# AltaLink, L.P.

## *Condensed Interim Financial Statements (unaudited)*

*For the three and six months ended June 30, 2015 and 2014*

## Statement of Financial Position

(unaudited)

| | Notes | As at June 30, 2015 | As at December 31, 2014 |
|---|---|---|---|
| *(in thousands of dollars)* | | | |
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | | **$ —** | $ 12,759 |
| Trade and other receivables | 6 | **178,443** | 143,523 |
| | | **178,443** | 156,282 |
| **Non-current** | | | |
| Goodwill | | **202,066** | 202,066 |
| Intangible assets | 7 | **263,436** | 251,063 |
| Property, plant and equipment | 8 | **7,351,211** | 6,857,556 |
| Third party deposits | 9 | **53,476** | 51,483 |
| Other non-current assets | 6 | **102,010** | 80,731 |
| | | **$ 8,150,642** | $ 7,599,181 |
| **LIABILITIES AND PARTNERS' EQUITY** | | | |
| **Current** | | | |
| Trade and other payables | 10 | **$ 472,885** | $ 452,780 |
| Commercial paper and bank credit facilities | 11 | **130,964** | 121,152 |
| Current portion of deferred revenue | 12 | **51,644** | 64,933 |
| | | **655,493** | 638,865 |
| **Non-current** | | | |
| Long-term debt | 11 | **4,022,519** | 3,673,863 |
| Deferred revenue | 12 | **816,380** | 790,675 |
| Third party deposits liability | 9 | **53,476** | 51,483 |
| Other non-current liabilities | 10 | **57,890** | 12,553 |
| | | **5,605,758** | 5,167,439 |
| **Commitments and contingencies** | 16, 17 | | |
| **Partners' equity** | | **2,544,884** | 2,431,742 |
| | | **$ 8,150,642** | $ 7,599,181 |

*See accompanying notes to the condensed interim financial statements.*

ALTALINK
A BERKSHIRE HATHAWAY ENERGY COMPANY

## Statement of Comprehensive Income

(unaudited)

| | Notes | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|---|---|---|---|---|---|
| *(in thousands of dollars)* | | | | | |
| **Revenue** | | | | | |
| Operations | 14 | **$ 184,733** | $ 159,935 | **$ 354,128** | $ 308,073 |
| Generic cost of capital adjustments | 14 | **—** | — | **(27,200)** | — |
| Other | | **25,286** | 8,517 | **36,818** | 17,794 |
| | | **210,019** | 168,452 | **363,746** | 325,867 |
| **Expenses** | | | | | |
| Operating | 15 | **(39,608)** | (27,594) | **(70,642)** | (53,431) |
| Property taxes, salvage and other | 15 | **(24,852)** | (18,428) | **(40,695)** | (33,198) |
| Depreciation and amortization | | **(58,352)** | (40,194) | **(111,626)** | (80,550) |
| | | **(122,812)** | (86,216) | **(222,963)** | (167,179) |
| | | **87,207** | 82,236 | **140,783** | 158,688 |
| Finance costs | 11 | **(27,965)** | (31,374) | **(56,050)** | (60,566) |
| Loss on disposal of assets | | **(925)** | (1,824) | **(2,091)** | (2,887) |
| **Net and comprehensive income** | | **$ 58,317** | $ 49,038 | **$ 82,642** | $ 95,235 |

*See accompanying notes to the condensed interim financial statements.*

ALTALINK
A BERKSHIRE HATHAWAY ENERGY COMPANY

## Statement of Changes in Partners' Equity

(unaudited)

| *(in thousands)* | Units | Allocation to Limited Partner | Allocation to General Partner | Total Retained Earnings | Partners' Capital | Total |
|---|---|---|---|---|---|---|
| As at January 1, 2014 | 331,904 | $ 421,764 | $ 76 | $ 421,840 | $ 1,391,736 | $ 1,813,576 |
| Net and comprehensive income | — | 95,225 | 10 | 95,235 | — | 95,235 |
| Equity investment received | — | — | — | — | 185,700 | 185,700 |
| Distributions paid | — | (22,998) | (2) | (23,000) | — | (23,000) |
| Balance at June 30, 2014 | 331,904 | $ 493,991 | $ 84 | $ 494,075 | $ 1,577,436 | $ 2,071,511 |
| | | | | | | |
| As at January 1, 2015 | 331,904 | $ 594,312 | $ 94 | $ 594,406 | $ 1,837,336 | $ 2,431,742 |
| Net and comprehensive income | — | 82,634 | 8 | 82,642 | — | 82,642 |
| Equity investment received | — | — | — | — | 49,500 | 49,500 |
| Distributions paid | — | (18,998) | (2) | (19,000) | — | (19,000) |
| **Balance at June 30, 2015** | **331,904** | **$ 657,948** | **$ 100** | **$ 658,048** | **$ 1,886,836** | **$ 2,544,884** |

*See accompanying notes to the condensed interim financial statements.*

## Statement of Cash Flows

(unaudited)

