FORTISALBERTA INC.

Audited Financial Statements

For the years ended December 31, 2021 and 2020

Deloitte.

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Independent Auditor's Report

To the Shareholder of FortisAlberta Inc.:

Opinion

We have audited the financial statements of FortisAlberta Inc. (the "Company"), which comprise the balance sheets as at December 31, 2021 and 2020, and the statements of income and comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Raj S. Bhogal.

Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

February 10, 2022

FORTISALBERTA INC.

BALANCE SHEETS

As at December 31 (all amounts in thousands of Canadian dollars)	2021	2020
Assets		
Current assets		
Restricted cash	$ —	$ 611
Accounts receivable (note 4)	151,979	167,427
Prepaids and deposits	5,136	4,433
Income tax receivable	—	4,659
Regulatory assets (note 5)	2,137	37,030
Total current assets	159,252	214,160
Regulatory assets (note 5)	385,433	352,824
Property, plant and equipment, net (note 6)	4,318,348	4,192,568
Intangible assets, net (note 7)	105,667	93,198
Other assets (note 8)	3,552	2,774
Goodwill	228,357	228,357
Total Assets	$ 5,200,609	$ 5,083,881
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings (note 11)	$ 63,771	$ 46,509
Accounts payable and other current liabilities (note 9)	214,599	223,718
Income tax payable	10,415	—
Regulatory liabilities (note 5)	19,981	32,354
Total current liabilities	308,766	302,581
Other liabilities (note 10)	61,741	67,024
Regulatory liabilities (note 5)	476,845	449,750
Deferred income tax (note 18)	380,990	349,419
Long-term debt (note 11 and 20)	2,342,798	2,342,335
Total Liabilities	3,571,140	3,511,109
Commitments and contingencies (note 19)		
Shareholder's Equity		
Share capital, no par value, unlimited authorized shares, 63 shares issued and outstanding (December 31, 2020 – 63) (note 14)	173,848	173,848
Additional paid-in capital (note 15)	774,896	774,896
Accumulated other comprehensive income (loss) (note 16)	234	(762)
Retained earnings	680,491	624,790
Total Shareholder's Equity	1,629,469	1,572,772
Total Liabilities and Shareholder's Equity	$ 5,200,609	$ 5,083,881

Approved on behalf of the Board

Mona Hale
Director

Roger Thomas
Director

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

FORTISALBERTA INC.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended December 31 (all amounts in thousands of Canadian dollars)	2021	2020
Revenues (note 12)		
Electric rate revenue	$ 685,225	$ 636,884
Alternative revenue	—	(973)
Other revenue	22,510	16,914
Total Revenues	707,735	652,825
Expenses		
Cost of sales	220,611	204,688
Depreciation	215,014	197,833
Amortization	16,053	14,475
Total Expenses	451,678	416,996
Other income	1,525	1,392
Income before interest expense and income tax	257,582	237,221
Interest expense (note 13)	106,357	103,644
Income before income tax	151,225	133,577
Income tax expense (note 18)	10,524	774
Net Income	$ 140,701	$ 132,803
Other comprehensive income (loss)		
Reclassification of amounts related to post-employment benefits (note 16)	996	(441)
Comprehensive Income	$ 141,697	$ 132,362

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)	2021	2020
Share Capital (note 14)		
Balance, beginning and end of year	$ 173,848	$ 173,848
Additional Paid-in Capital (note 15)		
Balance, beginning of year	$ 774,896	$ 764,896
Equity contributions	—	10,000
Balance, end of year	$ 774,896	$ 774,896
Accumulated Other Comprehensive Income (Loss) (note 16)		
Balance, beginning of year	$ (762)	$ (321)
Reclassification of amounts related to post-employment benefits	996	(441)
Balance, end of year	$ 234	$ (762)
Retained Earnings		
Balance, beginning of year	$ 624,790	$ 571,987
Net income	140,701	132,803
Dividends (note 14)	(85,000)	(80,000)
Balance, end of year	$ 680,491	$ 624,790
Total Shareholder's Equity	$ 1,629,469	$ 1,572,772

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)	2021	2020
Operating Activities		
Net income	$ 140,701	$ 132,803
Adjustments for non-cash items included in net income		
Depreciation	215,014	197,833
Amortization	17,112	15,469
Deferred income tax (note 18)	81	(84)
Equity component of allowance for funds used during construction	(2,186)	(2,171)
Net gain on sale of property, plant and equipment	(59)	—
Change in long-term regulatory assets and liabilities	194	4,487
Change in other non-current operating assets and liabilities	(5,580)	45,865
Change in non-cash operating working capital (note 21)	47,229	(68,845)
Cash from operating activities	412,506	325,357
Investing Activities		
Additions to property, plant and equipment	(361,347)	(399,619)
Customer contributions for property, plant and equipment	36,808	32,570
Additions to intangible assets	(27,827)	(19,914)
Proceeds from disposition of property, plant and equipment	7,376	3,616
Net change in employee loans	(72)	(74)
Cash used in investing activities	(345,062)	(383,421)
Financing Activities		
Net change in bank indebtedness	3,262	6,283
Net change in demand notes	—	(89,000)
Borrowing under bilateral credit facility	—	150,000
Repayment under bilateral credit facility	—	(150,000)
Proceeds from long-term debt	—	173,785
Debt issuance cost	(317)	—
Borrowings under committed credit facility	868,000	1,250,000
Repayments under committed credit facility	(854,000)	(1,213,000)
Dividends (note 14)	(85,000)	(80,000)
Equity contributions (note 15)	—	10,000
Cash (used in) from financing activities	(68,055)	58,068
Change in cash, cash equivalents and restricted cash	(611)	4
Cash, cash equivalents and restricted cash, beginning of year	611	607
Cash, cash equivalents and restricted cash, end of year	$ —	$ 611

Supplemental cash flow information (note 21)

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS

1. ENTITY DEFINITION AND NATURE OF OPERATIONS

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

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

The Corporation is an indirect, wholly-owned subsidiary of Fortis Inc. (''Fortis''). Fortis is a leader in the North American regulated electric and gas utility business serving customers in five Canadian provinces, nine US states and three Caribbean countries.

