Consolidated Financial Statements
(In millions of Canadian dollars)

ALECTRA INC.

Year ended December 31, 2020

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, 2020
- 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, 2020, 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.

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 International Financial Reporting Standards (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 5, 2021

ALECTRA INC.
Consolidated Statement of Financial Position
(in millions of Canadian dollars)
as at December 31, 2020 and 2019

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	Notes	2020	2019
Assets			
Current assets			
Cash		21	29
Restricted cash	8	80	1
Accounts receivable	20	579	535
Inventories		31	29
Due from related parties	13	15	16
Other assets		19	15
Total current assets		**745**	**625**
Non-current assets			
Property, plant, and equipment	9	3,571	3,402
Right of use assets	10	29	28
Goodwill and other intangible assets	11	996	998
Investment in associate		6	—
Deferred tax asset	25	3	3
Total non-current assets		**4,605**	**4,431**
Total assets		**5,350**	**5,056**
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	12	384	374
Customer deposits liability		62	74
Short term debt	14	415	180
Current portion of loans and borrowings	16	110	40
Current portion of lease obligations	19	4	2
Due to related parties	13	44	39
Other liabilities	15	41	41
Total current liabilities		**1,060**	**750**
Non-current liabilities			
Loans and borrowings	16	1,838	1,947
Deferred revenue	24	494	421
Employee future benefits	17	105	95
Lease obligations	19	31	31
Deferred tax liabilities	25	68	48
Other long-term liabilities	15	18	17
Total non-current liabilities		**2,554**	**2,559**
Total liabilities		**3,614**	**3,309**
Shareholders' equity			
Share capital	18	996	1,000
Contributed surplus		599	599
Accumulated other comprehensive loss		(27)	(23)
Retained earnings		168	171
Total shareholders' equity		**1,736**	**1,747**
Total liabilities and shareholders' equity		**5,350**	**5,056**

See accompanying notes to 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, 2020 and 2019

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	Notes	2020	2019
Revenue			
Distribution revenue		559	544
Electricity sales		3,488	3,138
Other revenue	23	115	97
Total revenue		**4,162**	**3,779**
Expenses			
Cost of power		3,489	3,167
Operating expenses	22	328	296
Depreciation and amortization	9,10,11	165	158
Gain on derecognition of property, plant, and equipment		(1)	—
Total expenses		**3,981**	**3,621**
Income from operating activities		**181**	**158**
Finance income		1	1
Finance costs		75	75
Net finance costs		**74**	**74**
Income before income taxes		**107**	**84**
Income tax expense	25	28	20
Net income		**79**	**64**
Other comprehensive loss			
Items that may be subsequently reclassified to income			
Reclassification to net income, loss on bond forward		2	1
Items that will not be subsequently reclassified to income			
Remeasurement of defined benefit obligation	17	(7)	(21)
Tax impact on remeasurement of defined benefit obligation		1	5
Total other comprehensive loss		**(4)**	**(15)**
Total comprehensive income		**75**	**49**

See accompanying notes to consolidated financial statements.

ALECTRA INC.
Consolidated Statement of Changes in Equity
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance, January 1, 2019		961	544	(8)	192	1,689
Net income		—	—	—	64	64
Other comprehensive loss		—	—	(15)	—	(15)
Return of capital	18	(4)	—	—	—	(4)
Issuance of shares related to the GHESI amalgamation	7, 18	43	55	—	—	98
Dividends paid	18	—	—	—	(85)	(85)
Balance, December 31, 2019		**1,000**	**599**	**(23)**	**171**	**1,747**
Net income		—	—	—	79	79
Other comprehensive loss		—	—	(4)	—	(4)
Return of capital	18	(4)	—	—	—	(4)
Dividends paid	18	—	—	—	(82)	(82)
Balance, December 31, 2020		**996**	**599**	**(27)**	**168**	**1,736**

See accompanying notes to consolidated financial statements.

ALECTRA INC.
Consolidated Statement of Cash Flows
(in millions of Canadian dollars)
for the years ended December 31, 2020 and 2019

	Notes	2020	2019
Cash provided by (used in)			
Operating activities			
Net income		79	64
Add (deduct) non-cash items:			
Depreciation of property, plant, and equipment	9	140	134
Depreciation of right of use assets	10	3	4
Amortization of intangible assets	11	22	20
Amortization of deferred revenue	24	(12)	(11)
Gain on derecognition of property, plant and equipment		(1)	—
Income tax expense	25	28	20
Net finance costs		74	74
Contributions received from customers	24	85	46
Net change in non-cash operating working capital	26	(45)	33
Net change in non-current assets and liabilities		7	5
Decrease in restricted cash	8	1	2
Cash generated from operating activities		**381**	**391**
Income taxes paid	25	(5)	(6)
Income taxes refunded	25	4	21
Cash provided by operating activities		**380**	**406**
Investing activities			
Increase in restricted cash	8	(80)	—
Net cash consideration for investment in associate		(7)	—
Purchase of intangible assets	26	(20)	(37)
Proceeds from disposal of property, plant, and equipment		33	17
Purchase of property, plant, and equipment	26	(343)	(343)
Cash used in investing activities		**(417)**	**(363)**
Financing activities			
Increase (decrease) in short-term debt	14	235	(70)
Repayment of long-term loans and borrowings	16	(40)	—
Increase in long-term loans and borrowings, net of debt issuance costs	16	—	199
Repayment of lease obligations	19	(2)	(2)
Other long-term liabilities		—	6
Interest received		1	—
Interest paid		(79)	(74)
Return of capital	18	(4)	(4)
Dividends paid	18	(82)	(85)
Cash provided by (used in) financing activities		**29**	**(30)**
Net cash (outflow) inflow		**(8)**	**13**
Cash, beginning of year		**29**	**16**
Cash, end of year		**21**	**29**

See accompanying notes to 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"). Refer to Note 7.

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 two subsidiaries: Util-Assist Inc. ("UA"); and Alectra Microgrid Services Project (Georgian) Limited Partnership ("AMSP").

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 - wholesale metering and sub-metering services for condominium and commercial properties;
- APSI - street lighting services including design, construction, and maintenance;
- UA - consulting services with respect to: customer information systems implementation; sync operation services; conservation initiatives; an outage management call centre under the name PowerAssist; and other smart grid applications; and
- AMSP - energy management services partnership which installs, owns and operates an industrial energy storage battery with Georgian College.

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 5, 2021.

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.

(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.

Judgments included in these 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.

2. Basis of Preparation (continued)

(c) Use of estimates and judgments (continued)

Judgments and estimates are often interrelated. The areas which require management to make significant estimates and judgments in determining carrying values include: unbilled revenue; useful lives of depreciable assets; valuation of financial instruments; employee future benefits; expected credit losses; provisions and contingencies and impairment of goodwill and cash generating units. Refer to the relevant section within the significant accounting policies note for details on estimates and judgments (Note 5).