| *(in thousands of dollars)* | Three months ended<br>**June 30, 2015** | Three months ended<br>June 30, 2014 | Six months ended<br>**June 30, 2015** | Six months ended<br>June 30, 2014 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net income | $ **58,317** | $ 49,038 | $ **82,642** | $ 95,235 |
| Adjustments for | | | | |
| Depreciation and amortization | **58,352** | 40,194 | **111,626** | 80,550 |
| Third party contributions revenue | **(5,901)** | (4,750) | **(11,673)** | (9,439) |
| Loss on disposal of assets | **925** | 1,824 | **2,091** | 2,887 |
| Change in other items | **(6,595)** | (6,701) | **(926)** | 5,382 |
| Change in non-cash working capital items | **(32,337)** | (17,550) | **12,976** | (25,604) |
| **Net cash provided by operating activities** | **72,761** | 62,055 | **196,736** | 149,011 |
| **Cash flows from investing activities** | | | | |
| Capital expenditures | **(288,021)** | (520,564) | **(624,076)** | (822,316) |
| Use of third party contributions | **19,164** | 36,966 | **26,092** | 54,588 |
| Proceeds from disposal of assets | **15** | 19 | **48** | 49 |
| **Net cash used in investing activities** | **(268,842)** | (483,579) | **(597,936)** | (767,679) |
| **Cash flows from financing activities** | | | | |
| Senior debt issued | **350,000** | 480,000 | **350,000** | 480,000 |
| Commercial paper and bank credit facilities (repaid) used | **(183,138)** | (169,956) | **9,812** | (19,784) |
| Distributions paid | **(9,000)** | (11,500) | **(19,000)** | (23,000) |
| Equity investment received | **39,000** | 133,000 | **49,500** | 185,700 |
| Change in other financing activities | **(1,808)** | (2,930) | **(1,871)** | (3,010) |
| **Net cash provided by financing activities** | **195,054** | 428,614 | **388,441** | 619,906 |
| **Net change in cash and cash equivalents** | **(1,027)** | 7,090 | **(12,759)** | 1,238 |
| Cash and cash equivalents, beginning of period | **1,027** | — | **12,759** | 5,852 |
| **Cash and cash equivalents, end of period** | $ **—** | $ 7,090 | $ **—** | $ 7,090 |
| **Supplementary cash flow information** | | | | |
| Interest paid | $ **(54,982)** | $ (35,789) | $ **(79,641)** | $ (60,165) |

*See accompanying notes to the condensed interim financial statements.*

ALTALINK
A BERKSHIRE HATHAWAY ENERGY COMPANY

## 1. General information

AltaLink, L.P. (the Partnership or AltaLink) was formed under the laws of the Province of Alberta in Canada on July 3, 2001, to own and operate regulated transmission assets in Alberta. The Partnership's registered office is located at 2611 - 3rd Avenue SE, Calgary, Alberta, T2A 7W7. The Partnership has one limited partner, AltaLink Investments, L.P. (AILP), and is managed by AltaLink Management Ltd. (the General Partner). Although the General Partner holds legal title to the assets, the Partnership is the beneficial owner and assumes all risks and rewards of the assets.

On December 1, 2014, Berkshire Hathaway Energy Canada Holdings Corporation (BHE) became the sole owner of the Partnership by acquiring 100 percent of SNC-Lavalin Group Inc.'s (SNC) interest in AltaLink.

The Partnership is regulated by the Alberta Utilities Commission (AUC), pursuant to the Electric Utilities Act (Alberta) (EUA), the Public Utilities Act (Alberta), the AUC Act (Alberta), and the Hydro and Electric Energy Act (Alberta). These statutes and their respective regulations cover matters such as tariffs, construction, operations, financing and accounting. The Alberta Electric System Operator (AESO) administers the transmission of all electrical energy through the Alberta Interconnected Electric System in the Province of Alberta.

During the three and six months ended June 30, 2015 and 2014, the Partnership operated solely in one reportable geographical and business segment.

## 2. Basis of preparation

### Statement of compliance

These condensed interim financial statements (the financial statements) have been prepared in accordance with IAS 34 – *Interim Financial Reporting*. They should be read in conjunction with the Partnership's most recent annual audited financial statements as at and for the year ended December 31, 2014.

The Partnership has consistently applied the same accounting policies in these financial statements as compared to its most recent annual audited financial statements.

Certain of the significant accounting policies adopted to prepare these financial statements are set out below. The financial statements reflect the financial position and financial performance of the Partnership and do not include all of the assets, liabilities, revenues and expenses of the partners.

These financial statements were approved for issue by the Board of Directors on July 29, 2015.

### Basis of measurement

These financial statements have been prepared on a going-concern and historical cost basis except for provisions, accrued employment benefits liabilities and certain financial assets and liabilities related to regulated activities, which are measured initially at fair value. Financial assets and liabilities related to regulated activities are subsequently measured at amortized cost.

### Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Partnership's functional currency.

### Use of estimates and judgement

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

## 2. Basis of preparation (cont'd)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Judgements made by management that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported.

As a regulated utility, the Partnership records certain amounts at estimated values until these amounts are finalized. The Partnership bases its estimates and judgements on historical experience, including experience with regulatory processes, current conditions and various other assumptions that are believed to be reasonable under the circumstances. These factors form the basis for making judgements about the carrying values of assets and liabilities. They are also the basis for identifying and assessing the Partnership's accounting treatment with respect to commitments and contingencies. Significant estimates include:

- Expected regulatory decisions on matters that may impact revenue;
- The recovery and settlement of financial assets and liabilities related to regulated activities, including prudence reviews by the AUC of direct assigned capital deferral account (DACDA) applications;
- Key economic assumptions used in cash flow projections;
- The estimated useful lives of assets;
- The recoverability of tangible and intangible assets, including estimates of future costs to retire physical assets or the recoverability of costs associated with direct assigned projects that have been delayed in the regulatory process;
- The recoverability of intangible assets with indefinite lives, such as goodwill; and
- The accruals for capital projects and payroll.

The Partnership applies changes in estimates prospectively as they result from new information. To the extent that a change in accounting estimate gives rise to changes in assets or liabilities, or relates to an item of equity, the Partnership adjusts the carrying amount of the related asset or liability in the period of the change.

The Partnership discloses the nature and amount of a material change in an accounting estimate that has an effect in the current period. It also discloses the nature and amount of a material change in an accounting estimate that is expected to have an effect in future periods, except when it is impracticable to estimate that effect, in which case the Partnership discloses that fact.

## 3. Summary of significant accounting policies

The following is a summary of certain of the significant accounting policies. For a complete summary of significant accounting policies, please refer to note 3 in the Partnership's most recent annual audited financial statements.

