

**2009**

**FINANCIAL  
STATEMENTS**

**AltaLink, L.P.**

For the years ended December 31, 2009 and 2008

**ALTALINK**

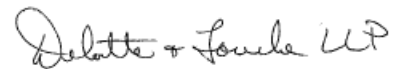
## AUDITORS' REPORT

### To the Partners of AltaLink, L.P.

We have audited the balance sheets of AltaLink, L.P. as at December 31, 2009 and 2008 and the statements of income, comprehensive income and retained earnings, changes in partners' equity and cash flows for the years then ended. These financial statements are the responsibility of AltaLink, L.P.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of AltaLink, L.P. as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



January 29, 2010  
Calgary, Alberta

Chartered Accountants

## Balance Sheets

	As at	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 8,319	\$ —
Accounts receivable <i>[note 12]</i>	24,534	20,991
Prepaid expenses and deposits	7,646	11,476
Regulatory assets <i>[note 7]</i>	1,469	516
	<b>41,968</b>	<b>32,983</b>
Property, plant and equipment <i>[notes 3d and 8]</i>	1,687,990	1,223,606
Contributions in advance of construction	50,620	39,751
Operating and maintenance charges in advance	12,222	7,733
Regulatory assets, long-term <i>[note 7]</i>	2,378	2,797
Accrued benefit pension asset <i>[note 9]</i>	2,042	2,079
Goodwill	202,066	202,066
	<b>\$ 1,999,286</b>	<b>\$ 1,511,015</b>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[note 12]</i>	\$ 120,430	\$ 42,965
Other liabilities	1,753	1,319
Regulatory liabilities <i>[note 7]</i>	11,073	6,759
Current portion of long-term debt <i>[note 10]</i>	376	142
	<b>133,632</b>	<b>51,185</b>
Accrued employment benefits liabilities <i>[note 9]</i>	3,034	2,442
Other liabilities, long-term	3,416	3,242
Contributions in advance of construction liability	50,620	39,751
Operating and maintenance charges in advance liability	12,222	7,733
Regulatory liabilities, long-term <i>[note 7]</i>	124,445	20,774
Asset retirement obligations <i>[note 11]</i>	186,305	60,181
Long-term debt <i>[note 10]</i>	804,107	818,388
	<b>1,317,781</b>	<b>1,003,696</b>
<b>Commitments and contingencies <i>[notes 18 and 19]</i></b>		
<b>Partners' equity</b>		
Partners' capital <i>[note 20]</i>	549,036	408,536
Retained earnings	132,469	98,783
	<b>681,505</b>	<b>507,319</b>
	<b>\$ 1,999,286</b>	<b>\$ 1,511,015</b>

See accompanying notes to the financial statements

Approved on behalf of the Board of Directors

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

## Statements of Income, Comprehensive Income and Retained Earnings

	Year ended	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
<b>REVENUE</b>		
Transmission tariff <i>[note 13]</i>	\$ 236,134	\$ 222,228
Miscellaneous revenue <i>[note 14]</i>	14,927	8,656
Allowance for equity funds used during construction	6,597	2,472
	<b>257,658</b>	<b>233,356</b>
<b>EXPENSES</b>		
Operating <i>[note 12]</i>	72,155	61,319
Property taxes	16,475	16,753
Depreciation and accretion	79,150	74,487
	<b>167,780</b>	<b>152,559</b>
	<b>89,878</b>	<b>80,797</b>
Interest and amortization of deferred financing fees <i>[notes 10e and 12]</i>	<b>(44,422)</b>	<b>(44,169)</b>
Allowance for debt funds used during construction	7,281	3,278
	<b>52,737</b>	<b>39,906</b>
Gains on disposals of assets	3,792	822
<b>Net and comprehensive income for the year</b>	<b>\$ 56,529</b>	<b>\$ 40,728</b>
<b>Retained earnings, beginning of year</b>	<b>\$ 98,783</b>	<b>\$ 80,055</b>
Distributions	<b>(22,843)</b>	<b>(22,000)</b>
Net income for the year	<b>56,529</b>	<b>40,728</b>
<b>Retained earnings, end of year</b>	<b>\$ 132,469</b>	<b>\$ 98,783</b>