2. REGULATORY MATTERS

The Corporation is regulated by the AUC, pursuant to the *EUA*, the *PUA*, the *HEEA* and the *AUCA*. The AUC administers these acts and regulations covering such matters as revenue requirements, customer rates, construction of assets, operations and financing. The Corporation recognizes amounts to be recovered from, or refunded to, customers in those periods in which related applications are filed with, or decisions are received from, the AUC. The timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using accounting principles generally accepted in the United States of America ("US GAAP") for entities not subject to rate regulation.

Performance-Based Regulation

Since January 1, 2018, the Corporation has operated under a second performance-based regulation ("PBR") rate plan approved by the AUC for a five-year term from 2018 to 2022, inclusive. The PBR plan adjusts FortisAlberta's rates annually using an "I-X" escalation formula (the "formula"), that incorporates an inflation factor ("I") and a productivity factor ("X"). Each year this formula is applied to the preceding year's distribution rates.

The Corporation's base distribution rates, subject to escalation by the formula, for the second PBR term are based on a notional 2017 revenue requirement approved by the AUC. The impact of changes to return on equity ("ROE"), cost of debt and capital structure during the PBR term apply only to the portion of rate base that is funded by revenue provided by mechanisms separate from going-in rates escalated by the formula. For 2021, the Corporation's ROE was approved at 8.50%, with a capital structure of 37% equity and 63% debt.

In the second PBR term, incremental capital funding to recover costs related to capital expenditures that are not recovered through going-in rates escalated by the formula is available through two mechanisms. A capital tracker mechanism similar to that made available during the first 2013-2017 PBR term, continues for capital expenditures identified as "Type 1". Type 1 capital must be extraordinary, not previously included in the utility's rate base, and required by a third party. All capital in the notional going-in rate base, with a provision for a prescribed level of annual capital additions is classified as "Type 2" capital and is funded through a K-Bar mechanism. A K-Bar amount is established for each year of the PBR term based on the revenue requirement associated with this projected notional rate base for Type 2 capital programs. The notional 2017 rate base and the level of annual capital additions that would be funded through K-Bar were calculated using an AUC prescribed methodology, including both actual and historical averages.

2021 Annual Rates Application

In December 2020, the AUC issued Decision 25843-D01-2020 approving the Corporation's 2021 rates and riders, effective on an interim basis for January 1, 2021, including an increase of approximately 0.9% to the distribution component of customer rates. The increase in the distribution component of customer rates reflects: (i) an I-X of 2.12%; (ii) a refund of $1.5 million for the true-up of going-in rates; (iii) a refund of $5.4 million for the true-up of the 2018, 2019 and 2020 K-Bar amounts; (iv) a 2021 K-Bar placeholder of $76.8 million; (v) a net refund of $14.6 million for the true-up of the 2018, 2019, and 2020 Alberta Electric System Operator ("AESO") contributions hybrid deferral; (vi) a placeholder refund of $11.6 million for the 2021 AESO contributions hybrid deferral; (vii) a refund of $1.2 million for the true-up of the Corporation's approved 2016 and 2017 K factor amounts related to the first PBR term; and (viii) a net refund of Y factor amounts of $1.5 million.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared by management in accordance with US GAAP as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). In December 2017, the Ontario Securities Commission approved the extension of the Corporation's exemptive relief to continue reporting under US GAAP rather than International Financial Reporting Standards ("IFRS") until the earlier of January 1, 2024 and the effective date prescribed by the International Accounting Standards Board for the mandatory application of a permanent standard within IFRS specific to entities with activities subject to rate regulation.

The preparation of the financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until finalization and adjustments, if any, are determined pursuant to subsequent regulatory decisions or other regulatory proceedings.

Critical accounting estimates made by management include current and deferred income tax, contingent liabilities due to general litigation, depreciation, amortization, pension and other post-employment benefits ("OPEB"), goodwill impairment, accrued revenue, expense accruals, and regulatory assets and liabilities. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. There were no material changes to the Corporation's critical accounting estimates for the year ended December 31, 2021 as compared to December 31, 2020.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Credit Losses

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

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

Property, Plant and Equipment

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

Depreciation estimates are based on depreciation rates derived from capital asset balances and depreciation parameters, including the service life of assets and expected net salvage percentages. Management annually assesses if updates are required to depreciation rates based on changes in capital asset balances and new information related to the service life of assets and, if necessary, changes in the depreciation rates are accounted for prospectively.

Depreciation is provided on a straight-line basis at various rates ranging from 1.54% to 34.98% in 2021 (2020 - 1.54% to 34.98%).

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

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

The Corporation capitalizes and includes in property, plant and equipment an allowance for funds used during construction ("AFUDC"), which represents an amount allowed for regulatory purposes for financing costs during construction. AFUDC is recovered in customer rates over the life of the assets through depreciation expense.