**Regulation of transmission tariff**

The Partnership operates under cost-of-service regulation in accordance with the EUA. The AUC must provide the Partnership with a reasonable opportunity to recover its prudently incurred and forecasted costs, including operating expenses, depreciation, cost-of-debt, capital and taxes associated with investment, and a fair return on investment. Fair return is determined on the basis of return on rate base and allowance for funds used during construction (AFUDC) for projects included in construction work-in-progress (CWIP). In 2014, the Partnership recognized, as authorized by the AUC, accelerated recovery of AFUDC for direct-assigned projects, which was referred to as "CWIP in Rate Base". In its general tariff application (GTA) for 2015-2016, the Partnership has proposed to discontinue using the CWIP in Rate Base model to recognize its transmission tariff revenue. Consistent with this GTA application, since January 1, 2015, the Partnership has ceased to recognize CWIP in rate base and has reverted to the AFUDC model for recognizing transmission tariff revenue. Reverting to the AFUDC model has an impact on cash flow as the related cash is received over the average life of the assets, instead of within the current year. Although the cash flow timing has changed, the amount to be recovered does not.

## 3. Summary of significant accounting policies (cont'd)

The Partnership applies for a transmission tariff based on forecasted costs-of-service. Once approved, the transmission tariff is not adjusted if actual costs-of-service differ from forecast, except for certain prescribed costs for which deferral and reserve accounts are established within the transmission tariff. The transmission tariff is received from the AESO in equal monthly installments.

All tariff adjustments arising from deferral or reserve accounts relate to services provided to the AESO during the test years, and settlement of these accounts with the AESO is not contingent on providing future services.

If, in management's judgement, a reasonable estimate can be made of the impact future regulatory decisions may have on the current period's financial statements, such an estimate will be recorded in the current period. When the AUC issues a decision affecting the financial statements of a prior period, the final effects of the decision are recorded in the period in which the decision is issued.

**Revenue recognition**

Revenues from regulated activities represent the inflow of economic benefits earned during the period arising in the ordinary course of the Partnership's operating activities. Such revenues are recognized on the accrual basis in accordance with tariffs approved by the AUC, and estimates of revenues related to services provided but not yet billed to the AESO, including revenues arising from deferral accounts. The Partnership does not recognize revenue for any portion of tariffs received but not earned. Unearned tariffs are classified as financial liabilities related to regulated activities or deferred revenue in the financial statements.

Other revenue represents revenue received from third parties and includes, but is not limited to, cost recoveries for services provided to other utilities. Other revenue is recognized on the accrual basis as the costs are incurred. Rental income from third parties is recognized on a straight-line basis over the contract term.

**Financial assets and liabilities related to regulated activities**

The regulatory and legal rights and obligations under which the Partnership operates assign the Partnership the right to bill and collect financial assets related to regulated activities from the AESO. The AESO is the Partnership's single counterparty for regulated activities and amounts billed to it by the Partnership are based on specific amounts and timing approved by the AUC. There is no future performance required by the Partnership to recover these amounts. Long-term amounts due from the AESO earn a regulatory return and are discounted at a market rate of interest.

The regulatory and legal rights and obligations under which the Partnership operates also require the Partnership to refund to the AESO certain amounts that have been received in tariff revenue that are greater than its actual expenses. Such financial liabilities related to regulated activities due to the AESO within 12 months are not discounted. Amounts due to the AESO beyond the next 12 months are discounted at a market rate of interest.

## 4. Adoption of new and revised accounting standards

**New standards effective after 2015**

IFRS 14 – *Regulatory deferral accounts* is effective for financial periods beginning on or after January 1, 2016. As the interim standard is restricted to first-time adopters of IFRS, and the Partnership has been fully compliant with IFRS since 2011, the issuance of the interim standard does not have any impact on the Partnership's financial statements or its disclosures.

IFRS 15 – *Revenue from contracts* with customers was issued by the IASB in May 2014 to provide a single revenue model to use in the recognition of revenue from contracts with customers. In July 2015, the IASB approved a one-year deferral of the effective date of IFRS 15 to January 1, 2018. The Partnership is evaluating the impact of this standard on its financial statements.

# 4. Adoption of new and revised accounting standards (cont'd)

In July 2014, the IASB issued IFRS 9 – *Financial instruments*, which is effective for financial periods beginning on or after January 1, 2018. The Partnership is evaluating the impact of this standard on its financial statements.

**Amendments to standards effective after 2015**

In 2014, the IASB issued amendments to a number of standards as well as amendments to standards under its Annual Improvements Project for 2012-2014. These amendments are effective for financial periods beginning on or after January 1, 2016. These are relatively minor amendments and the Partnership is evaluating the impact of these amendments on its financial statements.

# 5. Risk management and financial instruments

### Fair value of financial instruments

| Financial Instrument | Designated Category | Measurement Basis | Associated Risks | Fair Value at June 30, 2015 |
|---|---|---|---|---|
| Cash and cash equivalents | Fair value through profit or loss (Held for trading) | Fair value | • Market<br>• Credit<br>• Liquidity | Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates. |
| Trade and other receivables and other non-current assets *[note 6]* | Loans and receivables | Initially at fair value and subsequently at amortized cost | • Credit<br>• Liquidity | Carrying value approximates fair value due to short-term nature. |
| Trade and other payables and other non-current liabilities *[note 10]* | Other liabilities | Initially at fair value and subsequently at amortized cost | • Liquidity | Carrying value approximates fair value due to short-term nature. |
| Debt *[note 11]* | Other liabilities | Initially at fair value and subsequently at amortized cost | • Market<br>• Liquidity | $4,499.7 million. Fair values are determined using quoted market prices (which are classified as level 1 inputs) for the same or similar issues. |
| Third party deposits *[note 9]* | Fair value through profit or loss (Held for trading) | Fair value | • Market<br>• Credit<br>• Liquidity | The cash received is held in short-term investments. |
| Third party deposits liability *[note 9]* | Other liabilities | Initially at fair value and subsequently at amortized cost | • Liquidity | Carrying value approximates fair value due to the nature of the liability. |

The Partnership currently does not use hedges or other derivative financial instruments in its operations.

### Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Partnership to incur a financial loss. There is exposure to credit risk on all financial assets included in the Statement of Financial Position. To help manage this risk:

- The Partnership has a policy for establishing credit limits;
- Collateral may be required where appropriate; and
- Exposure to individual entities is managed through a system of credit limits.

## 5. Risk management and financial instruments (cont'd)

The Partnership has a concentration of credit risk as approximately 77% of its trade receivable balance is due from the AESO (December 31, 2014 – approximately 84%). The credit risk is mitigated by the fact that the AESO is an AA- rated entity by Standard & Poors, and it has been established under the EUA, while the remaining receivables are mostly due from investment grade utilities, comprised mainly of amounts due for construction services and tower and land rents.

The Partnership's maximum exposure to credit risk, without taking into account collateral held, equals the current carrying values of cash and cash equivalents, trade and other receivables, financial assets due from the AESO and third party deposits as disclosed in these financial statements.

### Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Components of market risk to which the Partnership is exposed are discussed below:

#### *Interest rate risk*

The Partnership does not have significant exposure to interest rate risk. To manage interest rate risk, the Partnership controls the proportion of floating rate debt relative to fixed rate debt. In addition, the Partnership maintains access to diverse sources of funding under its established capital markets platform.

It is the Partnership's practice to finance substantially all of its debt requirements with long-term debt securities for which interest rates are fixed during the entire term of each security, generally ranging from five to fifty years from the date of issue. To manage short-term liquidity requirements, the Partnership has established bank credit facilities under which interest rates may vary daily unless the Partnership elects to issue bankers' acceptances or commercial paper under which interest rates are fixed during the entire term, typically ranging from one week to ninety days from the date of issue. It is the Partnership's practice to issue commercial paper for substantially all of its short-term funding requirements. The Partnership may be exposed to interest rate risk upon the rollover of debt at maturity or the issuance of new debt.

#### *Foreign exchange risk*

The Partnership does not have a significant exposure to foreign exchange risk.

### Liquidity risk

Liquidity risk includes the risk that, as a result of the Partnership's operational liquidity requirements:

- It may not have sufficient funds to settle a transaction on the due date;
- It may be forced to sell financial assets below their fair market value; and,
- It may be unable to settle or recover a financial asset.

To manage this risk, the Partnership has readily accessible standby credit facilities and other funding arrangements in place; generally uses financial instruments that are tradable in highly liquid markets; and, has a liquidity portfolio structure wherein surplus funds are invested in highly liquid financial instruments. See note 11 – *Debt*, for a maturity analysis.

### Capital risk management

In managing its capital structure, the Partnership includes partners' capital, retained earnings and short-term and long-term debt in the definition of capital.

The Partnership manages its capital structure in order to reduce the cost of debt capital for customers and to safeguard its ability to continue as a going concern. In order to maintain or adjust the capital structure, the Partnership may adjust the amount of distributions paid to partners, return capital to partners or request additional contributions from partners. The Partnership reduces refinancing risk by diversifying the maturity dates of its debt obligations.

## 5. Risk management and financial instruments (cont'd)

**Summary of capital structure**

| | As at | | | |
|---|---|---|---|---|
| | **June 30, 2015** | | December 31, 2014 | |
| | **(millions)** | **%** | (millions) | % |
| Commercial paper and bank credit facilities | **$ 131.0** | **1.9** | $ 121.2 | 1.9 |
| Long-term debt (including discounts and premiums) | **4,045.1** | **60.2** | 3,695.2 | 59.2 |
| Partners' capital | **1,886.8** | **28.1** | 1,837.3 | 29.4 |
| Retained earnings | **658.0** | **9.8** | 594.4 | 9.5 |
| | **$ 6,720.9** | **100.0** | $ 6,248.1 | 100.0 |

As at June 30, 2015, the Partnership was subject to externally imposed capitalization requirements under the Master Trust Indenture and the bank credit facilities. These agreements limit the amount of debt that can be incurred relative to total capitalization. The Partnership was in compliance with these requirements as at June 30, 2015.

## 6. Trade and other receivables and other non-current assets

| | As at | |
|---|---|---|
| *(in thousands of dollars)* | **June 30, 2015** | December 31, 2014 |
| Trade receivables | **$ 117,770** | $ 71,234 |
| GST receivable | **2,882** | 23,197 |
| Recovery of joint project costs | **1,267** | 1,345 |
| Prepaid expenses and deposits | **18,921** | 11,139 |
| Current portion of financial assets related to regulated activities | **37,603** | 36,608 |
| Total trade and other receivables | **$ 178,443** | $ 143,523 |
| Non-current portion of financial assets related to regulated activities | **$ 102,010** | $ 80,731 |

Trade receivables as at June 30, 2015 include $60.8 million (December 31, 2014 - $60.0 million) due from the AESO for the June portion of the annual transmission tariff and $30.3 million (December 31, 2014 - $nil) due from the AESO for accruals related to expected adjustments to the revenue requirement in accordance with standard regulatory practice. Trade receivables also includes $18.3 million as at June 30, 2015 due from an investment grade Alberta utility for work the Partnership has done on their behalf.

Financial assets related to regulated activities include the recovery of certain costs incurred by the Partnership relating to its primary activities that are greater than what has been received to date in tariff revenue. The Partnership has recognized as receivables the costs to be recovered through the regulatory process. The current portion of such assets reflects the amounts to be recovered within the next twelve months, which includes amounts related to the deferral accounts reconciliation application for 2012 and 2013, and the 2014 direct assigned additions for the Heartland project that was filed with the AUC on December 16, 2014. Also included in the June 30, 2015 balance is $7.5 million related to cancelled projects (December 31, 2014 - $7.5 million).

The non-current portion of financial assets related to regulated activities reflects amounts to be collected beyond the next twelve months. These amounts include 2014 and 2015 year-to-date deferral accounts, which have not yet been filed with the AUC.

