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Consolidated Financial Statements
(In millions of Canadian dollars)

ALECTRA INC.

Year ended December 31, 2021

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alectra Inc.

Opinion

We have audited the consolidated financial statements of Alectra Inc. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2021
- the consolidated statement of income and comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity 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 audit opinion.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.
KPMG Canada provides services to KPMG LLP.

Other Information

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

- the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will 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 and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis as at the date of this auditors' 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 the auditors' report.

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 generally accepted auditing standards 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 the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

March 4, 2022

ALECTRA INC.
Consolidated Statement of Financial Position
(in millions of Canadian dollars)
as at December 31, 2021 and 2020

	Notes	2021	2020
Assets			
Current assets			
Cash		32	26
Restricted cash	7	5	80
Trade and other receivables	19	568	594
Inventories		34	31
Other assets		18	19
Total current assets		**657**	**750**
Non-current assets			
Property, plant, and equipment	8	3,780	3,571
Right of use assets	9	27	29
Goodwill and other intangible assets	10	1,036	996
Investment in associate		6	6
Deferred tax asset	24	2	3
Total non-current assets		**4,851**	**4,605**
Total assets		**5,508**	**5,355**
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	11	466	433
Customer deposits liability		56	57
Short term debt	13	195	415
Loans and borrowings	15	150	110
Deferred revenue	23	17	15
Lease obligations	18	6	4
Other liabilities	14	72	45
Total current liabilities		**962**	**1,079**
Non-current liabilities			
Loans and borrowings	15	1,987	1,838
Deferred revenue	23	535	479
Employee future benefits	16	100	105
Lease obligations	18	29	31
Deferred tax liabilities	24	97	68
Other liabilities	14	29	19
Total non-current liabilities		**2,777**	**2,540**
Total liabilities		**3,739**	**3,619**
Shareholders' equity			
Share capital	17	994	996
Contributed surplus		599	599
Accumulated other comprehensive loss		(20)	(27)
Retained earnings		196	168
Total shareholders' equity		**1,769**	**1,736**
Total liabilities and shareholders' equity		**5,508**	**5,355**

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Chair of the Board

Director

ALECTRA INC.
Consolidated Statement of Income and Comprehensive Income
(in millions of Canadian dollars)
for the years ended December 31, 2021 and 2020

	Notes	2021	2020
Revenue			
Distribution revenue		628	559
Electricity sales		3,023	3,488
Other revenue	22	183	115
		3,834	**4,162**
Expenses			
Cost of power		3,092	3,489
Operating expenses	21	359	328
Depreciation and amortization	8,9,10	182	165
		3,633	**3,982**
Income from operating activities		**201**	**180**
Finance income		—	1
Finance costs		74	75
Net finance costs		**74**	**74**
Gain on derecognition of property, plant, and equipment		11	1
Change in fair value of contingent consideration	26	3	—
Income before income taxes		**141**	**107**
Income tax expense	24	36	28
Net income		**105**	**79**
Other comprehensive income (loss)			
Items that may be subsequently reclassified to income			
Reclassification to net income, loss on bond forward		2	2
Items that will not be subsequently reclassified to income			
Remeasurement of defined benefit obligation	16	7	(7)
Tax impact on remeasurement of defined benefit obligation		(2)	1
Total other comprehensive income (loss)		**7**	**(4)**
Total comprehensive income		**112**	**75**

See accompanying notes to the consolidated financial statements.

ALECTRA INC.

Consolidated Statement of Changes in Equity
(in millions of Canadian dollars)
for the years ended December 31, 2021 and 2020

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance, January 1, 2020		1,000	599	(23)	171	1,747
Net income		—	—	—	79	79
Other comprehensive loss		—	—	(4)	—	(4)
Return of capital	17	(4)	—	—	—	(4)
Dividends paid	17	—	—	—	(82)	(82)
Balance, December 31, 2020		**996**	**599**	**(27)**	**168**	**1,736**
Net income		—	—	—	105	105
Other comprehensive income		—	—	7	—	7
Return of capital	17	(2)	—	—	—	(2)
Dividends paid	17	—	—	—	(77)	(77)
Balance, December 31, 2021		**994**	**599**	**(20)**	**196**	**1,769**

See accompanying notes to the consolidated financial statements.

ALECTRA INC.
Consolidated Statement of Cash Flows
(in millions of Canadian dollars)
for the years ended December 31, 2021 and 2020

	Notes	2021	2020
Cash provided by (used in)			
Operating activities			
Net income		105	79
Add (deduct) non-cash items:			
Depreciation of property, plant, and equipment	8	152	140
Depreciation of right of use assets	9	4	3
Amortization of intangible assets	10	26	22
Amortization of deferred revenue	23	(14)	(12)
Gain on derecognition of property, plant, and equipment		(11)	(1)
Change in fair value of contingent consideration		(3)	—
Income tax expense	24	36	28
Net finance costs		74	74
Capital contributions received	23	72	85
Net change in non-cash operating working capital	25	111	(40)
Net change in non-current assets and liabilities		20	7
Decrease in restricted cash	7	—	1
Cash generated from operating activities		**572**	**386**
Income taxes paid	24	(9)	(5)
Income taxes refunded	24	—	4
Cash provided by operating activities		**563**	**385**
Investing activities			
Decrease (increase) in restricted cash	7	75	(80)
Consideration paid for investment in a business, net of cash acquired	6	(74)	(7)
Purchase of property, plant, and equipment	25	(378)	(343)
Purchase of intangible assets	10	(21)	(20)
Proceeds from disposal of property, plant and equipment		31	33
Cash used in investing activities		**(367)**	**(417**
Financing activities			
(Decrease) increase in short term debt	13	(220)	235
Repayment of long-term loans and borrowings	15	(110)	(40)
Issuance of long-term loans and borrowings, net of debt issuance costs	15	298	—
Repayment of lease obligations	18	(4)	(2)
Interest received		—	1
Interest paid		(75)	(79)
Return of capital	17	(2)	(4)
Dividends paid	17	(77)	(82)
Cash (used in) provided by financing activities		**(190)**	**29**
Net cash inflow (outflow)		**6**	**(3)**
Cash, beginning of year		**26**	**29**
Cash, end of year		**32**	**26**

See accompanying notes to the consolidated financial statements.

1. Description of the Business

On January 31, 2017, Alectra Inc. (the "Corporation") was incorporated under *the Business Corporations Act (Ontario)* by amalgamation (the "Amalgamation Transaction") of the former entities: PowerStream Holdings Inc. ("PowerStream"); Enersource Holdings Inc. ("Enersource"); and Horizon Holdings Inc. ("Horizon") (collectively, the "Amalgamating Entities"). On February 28, 2017, Alectra Utilities Corporation ("Alectra Utilities") acquired 100% of the shares of Hydro One Brampton Networks Inc. ("Brampton Hydro"). On January 1, 2019, the Corporation issued 485,000 Class G Common Shares to Guelph Municipal Holdings Inc. ("GMHI") in consideration for all the issued and outstanding shares of Guelph Hydro Electric Systems Inc. ("GHESI").

Alectra Inc. is owned as follows:

- 29.57% by Enersource Corporation, which is owned 90% by the Corporation of the City of Mississauga (the "City of Mississauga") and 10% by BPC Energy Corporation, which is a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS");
- 20.50% by the Vaughan Holdings Inc., a wholly-owned subsidiary of the Corporation of the City of Vaughan (the "City of Vaughan");
- 17.31% by Hamilton Utilities Corporation, a wholly-owned subsidiary of the Corporation of the City of Hamilton (the "City of Hamilton");
- 15.00% by Markham Enterprises Corporation, a wholly-owned subsidiary of the Corporation of the City of Markham (the "City of Markham");
- 8.37% by Barrie Hydro Holdings Inc., which is wholly-owned by the Corporation of the City of Barrie (the "City of Barrie");
- 4.63% by St. Catharines Hydro Inc., a wholly-owned subsidiary of the Corporation of the City of St. Catharines (the "City of St. Catharines"); and
- 4.63% by the Guelph Municipal Holdings Inc., a wholly-owned subsidiary of the Corporation of the City of Guelph (the "City of Guelph").

The Corporation's registered head office is 2185 Derry Road W, Mississauga, Ontario, Canada.

The accompanying consolidated financial statements of the Corporation include the accounts of Alectra Inc. and its subsidiaries. The principal subsidiaries of the Corporation are: Alectra Utilities, a regulated electricity distribution company under license issued by the Ontario Energy Board ("OEB") which also includes a commercial rooftop solar generation business ("Ring Fenced Solar"); and Alectra Energy Solutions Inc. ("AES"), a non-regulated energy services company. The Corporation also indirectly owns a 100% ownership interest in Solar Sunbelt General Partnership ("Solar Sunbelt GP"), which is held through Alectra Utilities (99.9975% interest) and Horizon Solar Corporation (0.0025% interest).

AES was incorporated on January 31, 2017 by articles of amalgamation involving subsidiaries of the Amalgamating Entities. AES has two subsidiaries: Alectra Energy Services Inc. ("AESI"); and Alectra Power Services Inc. ("APSI"). AESI has three subsidiaries: Util-Assist Inc. ("UA"); Alectra Microgrid Master Limited Partnership ("AMSP") and Alectra Microgrid Master General Partnership; and HPS Holdings Inc. ("HPS"). UA has one subsidiary: Util-Assist Corp. HPS has two subsidiaries: Holland Power Services Inc. ("HPSI") and Holland New England ("HNE").

1. Description of the Business (continued)

AES is an Ontario-based company that provides customers with energy solutions through the use of innovative technologies. The principal activities of AES and its wholly-owned subsidiaries include:

- AESI - provides wholesale metering and sub-metering services for condominium and commercial properties;
- APSI - provides street lighting services including design, construction, and maintenance;
- HPSI and HNE - provide emergency restoration services to utilities primarily located along the eastern seaboard of the United States and Canada; and industrial electrical services to utilities and industrial clients;
- UA - provides consulting services with respect to: advanced metering systems procurement and implementation; customer information systems procurement and implementation; billing and meter data exception management services; an outage management call centre (PowerAssist); and other smart grid applications and services; and
- AMSP - provides energy management services which includes installing, owning and operating an industrial energy storage battery and gas system with a third party.

2. Basis of Preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Board of Directors on March 4, 2022.

Certain prior year figures have been reclassified to conform to the presentation of the current year.

(b) Functional and presentation currency, and basis of measurement

These consolidated financial statements are presented in Canadian dollars ("$CAD"), which is the functional currency of the Corporation. Consolidated financial statements have been prepared on a historical cost basis, except for the valuation of employee future benefits which are recorded at actuarial value. Amounts are rounded to the nearest million, unless otherwise stated.

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the application of accounting policies and the amounts reported and disclosed in these consolidated financial statements.

Estimates are used predominately in determining the measurement of certain of the Corporation's assets and liabilities. Estimates and underlying assumptions are continually reviewed and are based on factors that are considered to be relevant, such as historical experience and forecast trends. Actual results may differ from these estimates. Revisions of estimates are recognized in the period of revision and prospectively.