See accompanying notes to the financial statements

## Statements of Changes in Partners' Equity

	Units	Limited Partner	General Partner	Total
		(in thousands)		
<b>Balance at December 31, 2007</b>	<b>331,904</b>	<b>\$ 488,549</b>	<b>\$ 42</b>	<b>\$ 488,591</b>
Net income for the year	—	40,724	4	40,728
Distributions	—	(21,998)	(2)	(22,000)
<b>Balance at December 31, 2008</b>	<b>331,904</b>	<b>507,275</b>	<b>44</b>	<b>507,319</b>
Net income for the year	—	56,523	6	56,529
Distributions	—	(22,841)	(2)	(22,843)
Equity investment received <i>[note 20]</i>	—	140,500	—	140,500
<b>Balance at December 31, 2009</b>	<b>331,904</b>	<b>\$ 681,457</b>	<b>\$ 48</b>	<b>\$ 681,505</b>

See accompanying notes to the financial statements

## Statements of Cash Flows

	Year ended	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
<b>OPERATING ACTIVITIES</b>		
Net income for the year	\$ 56,529	\$ 40,728
Items not involving cash:		
Depreciation	70,245	71,524
Amortization of deferred financing fees	1,604	1,697
Accretion	8,905	2,963
Allowance for funds used during construction	(13,878)	(5,750)
Gains on disposals of assets	(3,792)	(822)
Change in regulatory assets and liabilities	(4,752)	4,333
Change in other non-cash items	803	1,352
Asset retirement obligations settled	(1,236)	(2,651)
Funds generated from operations	114,428	113,374
Change in non-cash working capital items <i>[note 15]</i>	9,656	24,984
Cash provided by operating activities	124,084	138,358
<b>INVESTING ACTIVITIES</b>		
Capital expenditures <i>[note 8]</i>	(364,541)	(168,758)
Change in non-cash working capital items <i>[note 15]</i>	71,890	(5,452)
Use of customer contributions related to capital expenditures <i>[note 8]</i>	70,552	32,883
Proceeds from disposals of assets	3,841	848
Cash used in investing activities	(218,258)	(140,479)
<b>FINANCING ACTIVITIES</b>		
Senior debt issued	102,840	100,142
Senior debt repaid	(248)	(100,135)
Net change in commercial paper and bank credit	(117,080)	24,322
Distributions	(22,843)	(22,000)
Equity investment received	140,500	—
Net change in other financing activities <i>[note 16]</i>	(676)	(208)
Cash provided by financing activities	102,493	2,121
<b>Net increase in cash and cash equivalents</b>	<b>8,319</b>	<b>—</b>
Cash and cash equivalents, beginning of year	—	—
<b>Cash and cash equivalents, end of year</b>	<b>\$ 8,319</b>	<b>\$ —</b>
<b>Cash interest paid during the year</b>	<b>\$ 45,091</b>	<b>\$ 42,594</b>

See accompanying notes to the financial statements

## 1. Nature of operations

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

The Partnership is a regulated electric utility under the jurisdiction of the Alberta Utilities Commission (AUC). Effective January 1, 2008, the AUC assumed responsibility from the Alberta Energy and Utilities Board (EUB) for regulating all investor-owned natural gas, electric and water utilities, certain gas pipelines and certain municipally-owned electric utilities.

The Partnership is indirectly owned by two limited partners. SNC-Lavalin Transmission Ltd. indirectly owns 76.915% of AltaLink, L.P. through subsidiaries, and Macquarie Transmission Alberta Ltd. owns the remaining 23.075%.

The Partnership is an electricity transmission facility owner, whose business is the ownership and operation of regulated electricity transmission facilities solely in the Province of Alberta. The Partnership also owns and operates Alberta's portion of the interconnection facilities which connect its network with the transmission system in British Columbia, and allow electricity to flow into and out of Alberta.

During the years ended December 31, 2009 and 2008, AltaLink operated in one primary reportable geographical and business segment, the ownership and operation of regulated electricity transmission facilities in the Province of Alberta. For the year ended December 31, 2009, approximately 94% (*Tariff Revenue and AFUDC Equity*) (December 31, 2008 – 96%) of the Partnership's revenue is from the Alberta Electrical System Operator (AESO).

## 2. Basis of accounting

Management has prepared the Partnership's financial statements in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting policies described in note 3(a) for the recognition and measurement of assets and liabilities arising from rate regulation. All amounts reported are in Canadian dollars unless otherwise stated.