Intangible Assets

Intangible assets subject to amortization are recorded at cost, which includes direct labour and direct and indirect overhead, less accumulated amortization. Intangible assets not subject to amortization are recorded at cost. Costs incurred to renew or extend the term of intangible assets are capitalized and amortized over the useful life of the asset.

Amortization estimates are based on amortization rates derived from capital asset balances and depreciation parameters, including the service life of assets and expected net salvage percentages. Management annually assesses if updates are required to amortization rates based on changes in capital asset balances and new information related to the service life of assets and, if necessary, changes in the amortization rates are accounted for prospectively.

Amortization is provided on a straight-line basis at various rates ranging from 1.40% to 17.09% in 2021 (2020 - 1.40% to 17.09%).

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

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

Impairment of Long-lived Assets

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

Asset Retirement Obligations

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

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets on the acquisition of a business. The goodwill recognized in the financial statements primarily results from push-down accounting applied when the Corporation was acquired by Fortis in 2004, as well as goodwill recognized through historical Rural Electrification Associations (“REA”) and municipality acquisitions. Goodwill, which is not amortized, is recorded at initial cost less any write-down for impairment.

The carrying value of goodwill is assessed for impairment annually, or more frequently if events or changes in circumstances arise that suggest the carrying value of goodwill may be impaired. If that is the case, goodwill is written down to estimated fair value and an impairment loss is recognized. No such event or change in circumstances occurred during the year ended December 31, 2021.

The Corporation's assessment of impairment of goodwill was performed in August and indicated that no impairment was required for the years ended December 31, 2021 and 2020.

Pension and Other Post-Employment Benefits

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

The funded status of each of the defined benefit pension and OPEB plans is recognized on the balance sheet. The funded status is measured as the difference between the fair value of the plan assets and the benefit obligation. With respect to the defined benefit plans, any unrecognized actuarial gains and losses and past service costs and credits that arise during the period are subject to deferral treatment. In the case of the OPEB plan, unrecognized actuarial gains and losses and past service costs and credits are not subject to deferral treatment and are recognized as a component of other comprehensive income.

The Corporation recovers in customer rates employee future benefit costs based on estimated cash payments. Any difference between the expense recognized under US GAAP for defined benefit pension plans and that recovered in current rates, which is expected to be recovered or refunded in future rates, is subject to deferral treatment. Any difference between the expense recognized under US GAAP for the OPEB plan and that recovered in current rates is not subject to deferral treatment and is recognized in net income in the year.

Revenue Recognition

Most of the Corporation's revenue is generated from the distribution of electricity to end-use customers based on published tariff rates, as approved by the AUC. Revenues are recognized in the period services are provided, at AUC approved rates where applicable, and when collectability is reasonably assured.

The majority of the Corporation's contracts have a single performance obligation as the promise to transfer individual goods or services is not separately identifiable from other obligations in the contracts and therefore not distinct. Substantially all of the Corporation's performance obligations are satisfied over time as energy is delivered because of the continuous transfer of control to the customer, generally using the kilowatt hours delivered as an output measure of progress. The billing of energy sales is based on customer meter readings, which occur systematically throughout each month.

In accordance with the *EUA*, the Corporation is required to arrange and pay for transmission service with the AESO and collect transmission revenue from its customers, which is done by invoicing the customers' retailers through the Corporation's transmission component of its AUC approved rates. As the Corporation is solely a distribution utility and, as such, does not own or operate any transmission facilities, it is largely a conduit for the flow through of transmission costs to end-use customers as the transmission facility owner does not have a direct relationship with the customers. Therefore, the Corporation reports revenues and expenses related to transmission services on a net basis in other revenue in the Statements of Income and Comprehensive Income.

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

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

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

Goods and Services Tax

In the course of its operations, the Corporation collects GST from its customers. When customers are billed, a current liability for GST is recognized that corresponds to the revenue derived from the services provided by the Corporation. When expenses are incurred by the Corporation, a current asset for GST is recorded that corresponds to the expenditures derived from the goods or services received by the Corporation. The Corporation's reported revenues and expenses exclude GST. The net asset or liability is settled with the Canada Revenue Agency (CRA).

Financial Instruments

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

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

Debt Issuance Costs

Any costs, debt discounts and premiums related to the issuance of long-term debt are recognized against long-term debt and are amortized over the life of the related long-term debt using the effective interest rate method.

Income Tax

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

Income tax interest and penalties are expensed as incurred and included in interest expense. Investment tax credits are deducted from the related assets and are recognized as income tax receivable, to be recovered when the Corporation utilizes the investment tax credits in a future period.

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

Adoption of Accounting Pronouncements

The following accounting pronouncements have been adopted by the Corporation for the financial year beginning on January 1, 2021.

Simplifying the Accounting for Income Taxes

ASU 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes* issued in December 2019, provides amendments to reduce the complexity of the accounting standard. The new guidance is effective January 1, 2021 and the sections applicable to the Corporation was applied on a prospective basis. The Corporation has completed its analysis and there was no material impact on the financial statements.

Future Accounting Pronouncements

The Corporation considers the applicability and impact of all ASUs issued by the FASB. The Corporation has assessed the ASUs issued and determined the ASUs to be either not applicable to the Corporation or not expected to have a material impact on the financial statements.

