fund the recovery of costs associated with certain qualifying capital tracker expenditures; however, how that mechanism would be interpreted and applied to the Corporation had been uncertain. As a result of receiving the 2015 Capital Tracker Decision, the appeal application related to the PBR plan, which had been filed in late 2012, was withdrawn during the first quarter of 2015.

#### **2016 and 2017 Capital Tracker Application**

In May 2015, the Corporation filed an application with the AUC seeking capital tracker revenue for 2016 and 2017, as well as a true-up to the 2014 capital tracker revenue for actual capital expenditures. As part of this application, the Corporation provided additional information on the capital tracker components that were not fully approved in the 2015 Capital Tracker Decision, seeking approval of the related capital expenditures incurred in 2013 and 2014, and forecast for 2015. A hearing related to this proceeding is scheduled for October 2015 with a decision from the AUC expected in the first quarter of 2016. Further adjustment to the capital tracker amounts for 2013, 2014 and 2015 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) 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 2014 audited annual financial statements.



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

### (d) 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 standard 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 to be applied on a full retrospective or modified retrospective basis. In July 2015, FASB decided to delay the effective date of this new revenue recognition standard to annual and interim periods beginning on or after December 15, 2017 and allow early adoption as of the original effective date, December 15, 2016. The Corporation is assessing the impact that the adoption of this standard will have on its financial statements and is in the process of identifying contracts with customers and performance obligations in contracts.

#### 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.

#### Simplifying the Presentation of Debt Issuance Costs

In April 2015, FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update require that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts or premiums. This update is effective for annual and interim periods beginning on or after December 15, 2015 and should be applied on a retrospective basis. Early adoption is permitted. The adoption of this update will result in the reclassification of debt issuance costs from long-term other assets to long-term debt on the Corporation's balance sheet. As at June 30, 2015, debt issuance costs included in long-term other assets were approximately \$12.3 million (December 31, 2014 - \$12.4 million).

## 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.

Regulatory assets	June 30, 2015	December 31, 2014
Deferred income taxes	\$ 182,312	\$ 145,933
Deferred overhead	60,257	54,178
Regulatory defined benefit pension deferrals	5,377	4,727
K factor deferrals <sup>(i)</sup>	4,327	-
Y factor deferrals	1,121	3
A1 rider deferral	-	673
<b>Total regulatory assets</b>	<b>253,394</b>	<b>205,514</b>
<b>Less: current portion</b>	<b>1,269</b>	<b>877</b>
<b>Long-term regulatory assets</b>	<b>\$ 252,125</b>	<b>\$ 204,637</b>

### 3. REGULATORY ASSETS AND LIABILITIES (cont'd)

Regulatory liabilities	June 30, 2015	December 31, 2014
Non-asset retirement obligation removal cost provision	\$ 346,831	\$ 338,746
Alberta Electric System Operator charges deferral	40,215	49,162
A1 rider deferral	4,736	3,530
Y factor deferrals	1,803	2,447
K factor deferrals <sup>(i)</sup>	1,773	-
Deferred income taxes	769	722
<b>Total regulatory liabilities</b>	<b>396,127</b>	<b>394,607</b>
<b>Less: current portion</b>	<b>38,969</b>	<b>42,128</b>
<b>Long-term regulatory liabilities</b>	<b>\$ 357,158</b>	<b>\$ 352,479</b>

#### (i) 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 \$6.1 million related to 2015. Refer to Note 2 (b) for further information.

A detailed description of the nature of the Corporation's other regulatory assets and liabilities was provided in Note 4 of the Corporation's 2014 audited annual financial statements.

### 4. 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

Three months ended June 30	Defined Benefit Pension Plans		OPEB Plan	
	2015	2014	2015	2014
Service cost	\$ 166	\$ 157	\$ 156	\$ 139
Interest cost	398	423	100	113
Expected return on plan assets	(227)	(231)	-	-
Amortizations:				
Past service cost	-	3	63	64
Actuarial loss	178	279	-	-
Net benefit cost recognized	515	631	319	316
Regulatory adjustments	(510)	(311)	-	-
Net benefit cost recognized in financial statements	5	320	319	316
Defined contribution cost	2,011	1,886	-	-
<b>Total employee future benefit cost</b>	<b>\$ 2,016</b>	<b>\$ 2,206</b>	<b>\$ 319</b>	<b>\$ 316</b>