The areas which require management to make significant estimates and assumptions are as follows:

- Note 4(b) – valuation of identifiable net assets acquired in a business combination;
- Note 4(c)(ii) – recognition and measurement of unbilled revenue;
- Note 4(d)(iii) – recognition and measurement of expected credit losses on trade and other receivables;
- Note 4(i) – impairment of goodwill and other indefinite life intangible assets: key assumptions underlying recoverable amounts; and
- Note 4(k) – measurement of employee future benefits – actuarial assumptions.

2. Basis of Preparation

(c) Use of estimates and judgments (continued)

Judgments included in the consolidated financial statements are decisions made by management, based on analysis of relevant information available at the time of each decision. Judgments relate to the application of accounting policies and decisions related to the measurement, recognition and disclosure of financial amounts.

The areas which require management to make significant judgments are as follows:

- Note 4(d)(i) – measurement of financial instruments at fair value;
- Note 4(g) and (h) – determining the useful lives of property, plant and equipment and finite life intangible assets;
- Note 4(i) – impairment of goodwill and other indefinite life intangible assets: key judgements include identification of cash generating units and inputs used for determining the recoverable amount;
- Note 4(j) – recognition and measurement of provisions and contingencies, determining whether a present obligation exists and assessing the probability, timing, and amount of any future outflows;
- Note 4(n) – lease term: determining whether the Corporation is reasonably certain to exercise a lease extension option; and
- Note 4(o) – recognition of deferred tax assets and liabilities.

The COVID-19 pandemic and resulting economic environment continued to evolve during the year. However, the momentum of global economic recovery has slowed down due to uncertainty regarding the extent and duration of the impacts of the COVID-19 pandemic. Such uncertainty could generate, in future periods, a risk of adjustments to the carrying amounts of balances subject to estimates and judgments.

3. Regulation

The Corporation, through Alectra Utilities, is regulated by the Ontario Energy Board ("OEB"). In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The regulatory accounting treatments of the OEB require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS (Note 27).

(a) Rate Setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders of the Corporation with opportunity to earn a regulated Maximum Allowable Return on Equity ("MARE") on the amount of shareholders' equity supporting the business of electricity distribution, which is also determined by regulation.

The rate-making policies of the OEB are guided by its statutory objectives under *The Ontario Energy Board Act, 1998 (Ontario)* ("OEBA") that include, among other matters, to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB regulates the electricity distribution rates charged by local distribution companies ("LDCs"), such as Alectra Utilities, through periodic rate applications to the OEB and its ongoing monitoring and reporting requirements. At present, LDCs may apply to the OEB for electricity distribution rates under options specified in its *Report of the Board - A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* ("RRF"). The three rate-setting methods available to LDCs under the RRF are: Price Cap Incentive Rate-setting ("Price Cap IR"); Custom Incentive Rate-setting ("Custom IR"); or Annual Incentive Rate-setting Index ("Annual IR").

3. Regulation (continued)

(a) Rate Setting (continued)

Price Cap IR

The Price Cap IR method establishes rates on a single forward test-year cost of service basis, indexed for four subsequent years through a formulaic adjustment.

The Incremental Capital Module ("ICM") is available to distributors under the Price Cap IR method. It is intended to address capital investment needs that arise during the rate-setting plan that are incremental to an OEB prescribed materiality threshold. The requested amount for an ICM claim must be: incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates; and satisfy the eligibility criteria of materiality, need, and prudence. The OEB requires that a distributor requesting relief for incremental capital during the Price Cap IR plan term include comprehensive evidence to support the need. This includes the calculation of a rate rider to recover the incremental revenue from each applicable customer class. The incremental revenue is recognized in the year when the actual ICM related expenditures are expected to be in-service. This approach is consistent with the timing of the actual capital investment benefit to customers, which aligns with the expected timing of the OEB approval of ICM rate adjustments.

Custom IR

The Custom IR method establishes rates based on a forecast of an LDC's revenue requirement and sales volumes. This rate-setting method is customized to fit the specific applicant's circumstances. The annual rate adjustment over the Custom IR term is determined by the OEB on a case-by-case basis.

Annual IR

The Annual IR method sets a distributor's rates through an annual adjustment mechanism.

(b) Rate Applications

2021 Rate Application

On August 17, 2020, Alectra Utilities filed an application for all five predecessor utilities rate zones for the approval of 2021 electricity distribution rates, effective January 1, 2021 to December 31, 2021. As part of the application, Alectra Utilities requested approval of 2021 incremental capital funding for the Brampton Hydro and PowerStream Rate Zones. On December 17, 2020, the OEB issued its Decision and Order, approving distribution rates and incremental capital funding, effective January 1, 2021 as follows:

- Horizon Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the Horizon Rate Zone is an increase of approximately 75 cents or 2.77%;
- Brampton Hydro Rate Zone – Price Cap adjustment and incremental capital funding under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 61 cents or 2.44%;
- PowerStream Rate Zone – Price Cap adjustment and incremental capital funding under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 57 cents or 1.95%;

3. Regulation (continued)

(b) Rate Applications (continued)

2021 Rate Application (continued)

- Enersource Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 39 cents or 1.53%; and
- Guelph Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 71 cents or 2.40%.

(c) Conservation and Demand Management

In July 2020, following the issuance of Ministerial directives pursuant to the Electricity Act ("EA"), 1998 (Ontario), the IESO provided Alectra Utilities and all LDCs across the province with a Notice to extend by six months the in-service date for certain projects under the Conservation First Framework ("CFF") to help customers impacted by the COVID-19 pandemic. The Minister issued a subsequent directive, dated December 9, 2021, to the IESO and further extended the deadlines by an additional six months to offset disruptions caused by the COVID-19 pandemic.

Alectra Utilities is now expected to have customer incentives paid upon project completion, which must be no later than August 31, 2022. Also, most customer incentive payments must be made by December 31, 2022.

There are two funding models available under the CFF: Full Cost Recovery Program ("FCR") and Pay for Performance Program ("P4P").

FCR

Prefunding amounts were received for the FCR program at the beginning of the Conservation and Demand Management ("CDM") plan and included in trade and other payables. Monthly settlements are made with the IESO for reimbursements of expenses incurred during the month with a reimbursement time lag of two months. These amounts are included as an offset to the prefunding amount in trade and other payables.

P4P

Under P4P, the IESO compensates Alectra Utilities based on a pre-specified amount for each verified kilowatt hour of electricity savings achieved. While there are no performance nor cost efficiency incentives for programs delivered under the P4P funding option, it does provide an opportunity to generate net revenue based on efficient program delivery (i.e., retaining a portion of the difference between program delivery costs and the 22 cents or 25 cents per kWh payment from the IESO). Under the P4P, and unlike FCR, the Corporation bears the risk of covering all of its costs and the eligible funding is capped at a prescribed Internal Rate of Return.

4. Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements have been applied consistently to all periods presented herein.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries from the date that control commences until the date that control ceases. The Corporation controls a subsidiary if it is exposed, or has rights, to variable returns from its investment in the subsidiary and can affect those returns through its power over the subsidiary. All intercompany accounts and transactions have been eliminated on consolidation.

(b) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair value of: assets conveyed; liabilities incurred or assumed; and the equity instruments issued by the Corporation in exchange for control of the acquired business. Where the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, it is measured at fair value at the acquisition date. The Corporation records all identifiable intangible assets including identifiable assets that had not been recognized by the acquiree before the business combination. Any excess of the cost of acquisition over the Corporation's share of the fair value of the net identifiable assets acquired and liabilities assumed is recorded as goodwill.

During the measurement period (within one year of the acquisition date), the Corporation may, on a retrospective basis, adjust the amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

The Corporation accounts for acquisition-related costs as expenses in the period in which the costs are incurred and the services are received.

(c) Revenue from contracts with customers

Revenue is recognized at a point in time or over time, depending on when the Corporation has satisfied its performance obligation(s) to its customers. Where the Corporation has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the performance to date, revenue is recognized in an amount to which the Corporation has a "right to invoice". The right to invoice represents the fair value of the consideration received or receivable.

The following provides a summary of the nature of the various performance obligations within contracts with customers and when performance is recognized on those obligations:

(i) Distribution revenue and electricity sales

The Corporation has identified that its material performance obligation is the distribution and provision of electricity to customers. Alectra Utilities is licensed by the OEB to distribute electricity. Distribution revenue is recognized based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Alectra Utilities in delivering electricity to customers and a regulated return on invested capital, and includes revenue collected through OEB-approved rate riders. As a licensed distributor, Alectra Utilities is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. Alectra Utilities is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether Alectra Utilities ultimately collects these amounts from customers.

4. Significant Accounting Policies (continued)

(c) Revenue from contracts with customers (continued)

(i) Distribution revenue and electricity sales (continued)

The Corporation has determined that it is acting as a principal for electricity distribution and therefore has presented the electricity sales on a gross basis. Revenue attributable to the delivery of electricity is based upon OEB-approved distribution tariff rates and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution charges, and any other regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Electricity sales are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. The Corporation satisfies its performance obligation to the customer over time, which is to use reasonable diligence in providing a regular and uninterrupted supply of electricity over the contract term.

(ii) Other revenue

Other revenue includes revenue from renewable generation and government grants under CDM programs, contributions from customers, sub-metering, consulting, and other general revenue. The methods of recognition for other revenue are as follows:

- Revenue from renewable generation sources is recognized in the period in which electricity is generated and delivered, based on regular meter readings, and is measured at the fair value of the consideration received or receivable, net of sales tax.
- IESO funding from CDM programs is recognized on a net basis when there is reasonable assurance that the funding will be received and the related conditions are met. "Net Basis" is used when the funding relates to an expense item, and, as such, the operating expenses are netted against other revenue. Alectra Utilities records its CDM revenues and expenses in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance.*
- Capital contributions received from electricity customers and developers to construct or acquire property, plant, and equipment for the purpose of connecting a customer to a network are recorded as deferred revenue. The deferred revenue is initially recorded at fair value of the capital contribution and is recognized as revenue on a straight-line basis over the estimated lives of the contracts with customers. Non-refundable cash contributions from developers result in the Corporation having an obligation to provide goods and services with respect to the assets constructed or acquired, these contributions are considered deferred revenue and recognized on a straight-line basis over the estimated economic lives of the assets to which the contribution relates.
- Sub-metering revenue is primarily comprised of management fees billed for sub-metering services related to the consumption of electricity and water in individual units within multi-residential and commercial buildings. Revenue is recognized on a monthly basis over the term of corresponding service agreements as the services are provided to the customer. AESI has determined that it is acting as an agent for its meter billing service and, as such, the revenue is recognized on a net basis.
- Revenue from consulting services is recognized using a time and materials basis which is measured monthly based on input measures, such as hours incurred to date, with consideration given to output measures, such as contract milestones when applicable. Certain service revenues, such as upfront conversion revenue, are recognized at a point in time.

4. Significant Accounting Policies (continued)

(c) Revenue from contracts with customers (continued)

(ii) Other revenue (continued)

- Revenue from power restoration services provided to utilities during storm events and industrial services including installation, maintenance and repairs to power infrastructure utilities and industrial clients is recognized as services are rendered.
- Revenue is recognized as services are rendered where ancillary to: the electricity distribution; delivery of street lighting services; water billing; and pole and duct rentals.