These financial statements reflect the Partnership's financial position and results of operations and do not include all of the assets, liabilities, revenues and expenses of the partners.

### 3. Summary of significant accounting policies

#### a) Regulation

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

The Partnership operates under cost of service regulation as prescribed by the AUC. Under the EUA, the AUC must provide us with a reasonable opportunity to recover our forecast 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) on construction work in progress (CWIP). The Partnership applies for tariff revenue based on forecast costs of service. Once the tariff is approved, it is not adjusted as a result of actual costs of service being different from that which was forecast, other than for certain prescribed costs, as explained further below.

The Partnership accounts for certain transactions using regulatory accounting when three criteria are met: (i) the rates for regulated services or products provided to customers are established by or are subject to approval by an independent, third-party regulator; (ii) the regulated rates are designed to recover the cost of providing the services or products; and (iii) in view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates are set at levels that will recover the cost that can be charged to and collected from customers.

Under regulatory accounting, the Partnership accounts for some transactions or events differently than it would in the absence of rate regulation. Through the regulatory process, certain expenses and credits are deferred as assets or liabilities on the balance sheet. Regulatory assets represent costs incurred in the current period or in prior periods that are expected to be recovered in future periods. Regulatory liabilities represent amounts collected which are either held as reserves for future use or are to be refunded in future periods. For information regarding the regulatory assets and liabilities recorded by the Partnership, see note 7 - *Regulatory Assets and Liabilities*.

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



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

#### b) Measurement uncertainty

GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Certain estimates are necessary since the regulatory environment the Partnership operates within often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions, or other regulatory proceedings. Due to inherent uncertainty involved in making estimates, actual results reported in future periods could differ significantly from those estimates.

Significant estimates include: key economic assumptions used to determine the fair value of cash flows; the allowance for doubtful accounts; the allowance for obsolescence of materials and supplies; the estimated useful lives of assets; the recovery of intangible assets; estimates of future costs to retire physical assets; the recovery of costs associated with direct assigned projects; the valuation of intangible assets with indefinite lives, such as goodwill; the amount of future income tax liability; the accruals for accrued liabilities, payroll and other employee-related liabilities; certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets; and, the recovery and settlement of the regulated assets and liabilities.

#### c) Cash and cash equivalents

Cash equivalents include investments that are readily convertible into a known amount of cash and which have an original maturity of three months or less.

#### d) Property, plant and equipment

Property, plant and equipment are carried at cost, which includes direct labour, materials and allocated overheads, less depreciation. The Partnership capitalizes major replacements and upgrades to property, plant and equipment if these costs have been included in capital assets for regulatory purposes and are expected to be recovered within rates. The Partnership capitalizes an allowance for funds used during construction which represents the cost of debt and equity financing incurred during construction as approved by the AUC. AFUDC is a non-cash item that will be recovered in rates charged to customers over the service life of the assets, commencing with the assets' inclusion in the rate base.

Depreciation is calculated on a straight-line basis, based on depreciation studies prepared by the Partnership which have also been approved by the AUC for regulation of tariffs. The depreciation rates are based on the estimated useful lives of assets. For more information, see note 8 – *Property, Plant and Equipment*.

	Approved Rates	Weighted Average Rates for 2009
Lines	1.73% - 6.24%	3.34%
Substations	1.85% - 6.78%	4.96%
Buildings & equipment	2.71% - 20.00%	9.01%
Land & CWIP	Not subject to depreciation	—
Long-lived assets	See note 11	—
Customer contributions	3.35%	3.35%

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

#### d) Property, plant and equipment (cont'd)

Changes to depreciation rates are accounted for on a prospective basis. The rates are applied to the original historical capital costs, which are used for regulatory rate setting purposes and may be greater than those reflected in these financial statements. Non-emergency spare parts and long-term capital inventory items are included in the property, plant and equipment balance, but are not depreciated. These assets are valued at the lower of cost or net realizable value. Cost is determined on a moving average cost basis, other than for major equipment, which is determined on a specific item basis. For regulatory purposes, the net proceeds from the retirement or disposal of an asset in the normal course of business is reflected in accumulated depreciation. When a regulated asset is retired or disposed of in the normal course of business, there is no gain or loss recorded in income, other than for land. Any difference between the cost of the asset and the accumulated depreciation is charged to the accumulated depreciation account for that asset.