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

4. ACCOUNTS RECEIVABLE

The timing of revenue recognition, billings and cash collections results in billed and unbilled accounts receivable. The opening and closing balances of the Corporation's accounts receivable as at December 31 were as follows:

	2021	2020
Accrued unbilled accounts receivable	$ 138,830	$ 136,121
Billed accounts receivable	6,043	26,047
Employee receivables	1,020	947
Other [(1)]	6,285	5,078
Allowance for credit losses	(199)	(766)
Total accounts receivable	$ 151,979	$ 167,427

[(1)] *Includes customer contributions, amounts due from related parties and GST.*

Allowance for Credit Losses

Accounts receivable are recorded net of an allowance for credit losses. The credit loss allowance for the year ended December 31, 2021 considers current and forecasted economic conditions. The 2021 credit loss provision is reflective of normal course operations and was not directly impacted by the COVID-19 pandemic.

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

	2021	2020
Balance, beginning of year	$ (766)	$ (325)
Credit loss provision	30	(631)
Write-offs, net of recoveries	537	190
Balance, end of year	$ (199)	$ (766)

5. REGULATORY ASSETS AND LIABILITIES

Regulatory assets represent amounts that are expected to be recovered from customers in future periods. Regulatory liabilities represent the current recovery of future costs or amounts that are expected to be refunded to customers in future periods. Based on existing or expected AUC decisions, the Corporation has recorded the following regulatory assets and liabilities.

	2021	2020	Remaining Recovery Period (years)
Regulatory assets			
Deferred income tax [(i)]	$ 383,499	$ 352,009	Life of related assets
Regulatory defined benefit pension deferrals [(ii)]	2,184	1,080	Benefit payment period
AESO charges deferral [(iii)]	1,843	34,620	1-2
Y factor deferral [(iv)]	44	—	1-2
AESO supply transmission service deferral [(v)]	—	2,145	—
Total regulatory assets	387,570	389,854	
Less: current portion	2,137	37,030	
Long-term regulatory assets	$ 385,433	$ 352,824	

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

	2021	2020	Remaining Settlement Period (years)
Regulatory liabilities			
Non-ARO provision (vi)	$ 470,274	$ 444,492	Life of related assets
AESO charges deferral (iii)	14,857	9,612	1-2
Incremental capital deferral (vii)	7,610	22,554	1-2
Y factor deferral (iv)	3,156	1,207	1-2
A1 rider deferral (viii)	607	1,210	1-2
AESO retail consumers deferral program (ix)	322	300	1
PBR rebasing deferral (x)	—	1,547	—
K factor deferral (xi)	—	1,182	—
Total regulatory liabilities	496,826	482,104	
Less: current portion	19,981	32,354	
Long-term regulatory liabilities	$ 476,845	$ 449,750	

(i) Deferred income tax

This balance represents the amount of deferred income tax expected to be recovered from, or refunded to, customers in future rates when the income tax becomes receivable or payable.

(ii) 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.

(iii) AESO charges deferral

These balances represent the difference in revenue collected and expenses incurred for transmission-related items that are expected to be collected or refunded in future customer rates. As at December 31, 2021, the regulatory asset represented the under collection of the AESO charges deferral account for 2021 and the regulatory liability primarily represented the over collection of the AESO charges deferral account for 2020.

(iv) Y factor deferral

These balances represent the future recovery or settlement of items determined to flow through directly to customers, such as property and business taxes, AESO load settlement expenses, AUC assessment fees, farm transmission credit, hearing costs and AESO contributions.

(v) AESO supply transmission service deferral

This balance represents amounts paid to the AESO for supply transmission service costs that would have otherwise been allocated to DCG customers. The 2020 balance has been fully recovered in 2021 pursuant to a regulatory decision.

(vi) Non-ARO provision

This balance represents the difference between the actual non-ARO provision for removal costs incurred and those collected in customer rates. Depreciation expense includes a provision for non-ARO removal costs approved for collection from customers. The amount collected from customers increases this deferral account, while actual removal costs incurred reduces this deferral account.

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

(vii) Incremental capital deferral

This balance is comprised of the over collection of incremental capital funding for AESO contributions related to projects prior to December 31, 2017 (the AESO Hybrid Deferral) and the over collection of K-bar revenue that is expected to be refunded to customers in 2022 and 2023. During the year ended December 31, 2021, the incremental capital deferral decreased by $14.9 million due primarily to the refund associated with a regulatory decision.

(viii) 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 by municipality, and the actual linear tax incurred.

(ix) AESO retail consumers deferral program

This balance represents amounts owing to the AESO for the transmission service costs component of those customer bills deferred as part of the Alberta government's Utility Payment Deferral Program in response to the COVID-19 pandemic. The balance of this account is fully offset by a corresponding amount to be collected from retailers by the Corporation.

(x) PBR rebasing deferral

This represents the over and under collection of 2018, 2019 and 2020 base distribution revenue from customers because of adjustments to the notional 2017 revenue requirement approved in going-in rates. The balance was settled in rates on a final basis in 2021.

(xi) K factor deferral

This represents the over collection of capital tracker revenue. The balance was settled in rates on a final basis in 2021.