Financial assets related to regulated activities also include amounts that have been added to rate base (AFUDC equity, AFUDC debt, and losses on disposals of property, plant and equipment) for regulatory purposes, which will be recovered or repaid in tariff revenue over a time period, which has been approved by the AUC.

## 7. Intangible assets

| | As at | |
|---|---|---|
| | **June 30, 2015** | December 31, 2014 |
| *(in thousands of dollars)* | | |
| Net book value, beginning of period | **$ 251,063** | $ 226,686 |
| Additions to CWIP | **19,154** | 39,477 |
| Retirements, net | **—** | 237 |
| Amortization | **(6,781)** | (15,337) |
| Net book value, end of period | **$ 263,436** | $ 251,063 |

During the six months ended June 30, 2015, the Partnership transferred $27.6 million (June 30, 2014 - $15.2 million) to land rights and computer software from CWIP.

## 8. Property, plant and equipment

| | Lines[1] | Substations[2] | Buildings & equipment[3] | Land & CWIP[4] | Total |
|---|---|---|---|---|---|
| *(in thousands of dollars)* | | | | | |
| **Cost** | | | | | |
| As at January 1, 2014 | $ 1,857,239 | $ 1,888,542 | $ 139,130 | $ 1,605,459 | $ 5,490,370 |
| Additions to CWIP | — | — | — | 1,902,911 | 1,902,911 |
| Transfers | 480,730 | 607,337 | 25,360 | (1,113,427) | — |
| Self insurance reserve | (3,471) | (4,516) | — | (293) | (8,280) |
| Retirements and reclassifications | (8,666) | (12,147) | (1,967) | 297 | (22,483) |
| As at December 31, 2014 | 2,325,832 | 2,479,216 | 162,523 | 2,394,947 | 7,362,518 |
| Additions to CWIP | — | — | — | 600,652 | 600,652 |
| Transfers | 272,462 | 145,660 | 8,067 | (426,189) | — |
| Retirements | (1,803) | (3,509) | (496) | (1) | (5,809) |
| **As at June 30, 2015** | **$ 2,596,491** | **$ 2,621,367** | **$ 170,094** | **$ 2,569,409** | **$ 7,957,361** |
| **Accumulated Depreciation** | | | | | |
| As at January 1, 2014 | $ (106,821) | $ (215,385) | $ (36,137) | $ — | $ (358,343) |
| Depreciation expense | (56,071) | (82,647) | (15,063) | — | (153,781) |
| Retirements and reclassifications | (238) | 5,914 | 1,486 | — | 7,162 |
| As at December 31, 2014 | (163,130) | (292,118) | (49,714) | — | (504,962) |
| Depreciation expense | (41,537) | (53,764) | (9,544) | — | (104,845) |
| Retirements | 1,326 | 1,847 | 484 | — | 3,657 |
| **As at June 30, 2015** | **$ (203,341)** | **$ (344,035)** | **$ (58,774)** | **$ —** | **$ (606,150)** |
| **Net book value** | | | | | |
| As at December 31, 2014 | $ 2,162,702 | $ 2,187,098 | $ 112,809 | $ 2,394,947 | $ 6,857,556 |
| **As at June 30, 2015** | **$ 2,393,150** | **$ 2,277,332** | **$ 111,320** | **$ 2,569,409** | **$ 7,351,211** |

1. Lines – transmission lines and related equipment.
2. Substations – substation and telecontrol equipment.
3. Buildings & equipment – office buildings, vehicles, tools and instruments, office furniture, telephone and related equipment and computer hardware.
4. Land & CWIP – land, capitalized inventory, emergency capital spare parts and CWIP. CWIP is reclassified to the appropriate asset classes when the assets are available for use.

## 9. Third party deposits

| (in thousands of dollars) | Contributions in Advance of Construction | Operating and Maintenance Charges in Advance | Total |
|---|---|---|---|
| As at January 1, 2014 | $ 100,574 | $ 6,991 | $ 107,565 |
| Net receipts | 60,145 | (4) | 60,141 |
| Project expenditures | (116,045) | (178) | (116,223) |
| As at December 31, 2014 | 44,674 | 6,809 | 51,483 |
| Net receipts | 28,175 | — | 28,175 |
| Project expenditures | (26,092) | (90) | (26,182) |
| **As at June 30, 2015** | **$ 46,757** | **$ 6,719** | **$ 53,476** |

Third party deposits are held in short-term investments, which are reinvested as needed. These investments earned an annual effective interest rate of 1.04% up to June 30, 2015 (December 31, 2014 – 1.05%). For contributions in advance of construction, all interest received is paid annually to the AESO.

## 10. Trade and other payables and other non-current liabilities

| (in thousands of dollars) | As at June 30, 2015 | December 31, 2014 |
|---|---|---|
| Trade and accrued payables | **$ 384,543** | $ 415,002 |
| Accrued interest on long-term debt | **25,126** | 25,736 |
| Other current liabilities | **4,066** | 4,319 |
| Current portion of financial liabilities related to regulated activities | **59,150** | 7,723 |
| Total trade and other payables | **$ 472,885** | $ 452,780 |
| | | |
| Accrued post-employment benefit liabilities | **$ 6,678** | $ 6,687 |
| Other liabilities | **1,740** | 5,462 |
| Non-current portion of financial liabilities related to regulated activities | **49,472** | 404 |
| Total other non-current liabilities | **$ 57,890** | $ 12,553 |

Financial liabilities related to regulated activities include accruals for the repayment of the difference between certain costs that have been incurred by the Partnership relating to its primary activities and what has been received in tariff revenue. The difference will be refunded to the AESO through the regulatory process. The current portion of such liabilities reflects the amounts to be refunded within the next twelve months, which include the 2013 and 2014 Generic Cost of Capital (GCOC) adjustments and amounts related to the 2012 and 2013 deferral accounts reconciliation application that was filed with the AUC on December 16, 2014.