The assessment of the duration and severity of the developments related to the COVID-19 pandemic is subject to significant uncertainty. Such uncertainty could generate, in future periods, a risk of adjustments to the carrying amounts of balances subject to estimates and judgments.

(d) 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). 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 Statement of Income and Comprehensive Income.

Accounts receivable and cash balances denominated in foreign currency are translated using year-end exchange rates. Gains or losses on Investment in associate is translated using the average rate for the year. Any gain or loss on translation is recognized in the Statement of Income and Comprehensive Income.

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 28).

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the OEB powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or fixing rates for the transmission and distribution of electricity; providing continued rate protection for rural and remote residential electricity consumers; and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as Alectra Utilities, which may include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct business; and filing and process requirements for rate setting purposes.

3. Regulation (continued)

(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 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 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").

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.

3. Regulation (continued)

(b) Rate Applications

2020 Rate Application

On May 28, 2019, Alectra Utilities filed an application for all four predecessor utilities (rate zones) for the approval of 2020 electricity distribution rates, effective January 1, 2020 to December 31, 2020. As part of the application, Alectra Utilities filed its first integrated five-year Distribution System Plan ("DSP") for its entire service area. Alectra Utilities requested approval for incremental capital funding for each of the five years related to the DSP, based on a rate-adjustment mechanism that reconciles the capital needs set out in the DSP with the capital-related revenue in rates. On December 12, 2019, the OEB issued its Partial Decision and Interim Rate Order on the Price Cap IR elements of the application, approving distribution rates on an interim basis effective January 1, 2020. On January 30, 2020, the OEB issued its Partial Decision and Order on Alectra Utilities' request for incremental capital funding. The OEB denied Alectra Utilities' multi-year incremental capital funding proposal but offered options for Alectra Utilities to refile under its ICM rate setting mechanism on a single or multi-year basis. On April 14, 2020, Alectra Utilities filed a letter with the OEB stating that it would not be seeking incremental funding for 2020 and requested that its 2020 rate order be made final. On April 23, 2020, the OEB issued its Final Rate Order on the 2020 application.

The following rate changes were effective as of the implementation dates:

- 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 9 cents or 0.35%;
- Brampton Hydro 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 43 cents or 1.75%;
- PowerStream 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 35 cents or 1.21%;
- 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 46 cents or 1.80%; 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 20 cents or 0.68%.

3. Regulation (continued)

(c) Select Energy Policies and Regulation Affecting the Corporation

The COVID-19 Pandemic Response

On March 17, 2020, the Government of Ontario declared a province-wide state of emergency ("State of Emergency"), to protect the public and to help contain the spread of the COVID-19 pandemic. Both the provincial government and the OEB introduced certain measures throughout the year to assist electricity consumers in dealing with the financial impact of the COVID-19 pandemic. The measures include the following:

Government of Ontario Initiatives and Programs:

- Changes to Pricing for Time of Use (“TOU”) Customers – At the time of the issuance of the State of Emergency the Ontario government suspended TOU rates and introduced a single rate of electricity fixed at 10.1 cents per kWh, from March 24, 2020 until May 31, 2020. Subsequently, the government announced the replacement of that rate with a new fixed COVID-19 Recovery Rate of 12.8 cents per kWh for residential and small business customers. This rate was applicable from June 1 until October 31, 2020. As of November 1, 2020, the Province suspended their fixed rate pricing and the OEB reinstituted TOU billing rates of: 10.5 cents per kWh for off peak consumption; 15.0 cents per kWh for mid-peak consumption; and 21.7 cents per kWh for on peak consumption.

- Changes to the Industrial Conservation Initiative (“ICI”) Program Eligibility – On May 29, 2020, the Ontario government amended its Global Adjustment (“GA”) Regulation to introduce flexibility for large commercial and industrial customers (“Class A” customers) to qualify for the ICI Program. Eligibility for Class A for a 12-month “adjustment period”, that begins every July 1, is normally determined by assessing the customer’s average monthly peak demand during the 12-month “base period” ending on the prior April 30th date. The amendments introduced flexibility for the adjustment period commencing on July 1, 2020 for eligible consumers or market participants. Consumers or market participants that did not qualify based on their average monthly peak demand during the May 1, 2019 to April 30, 2020 base period nevertheless qualified for Class A for the adjustment period commencing July 1, 2020 if they would have otherwise met the applicable threshold had the base period ended on February 29, 2020. Class A customers will also maintain their peak demand factor from the 2019-2020 period to determine their global adjustment charges for the 2021-22 program.

- COVID-19 Energy Assistance Program (“CEAP”) and CEAP for Small Business (“CEAP-SB”) – The CEAP is an initiative by the Ontario government to make $9 in funding available to support residential customers struggling to pay their energy bills as a result of the COVID-19 pandemic. On June 16, 2020, the OEB issued a Decision and Order to amend the licenses of distributors to implement the CEAP requirements. The allocation of funding was based on customer count for utilities across the province, resulting in approximately $1 in funding available for Alectra Utilities customers. A similar program targeted at small businesses allocated $8 in funding to utilities in proportion to the number of small businesses within their service area, resulting in approximately $1 allocated for Alectra’s small business customers. The program targets GS<50 kW customers that use less than 150,000 kWh, annually.

3. Regulation (continued)

(c) Select Energy Policies and Regulation Affecting the Corporation (continued)

Ontario Energy Board Initiatives and Consultation:

- Disconnections Moratorium – The OEB extended the disconnections moratorium for residential customers and expanded the moratorium to also include other low-volume consumers (defined as customers with annual consumption below 150,000 kWh) to include GS<50kW or small commercial customers. The disconnection ban, which generally commences on November 15 in each year and ends on April 30 in the following year, was extended until July 31, 2020.
- Customer Assistance – The OEB declared that distributors may waive or lower late payment or 'non-sufficient fund' charges and seek recovery for these items separately through future OEB rate applications. Alectra Utilities waived late payment charges for its residential and small commercial (GS<50kW) customers from April 15, 2020 to August 31, 2020.
- Consultation on the Deferral Account – Impacts Arising from the COVID-19 Pandemic – In March 2020, the OEB acknowledged that electricity distributors may incur incremental costs as a result of the ongoing COVID-19 pandemic. The OEB ordered the establishment of a deferral account for electricity distributors to use to track incremental costs and lost revenues. The OEB initiated a consultation to assist in developing guidance related to the deferral account including, where appropriate, the review and disposition of the accounts. The OEB did not release advance policy direction on potential for recovery of incremental costs. Consultants are supporting the OEB on the assessment of the COVID-19 pandemic impact. Following stakeholder consultations, the OEB anticipates finalizing COVID-19 pandemic recovery-related guidance in spring 2021.