6. PROPERTY, PLANT AND EQUIPMENT

2021	Cost	Accumulated Depreciation	Net Book Value
Distribution system	$ 5,563,019	$ (1,612,183)	$ 3,950,836
AESO contributions	538,520	(140,156)	398,364
Buildings and furniture	192,670	(73,706)	118,964
Buildings under operating leases	3,883	(1,437)	2,446
Indirect capitalized overhead	195,269	(33,083)	162,186
Vehicles	88,863	(29,374)	59,489
Computer hardware	31,981	(17,924)	14,057
Materials and supplies	37,465	—	37,465
Tools and instruments	27,922	(12,524)	15,398
Land	21,308	—	21,308
Construction in progress	62,806	—	62,806
Customer contributions	(966,026)	441,055	(524,971)
	$ 5,797,680	$ (1,479,332)	$ 4,318,348

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

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

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

(%)	2021	2020
Distribution system	3.71	3.71
AESO contributions [1]	2.56	2.56
Buildings and furniture	3.37	3.42
Buildings under operating leases	3.18	3.21
Indirect capitalized overhead	3.49	3.43
Vehicles	10.08	9.90
Computer hardware	20.37	20.33
Tools and instruments	9.74	10.00
Customer contributions	2.51	2.50

(1) *During 2021, the Corporation reflected a change in estimate to the depreciation for the AESO contribution investments as a result of a regulatory decision.*

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

2021	Cost	Accumulated Depreciation	Net Book Value
Computer software	$ 122,436	$ (52,861)	$ 69,575
Land rights	34,828	(11,104)	23,724
Indirect capitalized overhead	3,099	(546)	2,553
Intangibles construction in progress	9,815	—	9,815
	$ 170,178	$ (64,511)	$ 105,667

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

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

Amortization of intangible assets was $16.1 million for 2021 (2020 - $14.5 million). Amortization is expected to average approximately $12.7 million for each of the next five years.

Computer software is amortized using a composite rate based upon the weighted average of the individual rates for each class of asset within the group. Land rights are amortized on a straight-line basis over the term of the contract. As at December 31, the amortization rates of intangible assets were as follows:

(%)	**2021**	**2020**
Computer software	13.30	13.08
Land rights	1.40	1.40
Indirect capitalized overhead	3.44	3.43

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

(Years)	**2021**		**2020**	
	Service Life Ranges	**Weighted Average Remaining Service Life**	**Service Life Ranges**	**Weighted Average Remaining Service Life**
Computer software	5-10	2.4	5-10	3.0
Land rights	60	47.5	60	48.2
Indirect capitalized overhead	5-10	2.4	5-10	3.0

8. OTHER ASSETS

		2021		**2020**
Income tax receivable	$	1,787	$	1,783
Cloud service implementation costs		1,182		—
Right-of-use ("ROU") assets		583		991
	$	3,552	$	2,774

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

9. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	2021	2020
Trade accounts payable	$ 124,930	$ 133,052
Customer deposits	35,511	33,729
Employee compensation and benefits payable	23,918	26,189
Interest payable	23,335	23,427
Contract liability (note 12)	6,333	6,251
Operating lease liability	246	408
Other	326	662
	$ 214,599	$ 223,718

10. OTHER LIABILITIES

	2021	2020
Contract liability (note 12) [(1)]	$ 39,776	$ 46,109
OPEB plan liability (note 16)	12,439	12,463
Deferred lease revenue [(2)]	2,600	2,842
Defined benefit pension plans liability (note 16)	1,934	815
Operating lease liability	337	583
Other [(3)]	4,655	4,212
	$ 61,741	$ 67,024

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

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

(3) *Other includes performance and restricted share unit obligations and deferred revenue for operating and maintenance charges.*

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

11. DEBT AND CAPITAL MANAGEMENT

	Coupon Rate (%)	Maturity Date (Year)	2021 Effective Rate (%)	2021	2020
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	109,907	109,905
Series 08-1	5.85	2038	5.94	99,607	99,593
Series 09-1	7.06	2039	7.15	99,990	99,989
Series 09-2	5.37	2039	5.42	124,958	124,956
Series 10-1	4.80	2050	4.85	124,922	124,921
Series 11-1	4.54	2041	4.59	124,984	124,984
Series 12-1	3.98	2052	4.02	124,933	124,933
Series 13-1	4.85	2043	4.90	149,860	149,857
Series 14-1	4.11	2044	4.15	124,982	124,981
Series 14-2	3.30	2024	3.37	149,996	149,994
Series 15-1	4.27	2045	4.32	149,844	149,840
Series 16-1	3.34	2046	3.39	149,774	149,768
Series 17-1	3.67	2047	3.71	200,000	200,000
Series 18-1	3.73	2048	3.78	150,000	150,000
Series 20-1	2.63	2051	2.67	175,000	175,000
Drawings under the credit facility	Variable	2026		51,000	37,000
Cash balances in overdraft position	N/A	N/A		12,771	9,509
Total debt				2,422,528	2,405,230
Short-term borrowings				(63,771)	(46,509)
Debt issuance costs				(15,959)	(16,386)
Long-term debt				$ 2,342,798	$ 2,342,335

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 July 2021, the Corporation renegotiated and amended its syndicated credit facility, extending the maturity date of the facility to August 2026 from August 2024. The amended agreement contains substantially similar terms and conditions as the previous agreement.

As at December 31, 2021, the Corporation had an unsecured committed credit facility with an amount of $250.0 million maturing in August 2026. Drawings under the 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, 2021, on the credit facility was 2.2% (December 31, 2020 - 2.6%). As at December 31, 2021, the Corporation had $51.0 million drawn on the credit facility (December 31, 2020 - $37.0 million) and $0.3 million drawn in letters of credit (December 31, 2020 - $0.4 million).

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

The Corporation has externally imposed capital requirements by virtue of its Trust Indenture and committed credit facility such that consolidated debt cannot exceed 75% of the Corporation's consolidated capitalization ratio, which is based on the Corporation's total capital structure. As at December 31, 2021, the Corporation was in compliance with these externally imposed capital requirements.