Other current liabilities include accruals for the long-term incentive plan and deferred leasehold improvements.

The non-current portion of financial liabilities related to regulated activities reflects amounts to be refunded beyond the next twelve months. These amounts include 2014 and 2015 year-to-date deferral accounts, which have not yet been filed with the AUC.

Financial liabilities related to regulated activities consists of adjustments arising from the 2013 GCOC Decision, direct assigned deferral account liabilities, debt and other regulatory adjustments which have been received in tariff revenue, but for various reasons the capital projects have not progressed as scheduled.

## 11. Debt

### Commercial paper and bank credit facilities

| As at June 30, 2015 | Committed | Drawdowns | Commercial paper outstanding | Letters of credit outstanding | Availability | Maturity date of facility |
|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | | | | | | |
| **Revolving credit facility** | **$ 925,000** | **$ —** | **$ 123,151** | **$ —** | **$ 801,849** | **December 16, 2016** |
| **Revolving credit facility** | **75,000** | **7,813** | **—** | **5,208** | **61,979** | **December 16, 2016** |
| **Total bank credit facilities** | **$ 1,000,000** | **$ 7,813** | **$ 123,151** | **$ 5,208** | **$ 863,828** | |

| As at December 31, 2014 | Committed | Drawdowns | Commercial paper outstanding | Letters of credit outstanding | Availability | Maturity date of facility |
|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | | | | | | |
| Revolving credit facility | $ 925,000 | $ — | $ 121,152 | $ — | $ 803,848 | December 16, 2016 |
| Revolving credit facility | 75,000 | — | — | 4,991 | 70,009 | December 16, 2016 |
| Total bank credit facilities | $ 1,000,000 | $ — | $ 121,152 | $ 4,991 | $ 873,857 | |

The $925.0 million revolving credit facility provides support for the borrowing under the unsecured commercial paper program and may also be used for general corporate purposes. Drawdowns under this facility may be in the form of Canadian prime rate loans or bankers' acceptances. At the renewal date, the Partnership has the option to convert the facility to a one-year term facility.

The $75.0 million revolving credit facility may be used for general corporate purposes and capital expenditures. Drawdowns under this facility may be in the form of Canadian prime rate loans, U.S. base rate loans, U.S. LIBOR loans or drawn letters of credit. At the renewal date, the Partnership has the option to convert the facility to a one-year term facility.

### Long-term debt

| | | | As at | |
|---|---|---|---|---|
| | **Effective interest rate** | **Maturing** | **June 30, 2015** | December 31, 2014 |
| *(in thousands of dollars)* | | | | |
| **Senior debt obligations** | | | | |
| Series 2006-1, 5.249% | 5.299% | 2036 | **$ 150,000** | $ 150,000 |
| Series 2008-1, 5.243% | 5.355% | 2018 | **200,000** | 200,000 |
| Series 2010-1, 5.381% | 5.432% | 2040 | **125,000** | 125,000 |
| Series 2010-2, 4.872% | 4.928% | 2040 | **150,000** | 150,000 |
| Series 2011-1, 4.462% | 4.503% | 2041 | **275,000** | 275,000 |
| Series 2012-1, 3.990% | 4.028% | 2042 | **525,000** | 525,000 |
| Series 2012-2, 2.978% | 3.041% | 2022 | **275,000** | 275,000 |
| Series 2013-1, 4.446% | 4.484% | 2053 | **250,000** | 250,000 |
| Series 2013-2, 3.621% | 3.705% | 2020 | **125,000** | 125,000 |
| Series 2013-3, 4.922% | 4.963% | 2043 | **350,000** | 350,000 |
| Series 2013-4, 3.668% | 3.733% | 2023 | **500,000** | 500,000 |
| Series 2014-1, 3.399% | 3.463% | 2024 | **350,000** | 350,000 |
| Series 2014-2, 4.274% | 4.305% | 2064 | **130,000** | 130,000 |
| Series 2014-3, 4.054% | 4.091% | 2044 | **295,000** | 295,000 |
| Series 2015-1, 4.090% | 4.119% | 2045 | **350,000** | — |
| | | | **4,050,000** | 3,700,000 |
| Debt discounts and premiums | | | **(4,913)** | (4,820) |
| Less: deferred financing fees | | | **(22,568)** | (21,317) |
| **Long-term debt** | | | **$ 4,022,519** | $ 3,673,863 |

## 11. Debt (cont'd)

In June 2015, the Partnership issued $350.0 million of Series 2015-1 Medium-Term Notes under the $2,000.0 million Short Form Base Shelf Prospectus established on June 23, 2015. The total issuance under the Short Form Base Shelf Prospectus as at June 30, 2015 was $350.0 million. The Short Form Base Shelf Prospectus expires in July 2017.

In general, the Partnership uses the proceeds from the issuance of Medium-Term Notes to repay commercial paper and indebtedness outstanding under the Partnership's credit facilities, and to finance the capital construction program.

The Medium-Term Notes are secured obligations and rank pari passu with all existing and future senior indebtedness, and ahead of all subordinated indebtedness of the Partnership.

Collateral for the Senior debt obligations consists of a first floating charge security interest on the Partnership's present and future assets. The bank credit facilities rank equally with Senior debt and all future senior secured indebtedness that is issued by the Partnership.

Senior debt is redeemable by the Partnership at the greater of (i) the prevailing Government of Canada bond yield plus a pre-determined premium, and (ii) the face amount of the debt to be redeemed plus, in each case, accrued and unpaid interest to the date of redemption. The Partnership does not intend to redeem any of its long-term debt prior to maturity.