Amendments to the Standard Supply Service Code ("SSSC")

On June 1, 2020, the Government of Ontario announced it would introduce customer choice for Regulated Price Plan ("RPP") consumers that pay TOU prices. The Code amendments allow RPP customers to elect the pricing structure that best suits their needs. As such, these customers can now select whether their commodity charges will reflect TOU consumption and pricing or blocked tiered consumption and pricing. The OEB also approved the establishment of a generic deferral account for distributors to track the costs associated with implementing the customer choice initiative. The amendments were issued on October 13, 2020 with effect for customers as of November 1, 2020.

(d) 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. Alectra Utilities is now expected to have customer incentives paid upon project completion, which must be no later than June 30, 2021. Also, most customer incentive payments must be made by December 31, 2022.

3. Regulation (continued)

(d) Conservation and Demand Management (continued)

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 accounts payable. 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 accounts payable. At December 31, 2020, the accounts payable, net of offset, were \$15 (2019 - \$15) and \$0 (2019 - \$5), respectively.

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. At December 31, 2020, the accounts receivable was \$11 (2019 - \$5).

Alectra Utilities is also providing EPCOR, formerly Collus PowerStream, with fully integrated CDM wind-down services.

4. Changes in Accounting Policies

New Accounting Pronouncements

The following are the accounting standard updates issued by the IASB that are effective from January 1, 2020 and do not have significant impact on the Corporation's consolidated financial statements:

(a) Amendments to IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material.

The IASB issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that: *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."* The amendments clarify that materiality will depend on the nature and/or magnitude of the information.

Effective January 1, 2020 the Corporation has applied the definition of materiality, as amended, with no impact on the consolidated financial statements.

4. Changes in Accounting Policies (continued)

New Accounting Pronouncements (continued)

(b) Reference to Conceptual Framework (Amendments to IFRS 3 - Business Combinations)

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies,* if incurred separately.

(c) Amendments to IFRS 3 - Business Combinations: Definition of Business

The IASB issued amendments to IFRS 3, to clarify the definition of a business to make it easier for companies to determine whether acquisitions constitute the purchase of a business or the purchase of a group of assets.

5. 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 (which is within one year from 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. No such adjustments were made during the year.

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

5. Significant Accounting Policies (continued)

(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. 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 are 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.

5. Significant Accounting Policies (continued)

(c) Revenue from contracts with customers (continued)

(ii) Other revenue (continued)

- 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 income. 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 monthly 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.

- 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 and water delivered to customers but not yet billed. These accrual amounts are presented as unbilled revenues under IFRS 15, Revenue from Contracts with Customers. The Corporation assesses the unbilled revenues for impairment in accordance with IFRS 9, Financial Instruments.

5. Significant Accounting Policies (continued)

(d) Financial instruments

All financial assets and liabilities, except accounts receivable, are initially recognized at fair value plus transaction costs. Accounts receivable 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 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, assumptions are 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.

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.

5. Significant Accounting Policies (continued)

(d) Financial instruments (continued)

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

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 accounts receivable 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 accounts receivable is based on management's estimates and assumptions. Key assumptions used in determining the provision rate. 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.

(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.

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

Land is carried 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.

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.

5. Significant Accounting Policies (continued)

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

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 estimated useful life of each component. The method of depreciation and estimated useful lives for each category of property, plant and equipment are as follows:

Land and buildings	Straight-line	10 to 52 years
Distribution assets	Straight-line	15 to 70 years
Other PP&E	Straight-line	3 to 20 years

(h) Goodwill and other intangible assets

Intangible assets include: goodwill; land rights; computer software; capital contributions; customer relationships; non-competition agreements; purchased software; internally generated software; and other intangibles.

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.

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.

Finite life intangible assets are 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.

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

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. The contributions are measured at cost less accumulated amortization.

5. Significant Accounting Policies (continued)

(h) Goodwill and other intangible assets (continued)

The Corporation capitalizes cloud arrangements as intangible assets where it has the contractual right to take possession of the software at any time during the hosting period without significant penalty, and it is feasible for the Corporation to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software.

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

Assessment of useful lives of its intangibles is based on management's judgment. Amortization methods and useful lives are reviewed at each financial year-end and adjusted prospectively.

The estimated useful lives and amortization methods are as follows:

Goodwill	Not amortized	Indefinite
Land rights	Not amortized	Indefinite
Computer software	Straight-line	3 to 10 years
Non-competition agreements	Straight-line	4 to 10 years
Customer relationships	Straight-line	10 to 21 years
Capital contributions	Straight-line	16 to 45 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 CGUs. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Goodwill and intangible assets with indefinite lives are tested for impairment annually and when circumstances indicate that the recoverable amount of an asset or cash generating unit ("CGU") may be below their 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. 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 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.

5. Significant Accounting Policies (continued)

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

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 best estimate 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 and other losses, requires management's judgment as to the probability of a loss occurring. Actual results may differ from those estimates.

(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.

5. Significant Accounting Policies (continued)

(k) Employee future benefits (continued)

(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.

(l) Customer deposits liability

Customer deposits liability comprises 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 deposits liability in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. These customer deposits liabilities 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. Interest is accrued on customer deposits liabilities until the balance is refunded with the interest amount recognized as finance costs.

5. Significant Accounting Policies (continued)

(m) 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 liability, 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 liability 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 liability.

Lease liabilities 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 liability 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.

The Corporation 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 liabilities 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 other income 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.

5. Significant Accounting Policies (continued)

(n) Income taxes

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

AESI and UA are subject to the payment of tax under the Tax Acts. Other than AESI 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.

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 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.

5. Significant Accounting Policies (continued)

(o) 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.

(p) Advance payments

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

6. Future Accounting Changes

Certain new accounting standards and interpretations that have been published but are not mandatory for implementation as at December 31, 2020 have not been early adopted in these financial statements. Management is currently assessing the impact of the following accounting standards updates on the future consolidated financial statements:

- COVID-19 related rent concessions (Amendment to IFRS 16, *Leases*);
- Proceeds before intended use (Amendments to IAS 16, *Property Plant & Equipment*);
- Onerous contracts, cost of fulfilling a contract (Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10, IAS 28);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1); and
- Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

7. Business Combinations

On January 1, 2019, Alectra Utilities acquired 100% of the shares of GHESI. GHESI then amalgamated with Alectra Utilities. Under the Guelph Amalgamation, shares of the former GHESI were exchanged for 485,000 Class G voting common shares of the Corporation. The Guelph Amalgamation has been recognized as a business combination in accordance with IFRS 3, *Business Combinations* using the acquisition method with Alectra Utilities as the acquirer based on its relative size compared to that of the former GHESI. These consolidated financial statements include: the net fair value of the assets of former GHESI as at January 1, 2019; and the net assets of Alectra Utilities at its carrying amounts at January 1, 2019. GHESI contributed electricity sales of $200 (2019 - $237). The amalgamation was undertaken with the objective of achieving more efficient and enhanced service delivery through lower operating costs, while providing significant benefits for communities and shareholders.