The measurement of unbilled revenue is based on an estimate of the amount of electricity, water, gas and thermal delivered to customers but not yet billed. These accrued amounts are presented as unbilled revenues under IFRS 15, *Revenue from Contracts with Customers*. The Corporation assesses unbilled revenue for impairment in accordance with IFRS 9, *Financial Instruments*.

(d) Financial instruments

Financial assets and liabilities include cash, trade and other receivables, trade and other payables, customer deposits liability, and loans and borrowings. All financial assets and liabilities, except trade and other receivables, are initially recognized at fair value plus transaction costs. Trade and other receivables balances are initially recognized at the transaction price. The financial assets and liabilities are subsequently measured at amortized cost using the effective interest rate method, less any applicable impairment. Interest income is calculated using the effective interest method and is recognized in the Consolidated Statement of Income and Comprehensive Income.

(i) Financial instruments at fair value

The fair value of a financial instrument is the amount of agreed upon consideration in an arm's length transaction between willing parties. Financial instruments, which are disclosed at fair value, are classified using a three level hierarchy. Each level reflects the inputs used to measure the fair values of the disclosed financial liabilities, and are as follows:

- Level 1: inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the liabilities that are not based on observable market data (unobservable inputs).

Fair value inputs are taken from observable markets where possible, but if they are unavailable, judgement is required in establishing fair value. The Corporation's fair value hierarchy is classified as Level 2 for loans and borrowings, and short term debt. The classification for disclosure purposes has been determined in accordance with generally accepted pricing models, based on discounted cash flow analysis, with the most significant inputs being the contractual terms of the instrument and the market discount rates that reflect the credit risk of counterparties.

(ii) Derivative Financial Instruments and Hedge Accounting

The Corporation measures derivatives initially at fair value. Any directly attributable transaction costs are recognized in profit or loss as incurred.

At the inception of a hedging relationship, the Corporation designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and its strategy for undertaking the hedge.

4. Significant Accounting Policies (continued)

(d) Financial instruments (continued)

(ii) Derivative Financial Instruments and Hedge Accounting (continued)

The Corporation also assesses on an on-going basis whether the hedge continues to meet the hedge effectiveness criteria, including that the hedge ratio remains appropriate.

When hedge accounting is appropriate, the hedging relationship is designated as a cash flow hedge, a fair value hedge, or a hedge of foreign currency exposure of a net investment in a self-sustaining foreign operation. Hedge ineffectiveness is measured and recorded in current period earnings in the Consolidated Statement of Income and Comprehensive Income. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in its fair value is recognized in OCI. Any ineffective portion is recognized in profit and loss.

The amount accumulated in OCI is reclassified to profit and loss over the period of the hedged item.

Hedge accounting is discontinued on a prospective basis if any of the following conditions are met: the forecast transaction is no longer expected to occur; the hedge no longer meets the criteria for hedge accounting; the hedging instrument expires or is sold, terminated, or exercised.

(iii) Impairment of financial assets

Impairment of the Corporation's financial assets is assessed on a forward-looking basis. The Corporation applies the simplified approach to its trade receivables which requires expected lifetime losses to be recognized from initial recognition of the receivables and on an ongoing basis. The Corporation assesses all information available in the measurement of the expected credit losses ("ECLs") associated with its assets carried at amortized cost.

The measurement of ECLs for trade receivables is based on management's estimates and assumptions. ECL is determined using a provision matrix based on historical observed default rates and incorporated macroeconomic factors such as GDP growth forecast, inflation rates, unemployment rates, and customer-specific assessments. Trade receivables are written-off against the allowance when they are deemed uncollectible.

(e) Restricted cash

Cash that is restricted as to withdrawal or use under the terms of certain contractual agreements is classified as restricted cash.

(f) Inventories

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

4. Significant Accounting Policies (continued)

(g) Property, plant, and equipment ("PP&E")

Land is measured at cost. PP&E (other than land) is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and includes contracted services, cost of materials, directly attributable overhead, direct labour, pension and other benefit costs, and borrowing costs incurred in respect of qualifying assets constructed. When components of an item of PP&E have different useful lives, each component is recorded separately within PP&E. These assets are classified to the appropriate categories of PP&E when completed and ready for intended use. Depreciation on these assets commences when such assets are ready for their intended use.

Items of PP&E acquired in a non-monetary exchange transaction are measured at the fair value of the asset given up unless the fair value of the asset given up is not reliably measurable or the exchange transaction lacks commercial substance. Where the fair value requirement is not met, the asset obtained is measured at the carrying value of the asset given up.

Work in progress assets are generally assets that are undergoing active construction or development and are not currently available for use. Such assets are therefore not depreciated.

Major spare parts and standby equipment are recognized as items of PP&E.

When items of PP&E are disposed of, a gain or loss on asset derecognition, if any, is determined by comparing the proceeds from disposal with the carrying amount of the item. Any gain or loss on asset derecognition is included in the Consolidated Statement of Income and Comprehensive Income.

Leasehold improvements are investments made to customize buildings and offices occupied under lease contracts and are presented as part of PP&E.

Depreciation of PP&E is recognized on a straight-line basis over the useful life of each component. The assessment of the useful lives of PP&E is based on management's judgment and are reviewed at each financial year-end and adjusted prospectively. The method of depreciation and estimated useful lives for each category of PP&E are as follows:

Buildings	Straight-line	10 to 52 years
Distribution assets	Straight-line	10 to 70 years
Other assets	Straight-line	3 to 25 years

(h) Goodwill and other intangible assets

Intangible assets include: goodwill; land rights; computer software; capital contributions; customer relationships; non-compete agreements; and other intangible assets.

Goodwill arising on the acquisition of subsidiaries or on amalgamation represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired. Goodwill is measured at cost less accumulated impairment losses. Goodwill has been assessed as having an indefinite useful life as it cannot exist independently of the business, nor it can be sold or transferred separately.

4. Significant Accounting Policies (continued)

(h) Goodwill and other intangible assets (continued)

Land rights are measured at cost. Land rights held by the Corporation are effective in perpetuity and there is no foreseeable limit to the period over which the rights are expected to provide benefit to the Corporation. Consequently, no removal date can be determined and no reasonable estimate of the fair value of such asset retirement obligations can be determined. If, at some future date, it becomes possible to estimate the fair value cost of removing these assets and the Corporation is legally or constructively required to remove such assets, a related asset retirement obligation will be recognized at that time. Land rights have been assessed as having an indefinite useful life.

Computer software, capital contributions, customer relationships, and other intangible assets is measured at cost less accumulated amortization and any applicable impairment losses. Amortization begins when the asset is available for use and is measured on a straight line basis.

Capital contributions represent contributions made to Hydro One Networks Inc. ("Hydro One"), an electricity distributor and transmitter in the Province of Ontario, for building dedicated infrastructure to accommodate the Corporation's distribution system requirements. Capital contributions are measured at cost less accumulated amortization.

Non-compete agreements acquired as a part of the business combination are recorded at their fair value at the date of acquisition and amortized on a straight line basis over the life of the asset.

Work in progress assets are generally assets that are undergoing development and are not currently available for use. Such assets are therefore not depreciated.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net proceeds from disposal and the carrying amount of the asset and are recognized in the Consolidated Statement of Income and Comprehensive Income when the asset is derecognized.

The assessment of the useful lives of intangible assets is based on management's judgment and are reviewed at each financial year-end and adjusted prospectively. The useful lives and amortization methods are as follows:

Goodwill	Not amortized	Indefinite
Land rights	Not amortized	Indefinite
Computer software	Straight-line	4 to 10 years
Non-compete agreements	Straight-line	2 to 10 years
Capital contributions	Straight-line	10 to 70 years
Other assets	Straight-line	10 to 35 years

(i) Impairment of non-financial assets

For the purpose of impairment testing, the Corporation uses judgment to group its assets into the smallest group that generates cash inflows that are largely independent of those from other assets or cash generating units ("CGUs"). Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

4. Significant Accounting Policies (continued)

(i) Impairment of non-financial assets (continued)

Goodwill and intangible assets with indefinite lives are tested for impairment annually and when circumstances indicate that the recoverable amount of an asset or CGU may be below its carrying value. The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs of disposal. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU, a suitable discount rate in order to calculate a present value as a basis for determining impairment and an estimated terminal value calculated by discounting the final year in perpetuity. Fair value less costs of disposal is determined based on observable market inputs and categorized as level 3 for fair value measurement. Fair value less costs of disposal is determined based on observable market inputs and categorized as level 3 for fair value measurement. Property, plant and equipment and intangible assets with finite lives are tested for impairment when management determines indicators of impairment exist. Significant judgment is involved in determining the inputs used for determining the recoverable amount of CGUs.

Impairment losses are recognized if the carrying amount of an asset or CGU exceeds its recoverable amount, and are recognized in net income. Impairment losses relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, as if no impairment loss had been previously recognized.

(j) Provisions and contingencies

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be determined reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured as the expected outcome of the consideration required to settle the present obligation at the reporting date. Significant judgement is required in determining whether a present obligation exists and its probability of realization. Provisions are subject to significant uncertainty and are determined by discounting the expected future cash flows at a rate, net of tax, that corresponds to current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as an expense.

An assessment of the likelihood of a contingent event, such as events arising from legal proceedings, third-party contracts and other events, requires management's judgment as to the probability of a loss occurring. Actual results may differ from those estimates.

4. Significant Accounting Policies (continued)

(k) Employee future benefits

The Corporation provides pension and other benefit plans for its employees. Details on these plans are as follows:

(i) Multi-employer defined benefit pension plan

The Corporation provides a pension plan for the majority of its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

As OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan as a defined benefit plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

(ii) Non-pension defined benefit plans

The Corporation provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. These benefits are provided through group defined benefit plans shared between entities under common control of Alectra Inc. Alectra Utilities, which is controlled by Alectra Inc., is the legal sponsor of the plans. There is a stated policy in place to allocate the net defined benefit cost to the participating entities under the common control of Alectra Inc. based on the obligation attributable to the plan participants employed by each participating entity.

The Corporation has incorporated its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these consolidated financial statements.

The Corporation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting such to determine its present value. Any unrecognized past service costs are deducted. The discount rate is the interest yield, at the reporting date, on high quality debt instruments with duration similar to the duration of the plan.

Due to the long-term nature of these plans, estimates used in the valuation such as discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases, are subject to significant uncertainty.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management's best estimate of certain underlying assumptions. Remeasurements arising from defined benefit plans are recognized immediately in other comprehensive income and reported in accumulated other comprehensive income. Amounts recorded in OCI are not reclassified to the Statement of Income and Comprehensive Income.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest full actuarial valuation was performed as at December 31, 2019.

4. Significant Accounting Policies (continued)

(l) Customer deposits liability

Customer deposit liability is comprised of cash collections from customers as security for the payment of energy bills and water bills. Deposits held in respect of commercial customers are applied against any unpaid portion of individual customer accounts. Customer deposit liability in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. These customer deposits are classified as a current liability as they are refundable on demand once a customer establishes a good payment history in accordance with the policies of the Corporation. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs.