## 4. EMPLOYEE FUTURE BENEFITS (cont'd)

### Components of Net Periodic Costs (cont'd)

Six months ended June 30	Defined Benefit Pension Plans		OPEB Plan	
	2015	2014	2015	2014
Service cost	\$ 331	\$ 314	\$ 312	\$ 278
Interest cost	796	845	199	225
Expected return on plan assets	(455)	(462)	-	-
Amortizations:				
Past service cost	-	5	126	127
Actuarial loss	355	559	-	-
Net benefit cost recognized	1,027	1,261	637	630
Regulatory adjustments	(1,005)	(530)	-	-
Net benefit cost recognized in financial statements	22	731	637	630
Defined contribution cost	5,032	4,701	-	-
<b>Total employee future benefit cost</b>	<b>\$ 5,054</b>	<b>\$ 5,432</b>	<b>\$ 637</b>	<b>\$ 630</b>

### Pension Plan Contributions

Minimum funding contributions for the defined benefit pension plan were approximately \$1.6 million for each of 2013, 2014 and 2015, and the 2015 contributions have been funded by excess contributions made in 2013 and 2014. The Corporation estimates that contributions of \$0.8 million will be made toward the OPEB plan in 2015.

## 5. INCOME TAXES

In the second quarter of 2015, the Corporation revised its estimated annual effective tax rate to reflect a change in the Alberta provincial statutory 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 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. The current income tax recovery was not impacted by the change in rate.

## 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.

## 6. FAIR VALUE MEASUREMENTS (cont'd)

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

Long-term debt	June 30, 2015	December 31, 2014
Fair value <sup>(1)</sup>	\$ 1,828,382	\$ 1,856,403
Carrying value	1,533,992	1,533,982

<sup>(1)</sup> 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 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.

## 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 June 30, 2015.

Credit Rating	Number of Counterparties	Gross Exposure	Net Exposure
AAA to AA (low)	2	\$ 1,349	\$ -
A (high) to A (low)	8	34,951	-
BBB (high) to BBB (low)	8	9,773	-
Not rated	36	63,381	1,790
<b>Total</b>	<b>54</b>	<b>\$ 109,454</b>	<b>\$ 1,790</b>

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.

## 7. FINANCIAL RISK MANAGEMENT (cont'd)

### 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 June 30, 2015, the Corporation's debentures were rated by DBRS at A (low) and by S&P at A-. In February 2015, DBRS confirmed the Corporation's credit rating of A (low) with a Positive trend.

### 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, 2014 were summarized in Note 17 of the Corporation's 2014 audited annual financial statements.

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 June 30, 2015, the Corporation had \$105.0 million drawings on this facility.

## 8. COMMITMENTS AND CONTINGENCIES

A detailed description of the nature of the Corporation's commitments and contingencies was provided in Note 17 of the Corporation's 2014 audited annual financial statements. There have been no material changes to the nature or amounts of these items.

## 9. SUPPLEMENTAL CASH FLOW INFORMATION

### Change in Non-Cash Operating Working Capital:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Accounts receivable	\$ 457	\$ 9,404	\$ (16,929)	\$ 13,875
Prepays and deposits	(1,179)	(1,943)	(1,901)	(1,641)
Income tax receivable and payable	(2,875)	(5,574)	(5,030)	(8,645)
Regulatory assets	(730)	(1,323)	(392)	1,051
Accounts payable and other current liabilities	(1,403)	(5,033)	(4,561)	(1,394)
Regulatory liabilities	(3,272)	16,097	(3,206)	39,928
	\$ (9,002)	\$ 11,628	\$ (32,019)	\$ 43,174

### Non-Cash Investing Activities:

As at June 30	2015	2014
Additions to property, plant and equipment and intangible assets included in current liabilities	\$ (62,201)	\$ (53,641)
Customer contributions for property, plant and equipment included in current assets	4,031	1,087

## 10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the current period's presentation.

## 11. SUBSEQUENT EVENTS

In July 2015, the Corporation renegotiated and amended its syndicated credit facility, extending the maturity date of the facility to August 2020 from August 2019. The amended agreement contains substantially similar terms and conditions as the previous agreement.

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the balance sheet date through July 22, 2015, the date the financial statements were available for issuance.