### Scheduled principal repayments

| *(in thousands of dollars)* | |
|---|---|
| **Maturing** | |
| 2016 | $ — |
| 2017 | — |
| 2018 | 200,000 |
| 2019 | — |
| 2020 | 125,000 |
| 2021 and thereafter | 3,725,000 |

### Finance costs

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2015** | June 30, 2014 | **June 30, 2015** | June 30, 2014 |
| *(in thousands of dollars)* | | | | |
| Interest expense | **$ 39,972** | $ 31,498 | **$ 79,031** | $ 60,825 |
| Amortization of deferred financing fees | **265** | 210 | **526** | 405 |
| Capitalized borrowing costs | **(12,272)** | (334) | **(23,507)** | (664) |
| | **$ 27,965** | $ 31,374 | **$ 56,050** | $ 60,566 |

## 12. Deferred revenue

| | Third Party Contributions | Deferred Revenue for Salvage | Total |
|---|---|---|---|
| *(in thousands of dollars)* | | | |
| As at January 1, 2014 | $ 593,935 | $ 170,585 | $ 764,520 |
| Transferred from third party deposits [note 9] | 116,045 | — | 116,045 |
| Received through transmission tariff | — | 22,206 | 22,206 |
| Recognized as revenue | (20,038) | (27,125) | (47,163) |
| As at December 31, 2014 | 689,942 | 165,666 | 855,608 |
| Transferred from third party deposits [note 9] | **26,092** | **—** | **26,092** |
| Received through transmission tariff [note 14] | **—** | **12,436** | **12,436** |
| Recognized as revenue [notes 14 and 15] | **(11,673)** | **(14,439)** | **(26,112)** |
| **As at June 30, 2015** | **$ 704,361** | **$ 163,663** | **$ 868,024** |
| | | | |
| Current portion | | | $ 64,933 |
| Long-term portion | | | 790,675 |
| As at December 31, 2014 | | | $ 855,608 |
| | | | |
| Current portion | | | **$ 51,644** |
| Long-term portion | | | **816,380** |
| **As at June 30, 2015** | | | **$ 868,024** |

Deposits received from third parties used to finance certain capital construction costs and other charges received in advance are initially recorded as deferred revenue and then subsequently recognized as revenue over the lives of the related assets. Funds provided by the regulator to pay for salvage costs are released into revenue when the associated costs are incurred.

## 13. Related party transactions

Effective December 1, 2014, the Partnership was wholly owned by BHE, and therefore SNC-Lavalin ATP Inc. ceased to be a related party at that time.

In the normal course of business, the Partnership transacts with its partners and other related parties. The following transactions were measured at the exchange amount:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2015** | June 30, 2014 | **June 30, 2015** | June 30, 2014 |
| *(in thousands of dollars)* | | | | |
| Employee compensation and benefits | | | | |
| AltaLink Management Ltd. | **$ 32,826** | $ 31,040 | **$ 67,991** | $ 65,147 |
| Construction related services | | | | |
| SNC – Lavalin ATP Inc. | **—** | 315,811 | **—** | 670,644 |
| Cost recovery for non-regulated activities | | | | |
| AltaLink Investments, L.P. | **716** | 242 | **1,312** | 575 |
| Cost recovery for non-regulated activities | | | | |
| AltaLink Holdings, L.P. | **2** | 1,236 | **26** | 1,828 |

## 13. Related party transactions (cont'd)

Amounts included in trade and other payables at June 30, 2015, except for the SNC related parties, which are provided as at November 30, 2014, are:

| | | As at | |
|---|---|---|---|
| | **June 30, 2015** | December 31, 2014 | November 30, 2014 |
| *(in thousands of dollars)* | | | |
| AltaLink Management Ltd. | **$ 476** | $ 24,407 | $ — |
| SNC-Lavalin ATP Inc. | **—** | — | 439,177 |
| AltaLink Investments, L.P. | **(269)** | 1,988 | — |

None of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are due on a 30-day term and are settled in cash.

For the three and six months ended June 30, 2015 and 2014, there were no other material related party transactions.

## 14. Revenue from operations

On January 26, 2015 the AUC issued Decision 3504-D01-2015, approving the Partnership's Interim Tariff Application for 2015, as filed, and increased the tariff, effective January 1, 2015, to $60.8 million per month.

The following table summarizes the timing differences between the approved interim transmission tariff and revenue from operations earned during the period.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2015** | June 30, 2014 | **June 30, 2015** | June 30, 2014 |
| *(in thousands of dollars)* | | | | |
| Return on rate base | **$ 66,711** | $ 76,500 | **$ 135,161** | $ 135,300 |
| Recovery of forecast expenses | **102,910** | 72,900 | **204,269** | 134,200 |
| Deemed income taxes | **12,741** | 16,200 | **25,295** | 27,100 |
| Approved interim transmission tariff | **182,362** | 165,600 | **364,725** | 296,600 |
| (Repayable)/receivable directly assigned capital projects related revenue | **(19,222)** | (10,157) | **(48,118)** | 6,230 |
| (Repayable)/receivable property taxes and other | **759** | 428 | **(2,097)** | 1,401 |
| Adjustments related to regulatory activities | **20,834** | 4,064 | **39,618** | 3,842 |
| **Revenue from operations** | **$ 184,733** | $ 159,935 | **$ 354,128** | $ 308,073 |

In the table above, the Partnership has adjusted the approved interim transmission tariff for deferral accounts and other items that the Partnership expects the AUC to incorporate in the Partnership's final approved tariffs. The Partnership has also included in the table, adjustments to recognize differences in accounting treatment for IFRS purposes, compared to regulatory purposes, as shown in more detail in the table below.

On June 1, 2015, the General Partner filed an amendment to the 2015-2016 general tariff application, seeking the AUC's approval of additional measures to reduce transmission tariffs for AltaLink's customers and strengthen the Partnership's capital structure. As the Partnership is unable to estimate whether the AUC will approve the measures applied for in the GTA, as amended, no adjustment has been made to recognize the impact of those items in the revenue reflected above. Any adjustments to transmission tariff will be recorded in the period in which the decision is issued.