#### e) Contributions and operating and maintenance charges in advance of construction

For certain projects, customers contribute their share of capital project costs in advance of construction. The Partnership is entitled to use these cash contributions to fund capital expenditures as construction progresses. The customers' shares of capital project costs are offset against the cost of property, plant and equipment and are amortized over the useful life of the assets.

In addition, certain customers are required to provide advance funding for future operating and maintenance costs of customer contributed assets. After these assets are put into service, the Partnership draws down these contributions to fund related operating and maintenance costs over the life of the related assets.

#### f) Deferred financing fees

Costs incurred to arrange debt financing are capitalized as deferred financing fees and are recorded as an offset to long-term debt. Deferred financing costs that are not expected to be recovered through rates are amortized using the effective interest rate method over the term of the related debt. Deferred financing fees that are expected to be recovered through transmission tariff rates are amortized using methods and rates approved by the AUC. The amortization of these charges is included as part of interest on debt.

#### g) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any write-down for impairment. In the last quarter of each fiscal year and as economic events dictate, management reviews the valuation of the goodwill, taking into consideration any events or circumstances which might have impaired the fair value.

Management performed a goodwill impairment test in December 2009 by examining the business and regulatory environment, current market conditions, the ownership structure, financing activities, credit ratings, and interest rates. It also performed a discounted cash flow and net fair value analysis, which compared favourably to the carrying amount of goodwill. Management concluded that there have been no significant changes in circumstances since the fair value determination in December 2008 and that the carrying value of the goodwill has not been impaired.

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

#### h) Employee future benefit plans

The General Partner employs staff and provides administrative and operational services to the Partnership on a cost reimbursement basis. The Partnership bears all of the related expenses and also bears the risk and reward of any pension plans or other staff related programs which the General Partner establishes. The Partnership has indemnified the General Partner for all costs and liabilities associated with its employment of staff, including any pension liabilities. As such, the employee future benefit plans of the General Partner are reported as if they were provided by the Partnership even though the legal sponsor of the plans and employer of the staff is the General Partner. Current service costs are expensed in the period in which they are incurred.

The benefit cost of the Partnership's defined benefit pension and post-retirement benefits plans is actuarially determined, by plan, using the projected benefit method pro-rated on service and management's best estimate assumptions, including assumptions of the expected long-term rate of return on plan assets, discount rates, salary escalation and expected growth rate of health care costs. The liability discount rate is determined based on a portfolio of high-quality corporate bonds with cash flows that match the expected benefit payments under the plan. Market values are used to value benefit plan assets.

Cumulative net unamortized actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or fair value of plan assets at the beginning of the fiscal year and unamortized past service costs are amortized over the expected average remaining service lifetime of active employees receiving benefits under the plan.

When the recognition of a transfer of employees and employee related benefits gives rise to a curtailment and a settlement of obligations, the curtailment is accounted for prior to settlement.

The employee future pension expense is calculated under GAAP. However, under regulatory accounting principles, the final employee future benefit expense recognized in these financial statements is adjusted for amounts which will be recovered within rates (notes 7 – *Regulatory Assets and Liabilities* and 9 – *Employee Future Benefits Plans*).

#### i) Taxes

As a limited partnership, AltaLink does not pay income taxes. Instead, the tax consequences of its operations are borne by its partners on a pro-rata basis in proportion to their interest in the Partnership. Accordingly, no tax expense is recognized in these financial statements.

On October 31, 2006, the Minister of Finance (Canada) announced the Specified Investment Flow-Through (SIFT) Rules, which proposed changes to the manner in which certain partnerships are taxed. In management's opinion, the Partnership is not subject to the SIFT Rules, and no provision for such taxes has been made in the financial statements. On December 20, 2007, the Federal Minister of Finance announced proposed technical amendments, that align with the opinion of management, to ensure that only those structures targeted by the SIFT Rules will be subject to the SIFT regime. On March 12, 2009, the technical amendments received Royal Assent.

#### j) Foreign currency translation

The Partnership's functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Revenues and expenses are translated at the exchange rate prevailing on the date of the transaction except for depreciation and amortization, which are translated at the exchange rate prevailing when the related assets were acquired. Gains and losses on translation are reflected in income when incurred.