The aggregate purchase price was $101, resulting in goodwill of $43, which is not deductible for income tax purposes. As a result of the Guelph Amalgamation, the contributed surplus increased by $55. There is contingent consideration in relation to the tax losses carried forward by GMHI, whereby these losses are required to be shared 50/50 with GMHI and Alectra Utilities. As a result, an accrued liability was set up in the amount of $1.

(in millions of Canadian dollars)

7. Business Combinations

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of amalgamation:

	GHESI
Cash	8
Accounts receivable and unbilled revenue	29
Inventories	2
Other assets	2
Amounts due from related parties	1
Property, plant, and equipment	172
Intangible assets	1
Deferred tax asset	6
Accounts payable and accrued liabilities	(21)
Income tax payable	(1)
Customer deposits	(9)
Deferred revenue	(27)
Other liabilities	(1)
Loans and borrowings	(94)
Employee future benefits	(11)
Fair value of identifiable net assets acquired	57
Contingent consideration	1
Goodwill	43
Total purchase price	101

The valuation technique used for the purchase of GHESI was the discounted cash flow ("DCF") approach. Under the DCF approach, the expected future cash flows are discounted to their present value equivalent using appropriate market-based risk-adjusted rates of return.

8. Restricted Cash

Restricted cash includes $80 (2019 - $nil) held in an escrow account related to the acquisition of Holland Power Services Inc for future settlement of the initial share consideration and final working capital adjustment. Refer to Note 29 for further details on the acquisition.

Restricted cash also includes $0.285 ($2019 - $1) in cash where the availability of funds is restricted by government assistance or held in escrow as part of the Affordability Fund. The Affordability Fund was established by the Government of Ontario as part of the Ontario's Fair Hydro Plan to assist electricity customers who do not qualify for low-income conservation programs and for whom electricity bills represent a financial burden.

(in millions of Canadian dollars)

9. Property, Plant, and Equipment

	Notes	Land and buildings	Distribution assets	Other assets	Work-in-progress	Total
Cost						
Balance at January 1, 2019		213	2,964	232	95	3,504
Additions through acquisition	7	16	138	13	5	172
Additions / transfers	26	2	328	13	(14)	329
Reclassifications to RoU assets	10	(12)	—	—	—	(12)
Disposals and transfers		(13)	(8)	(16)	—	(37)
Balance at December 31, 2019		206	3,422	242	86	3,956
Additions / transfers	26	8	263	28	42	341
Disposals		(29)	(7)	(12)	(1)	(49)
Balance at December 31, 2020		185	3,678	258	127	4,248
Accumulated depreciation						
Balance at January 1, 2019		22	354	76	—	452
Depreciation		5	110	19	—	134
Disposals and transfers		(11)	(5)	(16)	—	(32)
Balance at December 31, 2019		16	459	79	—	554
Depreciation		6	116	18	—	140
Disposals		(4)	(2)	(11)	—	(17)
Balance at December 31, 2020		18	573	86	—	677
Carrying amounts						
December 31, 2019		190	2,963	163	86	3,402
December 31, 2020		167	3,105	172	127	3,571

Other assets include solar panels, meters, vehicles, furniture and equipment, computer equipment, and leasehold improvements.

During the year, borrowing costs of $5 (2019 - $4) were capitalized as part of the cost of PP&E and intangible assets. An average capitalization rate of 3.04% (2019 - 3.28%) was used to determine the amount of borrowing costs to be capitalized with respect to Alectra Utilities. Borrowing costs $3 (2019 - $2) have been capitalized during the year at the bankers' acceptance rate plus 46 bps (2019 - 95 bps) with respect to AES.

During the year, the Corporation entered a sale and leaseback arrangement for one of its properties. Refer to Note 10 for further details.

During the year ended December 31, 2019, vacant land and property were sold for proceeds of $10 and $7 respectively, which resulted in Alectra Utilities recognizing gains of $3 and $5 respectively. The aggregate gains were offset by a loss of $8 from disposal of other PP&E which were sold for no proceeds, for a net loss of $nil in the Consolidated Statement of Income and Comprehensive Income.

(in millions of Canadian dollars)

10. Right of Use Assets

	Note	Buildings	Rooftop	Total
Cost				
Reclassifications from property, plant, and equipment on initial application of IFRS 16	9	12	—	12
Recognition of RoU assets on initial application of IFRS 16		7	12	19
Additions		1	—	1
Balance at December 31, 2019		20	12	32
Additions		4	—	4
Balance at December 31, 2020		24	12	36
Accumulated depreciation				
Depreciation		3	1	4
Balance at December 31, 2019		3	1	4
Depreciation		2	1	3
Balance at December 31, 2020		5	2	7
Carrying amounts				
December 31, 2019		17	11	28
December 31, 2020		19	10	29

During the year, the Corporation sold one of its properties and leased it back for 30 months. The Corporation has an option to extend the lease term for an additional year. The Corporation is not expecting to exercise the option. A net gain of $5 on the sale and lease back transaction is recognized in the Consolidated Statement of Income and Comprehensive Income.

(in millions of Canadian dollars)

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11. Goodwill and Other Intangible Assets

(a) Intangible assets

	Notes	Goodwill	Land rights	Computer software	Capital contributions	Work in progress	Other assets	Total
Cost or deemed costs								
Balance at January 1, 2019		720	2	128	87	28	31	996
Additions through acquisition	7	43	—	1	—	—	—	44
Additions	26	(2)	1	44	5	12	(15)	45
Disposals and transfers		—	—	(26)	—	(2)	—	(28)
Balance at December 31, 2019		761	3	147	92	38	16	1,057
Additions	26	—	—	27	—	(13)	6	20
Disposals		—	—	(2)	—	—	—	(2)
Balance at December 31, 2020		761	3	172	92	25	22	1,075
Accumulated amortization								
Balance at January 1, 2019		—	—	49	8	—	3	60
Amortization		—	—	16	3	—	1	20
Disposals and transfers		—	—	(21)	—	—	—	(21)
Balance at December 31, 2019		—	—	44	11	—	4	59
Amortization		—	—	18	3	—	1	22
Disposals		—	—	(2)	—	—	—	(2)
Balance at December 31, 2020		—	—	60	14	—	5	79
Carrying amounts								
December 31, 2019		761	3	103	81	38	12	998
December 31, 2020		761	3	112	78	25	17	996

Other assets include customer relationships and non-competition agreements.