## 14. Revenue from operations (cont'd)

In Decisions 2011-474 and 2013-459, the AUC approved a placeholder of 8.75% for 2013 and 2014 return on common equity pending a final decision as part of the 2013 Generic Cost of Capital (GCOC) proceeding. The AUC issued Decision 2191-D01-2015 in March 2015 and in its decision, AUC decreased the generic rate of return on common equity from 8.75% to 8.30% and decreased the Partnership's common equity ratio from 37% to 36% for the years 2013, 2014 and 2015. The approved rates will remain in effect on an interim basis for 2016 and beyond. The decision reduced the revenue that had previously been recognized for 2013 and 2014 by approximately $11 million and $16 million, respectively. The Partnership and other Alberta utilities have applied to the Alberta Court of Appeal for Leave to Appeal Decision 2191-D01-2015. The appeal is based on, among other things, the AUC's failure to compensate the Partnership and the other utilities for the increased risk arising from the Utility Asset Disposition Decision and for the AUC's failure to set a return on equity for 2013 and 2014 in compliance with the fair return standard.

The impact of the GCOC Decision is shown below.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2015** | June 30, 2014 | **June 30, 2015** | June 30, 2014 |
| *(in thousands of dollars)* | | | | |
| 2013 and 2014 GCOC adjustments | **$ —** | $ — | **$ (27,200)** | $ — |

For the three and six months ended June 30, 2015, approximately 90% of the Partnership's revenue is attributable to the AESO (June 30, 2014 – approximately 95%).

Adjustments are recorded to revenue from operations in order to recognize differences in accounting treatment for IFRS purposes, compared to regulatory purposes, as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2015** | June 30, 2014 | **June 30, 2015** | June 30, 2014 |
| *(in thousands of dollars)* | | | | |
| AFUDC net of capitalized borrowing costs | **$ 16,599** | $ 418 | **$ 35,909** | $ 811 |
| Revenue related to salvage costs [note 12] | **9,796** | 7,413 | **14,439** | 10,624 |
| Recovery of loss on disposal of assets | **925** | 1,825 | **2,091** | 2,894 |
| Salvage costs transferred to deferred revenue [note 12] | **(6,288)** | (5,476) | **(12,436)** | (10,258) |
| Other | **(198)** | (116) | **(385)** | (229) |
| | **$ 20,834** | $ 4,064 | **$ 39,618** | $ 3,842 |

## 15. Expenses

### Operating expenses

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2015** | June 30, 2014 | **June 30, 2015** | June 30, 2014 |
| *(in thousands of dollars)* | | | | |
| Employee salaries and benefits | **$ 10,981** | $ 12,567 | **$ 26,708** | $ 27,463 |
| Contracted labour | **24,134** | 8,814 | **31,383** | 13,990 |
| Other operating expenses | **4,493** | 6,213 | **12,551** | 11,978 |
| | **$ 39,608** | $ 27,594 | **$ 70,642** | $ 53,431 |

## 15. Expenses (cont'd)

**Property taxes, salvage and other expenses**

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2015** | June 30, 2014 | **June 30, 2015** | June 30, 2014 |
| *(in thousands of dollars)* | | | | |
| Property and business tax | **$ 11,296** | $ 7,368 | **$ 18,871** | $ 14,734 |
| Salvage expenses | **9,796** | 7,413 | **14,439** | 10,624 |
| Annual structure payments | **3,703** | 3,647 | **7,163** | 5,504 |
| Hearing expenses and other | **57** | — | **222** | 2,336 |
| | **$ 24,852** | $ 18,428 | **$ 40,695** | $ 33,198 |

Property taxes, salvage and other expenses do not have an impact on net income because they are fully recovered in tariff revenue (note 14 - *Revenue from operations*).

## 16. Commitments

The contractual commitments of the Partnership associated with the construction of new facilities as at June 30, 2015 are $587.5 million (December 31, 2014 - $979.4 million).

The Partnership is committed to operating leases that have lease terms which expire between 2015 and 2026. Of the total expected minimum lease payments, approximately 88% relates to the Partnership's head office leases.

Expected minimum lease payments in future years are as follows:

| | As at June 30, 2015 |
|---|---|
| *(in thousands of dollars)* | |
| **Operating lease obligations payable on non-cancellable leases are as follows:** | |
| No later than 1 year | **$ 4,343** |
| Later than 1 year and no later than 5 years | **16,032** |
| Later than 5 years | **17,618** |
| | **$ 37,993** |

## 17. Contingencies

From time to time, the Partnership is subject to legal proceedings, assessments, claims and regulatory matters in the ordinary course of business, including the following:

- In June 2009, the Partnership was served with an action, alleging that the Plaintiff and the Partnership had concluded a binding agreement for the sale to the Plaintiff of certain lands.
- In September 2012, a fire occurred on grasslands on which are located transmission facilities owned and operated by another utility and are under an operating services agreement with the Partnership. In September 2014, the other utility and the Partnership were served with a number of actions related to this incident.
- In 2013, a road construction company damaged another utility's transmission line, causing loss of power. Two refinery owners filed statements of claim for damages against the construction company, which in turn filed third party claims against the Partnership and the other utility.

## 17. Contingencies (cont'd)

- The AUC approved a project to upgrade a transmission line that is owned by another utility and located on land owned by a First Nation, which has refused to allow the Partnership to access its land. In December 2014, the First Nation filed a Statement of Claim against a number of parties, including the Partnership. The claim, which was amended in Q1, 2015 alleges trespass by the Partnership and seeks damages.
- The Partnership has a number of cost recovery applications that are currently before the AUC, as part of the normal regulatory process for reviewing cost recovery applications before making a final decision on the prudence of such costs.
- The Partnership has found instances of equipment, engineering or construction deficiencies following acceptance and energization of some assets, prior to expiration of warranty periods. Claims processes are in place to seek recovery for such deficiencies. Arbitration or litigation may occur in relation to any claims process, which may result in litigation by or against the Partnership.

At this time, in the opinion of management, none of these matters is expected to result in a material adverse effect on the Partnership's financial position or financial performance.