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

#### k) Revenue recognition

Revenues from rate regulated operations are recognized on the accrual basis in accordance with revenue requirements approved by the AUC, and include an estimate of services provided but not yet billed. Any revenue that has been received but not yet earned is classified as other liabilities in the financial statements. Miscellaneous revenue includes, but is not limited to, services provided on a cost recovery basis to other utilities. A summary of miscellaneous revenue and its components is provided in note 14 – *Miscellaneous Revenue*.

#### l) Deferred lease inducements

Deferred lease inducements represent leasehold improvements paid for by the landlord. Deferred lease inducements are amortized on a straight-line basis over the periods of the leases, and the amortization is recorded as a reduction of rent expense. The unamortized balance in deferred lease inducements is included in “Other liabilities”.

#### m) Asset retirement obligations

The estimate of the fair value of liabilities for asset retirement obligations is recognized in the period they are incurred. A corresponding increase to the carrying amount of the related asset is recorded and depreciated over the life of the asset. The amount of the liability is subject to re-measurement at each reporting period and is accreted over the estimated time period until settlement of the obligation.

### 4. Changes in significant accounting policies

#### Changes affecting the current year financial statements

#### a) Financial instruments

Effective September 30, 2009 the Partnership adopted the amendments to CICA Handbook Section 3862, *Financial Instruments – Disclosure*. The amendments require an entity to disclose a quantitative maturity analysis for financial liabilities that shows the remaining contractual maturities and establish a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

- Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities (level 1).
- Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability (level 2).
- Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement (level 3).

#### 4. Changes in significant accounting policies (cont'd)

##### b) Accounting for rate regulated operations

Beginning on January 1, 2009, Section 1100 of the CICA Handbook, *Generally Accepted Accounting Principles* was amended to remove a temporary exemption pertaining to the recognition of assets and liabilities arising from rate regulation. In addition, effective the same date, Section 3465 of the CICA Handbook, *Income Taxes* was also amended. There are no changes to the Partnership's financial statements other than the prospective reclassification at January 1, 2009 of \$145.4 million (December 31, 2009 - \$108.4 million) from property, plant and equipment to the provision for future removal and site restoration which is included in regulatory liabilities on the balance sheet. There is no impact on the Partnership's net income as a result of this change.

##### c) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Various changes have also been made to other sections of the CICA Handbook for consistency purposes. The Partnership adopted the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062, and as a result, there is no impact on the Partnership's financial statements.

## 5. Financial instruments

### a) Fair value of financial instruments

Financial Instrument	Designated Category	Measurement Basis	Associated Risks	Fair Value at December 31, 2009
Cash and cash equivalents	Held for trading	Fair value	<ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul>	Measured at fair value
Accounts receivable	Loans and receivables	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Credit</li> <li>• Liquidity</li> </ul>	Carrying value approximates fair value due to short-term nature
Regulatory assets, short-term and long-term	Loans and receivables	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Credit</li> <li>• Liquidity</li> </ul>	Carrying value approximates fair value due to nature of asset <sup>1</sup>
Accounts payable and accrued liabilities	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Carrying value approximates fair value due to short-term nature <sup>2</sup>
Regulatory liabilities, short-term and long-term	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Carrying value approximates fair value due to nature of liability <sup>1</sup>
Long-term debt	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Market</li> <li>• Liquidity</li> </ul>	\$834.2 million <sup>3</sup>
Contributions in advance of construction	Held for trading	Fair value	<ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul>	Measured at fair value <sup>4</sup>
Contributions in advance of construction liability	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Carrying value approximates fair value due to the nature of the liability <sup>4</sup>
Operating and maintenance charges in advance	Held for trading	Fair value	<ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul>	Measured at fair value <sup>5</sup>
Operating and maintenance charges in advance liability	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Carrying value approximates fair value due to the nature of the liability <sup>5</sup>

## 5. Financial instruments (cont'd)

1. Regulatory assets and liabilities are amounts collected in advance or under collected in revenue requirement which are settled either through a GTA or a separate filing. These amounts have typically been settled at or close to management's estimate.
2. Accounts payable and accrued liabilities are expected to mature in less than one year.
3. Fair values are determined using quoted market prices (which are classified as level 1 inputs) for the same or similar issues. Where market prices are not available, fair values are estimated using discounted cash flow analysis based on the Partnership's current borrowing rate for similar borrowing arrangements.
4. Contributions in advance of construction are held in short-term investments, the carrying values of which do not differ materially from the fair values. Contributions in advance of construction earned an effective interest rate of 0.25% for the year ended December 31, 2009 (December 31, 2008 - 1.49%). Interest received is accumulated throughout the year and paid annually to the AESO.
5. Operating and maintenance charges in advance are held in short-term investments, the carrying values of which do not differ materially from the fair values. Operating and maintenance charges in advance earned an effective interest rate of 0.25% for the year ended December 31, 2009 (December 31, 2008 - 1.49%).