12. REVENUES

	2021	2020
Electric rate revenue	$ 685,225	$ 636,884
Alternative revenue	—	(973)
Other revenue	22,510	16,914
Total Revenues	$ 707,735	$ 652,825

Electric Rate Revenue

The Corporation's business is the ownership and operation of electric facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. The Corporation does not own or operate generation or transmission assets and is not involved in the direct sale of electricity.

Alternative Revenue

Alternative revenue reflects those portions of the Corporation's revenue associated with regulatory mechanisms within the PBR framework that provide funding that is incremental to base rates and will impact future rates in response to past activities or completed events, if certain criteria are met. The Corporation has identified the efficiency carry-over mechanism and the portion of K-bar revenue associated with the true-up from forecast to actual weighted-average cost of capital as alternative revenue. Once billed, alternative revenue will be reported in electric rate revenue and the associated regulatory asset or liability will be adjusted.

Refer to Note 5 for additional information related to the associated regulatory assets and liabilities.

Other Revenue

Other revenue includes third party services, REA services, joint use revenue, lease revenue, related party revenue and miscellaneous revenue. Other revenues are summarized below:

	2021	2020
Third party services	$ 12,709	$ 5,375
REA services	4,849	4,719
Miscellaneous revenue	1,649	3,674
Joint use revenue	2,373	2,360
Lease revenue	402	545
Related party revenue (note 17)	528	241
	$ 22,510	$ 16,914

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

Contract Liability

The transaction price for the Customer Rights Agreement consists of an initial upfront payment of $52.4 million recorded as a contract liability. There was $6.9 million related to Other Revenue recognized during the year ended December 31, 2021.

	2021	2020
Current contract liability (note 9)	$ 6,333	$ 6,251
Long-term contract liability (note 10)	39,776	46,109
Total contract liability	$ 46,109	$ 52,360

13. INTEREST EXPENSE

	2021	2020
Interest - long-term debt	$ 105,937	$ 101,643
Interest - short-term debt	1,329	3,240
Interest - other	1,073	724
Less: debt component of AFUDC	(1,982)	(1,963)
	$ 106,357	$ 103,644

In 2021, interest expense on long-term debt included $0.7 million related to amortization of debt issuance costs (2020 - $0.7 million).

14. SHARE CAPITAL

Authorized - unlimited number of:

- Common shares;
- Class A common shares; and
- First preferred non-voting shares, redeemable, cumulative dividend at 10% of the redemption price.

Issued:

- 63 Class A common shares, with no par value.

In 2021, the Corporation declared and paid dividends totaling $85.0 million (2020 - $80.0 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 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, 2021, 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.

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

15. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital relates to the pushdown of the excess purchase price paid over the carrying value paid by the Corporation's parent on acquisition of the Corporation and equity contributions from Fortis Alberta Holdings Inc. for which no additional shares were issued. In 2021, the Corporation received $nil in equity contributions from Fortis Alberta Holdings Inc. (2020 - $10.0 million).

16. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Description

The Corporation sponsors a pension plan with defined contribution and defined benefit components. The defined contribution component is applicable to the majority of the Corporation's employees and is available to all new employees. The defined benefit component includes a funded defined benefit plan that is applicable to certain long-service employees and is closed to new employees, and an unfunded supplementary employee retirement plan that is applicable to certain current and new employees. The defined contribution component is based on a percentage of pensionable earnings, which includes base pay and eligible bonuses, while the defined benefit component is based on final average pensionable earnings. The Corporation also provides an unfunded OPEB plan that includes certain health and dental coverage for retired employees.

The most recent actuarial valuation of the defined benefit pension plan for funding purposes was completed as at December 31, 2019. The next actuarial valuation for funding purposes is required to be completed as at a date no later than December 31, 2022.

Plan Asset Information

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

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

As at December 31, the fair value of plan assets were as follows:

		2021		2020
Government bonds	$	33,752	$	36,638
Corporate bonds		10,198		10,940
Total [(1)]	$	43,950	$	47,578

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

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

Reconciliation of Funded Status

	Defined Benefit Pension Plans		OPEB Plan	
	2021	**2020**	**2021**	**2020**
Change in benefit obligation [1]				
Balance, beginning of year	$ 48,658	$ 47,762	$ 13,192	$ 11,774
Current service cost	505	579	941	812
Interest cost	1,211	1,425	321	355
Member contributions	21	23	—	—
Plan amendments	—	—	—	—
Benefits paid	(2,082)	(3,752)	(574)	(529)
Net transfer out	—	—	—	—
Actuarial loss (gain)	(2,179)	2,621	(643)	780
Balance, end of year [2]	$ 46,134	$ 48,658	$ 13,237	$ 13,192
Change in fair value of plan assets				
Balance, beginning of year	$ 47,578	$ 45,621	$ —	$ —
Employer contributions	893	761	574	529
Member contributions	21	23	—	—
Benefits paid	(2,082)	(3,752)	(574)	(529)
Actual return on plan assets	(2,460)	4,925	—	—
Balance, end of year	$ 43,950	$ 47,578	$ —	$ —
Funded status	$ (2,184)	$ (1,080)	$ (13,237)	$ (13,192)

(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 $45.9 million as at December 31, 2021 (December 31, 2020 - $48.6 million).*

The primary factors contributing to the change in the funded status of the defined benefit pension plans was the increase in the discount rate from 2.5% to 2.9% and the plan asset returns being less than the expected, resulting in a $2.2 million increase and $2.9 million decrease respectively to the funded status.