Borrowing costs capitalized in intangible assets and PP&E during the period is included in Note 9.

(in millions of Canadian dollars)

11. Goodwill and Other Intangible Assets (continued)

(a) Intangible assets (continued)

For the year ended December 31, 2019, certain adjustments were made to goodwill, including additions of $43 acquired through the Guelph Amalgamation (Note 7), net of an adjustment relating to deferred tax asset of $2 from a previous transaction.

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

Goodwill with a carrying amount of $761 (2019 - $761) and land rights with a carrying amount of $3 (2019 - $3) have been allocated to the Corporation's rate regulated and non-regulated CGUs. Carrying value of goodwill allocation is as follows:

	2020	2019
Regulated CGU	755	755
Non-Regulated CGU	6	6

The Corporation tested goodwill and land rights for impairment as at September 30, 2020 and September 30, 2019.

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
Regulated CGU	1.50 %	3.10 %
Non-Regulated CGU	1.50 %	8.90 %

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 currently aware of any factors that may result in changes to the key assumptions noted that would cause a CGU's carrying amount to exceed its recoverable amount.

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. Additionally, there were no impairment indicators identified as of December 31, 2020.

(in millions of Canadian dollars)

12. Accounts Payable and Accrued Liabilities

	2020	2019
Accounts payable - energy purchases	237	223
Accrued liabilities	80	98
Customer receivables in credit balances	26	20
Accounts payable - other	25	17
Interest payable	15	14
Deferred conservation credit	1	1
Contingent consideration	—	1
	384	374

13. Related Party Balances and Transactions

(a) Balances and transactions with related parties

The amount due to/from related parties is comprised of amounts payable to/receivable from: the City of Barrie; the City of Guelph; the City of Hamilton; the City of Markham; the City of Mississauga; the City of St. Catharines; the City of Vaughan; and wholly-owned subsidiaries of related parties.

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

	2020			
	Revenue	Expenses	Due from related parties	Due to related parties
City of Barrie	6	—	2	—
City of Guelph	11	1	—	—
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	44

(in millions of Canadian dollars)

13. Related Party Balances and Transactions (continued)

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

	2019			
	Revenue	Expenses	Due from related parties	Due to related parties
City of Barrie	7	—	2	—
City of Guelph	10	—	—	1
City of Hamilton	26	1	4	14
City of Markham	10	1	2	11
City of Mississauga	20	2	4	—
City of St. Catharines	4	—	1	—
City of Vaughan	10	1	3	13
	87	5	16	39

Services provided to related parties include electricity distribution, street lighting, road projects, payroll, 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 19. Refer to Note 16 for related party loans and borrowings.

The Corporation paid dividends to its related parties during the year. Refer to Note 18.

(b) Key management personnel compensation

Key management personnel comprises 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:

	2020	2019
Salaries and current employment benefits	14	14
Employee future benefits	1	1
Termination benefits	1	1
	16	16

14. Short term Debt

	2020	2019
Commercial paper program	415	180

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 $300 and was supported by the Corporation’s $500 committed credit facility. In May 2020, the Corporation increased the committed credit facility to $700, with a $100 expansion option subject to mutual agreement, and the maximum CP authorized limit to $500; and

(in millions of Canadian dollars)

14. Short term Debt (continued)

(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, 2020 and 2019 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, 2020 was $415 (2019 - $180).

For the year ended December 31, 2020, the average annual outstanding borrowings under the Corporation's revolving credit facility, working capital facility, and CP was $266 (2019 - $132) with a weighted average interest rate of 0.70% (2019 - 1.94%). Refer to Note 20(b)(iii) for details on the facilities.

15. Other Liabilities

	2020	2019
Current		
Advance payments	31	31
Notes payable to province of Ontario	1	2
Current portion of transition cost liability	3	3
Other	6	5
	41	41
Other long-term liabilities		
Expansion deposit	16	13
Transition cost liability	2	4
	18	17

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.

The 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. Refer to Note 1 for details.

(in millions of Canadian dollars)

16. Loans and Borrowings

	2020	2019
Debentures[1]		
4.770% Debentures due 2020	—	40
4.521% Debentures due 2021	110	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
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	(8)	(9)
	1,782	1,821
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	1,948	1,987
Less: Current portion of loans and borrowings	(110)	(40)
Long-term loans and borrowings	1,838	1,947

[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 (2019 - $62).

The 4.770% debenture was repaid during the year.

Two debentures were added on January 1, 2019 as a result of the GHESI amalgamation transaction (Note 3): a 20-year $65 unsecured debenture at 5.264% maturing in 2030 and a 30-year $30 unsecured debenture at 4.121% maturing in 2045.

On April 11, 2019, the Corporation issued 3.458% senior unsecured debenture for $200 maturing in 2049.

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, 2020 and 2019.

16. Loans and Borrowings (continued)

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 (2019 - $7).

17. Employee Future Benefits

(a) Multi-employer defined benefit pension plan

The Corporation provides a pension plan for its employees, except those in UA, 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, 2020, the Corporation made employer contributions of $17 (2019 - $18) to OMERS. These contributions have been recognized as an operational expenditure net of the amount capitalized in assets. The expected payment for 2021 is $19.

As at December 31, 2019, and subject to the estimates, assumptions and valuations of OMERS, the plan obligations are 97% (2018 - 96%) 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 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.

Effective June 1, 2019, the Corporation has harmonized its health and dental benefits for its unionized employees, except for Guelph unionized employees that remain under their legacy Guelph plan. The harmonization of these benefits for non-union employees occurred on January 1, 2020. The five legacy retiree plans will remain in effect for employees hired prior to June 1, 2019. Any union and non-union employees hired after June 1, 2019 will be under the new Alectra retiree plan.

(in millions of Canadian dollars)

17. Employee Future Benefits (continued)

(b) Non-pension defined benefit plans (continued)

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:

	2020	2019
Defined benefit obligation, beginning of period	95	61
Defined benefit obligation, assumed through acquisition	—	11
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 losses arising from changes in financial assumptions	7	18
Actuarial losses arising from changes in experience adjustments	—	1
Actuarial losses arising from corrections to benefits	—	2
Amounts recognized in other comprehensive income	7	21
Payments from the plans	(2)	(3)
Defined benefit obligation, end of year	105	95

The main actuarial assumptions underlying the valuation are as follows:

	2020	2019
Discount rate	2.70 %	3.10 %
Medical benefits costs escalation	4.22 %	5.96 %
Dental benefits costs escalation	4.50 %	4.50 %

(c) Sensitivity analysis

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

	2020	2019
Discount rate		
1% increase	(15)	(13)
1% decrease	18	17
Medical and dental benefits costs escalation		
1% increase	13	12
1% decrease	(11)	(9)

(in millions of Canadian dollars)

18. 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:

	2020		2019	
	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	43	99,999	47
Total share capital	10,584,999	996	10,584,999	1,000

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

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 2020, the Board of Directors approved a return of capital to the Class S shareholders in the amount of \$4 (2019 - \$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 declared by the Board of Directors through a resolution.