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

### b) 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 balance sheet. 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.

The Partnership has a concentration of credit risk as approximately 91% of its accounts receivable balance is due from the AESO (December 31, 2008 – 95%). For the year ended December 31, 2009, transmission tariff revenues accounted for approximately 92% (December 31, 2008 – 95%) of operating revenues. The remainder was comprised mainly of revenue from tower and land leases and the provision of services to other utilities.

The AESO is the Independent System Operator established as a statutory corporation under the EUA of the Province of Alberta, whose board members are appointed by the Alberta Minister of Energy. The remainder of the receivables are mostly from investment grade entities.

The Partnership does not require an allowance for doubtful accounts. As of December 31, 2009, over 99% of receivables have been outstanding for less than 30 days (December 31, 2008 – 99%).

The Partnership's maximum exposure to credit risk as at December 31, 2009, without taking into account collateral held, equalled the current carrying values of accounts receivable, contributions in advance of construction, operating and maintenance charges in advance and regulatory assets as disclosed in these financial statements.

## 5. Financial instruments (cont'd)

### c) 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.

#### i) Interest rate risk

Approximately 90% of the long-term debt issued by the Partnership has been approved by the AUC as regulatory debt, and the associated interest costs are fully recoverable through revenue requirements at approved interest rates. The Partnership is not exposed to interest rate risk with respect to the cost of the approved component of long-term debt issues during the current General Tariff Application period, due to deferral account treatment (note 7).

The non-regulated components of the long-term debt have been issued at fixed rates, maturing in 2012 and 2013, and the Partnership may be exposed to interest rate price risk upon renewal.

The Partnership's commercial paper, bankers' acceptances and bank loans have variable interest rates and, accordingly, expose the Partnership to interest rate cash flow risk through fluctuations in the variable interest rates.

To help manage interest rate risk, the Partnership controls the proportion of fixed and variable rate positions in accordance with the capital structure and ensures access to diverse sources of funding.

The Partnership's commercial paper, bankers' acceptances and bank loans are not subject to deferral account treatment. The Partnership forecasts the interest rate on its commercial paper, bankers' acceptances and bank loans in the GTA and is subject to interest rate risk. As at December 31, 2009, the Partnership had \$48.0 million of commercial paper at an average rate of 0.40%. A 10% increase in short-term interest rates would increase interest expense and reduce net income for the year by \$0.005 million.

#### ii) Foreign exchange risk

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

### d) Liquidity risk

Liquidity risk includes the risk that, as a result of the Partnership's operational 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 at all.

To manage this risk, the Partnership has readily accessible standby credit facilities and other funding arrangements in place; generally uses financial instruments that are tradeable in highly liquid markets; and, has a liquidity portfolio structure wherein surplus funds are invested in highly liquid financial instruments.



## 6. Capital risk management

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

The Partnership manages its capital risks to maintain an optimal capital structure to reduce the cost of capital for customers and other stakeholders 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.

### Summary of capital structure

	December 31, 2009		As at December 31, 2008	
	(millions)	%	(millions)	%
Total long-term debt <sup>1</sup>	\$ 810.5	54.0	\$ 825.2	61.9
Partners' capital	549.0	36.6	408.5	30.7
Retained earnings	132.5	8.8	98.8	7.4
Cash and cash equivalents	8.3	0.6	—	—
<b>Total</b>	<b>\$ 1,500.3</b>	<b>100.0</b>	<b>\$ 1,332.5</b>	<b>100.0</b>

1. Does not include deferred financing fees of \$6.4 million (December 31, 2008 - \$6.9 million)

As at December 31, 2009, the Partnership was subject to externally imposed capital requirements under the Master Trust Indenture and the bank credit facilities described in note 10 - *Debt*. These reports limit the amount of debt that can be incurred relative to partners' equity. The Partnership was in compliance with these capital requirements as at December 31, 2009.