(m) Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Corporation, using the exchange rates prevailing at the dates of the transactions (i.e., spot exchange rate). Non-monetary items designated in foreign currency which are measured at historical cost are translated using the exchange rate at the date of initial transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in the Consolidated Statement of Income and Comprehensive Income.

Gains or losses on investment in associate are translated using the average rate for the year. Any gain or loss on translation is recognized in the Consolidated Statement of Income and Comprehensive Income.

Closing net assets of foreign operations are translated into functional currency of the Corporation using the year-end exchange rate. Gains or losses arising on the translation of foreign operations are recognized in Other Comprehensive income.

(n) Leases

At the inception of a contract, an assessment is made to determine if the contract is, or contains, a lease based on the right to control the asset and the receipt of substantially all the benefits from the use of the identifiable asset.

Right of use assets (“RoU”) are measured at an amount equal to the lease obligation, adjusted by the amount of any prepaid or accrued lease payments. The Corporation recognizes a RoU at the lease commencement date. The RoU is initially measured at cost which is the initial measurement of the lease obligation plus any lease payments made at or before the commencement date. The RoU is depreciated using the straight-line method over the shorter of the lease term and the estimated remaining useful life of the asset. The RoU is subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for certain remeasurements of the lease obligation.

Lease obligations are initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined then by using the Corporation's incremental borrowing rate. The lease obligation is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments or a lease modification. A corresponding adjustment is made to the carrying amount of the RoU or is recorded in the Statement of Income and Comprehensive Income if the carrying amount of the RoU has been reduced to zero.

4. Significant Accounting Policies (continued)

(n) Leases (continued)

The Corporation, depending upon the nature of the lease agreement, includes the following in the lease payments: fixed payments (including in-substance fixed payments); variable lease payments that depend on an index or a rate; amounts expected to be payable under residual value guarantees; the exercise price of a purchase option that the Corporation is likely to exercise; and penalties for lease termination if the Corporation plans to exercise the termination option. The Corporation assesses extension options based on available information at the lease commencement date. Subsequently, if there is a change in circumstances within its control, the Corporation will then reassess the extension option to determine whether there is an economic incentive to exercise the option. Such an assessment is subject to management's judgment. The Corporation allocates the consideration in the contract to each lease component based on their relative stand-alone prices, except equipment leases where the Corporation has elected to combine lease and non-lease components.

The Corporation has elected not to recognize RoU assets and lease obligations with a lease term of 12 months or less and low value leases. The Corporation recognizes the lease payments associated with these leases as an expense on a straight line basis over the lease term.

A sale and leaseback transaction occurs where the Corporation sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. If the transfer of the asset by the Corporation is considered a sale under IFRS 15, *Revenue from contracts with customers*, the Corporation measures the RoU asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the RoU retained. Any gain or loss that relates to the rights transferred to the purchaser/lessor is recognized in the Consolidated Statement of Income. If the transfer of the asset is not considered a sale, the asset continues to be recognized and a financial liability equal to the transfer proceeds is recorded.

(o) Income taxes

The Corporation and its subsidiaries, other than AESI, HPS and UA, are currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts").

AESI, HPS and UA are subject to the payment of tax under the Tax Acts. Other than AESI, HPS and UA, pursuant to the EA, and as a consequence of its exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of income taxes (“PILs”) to the Ontario Electricity Finance Corporation ("OEFC"). These payments are calculated in accordance with the Tax Acts. These amounts are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

PILs comprise current and deferred payments in lieu of income tax. PILs is recognized in the Consolidated Statement of Income and Comprehensive Income except to the extent that it relates to items recognized directly in either comprehensive income or in equity, in which case, it is recognized in comprehensive income or in equity.

Current PILs is the expected amount of cash taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

4. Significant Accounting Policies (continued)

(o) Income taxes (continued)

Deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred PILs assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred PILs assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

AESI, HPS and UA are taxable under the Tax Acts with income tax expense that comprises current and deferred tax.

Current tax expense comprises the expected tax payable or receivable on taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax expense is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the anticipated reversal date.

(p) Finance income and costs

Finance income is recognized as it accrues in net income and is comprised of interest earned on cash.

Finance costs comprise interest expense on borrowings and are recognized as an expense in the Consolidated Statement of Income and Comprehensive Income except for those amounts capitalized as part of the cost of qualifying property, plant, and equipment.

(q) Advance payments

Advance payments are prepayments on capital projects that have been purchased and will remain as advance until the project is in service and billable under the terms of the corresponding service agreements.

5. Future Accounting Changes

Certain new accounting standards and interpretations that have been published but are not effective as at December 31, 2021 have not been early adopted in these financial statements.

(a) Effective January 1, 2022

Management has assessed the financial statement impact of adopting the following amendments to existing accounting standards and have determined that the impact is insignificant.

- Proceeds before intended use (Amendments to IAS 16, *Property Plant & Equipment*);
- Fee in the "10 per cent" test for derecognition of financial liabilities (Amendments to IFRS 9, *Financial Instruments*);
- Onerous contracts, cost of fulfilling a contract (Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*); and
- Reference to conceptual framework (Amendments to IFRS 3, *Business combinations*).

(b) Effective January 1, 2023

Management is currently assessing the financial statement impact of adopting the following amendments to existing accounting standards:

- Disclosure of Accounting Policy (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimate (Amendments to IAS 8); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

6. Business Combinations

On January 4, 2021 ("acquisition date"), the Corporation acquired 100% of the shares of Holland Power Services Inc. ("HPSI"), a private company specializing in providing storm restoration services in Eastern Canada and the United States. The acquisition was recognized as a business combination in accordance with IFRS 3 - *"Business Combinations".* The acquisition of HPSI supports the strategic growth objectives of the Corporation through the logical extension and diversification of its utility services. The consolidated financial statements include the fair value of identifiable net assets of HPSI and its subsidiaries as at January 4, 2021. Goodwill arising from the acquisition of $16 relates to the expected growth, cost synergies and the value of the acquiree's workforce which cannot be separately recognized. Goodwill is not deductible for income tax purposes.

The aggregate consideration for the acquired shares of HPSI comprises: (i) an initial payment of $52 to the vendor on the Closing Date (“Initial Share Consideration”); and (ii) additional contingent share consideration, if any, payable based on the annual financial performance of HPSI in 2021 and 2022. Refer to note 26 for details.

In addition to the initial share consideration, the Corporation paid $30 to the vendor on the Closing Date in consideration of actual working capital as at that date in excess of an assumed level of working capital underlying the purchase price consideration for the shares (“Working Capital Adjustment”).

6. Business Combinations (continued)

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition:

	HPSI
Cash	3
Trade and other receivables	42
Prepaid expenses	1
Property, plant, and equipment	8
Right of use assets	1
Intangible assets	30
Trade and other payables	(2)
Lease obligations	(1)
Deferred tax liability	(9)
Fair value of identifiable net assets acquired	73
Goodwill	16
Aggregate settlement	89
Represented by:	
Initial share consideration	52
Working capital adjustment	30
Contingent consideration payable	7
Aggregate settlement	89

Net cash outflow of $74 at the closing date includes aggregate settlement of $89 reduced by: (i) the contingent consideration payable $7; (ii) the holdback payable of $5; and (iii) the cash acquired from the acquisition of HPSI $3.

The holdback payable is an amount held in an escrow account related to the initial purchase price and is presented as restricted cash on the consolidated statement of financial position. Refer to note 7 for details.

The assets acquired and liabilities assumed were valued based on discounted expected future cash flows using market risk adjusted rates of return.

HPSI contributed revenue and net income of $61 and $10 respectively since the acquisition date.

7. Restricted Cash

Restricted cash includes $5 (2020 - $80) held in an escrow account related to the settlement in respect of the acquisition of HPSI. Holdback amount in 2020 relates to the future settlement of the initial share consideration and final working capital adjustment. During the year, the holdback amount relates to the amount retained from the total purchase price of HPSI to indemnify the Corporation from future third party claims if any. The holdback amount will be released after meeting certain conditions as set out in the escrow agreement. Refer to note 6 for details.

8. Property, Plant, and Equipment

	Notes	Land and buildings	Distribution assets	Other assets	Work-in-progress	Total
Cost						
Balance at January 1, 2020		217	3,421	226	111	3,975
Additions / transfers	25	10	264	27	40	341
Disposals		(29)	(7)	(12)	(1)	(49)
Balance at December 31, 2020		198	3,678	241	150	4,267
Additions through acquisition	6	2	—	6	—	8
Additions / transfers	25	6	292	45	29	372
Disposals		(13)	(11)	(6)	—	(30)
Balance at December 31, 2021		193	3,959	286	179	4,617
Accumulated depreciation						
Balance at January 1, 2020		24	462	87	—	573
Depreciation		6	116	18	—	140
Disposals		(4)	(2)	(11)	—	(17)
Balance at December 31, 2020		26	576	94	—	696
Depreciation		6	122	24	—	152
Disposals		(3)	(4)	(4)	—	(11)
Balance at December 31, 2021		29	694	114	—	837
Carrying amounts						
December 31, 2020		172	3,102	147	150	3,571
December 31, 2021		164	3,265	172	179	3,780

Other assets include solar panels, meters, vehicles, furniture and equipment, behind-the-meter distributed energy generation resources, computer equipment, and leasehold improvements.

During the year, the Corporation entered into a sale and leaseback arrangement for one of its properties. Refer to Note 9 and 18 for further details.

During the year, borrowing costs of $4 (2020 - $5) were capitalized as part of the cost of PP&E and intangible assets. An average capitalization rate of 2.67% (2020 - 3.04%) was used to determine the amount of borrowing costs to be capitalized with respect to the Corporation.

9. Right of Use Assets

	Note	Buildings	Rooftop	Total
Cost				
Balance at January 1, 2020		20	12	32
Additions		4	—	4
Balance at December 31, 2020		24	12	36
Additions through acquisition	6	1	—	1
Additions		1	—	1
Balance at December 31, 2021		26	12	38
Accumulated depreciation				
Balance at January 1, 2020		3	1	4
Depreciation		2	1	3
Balance at December 31, 2020		5	2	7
Depreciation		3	1	4
Balance at December 31, 2021		8	3	11
Carrying amounts				
December 31, 2020		19	10	29
December 31, 2021		18	9	27

During the year, the Corporation sold one of its properties and leased it back for 22 months. The Corporation has an option to extend the lease term and is expected to exercise this option for an additional six months. A net gain of $14 on the sale and lease back transaction with a related party was recognized and is included in the gain on disposal of property, plant, and equipment in the Consolidated Statement of Income and Comprehensive Income.