18. Share Capital (continued)

During the year ended December 31, 2020, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating $80 or $7.60 per share (2019 - $79 or $7.55 per share); and
- Class S share dividends aggregating $2 or $25.32 per share (2019 - $6 or $56.59 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.

19. Lease Obligations

The Corporation leases many assets including property, building rooftops for solar projects, vehicles, and equipment.

The Corporation has entered into property leases for its various offices and operations centre. The Corporation is committed to a 10-year building lease. The lease contains two renewal options of five years each. The Corporation is reasonably certain that it will exercise the first renewal option and has included the renewal option in the lease term.

The Corporation has a 25-year lease agreement for the use of an operations centre which includes both land and building elements, of which the land portion does not qualify as a lease. The lease has a purchase option and three extension options of 5 years each. The Corporation has assessed that it is not likely to exercise these options.

The Corporation is also committed to a 5-year building lease with no renewal or extension options. Most property leases include annual rent adjustment clauses with reference to an index or contractual rate.

The Corporation has entered into lease agreements with various landlords across the province for the leasing of building rooftops for the purpose of installing and operating solar panels. The leases typically run for a period of 20 years from the start of commercial operation. The leases include a termination option and a 5-year extension option, which have not been included in the lease term.

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 liabilities are recognized for these leases.

Refer to Note 10 for details on RoU assets.

(in millions of Canadian dollars)

19. Lease Obligations (continued)

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

	2020	2019
Less than one year	5	4
Between one and five years	16	14
More than five years	26	29
Total undiscounted lease obligations	47	47

During the year, $4 (2019 - $1) was added to lease obligations including a sale and lease back transaction. Refer to Note 10 for details. The Corporation expenses the land portion of the operations centre lease, non-lease component of its property leases, and payments for any short-term and low value leases.

	2020	2019
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	1	1

	2020	2019
Amounts recognized in the Statement of Cash Flows		
Payments for the principal portion included within financing activities	2	2
Payments for the interest portion included within financing activities	2	2
Variable lease payments included within operating activities	1	1
Total cash outflow for leases	4	5

20. Financial Instruments and Risk Management

(a) Fair value of financial instruments

The carrying amount of cash (including restricted cash), accounts receivable, amounts due from related parties, customer deposits, accounts payable, amounts due to related parties, 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 $2,161 (2019 - $2,140).

(in millions of Canadian dollars)

20. Financial Instruments and Risk Management (continued)

(a) Fair value of financial instruments (continued)

		2020		2019	
	Maturity Date	Carrying Value[1]	Fair Value[2]	Carrying Value[1]	Fair Value[2]
Loans and borrowings					
Notes issued in 2002	2024	166	188	166	181
Debentures issued in 2010	2030	65	87	65	82
Debentures issued in 2011[3]	2021	—	—	110	114
Debentures issued in 2011	2041	210	303	210	287
Debentures issued in 2012	2022	150	158	150	154
Debentures issued in 2012	2042	200	249	200	232
Debentures issued in 2014	2024	150	165	150	157
Debentures issued in 2015	2045	30	38	30	36
Debentures issued in 2017	2027	675	735	675	678
Debentures issued in 2019	2049	200	238	200	219
Total loans and borrowings - long-term portion		1,846	2,161	1,956	2,140
Less: issuance costs		(8)	—	(9)	—
		1,838	2,161	1,947	2,140

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 2020, 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 accounts receivable results from customers failing to discharge their payment obligations for electricity consumed and billed, as they come due.

The carrying amount of accounts receivable 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 accounts receivable previously recorded as impaired are credited to net income.

(in millions of Canadian dollars)

20. 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 accounts receivable balances. Given the high degree of uncertainty caused by the COVID-19 pandemic, management has revised the estimates and judgments used in the preparation of the ECL allowance on its accounts receivable balances, which are 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. During the current year, the Corporation has recorded an incremental provision of $28 to its allowance for ECLs which includes the impact of COVID-19 pandemic.

As at December 31, 2020 and 2019, there was no significant concentration of credit risk with respect to any financial assets.

Accounts receivable and respective aging is provided as follows:

	2020	2019
Trade receivable	328	266
Unbilled revenue	260	257
IESO receivable	33	31
Other	9	14
	630	568
Less: expected credit losses	(51)	(33)
Total accounts receivable, net	579	535
Less than 30 days	551	517
30 - 60 days	16	12
61 - 90 days	8	8
Greater than 90 days	55	31
	630	568
Less: expected credit losses	(51)	(33)
Total accounts receivable, net	579	535

(in millions of Canadian dollars)

20. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(i) Credit risk (continued)

	Expected credit losses
Balance, January 1, 2019	(9)
Additional provision	(28)
Write-offs	4
Balance, December 31, 2019	(33)
Additional provision	(28)
Write-offs	10
Balance, December 31, 2020	(51)

(ii) Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations (Note 17). The Corporation is also exposed to short-term interest rate risk on short-term debt under its credit facility and CP program (Note 14). 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, 2020, 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 14 and 16).

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 $2 to annual finance costs.

(in millions of Canadian dollars)

20. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(iii) Liquidity risk

Liquidity risks are those risks associated with the Corporation's inability to meet its financial obligations as they fall due. Liquidity risks associated with financial liabilities are as follows:

2020				
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	Total
Accounts payable and accrued liabilities	384	—	—	384
Commercial paper issuance	415	—	—	415
Customer deposit liability	62	—	—	62
Due to related parties	44	—	—	44
Other liabilities	41	18	—	59
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
	1,128	728	1,942	3,798

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

(in millions of Canadian dollars)

20. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(iii) Liquidity risk (continued)

2019				
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	Total
Accounts payable and accrued liabilities	374	—	—	374
Commercial paper issuance	180	—	—	180
Customer deposit liability	74	—	—	74
Due to related parties	39	—	—	39
Other liabilities	41	17	—	58
4.770% Debentures due 2020	42	—	—	42
4.521% Debentures due 2021	5	112	—	117
3.033% Debentures due 2022	5	159	—	164
4.410% Promissory note due 2024	3	91	—	94
4.410% Promissory note due 2024	3	79	—	82
4.410% Promissory note due 2024	1	23	—	24
3.239% Debentures due 2024	5	169	—	174
2.488% Debentures due 2027	17	67	717	801
5.264% Debentures due 2030	3	14	86	103
5.297% Debentures due 2041	11	44	394	449
3.958% Debentures due 2042	8	32	342	382
4.121% Debentures due 2045	1	5	56	62
3.458% Debentures due 2049	7	28	369	404
Lease obligations	4	14	29	47
	823	854	1,993	3,670

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

20. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(iii) Liquidity risk (continued)

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:

- $800 in aggregate revolving unsecured credit facilities: (i) $700 committed facility with four banks maturing October 5, 2022; and (ii) $100 uncommitted facility with a bank which is callable by the bank. The committed facility is also used to support outstanding commitments under the CP program by way of same day prime rate advances.
- Issuance of senior unsecured debentures with various maturity dates under established trust indentures.