The primary factor contributing to the change in funded status of the OPEB plan was a net actuarial gain of $0.6 million arising due to an increase in the discount rate from 2.5% to 2.9%, offset by a small loss relating to an increase in the administration fees charged by the insurer to administer the benefits.

Amounts Recognized on the Balance Sheet

	Defined Benefit Pension Plans		OPEB Plan	
	2021	**2020**	**2021**	**2020**
Accounts payable and other current liabilities	$ 250	$ 265	$ 798	$ 729
Other liabilities (note 10)	1,934	815	12,439	12,463
Net Liabilities	$ 2,184	1,080	$ 13,237	13,192

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

Expected Benefits Payments

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

Year	Defined Benefit Pension Benefits	OPEB Benefits
2022	2,502	798
2023	2,565	844
2024	2,595	876
2025	2,615	832
2026	2,616	769
2027 - 2031	13,357	3,593

Pension Plan Contributions

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

Components of Net Periodic Costs

	Defined Benefit Pension Plans		OPEB Plan	
	2021	2020	2021	2020
Service cost	$ 505	$ 579	$ 941	$ 812
Interest cost	1,211	1,425	321	355
Expected return on plan assets	(474)	(809)	—	—
Amortizations:				
Past service cost	—	—	612	682
Actuarial loss (gain)	(1)	8	(259)	(343)
Net benefit cost recognized	1,241	1,203	1,615	1,506
Regulatory adjustment	(348)	3	—	—
Net benefit cost recognized in financial statements	893	1,206	1,615	1,506
Defined contribution cost	11,673	9,732	—	—
Total employee future benefit cost	$ 12,566	$ 10,938	$ 1,615	$ 1,506

Accumulated Other Comprehensive Income (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	
	2021	2020	2021	2020
Actuarial gain (loss)	$ (2,356)	$ (1,602)	$ 5,587	$ 5,203
Past service cost	—	—	(5,353)	(5,965)
Accumulated other comprehensive income (loss)	(2,356)	(1,602)	234	(762)
Regulatory adjustment	2,356	1,602	—	—
Accumulated other comprehensive income (loss)	$ —	$ —	$ 234	$ (762)

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

Other Comprehensive Income (Loss)

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

	Defined Benefit Pension Plans		OPEB Plan	
	2021	**2020**	**2021**	**2020**
Net actuarial gain (loss) arising during the year	$ (755)	$ 1,495	$ 643	$ (780)
New prior service cost	—	—	—	—
Amortizations:				
Past service cost	—	—	612	682
Actuarial loss (gain)	(1)	8	(259)	(343)
Other comprehensive income (loss)	(756)	1,503	996	(441)
Regulatory adjustment	756	(1,503)	—	—
Total other comprehensive income (loss)	$ —	$ —	$ 996	$ (441)

Weighted Average Assumptions

	Defined Benefit Pension Plans		OPEB Plan	
	2021	**2020**	**2021**	**2020**
Discount rate during the year	2.50 %	3.10 %	2.50 %	3.10 %
Discount rate as at December 31	2.90 %	2.50 %	2.90 %	2.50 %
Expected long-term rate of return on plan assets (1)	1.50 %	2.30 %	—	—
Rate of compensation increase	2.50 %	2.50 %	—	—
Initial weighted average health care trend rate during year	—	—	5.53 %	5.61 %
Initial weighted average health care trend rate at December 31	—	—	5.47 %	5.53 %
Ultimate weighted average health care trend rate	—	—	4.00 %	4.00 %
Year ultimate rate reached	—	—	2040	2040

(1) *This assumption considers inflation, bond yields, and historical returns.*

17. RELATED PARTY TRANSACTIONS

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

	2021	**2020**
Accounts receivable		
Loans (1)	$ 37	$ 31
Related parties	1	4
	$ 38	$ 35
Accounts payable and other current liabilities		
Related parties (2)	$ 1,281	$ 2,445

(1) *These loans are to officers of the Corporation for employee share purchase plan loans.*
(2) *This reflects charges from related parties associated with information technology services.*

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

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

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

		2021		2020
Included in other revenue (note 12) *(1)*	$	528	$	241
Included in cost of sales *(2)*		4,928		4,927
Included in interest expense *(3)*		185		512

(1) *Includes services provided to related parties for, information technology, material sales and intercompany employee services.*

(2) *Includes charges from related parties for, corporate governance expenses, information technology services, consulting services, travel and accommodation expenses, charitable donations, membership fees and professional development costs.*

(3) *Reflects interest expense paid on demand notes from Fortis.*

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

18. INCOME TAX

Deferred income tax arises because of temporary differences between the income tax basis of assets and liabilities and their carrying amount for financial statement purposes. Deferred income tax assets and liabilities were comprised of:

		2021		2020
Deferred income tax assets (liabilities)				
Net regulatory assets and liabilities	$	5,202	$	9,425
OPEB		4,146		3,708
Intangible assets		(22,997)		(19,775)
Property, plant and equipment		(366,066)		(341,483)
Debt issuance costs		(4,357)		(4,266)
Income tax credits		2,321		2,316
Other		761		656
Net deferred income tax liability	$	(380,990)	$	(349,419)

Components of the income tax expense were as follows:

		2021		2020
Current income tax expense	$	10,443	$	858
Deferred income tax expense before adjustment		31,926		42,489
Regulatory adjustment for the recovery of deferred income tax in future customer rates		(31,845)		(42,573)
Deferred income tax expense (recovery)		81		(84)
Total income tax expense	$	10,524	$	774

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

Income tax expense differs from the amount that would be expected if determined by applying the enacted Canadian federal and provincial statutory income tax rates to income before income tax. The following is a reconciliation of the combined statutory income tax rate to the Corporation's effective income tax rate.