10. Goodwill and Other Intangible Assets

(a) Goodwill and intangible assets

	Notes	Goodwill	Land rights	Computer software	Capital contributions	Work in progress	Other assets	Total
Cost or deemed costs								
Balance at January 1, 2020		761	4	142	93	36	14	1,050
Additions		—	—	25	—	(12)	7	20
Write off / Disposals		—	—	(2)	—	—	—	(2)
Balance at December 31, 2020		761	4	165	93	24	21	1,068
Additions through acquisition	6	16	—	—	—	—	30	46
Additions		—	—	13	5	(2)	5	21
Impairment / Disposals		—	—	(8)	—	—	(1)	(9)
Balance at December 31, 2021		777	4	170	98	22	55	1,126
Accumulated amortization								
Balance at January 1, 2020		—	—	37	12	—	3	52
Amortization		—	—	18	3	—	1	22
Write off / Disposals		—	—	(2)	—	—	—	(2)
Balance at December 31, 2020		—	—	53	15	—	4	72
Amortization		—	—	17	4	—	5	26
Write off / Disposals		—	—	(8)	—	—	—	(8)
Balance at December 31, 2021		—	—	62	19	—	9	90
Carrying amounts								
December 31, 2020		761	4	112	78	24	17	996
December 31, 2021		777	4	108	79	22	46	1,036

Other assets include customer relationships, brands and non-compete agreements.

Borrowing costs capitalized in intangible assets and PP&E during the period is included in Note 8.

10. Goodwill and Other Intangible Assets (continued)

(b) Impairment testing of goodwill and other indefinite life intangible assets

Goodwill with a carrying amount of $777 (2020 - $761) and land rights with a carrying amount of $4 (2020 - $4) have been allocated to the Corporation's CGUs. Carrying value of goodwill allocation is as follows:

	Goodwill		Land rights	
	2021	2020	2021	2020
AUC	755	755	4	4
AES excluding HPS	6	6	—	—
HPS	16	—	—	—

The Corporation tested goodwill and land rights for impairment as at September 30, 2021 and September 30, 2020. The impairment test was performed by considering the latest developments and economic conditions, including those related to the COVID-19 pandemic. The recoverable amount of goodwill and land rights determined in the analysis for both the years was greater than the carrying value and no impairment was recorded.

The recoverable amount is based on its value-in-use. The value-in-use calculations use cash flow projections based on financial projections and extrapolated cash flows using estimated growth rates.

The key assumptions used in the value-in-use calculations include forecast earnings before interest, taxes, depreciation, and amortization ("EBITDA"), weighted average cost of capital ("WACC") and a terminal growth rate. The terminal growth rate and WACC rate used for each CGU is as follows:

	Terminal growth rate		WACC rate	
	2021	2020	2021	2020
AUC	1.50%	1.50%	3.33%	3.10%
AES excluding HPS	1.75%	1.50%	9.17%	8.90%
HPS	1.75%	—%	21.28%	—%

Forecast EBITDA is based on expectations of future outcomes considering past experience, adjusted for anticipated revenue growth and cost savings. Revenue growth was projected based on the average growth rate, the estimated sales volume and expected price increases for the next five years.

WACC is based on market and equity risk factors for comparable companies.

The terminal growth rate reflects the rate at which cashflows are expected to grow after five years.

Management is not aware of any reasonably possible changes to the noted key assumptions that would cause a CGU's carrying amount to exceed its recoverable amount.

11. Trade and other payables

	Note	2021	2020
Trade payables - energy purchases		229	237
Accrued liabilities		97	81
Customer receivables in credit balances		50	26
Due to related parties	12	46	49
Trade payables - other		28	25
Interest payable		16	15
		466	433

12. Related Party Balances and Transactions

(a) Balances and transactions with related parties

Significant related party transactions, with the related parties not otherwise disclosed separately in the consolidated financial statements, are summarized below:

2021				
	Revenue	Expenses	Due from related parties	Due to related parties
City of Barrie	6	1	—	—
City of Guelph	8	—	—	6
City of Hamilton	30	2	2	20
City of Markham	7	1	2	9
City of Mississauga	17	1	2	—
City of St. Catharines	3	—	1	—
City of Vaughan	10	1	2	11
	81	6	9	46

2020				
	Revenue	Expenses	Due from related parties	Due to related parties
City of Barrie	6	—	2	—
City of Guelph	11	1	—	5
City of Hamilton	29	2	4	21
City of Markham	9	1	2	11
City of Mississauga	16	2	2	—
City of St. Catharines	4	—	1	—
City of Vaughan	23	1	4	12
	98	7	15	49

12. Related Party Balances and Transactions (continued)

(a) Balances and transactions with related parties (continued)

Services provided to related parties include electricity distribution, street lighting, road projects, and water and sewage billing. Expenses incurred include municipal taxes and facilities rental. There are also leases with the Cities of Barrie, Markham, and Vaughan. Refer to Note 18. Refer to Note 15 for related party loans and borrowings.

The Corporation paid dividends to shareholders during the year. Refer to Note 17.

(b) Key management personnel compensation

Key management personnel includes the senior leadership team who are directly or indirectly responsible for planning, directing and controlling the activities of the Corporation. Annual compensation of key management personnel that is directly attributable to the Corporation is as follows:

	2021	2020
Salaries and current employment benefits	13	14
Employee future benefits	1	1
Termination benefits	1	1
	15	16

13. Short term Debt

	2021	2020
Commercial paper program	195	415

The Corporation has following sources to meet short term liquidity requirements:

(i) Short term liquidity requirements in part are met through the issuance of Commercial Paper ("CP"). The CP program had a maximum authorized amount of $500 and was supported by the Corporation's $700 committed credit facility with $100 expansion option subject to mutual agreement; and

(ii) The Corporation also has a $100 uncommitted credit facility. The Corporation may draw on the credit facilities for working capital and general corporate purposes. Interest on drawn amounts under the credit facilities would apply based on Canadian benchmark rates.

Short term debt at December 31, 2021 and 2020 consist of CP issued under the Corporation's CP program. This short term debt is denominated in Canadian dollars and are issued with varying maturities of no more than one year. CP issuances bear interest based on the prevailing market conditions at the time of issuance. CP issuance at December 31, 2021 was $195 (2020 - $415).

For the year ended December 31, 2021, the average annual outstanding borrowings under the Corporation's revolving credit facility, working capital facility, and CP was $204 (2020 - $266) with a weighted average interest rate of 0.26% (2020 - 0.70%). Refer to Note 19(b)(iii) for details on the facilities.

14. Other Liabilities

	Notes	2021	2020
Current			
Advance payments		49	39
Income tax payable		14	3
Holdback payable		3	2
Other		6	1
		72	45
Non-current liabilities			
Expansion deposit		20	16
Contingent consideration	26	4	—
Holdback payable	6	3	—
Transition cost liability		1	2
Notes payable to the province of Ontario		1	1
		29	19

Advance payments represent amounts received from customers and developers for services that will be performed in the future and are recognized in revenue when the performance obligation is satisfied.

Expansion deposits represent security deposits received from customers, which are expected to be returned to the customer upon project completion.

The transition cost liability represents payments to be made in relation to the restructuring costs from the 2017 amalgamation transaction.

Included in the holdback payable is $5 (2020 - $nil) retained by the Corporation from the total purchase price of HPSI and $1 (2020 - $2) related to several other asset purchase and subcontractor agreements. The holdback is payable to the seller based on the terms and conditions in the agreements.

15. Loans and Borrowings

	2021	2020
Debentures[1]		
4.521% Debentures due 2021	—	110
3.033% Debentures due 2022	150	150
3.239% Debentures due 2024	150	150
2.488% Debentures due 2027	675	675
5.264% Debentures due 2030	65	65
1.751% Debentures due 2031	300	—
5.297% Debentures due 2041	210	210
3.958% Debentures due 2042	200	200
4.121% Debentures due 2045	30	30
3.458% Debentures due 2049	200	200
Less: Unamortized debt issuance costs	(9)	(8)
	1,971	1,782
Promissory notes from related parties		
4.410% Promissory note issued to the City of Vaughan	78	78
4.410% Promissory note issued to the City of Markham	68	68
4.410% Promissory note issued to the City of Barrie	20	20
	166	166
Total loans and borrowings	2,137	1,948
Less: Current portion of loans and borrowings	(150)	(110)
Long-term loans and borrowings	1,987	1,838

[1]Debentures issued are senior unsecured debentures.

The debentures rank pari passu with all of the Corporation's other senior unsubordinated and unsecured obligations. Interest expense on these debentures was $63 (2020 - $63).

The 4.521% debenture due 2021 was repaid during the year.

On February 11, 2021, the Corporation issued 1.751% senior unsecured debenture for $300 maturing in 2031 and incurred a debt issuance cost of $2.

The debentures are subject to financial covenants. These covenants require that neither the Corporation nor any designated subsidiary may incur any funded obligation (other than non-recourse debt and intercompany indebtedness) unless the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. The Corporation was in compliance with this covenant at December 31, 2021 and 2020.

The three promissory notes to the City of Vaughan, the City of Markham and the City of Barrie mature on May 31, 2024, and may be renewed for a twelve year term followed by two optional ten year extensions. The notes are subordinate to all unsecured debts, liabilities and obligations of the Corporation. Interest expense on these promissory notes was $7 (2020 - $7).

16. Employee Future Benefits

(a) Multi-employer defined benefit pension plan

The Corporation provides a pension plan for its employees, except those in UA and HPS, through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the Corporation and its employees. During the year ended December 31, 2021, the Corporation made employer contributions of $18 (2020 - $17) to OMERS. These contributions have been recognized as an expense net of the amount capitalized in assets. The expected payment for 2022 is $20.

As at December 31, 2020, and subject to the estimates, assumptions and valuations of OMERS, the plan obligations are 97% (2019 - 97%) funded by its assets. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions.

(b) Non-pension defined benefit plans

The Corporation, excluding UA and HPS, provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through group defined benefit plans. There are four defined benefit plans. Independent actuarial valuations of the plans were performed as at December 31, 2019. The group defined benefit plans as a whole provides benefits to eligible retirees of the Corporation.

Information about the group unfunded defined benefit plan and changes in the present value of the aggregate unfunded defined benefit obligation and the aggregate accrued benefit liability are as follows:

	2021	2020
Defined benefit obligation, beginning of period	105	95
Benefit cost recognized in net income:		
Current service costs	2	2
Interest expense	3	3
Benefit cost recognized in net income	5	5
Amounts recognized in other comprehensive income:		
Actuarial (gain) loss arising from changes in financial assumptions	(7)	7
Amounts recognized in other comprehensive income	(7)	7
Payments from the plans	(3)	(2)
Defined benefit obligation, end of year	100	105

The main actuarial assumptions underlying the valuation are as follows:

	2021	2020
Discount rate	3.10%	2.70%
Medical benefits costs escalation	4.43%	4.22%
Dental benefits costs escalation	4.71%	4.50%

16. Employee Future Benefits (continued)

(c) Sensitivity analysis

The approximate effect on the defined benefit obligation if the main actuarial assumptions underlying the valuation increased or decreased by:

	2021	2020
Discount rate		
1% increase	(13)	(15)
1% decrease	17	18
Medical and dental benefits costs escalation		
1% increase	13	13
1% decrease	(11)	(11)

17. Share Capital

The Corporation's authorized share capital is comprised of an unlimited number of Class A through G voting common shares, and an unlimited number of Class S non-voting shares, all of which are without nominal or par value as follows:

	2021		2020	
	Number of Shares	Amount	Number of Shares	Amount
Authorized				
Unlimited Class A through G common shares				
Issued and outstanding				
Class A common shares	2,149,000	206	2,149,000	206
Class B common shares	1,573,000	146	1,573,000	146
Class C common shares	878,000	74	878,000	74
Class D common shares	3,100,000	361	3,100,000	361
Class E common shares	1,815,000	91	1,815,000	91
Class F common shares	485,000	32	485,000	32
Class G common shares	485,000	43	485,000	43
Total common shares	10,485,000	953	10,485,000	953
Authorized				
Unlimited Class S shares				
Issued and paid				
Class S shares	99,999	41	99,999	43
Total share capital	10,584,999	994	10,584,999	996

An unlimited number of Class A through C special shares have been authorized but not issued.