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 for a period of two years to October 2022; 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.

21. Capital Structure

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

- ensure ongoing cost effective access to such, 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 16).

(in millions of Canadian dollars)

22. Operating Expenses

	2020	2019
Labour	174	173
Contract and consulting	52	52
Allowance for ECLs	28	9
Office expenses	23	22
Repairs and maintenance	14	10
Information and technology	14	15
Business taxes and fees	10	10
Other	8	—
Facility expenses	5	5
	328	296

23. Other Revenue

	2020	2019
Street lighting	23	8
Consulting	21	14
Solar generation	17	16
Amortization of deferred revenue	12	11
Water and waste water billing and customer charges	11	11
Regulatory service charges	10	11
Sub-metering and metering services	10	8
Pole and other rental income	7	7
Other	4	11
	115	97

24. Deferred Revenue

Balance at January 1, 2019	361
Reclassifications to accounts payable	(2)
Contributions received through acquisitions	27
Contributions received from customers	46
Amortization	(11)
Balance at December 31, 2019	421
Contributions received from customers	85
Amortization	(12)
Balance at December 31, 2020	494

(in millions of Canadian dollars)

25. Income Taxes

(a) Income tax expense

PILs recognized in net income comprise the following:

	2020	2019
Current tax expense	6	2
Deferred tax expense	22	18
Income tax expense	28	20

Income taxes paid and refunded during the year were $5 (2019 - $6) and $4 (2019 - $21) respectively.

(b) Reconciliation of effective tax rate

PILs 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:

	2020	2019
Income before taxes	107	84
Statutory Canadian federal and provincial income tax rates	26.5 %	26.5 %
Expected tax provision on income at statutory rates	28	22
Decrease in income taxes resulting from:		
Adjustments in respect of prior years	—	(2)
Total income tax expense	28	20
Effective income tax rate	25.9 %	24.3 %

The statutory income tax rate for the current year comprises a combined 15% (2019 - 15%) federal corporate tax rate and an 11.5% (2019 - 11.5%) Ontario corporate tax rate.

(in millions of Canadian dollars)

25. Income Taxes (continued)

(c) Deferred tax balances

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

	2020	2019
Deferred tax assets		
PP&E and intangible assets	(3)	(3)
Non-capital loss carryforwards	7	7
Debt issuance costs	(2)	(1)
Non-deductible reserves	1	—
	3	3
Deferred tax liabilities		
Employee future benefits	(28)	(24)
PP&E and intangible assets	120	87
Non-capital loss carryforwards	(2)	(1)
Tax credit carryovers	(12)	(10)
Non-deductible reserves	(2)	(1)
Energy variances	(8)	(3)
	68	48

26. Net Change in Non-cash Operating Working Capital

	2020	2019
Accounts receivable	(44)	72
Inventories	(2)	(1)
Prepaid expenses	(4)	1
Due from related parties	1	(4)
Accounts payable and accrued liabilities	13	(17)
Due to related parties	6	—
Customer deposits liability	(12)	(2)
Other liabilities	(3)	(16)
	(45)	33

(in millions of Canadian dollars)

26. Net Change in Non-cash Operating Working Capital (continued)

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

	Notes	2020	2019
Purchase of PP&E, cash basis		343	343
Accruals		(2)	7
Reclassifications		—	(21)
Total additions to PP&E	9	341	329
Purchase of intangible assets, cash basis		20	37
Reclassifications		—	10
Changes to goodwill		—	(2)
Total additions to goodwill and other intangible assets	11	20	45

27. Commitments, Contingencies, and Guarantees

(a) Commitments

(i) Leases

Lease commitments have been disclosed in Note 19.

(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 (2019 - $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. The value of provisions for legal claims at December 31, 2020 is less than $1. 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.

27. Commitments, Contingencies, and Guarantees (continued)

(b) Contingencies (continued)

(ii) Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE 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. As at December 31, 2020, no assessments have been made.

(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 therefore no amount has been accrued in the balance sheet with respect to these agreements. The Corporation is unaware of any breaches that would result in an indemnity claim against it.

(in millions of Canadian dollars)

28. Divisional and Regulatory Information

Alectra Inc., through its subsidiaries, consists primarily of two operating divisions: regulated operations and non-regulated operations. Regulated operations are comprised of Alectra Utilities. Non-regulated 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.

2020				
	Regulated	Adjustment for regulatory activities	Non-regulated	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
Gain on derecognition of property, plant, and equipment	(1)	—	—	(1)
Total expenses	**3,908**	**17**	**56**	**3,981**
Income from operating activities	**185**	**(15)**	**11**	**181**
Finance income	2	(2)	1	1
Finance costs	74	(1)	2	75
Net finance costs	**72**	**1**	**1**	**74**
Income before payments in lieu of income	**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**

(in millions of Canadian dollars)

28. Divisional and Regulatory Information (continued)

	2019			
	Regulated	Adjustment for regulatory activities	Non-regulated	Total
Revenue				
Distribution revenue	568	(24)	—	544
Electricity sales	3,167	(29)	—	3,138
Other revenue	38	12	47	97
Total revenue	**3,773**	**(41)**	**47**	**3,779**
Expenses				
Cost of power	3,167	—	—	3,167
Operating expenses	270	(1)	27	296
Depreciation and amortization	136	12	10	158
Loss on derecognition of property, plant, and equipment	(2)	—	2	—
Total expenses	**3,571**	**11**	**39**	**3,621**
Income from operating activities	**202**	**(52)**	**8**	**158**
Finance income	3	(2)	—	1
Finance costs	74	(2)	3	75
Net finance costs	**71**	**—**	**3**	**74**
Income before payments in lieu of income	**131**	**(52)**	**5**	**84**
Income tax expense	2	17	1	20
Net income	**129**	**(69)**	**4**	**64**
Other comprehensive income				
Reclassification to net income, loss on bond forward	—	—	1	1
Remeasurement of defined benefit	(11)	(8)	(2)	(21)
Tax impact on remeasurement of defined benefit obligation	—	5	—	5
Total other comprehensive loss	**(11)**	**(3)**	**(1)**	**(15)**
Total comprehensive income	**118**	**(72)**	**3**	**49**

(in millions of Canadian dollars)