	2021	2020
Income before income tax per financial statements	$ 151,225	$ 133,577
Statutory income tax rate	23.0%	24.0%
Income tax, at statutory income tax rate	$ 34,782	$ 32,058
Difference between capital cost allowance and amounts claimed for accounting purposes	(17,103)	(21,320)
Items capitalized for accounting purposes but expensed for income tax purposes	(4,985)	(15,671)
Difference between regulatory accounting items and amounts claimed for income tax purposes	(3,200)	4,029
Other	1,030	1,626
Change in statutory income tax rate	—	52
Income tax expense	$ 10,524	$ 774
Effective income tax rate	7.0%	0.6%

As at December 31, 2021, the Corporation had no federal non-capital loss carry forwards (December 31, 2020 - $nil) and no provincial non-capital loss carry forwards (December 31, 2020 - $nil).

As at December 31, 2021, total investment tax credits receivable related to the employment of eligible apprentices and acquisition of eligible assets were $1.8 million (December 31, 2020 - $1.8 million), as described in Note 8. These credits are subject to carry forward and expire between 2026 and 2040.

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

Taxation years 2015 and prior are no longer subject to examination in Canada. Currently, 2016 to 2018 taxation years are under examination by the CRA. An examination of the open income tax years by the CRA could result in a change in the liability for unrecognized income tax benefits. The Corporation does not have any unrecognized income tax benefits as at December 31, 2021 and, as such, has not accrued any associated interest or penalties.

19. COMMITMENTS AND CONTINGENCIES

As at December 31, 2021, the Corporation's commitments in each of the next five years and thereafter are as follows:

	Total	2022	2023	2024	2025	2026	> 2026
Principal payments on long-term debt (1)	$ 2,360,000	—	—	150,000	—	—	2,210,000
Interest payments on long-term debt	2,212,695	105,930	105,930	105,930	100,980	100,980	1,692,945
Operating leases	601	253	128	130	90	—	—
Other commitments	50,777	5,243	4,322	3,284	2,231	2,231	33,466
Total	$ 4,624,073	111,426	110,380	259,344	103,301	103,211	3,936,411

(1) *Carrying value is presented gross of debt issuance costs of $15,959 (December 31, 2021 – $16,386).*

Other Commitments

The Corporation and an Alberta transmission service provider have an agreement in consideration for joint attachments of distribution facilities to the transmission system. The agreement remains in effect, in perpetuity, until the Corporation no longer has attachments to the transmission system. Due to the unlimited duration of this contract, the calculation of future payments after 2026 includes payments to the end of 20 years. However, the payments under this agreement may continue for an indeterminable period. In addition, the Corporation and an Alberta transmission service provider have entered into a number of service agreements to ensure operational efficiencies are maintained through coordinated operations. These service agreements have minimum expiry terms of five years from September 1, 2020 and are subject to extension based on mutually agreeable terms.

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

Contingencies

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

20. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value Measurement

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

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

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

The fair value of the Corporation's financial instruments reflects 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)

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

Long-term debt	2021	2020
Fair value [(1)]	$ 2,873,390	$ 3,098,239
Carrying value [(2)]	2,358,757	2,358,721

[(1)] *The fair value of the long-term debt was estimated using level 2 inputs. It is calculated using indicative prices provided by a third party for the same or similarly rated issues of debt with similar maturities. Since the Corporation does not intend to settle the long-term debt prior to maturity, the excess of the estimated fair value above the carrying value does not represent an actual liability.*

[(2)] *Carrying value is presented gross of debt issuance costs of $15,959 (December 31, 2020 – $16,386).*

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

Credit Risk

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

The Corporation assesses its retailer credit exposure and expected credit loss using historical information, forms of prudential and current economic conditions. In accordance with the Corporation's Terms and Conditions, the Corporation is required to minimize its credit exposure to retailer billings by obtaining an acceptable form of prudential, which includes a cash deposit, letter of credit, an investment grade credit rating from a major rating agency, or a financial guarantee from an entity with an investment grade credit rating. An acceptable form of prudential reduces the credit risk exposure of retailer billings. As at December 31, 2021, the Corporation's credit risk exposure was $1.9 million. Expected credit losses with other counterparties is evaluated using historical collection experience and internal counterparty-specific risk assessments. The Corporation's assessment is that its expected credit loss is not significant as at December 31, 2021.

21. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for

	2021	2020
Interest	$ 107,013	$ 108,905
Income tax (recovered)/ paid	(4,632)	5,736

Non-Cash Operating Working Capital

	2021	2020
Accounts receivable	$ 14,328	$ 18,582
Prepaids and deposits	(703)	(1,638)
Income tax receivable/ (payable)	15,074	(4,879)
Regulatory assets	34,893	(17,625)
Accounts payable and other current liabilities	(3,990)	(49,483)
Regulatory liabilities	(12,373)	(13,802)
	$ 47,229	$ (68,845)

Non-Cash Investing Activities

	2021	2020
Additions to property, plant and equipment and intangible assets included in current liabilities	$ 74,998	$ 79,892
Customer contributions for property, plant and equipment included in current assets	7,962	9,155
ROU assets obtained in exchange for operating lease liabilities	—	468