17. Share Capital (continued)

Each class of shares relates to the common shares issued to each shareholder as follows:

- Class A common shares have been issued to Vaughan Holdings Inc.
- Class B common shares have been issued to Markham Enterprise Corporation
- Class C common shares have been issued to Barrie Hydro Holdings Inc.
- Class D common shares have been issued to Enersource Corporation
- Class E common shares have been issued to Hamilton Utilities Corporation
- Class F common shares have been issued to St Catharines Hydro Inc.
- Class G common shares have been issued to Guelph Municipal Holdings Inc.
- Class S non-voting common shares have been issued to Vaughan Holdings Inc., Markham Enterprise Corporation, and Barrie Hydro Holdings Inc.

During the year, the Board of Directors approved a return of capital to the Class S shareholders in the amount of $2 (2020 - $4) in accordance with the Alectra Dividend Policy incorporated as Schedule C to its Unanimous Shareholders' Agreement.

Dividends on the common shares and Class S shares of the Corporation may be approved by the Board of Directors through a resolution.

During the year, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating $75 or $7.15 per share (2020 - $80 or $7.60 per share); and
- Class S share dividends aggregating $2 or $16.24 per share (2020 - $2 or $25.32 per share).

The Class S dividends are subject to Part VI.1 tax under the *Income Tax Act (Canada)* at a rate of 25% based on the amount of dividend paid. The Corporation is also eligible for a corresponding deduction equal to a specified multiple of the dividend. The deduction does not fully offset the Part VI.1 tax, resulting in a net effective tax rate of 1.8% on the Class S share dividends to the former PowerStream Shareholders.

18. Lease Obligations

The Corporation leases many assets including properties for its various offices and operation centre, building rooftops for installing and operating solar panels projects, vehicles, and equipment. Property leases which include both land and building elements, of which the land portion does not qualify as a lease is not included in the lease liability. The Corporation expensed the land portion of the operations centre lease.

The Corporation has different lease terms and bargain purchase options at the end of lease term for different property leases. The Corporation has assessed that it is not likely to exercise the purchase options. For property and building rooftop leases that includes extension options, the Corporation has assessed that it is not likely to exercise these options and is not included in the lease liability.

The Corporation leases vehicles for qualifying employees with a standard lease term of 3 years. The Corporation does not purchase or guarantee the value of leased vehicles.

The Corporation also leases office equipment with lease term of 1 year with the option to renew the lease for an additional period of the same duration at the end of the contract term. The Corporation considers these leases to be short term in nature and therefore no RoU assets and lease obligations are recognized for these leases.

Refer to Note 9 for details on RoU assets.

The contractual undiscounted cash flows for lease obligations are as follows:

	2021	2020
Less than one year	7	5
Between one and five years	16	16
More than five years	22	26
Total undiscounted lease obligations	45	47

During the year, $3 (2020 - $4) was added to lease obligations related to the sale and leaseback transaction and $1 related to acquisition of HPS.

	2021	2020
Amounts recognized in the Statement of Income and Comprehensive Income		
Interest on lease obligations	2	2
Variable lease payments and non-lease components not included in the measurement of lease obligations	2	1

	2021	2020
Amounts recognized in the Statement of Cash Flows		
Payments for the principal portion included within financing activities	4	2
Payments for the interest portion included within financing activities	2	2
Variable lease payments included within operating activities	2	1
Total cash outflow for leases	8	5

19. Financial Instruments and Risk Management

(a) Fair value of financial instruments

The carrying amount of cash (including restricted cash), trade and other receivables, customer deposits, trade and other payables, short term debt and current portion of loans and borrowings approximates fair value because of the short maturity of these instruments. The fair value of the Corporation's long-term borrowings is $2,173 (2020 - $2,161).

		2021		2020	
	Maturity Date	Carrying Value[1]	Fair Value[2]	Carrying Value[1]	Fair Value[2]
Loans and borrowings					
Notes issued in 2002	2024	166	179	166	188
Debentures issued in 2010	2030	65	81	65	87
Debentures issued in 2011	2041	210	284	210	303
Debentures issued in 2012[3]	2022	—	—	150	158
Debentures issued in 2012	2042	200	233	200	249
Debentures issued in 2014	2024	150	157	150	165
Debentures issued in 2015	2045	30	36	30	38
Debentures issued in 2017	2027	675	696	675	735
Debentures issued in 2019	2049	200	220	200	238
Debentures issued in 2021	2031	300	287	—	—
Total loans and borrowings - long-term portion		1,996	2,173	1,846	2,161
Less: issuance costs		(9)	—	(8)	—
		1,987	2,173	1,838	2,161

1 The carrying value of long-term debt represents the par value of the promissory notes and debentures.

2 The fair value of long-term debt is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as Level 2.

3 In 2021, this debenture is classified as current portion of loans and borrowings.

(b) Financial risks

The risks associated with the Corporation's financial instruments and policies for managing these risks are described below:

(i) Credit risk

The Corporation's primary source of credit risk to its trade and other receivables results from customers failing to discharge their payment obligations for electricity consumed and billed, as they come due.

The carrying amount of trade and other receivables is reduced, to the extent deemed necessary by management's judgment, through the use of ECLs with the amount of such during the year recognized in net income. Subsequent recoveries of trade and other receivables previously recorded as impaired are credited to net income.

19. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(i) Credit risk (continued)

The Corporation considers current economic and credit conditions to determine the ECL allowance of its trade and other receivable balances. During the years ended December 31, 2021 and 2020, given the uncertainty caused by the COVID-19 pandemic, management revised the estimates and judgments used in the preparation of the ECL allowance on its trade and other receivable balances, which were subject to a higher degree of estimation uncertainty than would have existed before the COVID-19 pandemic. This includes disaggregating the customer base into commercial and residential customers and applying provision rates based on recent and evolving trends for customer collections and current and forecasted economic and other conditions. The Corporation has further segmented customers that are at a higher risk of payment default and have applied higher provision rates to their aged balances.

As at December 31, 2021 and 2020, there was no significant concentration of credit risk with respect to any financial assets.

Trade and other receivables and respective aging is provided as follows:

	Note	2021	2020
Trade receivables		365	328
Unbilled revenue		230	260
IESO receivable		—	33
Due from related parties	12	9	15
Other		9	9
		613	645
Less: expected credit losses		(45)	(51)
Total trade and other receivables, net		568	594

	2021	2020
Less than 30 days	523	566
30 - 60 days	27	16
61 - 90 days	10	8
Greater than 90 days	53	55
	613	645
Less: expected credit losses	(45)	(51)
Total trade and other receivables, net	568	594

19. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(i) Credit risk (continued)

	Expected credit losses
Balance, January 1, 2020	(33)
Additional provision	(28)
Write-offs	10
Balance, December 31, 2020	(51)
Additional provision	(21)
Write-offs	27
Balance, December 31, 2021	(45)

ECLs are sensitive to the inputs used in internally developed models, the macroeconomic variables in the forward-looking forecasts, and other factors considered when applying judgments. A 1% increase or decrease in these inputs, assumptions, and judgments would not have significant effect on the assessment of credit risk and the measurement of ECLs.

(ii) Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations (Note 16). The Corporation is also exposed to short term interest rate risk on short term debt under its credit facility and CP program (Note 13). The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments and taking action as necessary to maintain an appropriate balance.

As at December 31, 2021, in addition to the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short term debt under its CP Program and customer deposits liability, while most of its remaining obligations were either non-interest bearing or bearing fixed interest rates, and its financial assets were predominately short term in nature and primarily non-interest bearing (Notes 13 and 15).

The Corporation estimates that a 50 basis point increase in short term interest rates, with all other variables held constant, would result in an increase of approximately $1 to annual finance costs.

19. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(iii) Liquidity risk

Liquidity risk is the risk associated with the Corporation's inability to meet its financial obligations as they fall due. Liquidity risk associated with financial liabilities using undiscounted cash flows is as follows:

2021				
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	Total
Trade and other payables	466	—	—	466
Commercial paper issuance	195	—	—	195
Customer deposits liability	56	—	—	56
Other liabilities	72	29	—	101
3.033% Debentures due 2022	155	—	—	155
4.410% Promissory note due 2024	4	84	—	88
4.410% Promissory note due 2024	3	73	—	76
4.410% Promissory note due 2024	1	21	—	22
3.239% Debentures due 2024	5	160	—	165
2.488% Debentures due 2027	17	67	683	767
5.264% Debentures due 2030	3	14	79	96
1.751% Debentures due 2031	5	21	324	350
5.297% Debentures due 2041	11	44	371	426
3.958% Debentures due 2042	8	32	327	367
4.121% Debentures due 2045	1	5	53	59
3.458% Debentures due 2049	7	27	356	390
Lease obligations	7	16	22	45
	1,016	593	2,215	3,824

The balances for loans and borrowings include both principal and interest.

19. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(iii) Liquidity risk (continued)

2020				
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	Total
Trade and other payables	433	—	—	433
Commercial paper issuance	415	—	—	415
Customer deposits liability	57	—	—	57
Other liabilities	45	19	—	64
4.521% Debentures due 2021	113	—	—	113
3.033% Debentures due 2022	5	154	—	159
4.410% Promissory note due 2024	3	87	—	90
4.410% Promissory note due 2024	3	76	—	79
4.410% Promissory note due 2024	1	22	—	23
3.239% Debentures due 2024	5	165	—	170
2.488% Debentures due 2027	17	67	700	784
5.264% Debentures due 2030	3	14	82	99
5.297% Debentures due 2041	11	44	383	438
3.958% Debentures due 2042	8	32	334	374
4.121% Debentures due 2045	1	5	54	60
3.458% Debentures due 2049	7	28	363	398
Lease obligations	5	16	26	47
	1,132	729	1,942	3,803

The balances for loans and borrowings include both principal and interest.

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet its operational and investment requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest rate exposure and cost. The Corporation monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial obligations as they come due. The Corporation has the following sources of liquidity under which it may access financial capital from time to time:

- $900 in aggregate revolving unsecured credit facilities comprising: (i) $700 committed revolving facility with four banks maturing August 31, 2026 ("Revolving Facility"); (ii) $100 uncommitted facility with a bank which is callable by the bank; and (iii) an additional credit facility to support Letters of Credit of up to $100.
- The committed facility is also used to support outstanding commitments under the CP program by way of same day market rate advances.
- Issuance of senior unsecured debentures with various maturity dates under established Trust Indentures.

19. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(iii) Liquidity risk (continued)

In response to possible liquidity constraints resulting from the COVID-19 pandemic, the Corporation implemented the following measures: (i) increased the committed credit facilities from $500 to $700 with a $100 extension option subject to mutual agreement; (ii) added two banks to the committed facility; (iii) extended the committed facility to August 2026; and (iv) increased the commercial paper program from a maximum of $300 to $500. These measures provided the Corporation with ample liquidity and short term debt at favourable market rates.