28. Divisional and Regulatory Information (continued)

2020	Regulated	Adjustment for regulatory activities	Non-regulated	Total
Assets				
Current assets				
Cash	12	—	9	21
Restricted cash	—	—	80	80
Accounts receivable	570	—	9	579
Inventory	30	—	1	31
Due from related parties	14	—	1	15
Other assets	17	—	2	19
Total current assets	**643**	**—**	**102**	**745**
Non-current assets				
Property, plant, and equipment	3,455	4	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	**4,657**	**(222)**	**170**	**4,605**
Total assets	**5,300**	**(222)**	**272**	**5,350**
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	360	—	24	384
Customer deposits liability	62	—	—	62
Short term debt	318	—	97	415
Current portion of loans and borrowings	110	—	—	110
Current portion of lease obligations	3	—	1	4
Due to related parties	59	—	(15)	44
Other liabilities	38	—	3	41
Total current liabilities	**950**	**—**	**110**	**1,060**
Non-current liabilities				
Loans and borrowings	1,757	—	81	1,838
Deferred revenues	497	(3)	—	494
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	18	—	—	18
Total non-current liabilities	**2,532**	**(91)**	**113**	**2,554**
Total liabilities	**3,482**	**(91)**	**223**	**3,614**
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	**5,300**	**(222)**	**272**	**5,350**

(in millions of Canadian dollars)

28. Divisional and Regulatory Information (continued)

2019	Regulated	Adjustment for regulatory activities	Non-regulated	Total
Assets				
Current assets				
Cash	20	—	9	29
Restricted cash	1	—	—	1
Accounts receivable	524	—	11	535
Inventory	26	—	3	29
Due from related parties	16	—	—	16
Other assets	14	—	1	15
Total current assets	**601**	**—**	**24**	**625**
Non-current assets				
Property, plant, and equipment	3,250	41	111	3,402
Right of use assets	12	—	16	28
Goodwill and other intangible assets	954	5	39	998
Regulatory assets	160	(160)	—	—
Deferred tax asset	—	—	3	3
Other assets	4	—	(4)	—
Total non-current assets	**4,380**	**(114)**	**165**	**4,431**
Total assets	**4,981**	**(114)**	**189**	**5,056**
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	350	(4)	28	374
Customer deposits liability	73	—	1	74
Short term debt	169	—	11	180
Current portion of loans and borrowings	40	—	—	40
Current portion of lease obligations	1	—	1	2
Due to related parties	56	—	(17)	39
Other liabilities	39	—	2	41
Total current liabilities	**728**	**(4)**	**26**	**750**
Non-current liabilities				
Loans and borrowings	1,865	—	82	1,947
Deferred revenues	385	36	—	421
Employee future benefits	95	—	—	95
Lease obligations	15	—	16	31
Regulatory liabilities	39	(39)	—	—
Deferred tax liabilities	51	(21)	18	48
Other long-term liabilities	18	—	(1)	17
Total non-current liabilities	**2,468**	**(24)**	**115**	**2,559**
Total liabilities	**3,196**	**(28)**	**141**	**3,309**
Shareholders' equity				
Share capital	682	—	318	1,000
Contributed surplus	839	(13)	(227)	599
Accumulated other comprehensive loss	(14)	1	(10)	(23)
Retained earnings	278	(74)	(33)	171
Total shareholders' equity	**1,785**	**(86)**	**48**	**1,747**
Total liabilities and shareholders' equity	**4,981**	**(114)**	**189**	**5,056**

(in millions of Canadian dollars)

28. Divisional and Regulatory Information (continued)

Alectra Utilities derecognizes all rate-regulated debit and credit balances that do not qualify for recognition under IFRS. Certain items that are presented as rate-regulated debit balances as prescribed by the OEB qualify for recognition as other types of assets under IFRS.

	2020	2019
Regulatory Deferral Debit Balances		
Deferred income tax asset[m]	116	79
Retail settlement variance accounts (RSVA's)[a]	54	33
Lost revenues adjustment mechanism variance account (LRAMVA)[b]	25	23
Large commercial interval meter recovery[d]	10	7
OEB cost assessments deferral[g]	6	5
Re-measurements of post-employment benefits[f]	6	4
Renewable generation capital and operating cost deferral[c]	3	3
Collection of account lost revenue[k]	3	1
Other[a,e]	8	5
	231	**160**
Regulatory Deferral Credit Balances		
Retail settlement variance accounts (RSVA's)[a]	26	26
PILs and tax variance[l]	15	9
Pole rental variance account[j]	6	3
Net refund of regulatory balances	2	2
Other[h,i]	7	(1)
	56	**39**

(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 energy sales or purchases for these variances with corresponding assets or liabilities. Under IFRS, the Corporation 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. Alectra Utilities may recover or refund this revenue through future distribution rates.

(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.

28. Divisional and Regulatory Information (continued)

(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 property, plant and equipment ("PP&E") calculated using pre-merger capitalization policies and the PP&E calculated using Alectra Utilities' capitalization policy. Under IFRS, the Corporation 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, 2020, 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. The OEB recently mandated that collection of account charges are part of normal business activities where customers are not to be charged for activity. 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 (CCA) 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.

28. Divisional and Regulatory Information (continued)

(m) Deferred income taxes are presented as regulatory liabilities or assets and are not expensed through the Consolidated Statement of Income and Comprehensive Income as is the case under IFRS.

(n) The OEB approved a deferral account to track incremental costs and lost revenues arising from COVID-19 Pandemic. The nature, degree and mechanism of any recoverability has not been determined. Alectra Utilities has not deferred any incremental costs or lost revenues arising from the Pandemic due to the OEB's ongoing consultation on the COVID-19 deferral account and the uncertainty of recovery. This may change in future periods once the OEB issues guidance for recovery of Pandemic related costs and lost revenues.

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.

29. Subsequent Events

The following significant non- adjusting events occurred after the reporting period:

i. *Acquisition of Holland Power Services Inc.*

On January 4, 2021 (the “Closing Date”), the Corporation acquired 100% of the shares of Holland Power Services Inc. (“HPSI”) through its subsidiary, a privately-held company specializing in providing storm restoration services in Eastern Canada and the United States. This acquisition supports the strategic growth objective of the Corporation through logical extensions and diversification of its utility services.

The total 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. The Corporation also paid $28 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”).

As a result of the recency and complexity of the transaction, the accounting and valuation for the purchase is still being finalized. Consequently, the estimated fair value of assets acquired and liabilities assumed at the date of acquisition have not been disclosed.

ii. *Bond issuance*

On February 11, 2021, the Corporation issued $300 of 1.751% 10-year senior unsecured debentures due in 2031. The net proceeds of this offering was used to repay the Corporation’s outstanding commercial paper and for general corporate purposes.