(iv) *Currency Risk*

The Corporation's transactions are mainly carried out in $CAD which is the functional currency of the Corporation. Exposure to currency exchange risk arises from bank accounts and the investment in associate which are designated in $USD and where there is a mismatch between the currencies in which revenue, purchases, receivables, payables and cash balances are denominated in the functional currency of the Corporation. To mitigate the Corporation's exposure to foreign currency risk, non-$CAD cash flows are monitored in accordance with the Corporation's risk management policies.

A 1% increase or decrease in the $USD to $CAD exchange rate would not have a significant impact on the Corporation's financial statements.

20. Capital Structure

The main objectives of the Corporation when managing financial capital are to:

- ensure ongoing cost effective access and to provide adequate investment in support of its regulated electricity distribution and other businesses;
- comply with covenants within its financial instruments;
- prudently manage its capital structure, as it relates to maintaining a high level of creditworthiness;
- recover financing charges permitted by the OEB on its regulated electricity distribution business; and
- deliver reasonable returns on the investments of its shareholders.

The Corporation's definition of capital includes: shareholders' equity; short term debt; and long-term loans and borrowings, which includes the current portion of long term loans and borrowings.

The OEB regulates the amount of interest on debt and MARE that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Corporation may differ from the OEB deemed structure.

The Corporation has customary covenants associated with long-term loans and borrowings. The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term loans and borrowings (Note 15).

21. Operating Expenses

	2021	2020
Labour	201	174
Contract and consulting	56	52
Office expenses	25	23
Provision for ECL	21	28
Repairs and maintenance	20	14
Information and technology	15	14
Business taxes and fees	9	10
Facility expenses	5	5
Other	7	8
	359	328

22. Other Revenue

	2021	2020
Power restoration and industrial services	61	—
Consulting	19	21
Solar generation	16	17
Regulatory service charges	16	10
Amortized deferred revenue	14	12
Sub-metering and metering services	12	10
CDM performance incentive revenue	12	—
Water and waste water billing and customer charges	11	11
Street lighting	9	23
Pole and other rental income	7	7
Other	6	4
	183	115

23. Deferred Revenue

	Note	2021	2020
Deferred revenue, beginning of year		494	421
Capital contributions received		72	85
Amortization	22	(14)	(12)
Deferred revenue, end of year		552	494
Less: Current portion of deferred revenue		17	15
Non-current portion of deferred revenue		535	479

24. Income Taxes

(a) Income tax expense

Income tax recognized in net income comprise the following:

	2021	2020
Current tax expense	18	6
Deferred tax expense	18	22
Income tax expense	36	28

Income taxes paid and refunded during the year were $9 (2020 - $5) and $nil (2020 - $4) respectively.

(b) Reconciliation of effective tax rate

Income tax expense differs from the amount that would have been recorded using the combined Canadian federal and provincial statutory income tax rates. The reconciliation between the statutory and effective tax rates is as follows:

	2021	2020
Income before taxes	141	107
Statutory Canadian federal and provincial income tax rates	26.5 %	26.5 %
Expected tax provision on income at statutory rates	37	28
Decrease in income taxes resulting from:		
Permanent differences	(3)	—
Adjustments in respect of prior years	1	—
Deferred tax assets write-down	1	—
Total income tax expense	36	28
Effective income tax rate	26.0 %	25.9 %

The statutory income tax rate for the current year comprises a combined 15% (2020 - 15%) federal corporate tax rate and 11.5% (2020 - 11.5%) Ontario corporate tax rate.

24. Income Taxes (continued)

(c) Deferred tax balances

The net deferred tax assets and liabilities consist of the following:

	2021	2020
Deferred tax assets		
Non-capital loss carryforwards	5	7
Non-deductible reserves	1	1
PP&E and intangible assets	(4)	(3)
Debt issuance costs	—	(2)
	2	3
Deferred tax liabilities		
PP&E and intangible assets	153	120
Debt issuance cost	2	—
Non-capital loss carryforwards	(3)	(2)
Tax credit carryovers	(7)	(12)
Non-deductible reserves	(4)	(2)
Energy variances	(18)	(8)
Employee future benefits	(26)	(28)
	97	68

25. Net Change in Non-cash Operating Working Capital

	2021	2020
Trade and other receivables	74	(41)
Trade and other payables	32	18
Other liabilities	9	(3)
Customer deposits liability	(1)	(12)
Inventories	(3)	(2)
	111	(40)

Reconciliation between the amounts presented on the statement of cash flows and total additions to PP&E and intangible assets:

	Note	2021	2020
Purchase of PP&E, cash basis		378	343
Accruals		(6)	(2)
Total additions to PP&E	8	372	341

26. Commitments, Contingencies, and Guarantees

(a) Commitments

(i) Leases

Lease commitments have been disclosed in Note 18.

(ii) Security with IESO

Entities that purchase electricity in Ontario through the IESO are required to post security to mitigate its risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation fails to make the payment required on a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of $33 (2020 - $33).

(b) Contingencies

(i) Legal claims

The Corporation is subject to legal actions and claims in the normal course of business from customers, former employees, and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual claim. Such provisions are subject to change based on ongoing assessments or settlements of individual claims, including potential mitigation under the Corporation's insurance policies or otherwise.

(ii) Insurance

The Corporation, excluding HPS, is a member of a reciprocal insurance exchange. The reciprocal insurance exchange is a pooling of electricity industry liability insurance risks of many of the sector participants in Ontario. All members of the pool are subject to assessment for losses experienced by the pool, for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to five years. HPS is insured through a separate insurer. As at December 31, 2021, no assessments have been made.

(iii) Earnout payments

The Corporation is required to make earnout payments with respect to its acquisition of HPSI. The contingent consideration is dependent on exceeding an agreed upon target earnings level for the year ending 2022. The fair value of the contingent consideration recognized on the acquisition date was determined using the Monte Carlo Simulation approach for estimating earnings. The distribution of earning was determined to follow the Geometric Brownian Motion model. The contingent consideration is measured at fair value at each reporting date and changes in fair value are recognized through profit and loss.

The fair value of the contingent consideration is based on the estimation of future EBITDA using the historic information, relevant market variables and payment date outlined in the business acquisition agreement. As at December 31, 2021, the Corporation estimated the fair value of the contingent consideration at $4 (2020 - $nil) which is included in other liabilities (note 14) on the consolidated statement of financial position. The change in the estimated fair value of $3 (2020 - $nil) is recognized as a change in fair value of contingent consideration on the consolidated statement of income and comprehensive income.

26. Commitments, Contingencies, and Guarantees (continued)

(c) Guarantees

In the normal course of operations, the Corporation enters into agreements that meet the definition of a guarantee as follows:

(i) The Corporation has provided indemnities under lease agreements for the use of certain operating facilities. Under the terms of these agreements, the Corporation agrees to indemnify the counterparties for various matters including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(ii) The Corporation has agreed to indemnify the directors and/or officers of the Corporation for various matters including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The indemnified period is not explicitly defined, but it is limited to the period over which the indemnified party served as a director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.

(iii) In the normal course of business, the Corporation has entered into agreements that include indemnities in favour of counterparties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisor's and consultants, outsourcing agreements, leasing contracts, information technology agreements, and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for certain losses incurred by the counterparties as a result of breaches of agreements such as breaches of representation or regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which results from the unpredictability of future events. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and, consequently no provision has been made in the Statement of Financial Position with respect to these agreements. The Corporation is unaware of any breaches that would result in an indemnity claim against it.

27. Divisional and Regulatory Information

Alectra Inc., through its subsidiaries, consists primarily of two operating divisions: regulated operations and competitive operations. Regulated operations are comprised of Alectra Utilities. Competitive operations are comprised of: RFSP; Solar Sunbelt; Eastview Landfill Gas Energy Plant; the Southgate Solar Photovoltaic Facility; Stone Road Mall Electric Vehicle Charging Station; and AES including its subsidiaries.

The designation of activities to the two operating divisions is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the divisions are consistent with those described in the summary of significant accounting policies.

Financial information that adjusts IFRS results to show the effect of rate regulation is used by the Corporation's Board of Directors, shareholders, the OEB, as well as management.

27. Divisional and Regulatory Information (continued)

	2021			
	Regulated	Adjustment for regulated activities	Competitive activities	Total
Revenue				
Distribution revenue	587	41	—	628
Electricity sales	3,092	(69)	—	3,023
Other revenue	57	16	110	183
Total revenue	**3,736**	**(12)**	**110**	**3,834**
Expenses				
Cost of power	3,092	—	—	3,092
Operating expenses	277	—	82	359
Depreciation and amortization	151	15	16	182
Total expenses	**3,520**	**15**	**98**	**3,633**
Income from operating activities	**216**	**(27)**	**12**	**201**
Finance income	1	(1)	—	—
Finance costs	70	—	4	74
Net finance costs	**69**	**1**	**4**	**74**
Gain on derecognition of property, plant, and equipment	12	(1)	—	11
Gain on fair value of contingent liability	**—**	**—**	**3**	**3**
Income before income tax	**159**	**(29)**	**11**	**141**
Income tax expense	18	14	4	36
Net income	**141**	**(43)**	**7**	**105**
Other comprehensive income				
Reclassification to net income, loss on bond forward	—	—	2	2
Remeasurement of defined benefit obligation	4	3	—	7
Tax impact on remeasurement of defined benefit obligation	—	(2)	—	(2)
Total other comprehensive income	**4**	**1**	**2**	**7**
Total comprehensive income	**145**	**(42)**	**9**	**112**

27. Divisional and Regulatory Information (continued)

2020				
	Regulated	Adjustment for regulated activities	Competitive activities	Total
Revenue				
Distribution revenue	570	(11)	—	559
Electricity sales	3,489	(1)	—	3,488
Other revenue	34	14	67	115
Total revenue	**4,093**	**2**	**67**	**4,162**
Expenses				
Cost of power	3,489	—	—	3,489
Operating expenses	278	5	45	328
Depreciation and amortization	142	12	11	165
Total expenses	**3,909**	**17**	**56**	**3,982**
Income from operating activities	**184**	**(15)**	**11**	**180**
Finance income	2	(2)	1	1
Finance costs	74	(1)	2	75
Net finance costs	**72**	**1**	**1**	**74**
Gain on derecognition of property, plant, and equipment	1	—	—	1
Income before income tax	**113**	**(16)**	**10**	**107**
Income tax (recovery) expense	(3)	28	3	28
Net income	**116**	**(44)**	**7**	**79**
Other comprehensive loss				
Reclassification to net income, loss on bond forward	—	—	2	2
Remeasurement of defined benefit obligation	(5)	(2)	—	(7)
Tax impact on remeasurement of defined benefit obligation	—	2	(1)	1
Total other comprehensive loss	**(5)**	**—**	**1**	**(4)**
Total comprehensive income	**111**	**(44)**	**8**	**75**

27. Divisional and Regulatory Information (continued)

	2021			
	Regulated	Adjustment for regulated activities	Competitive activities	Total
Assets				
Current assets				
Cash	—	—	32	32
Restricted cash	—	—	5	5
Trade and other receivables	524	—	44	568
Inventories	33	—	1	34
Other assets	14	—	4	18
Total current assets	**571**	**—**	**86**	**657**
Non-current assets				
Property, plant, and equipment	3,076	563	141	3,780
Right of use assets	13	—	14	27
Goodwill and other intangible assets	949	5	82	1,036
Investment in associate	—	—	6	6
Regulatory assets	293	(293)	—	—
Deferred tax asset	—	—	2	2
Other assets	4	—	(4)	—
Total non-current assets	**4,335**	**275**	**241**	**4,851**
Total assets	**4,906**	**275**	**327**	**5,508**
Liabilities and Shareholders' Equity				
Current liabilities				
Bank indebtedness	3	—	(3)	—
Trade and other payables	449	—	17	466
Customer deposits liability	56	—	—	56
Short term debt	170	—	25	195
Loans and borrowings	150	—	—	150
Lease obligations	4	—	2	6
Deferred revenue	—	17	—	17
Other liabilities	64	—	8	72
Total current liabilities	**896**	**17**	**49**	**962**
Non-current liabilities				
Loans and borrowings	1,808	—	179	1,987
Deferred revenue	—	535	—	535
Employee future benefits	100	—	—	100
Lease obligations	15	—	14	29
Regulatory liabilities	56	(56)	—	—
Deferred tax liabilities	119	(48)	26	97
Other long-term liabilities	22	—	7	29
Total non-current liabilities	**2,120**	**431**	**226**	**2,777**
Total liabilities	**3,016**	**448**	**275**	**3,739**
Shareholders' equity				
Share capital	683	—	311	994
Contributed surplus	839	(13)	(227)	599
Accumulated other comprehensive loss	(14)	1	(7)	(20)
Retained earnings	382	(161)	(25)	196
Total shareholders' equity	**1,890**	**(173)**	**52**	**1,769**
Total liabilities and shareholders' equity	**4,906**	**275**	**327**	**5,508**

27. Divisional and Regulatory Information (continued)

	2020			
	Regulated	Adjustment for regulated activities	Competitive activities	Total
Assets				
Current assets				
Cash	17	—	9	26
Restricted cash	—	—	80	80
Trade and other receivables	584	—	10	594
Inventories	30	—	1	31
Other assets	17	—	2	19
Total current assets	**648**	**—**	**102**	**750**
Non-current assets				
Property, plant, and equipment	2,961	498	112	3,571
Right of use assets	15	—	14	29
Goodwill and other intangible assets	952	5	39	996
Investment in associate	—	—	6	6
Regulatory assets	231	(231)	—	—
Deferred tax asset	—	—	3	3
Other assets	4	—	(4)	—
Total non-current assets	**4,163**	**272**	**170**	**4,605**
Total assets	**4,811**	**272**	**272**	**5,355**
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	424	—	9	433
Customer deposits liability	57	—	—	57
Short term debt	318	—	97	415
Loans and borrowings	110	—	—	110
Lease obligations	3	—	1	4
Deferred revenue	—	15	—	15
Other liabilities	42	—	3	45
Total current liabilities	**954**	**15**	**110**	**1,079**
Non-current liabilities				
Loans and borrowings	1,757	—	81	1,838
Deferred revenue	—	479	—	479
Employee future benefits	105	—	—	105
Lease obligations	16	—	15	31
Regulatory liabilities	56	(56)	—	—
Deferred tax liabilities	83	(32)	17	68
Other long-term liabilities	19	—	—	19
Total non-current liabilities	**2,036**	**391**	**113**	**2,540**
Total liabilities	**2,990**	**406**	**223**	**3,619**
Shareholders' equity				
Share capital	682	—	314	996
Contributed surplus	839	(13)	(227)	599
Accumulated other comprehensive loss	(18)	—	(9)	(27)
Retained earnings	315	(118)	(29)	168
Total shareholders' equity	**1,818**	**(131)**	**49**	**1,736**
Total liabilities and shareholders' equity	**4,808**	**275**	**272**	**5,355**

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27. Divisional and Regulatory Information (continued)

Alectra Utilities derecognizes all rate-regulated debit and credit balances that do not qualify for recognition under IFRS. The table below presents a summary of rate-regulated debit and credit balances as prescribed by the OEB irrespective of their recognition under IFRS.

	2021	2020
Regulatory Deferral Debit Balances		
Deferred income tax asset[m]	147	116
Retail settlement variance accounts (RSVA's)[a]	84	59
Lost revenues adjustment mechanism variance account (LRAMVA)[b]	25	25
Large commercial interval meter recovery[d]	14	10
OEB cost assessments deferral[g]	7	6
Collection of account lost revenue[k]	6	3
Re-measurements of post-employment benefits[f]	4	6
Renewable generation capital and operating cost deferral[c]	4	3
Other[e]	2	3
	293	**231**
Regulatory Deferral Credit Balances		
PILs and tax variance[l]	22	15
Retail settlement variance accounts (RSVA's)[a]	15	26
Capitalization policy[h]	9	5
Pole rental variance account[j]	8	6
Net refund of regulatory balances	—	2
Other[h,i]	2	2
	56	**56**

(a) The most significant regulatory activities included in the regulatory adjustments are: retail settlement variances; the difference between the cost of the electricity commodity and the sales revenue at the OEB allowed rates. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. Under regulatory accounting, Alectra Utilities would have adjusted net income for net changes in regulatory movement on Consolidated Statement of Income for these variances with corresponding assets or liabilities. Under IFRS, Alectra Utilities recognizes these differences in future periods as an increase or decrease to distribution revenue, when these differences are settled with customers.

(b) The OEB approved a variance account to record revenues associated with the delivery of CDM programs. The variance account tracks the difference between the results of actual, verified impacts of CDM activities and the level of CDM program activities included in a distributor's load forecast. Under IFRS, Alectra Utilities recognizes this difference in future periods as an increase or decrease to distribution revenue, when this difference is settled with customers.

27. Divisional and Regulatory Information (continued)

(c) The OEB approved four deferral accounts to record qualifying incremental capital investments, operating, maintenance and administration expenses, and funding adders approved by the OEB related to the connection of renewable generation or the development of smart grid. Under IFRS, Alectra Utilities capitalizes or expenses these items as incurred and recognizes revenue when funding is received.

(d) The OEB approved a deferral account to record costs associated with replacing interval meters for its large commercial customers in order to meet amendments made to its Distribution System Code. Under IFRS, Alectra Utilities capitalizes or expenses the amounts in the period they were incurred.

(e) The OEB requires Alectra Utilities to accrue interest on regulatory assets and liabilities balances. Under IFRS, Alectra Utilities recognizes the net interest on these balances in future periods as an increase or decrease to distribution revenue once approved for recovery or refund by the OEB.

(f) The OEB approved a deferral account to record any re-measurements of the post-employment net defined liability including actuarial gains or losses. Under IFRS, Alectra Utilities recognizes any re-measurements of the post-employment net defined liability in other comprehensive income.

(g) The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates and cost assessments that will result from the application of a new cost assessment model effective April 1, 2016. Under IFRS, Alectra Utilities recognizes these costs under operating expenses in the period they were incurred.

(h) The OEB approved four variance accounts to record the cumulative difference between the PP&E calculated using pre-merger capitalization policies and the PP&E calculated using Alectra Utilities' capitalization policy. Under IFRS, Alectra Utilities recognizes these differences as an increase or decrease to distribution revenue and will recover or refund these differences through future distribution rates.

(i) The OEB requires Alectra Utilities to record eligible incremental capital investments subject to the assets being used and useful, accumulated amortization and revenues collected through rate riders related to incremental capital projects approved by the OEB. Under IFRS, Alectra Utilities capitalizes or expenses these items as incurred and recognizes revenue in the period it was earned.

(j) The OEB approved a new pole attachment revenue variance account to record the difference between pole attachment revenue at the prior rate of $22.35 per pole, and pole attachment revenue based on the new pole attachment charge effective January 1, 2021, of $44.50. Under IFRS, Alectra Utilities recognizes the revenue based on the effective rate in the period the revenue was earned.

(k) The OEB approved a deferral account to record the lost revenues related to the administration of the Collection of Account charge. In 2020, the OEB mandated that collection of account charges are part of normal business activities where customers are not to be charged. However, as the associated revenue was factored into the rate-setting process the established deferral account allows Alectra Utilities to record the lost revenues for recovery through future distribution rates.

(l) The OEB requires utilities to record the impact of any differences that result from a legislative or regulatory change to the tax rates or rules that are not incorporated in the distributor’s rates. On June 21, 2019, Bill C-97, the Budget Implementation Act, 2019, No. 1, was given Royal Assent, which introduced the Accelerated Investment Incentive (“AII”) program. This program provides for a first-year increase in capital cost allowance deductions on eligible capital assets acquired after November 20, 2018. Alectra Utilities has recorded the revenue related to the AII program to be refunded through future distribution rates.

27. Divisional and Regulatory Information (continued)

(m) Deferred tax assets and liabilities, which represent temporary differences between accounting and tax basis, are recovered or settled in future rate applications when the temporary differences reverses. The regulatory deferred tax asset represents the expected future electricity distribution rate impact to customers arising from the future reversal of the deferred tax liability (Note 24). Under IFRS, the temporary differences that generate the deferred tax liability are recorded as income tax expense and not as a regulatory deferred tax asset.

(n) On March 25, 2020, the OEB established a deferral account for distributors to track incremental costs and lost revenues arising from the COVID-19 pandemic. On June 17, 2021, the OEB issued the *Report of the Ontario Energy Board: Regulatory Treatment of Impacts Arising from the COVID-19 Emergency* (the "Report"). In the Report, the OEB determined that recovery of any balances recorded in the Account should be subject to evidence that any costs arising from the COVID-19 pandemic are reasonable and necessary for the utility to maintain its opportunity to earn a fair return over the long run. The Report outlines two categories of costs eligible for recovery: an "Exceptional Pool", at 100% recovery rate; and a "Discretionary Pool", at 50% recovery rate. The Exceptional Pool of costs are defined as any prudently incurred and material costs necessary to comply with government or OEB actions or orders. This relief may be sought if utilities have not earned greater than 300 basis points ("bps") over the regulated Return on Equity ("ROE"). For all other costs (i.e., the Discretionary Pool), a 'means' test based on a utility's achieved ROE compared to the OEB-approved ROE less 300 bps will be used to measure the need for cost recovery. Costs eligible for future recovery may include incremental bad debt expense, late payment charges waived and expenses incurred on various COVID-19 relief programs. Alectra Utilities has not deferred any incremental costs or lost revenues arising from the COVID-19 pandemic due to the uncertainty of recovery. The recovery of any potential COVID-19 pandemic related impacts may be included in a future rate application.

Future regulatory accounting treatments prescribed by the OEB and government policy changes may affect the electricity distribution rates charged and recoverable costs permitted by the OEB. Therefore, there is a risk that the timing and amount of recovery or settlement of amounts included in the adjustment for regulatory activities could be significantly different from the amounts that are eventually recovered or settled through distribution rates in the future.