## 7. Regulatory assets and liabilities

	As at December 31, 2009	Change to regulatory asset/liability balance in 2009	Remaining recovery/ settlement period (years)	As at December 31, 2008
(in thousands of dollars)				
<b>Regulatory assets</b>				
Regulated financing fees <sup>A, B</sup>	\$ 791	\$ (487)	2	\$ 1,278
Hearing costs reserve <sup>A, B</sup>	442	(74)	1-2	516
Canada Revenue Agency deferral	—	(542)	—	542
Debt cost deferral account <sup>A</sup>	977	—	1-2	977
500 kV costs	1,637	1,637	1	—
<b>Total regulatory assets</b>	<b>3,847</b>			<b>3,313</b>
<b>Less: Current portion of regulatory assets</b>	<b>1,469</b>			<b>516</b>
<b>Regulatory assets, long-term</b>	<b>\$ 2,378</b>			<b>\$ 2,797</b>
<b>Regulatory liabilities</b>				
Self-insurance reserve <sup>A, B</sup>	\$ 1,398	\$ 294	1-2	\$ 1,104
Pension liability account <sup>B</sup>	3,623	(162)	—	3,785
Pension asset offset [note 9]	2,042	(37)	—	2,079
Future income tax liability <sup>B</sup>	8,100	—	—	8,100
Property tax deferral account <sup>A</sup>	7,328	406	1-2	6,922
Insurance premium deferral account <sup>A, B</sup>	570	(88)	1-2	658
Debt cost deferral account <sup>A</sup>	2,269	2,146	1-2	123
Canada Revenue Agency reserve <sup>B</sup>	404	—	—	404
Annual tower payments account <sup>A</sup>	1,295	463	1-2	832
Direct Assigned Capital Projects deferral account <sup>B</sup>	133	(3,380)	1-2	3,513
Approved hearing costs	—	(13)	—	13
Site restoration	108,356	108,356	1-40	—
<b>Total regulatory liabilities</b>	<b>135,518</b>			<b>27,533</b>
<b>Less: Current portion of regulatory liabilities</b>	<b>11,073</b>			<b>6,759</b>
<b>Regulatory liabilities, long-term</b>	<b>\$ 124,445</b>			<b>\$ 20,774</b>

A. For the identified reserve and deferral accounts, the change in the regulatory asset/liability balance in the current year reflects the regulatory disposition of the opening balance or is equal to the difference between actual and approved forecast expenses, both of which are offset by a corresponding adjustment to revenue. Therefore the net income effect of the change in the reserve and deferral regulatory asset/liability account balances for the year ended December 31, 2009 is nil (December 31, 2008 – nil).

B. These identified regulatory asset and liability accounts are included in the rate base and affect the amount of return on investment.

## 7. Regulatory assets and liabilities (cont'd)

For some of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by uncertainties relating to the ultimate authority of the AUC in determining the item's treatment for regulatory purposes.

The following describes each of the Partnership's circumstances in which rate regulation affects the accounting for a transaction or event:

### Reserve accounts

The Partnership's reserve accounts represent amounts that are initially established through AUC approval. Actual costs incurred in relation to the respective reserve are charged against the reserve, thereby decreasing the balance. If the Partnership's actual expenses are lower than the approved forecast, then the reserve will grow and may be released in the next regulatory period. If expenses are higher than forecast, the excess costs are recoverable in the next regulatory period, to the extent that they are considered prudent by the AUC.

The Partnership's revenue requirement is not adjusted for these differences until they are filed as part of the next application. However, as there is reasonable assurance of cost recovery, to reflect the revenue adjustment to the relevant period, the corresponding additional revenue is recognized in the financial statements as the reserve amounts are exceeded. Conversely, to the extent actual costs are less than the approved forecast, the Partnership correspondingly reduces the amount of revenue recognized in the current period.

The Partnership has a number of reserve accounts. The hearing costs reserve account represents a reserve for costs incurred, including those of intervenors, during hearings in which the Partnership is an Applicant. The self-insurance reserve provides coverage for uninsurable or uninsured losses and represents claims costs incurred by the Partnership. The Canada Revenue Agency (CRA) reserve captures the provincial tax effect of claims which have not yet received CRA approval. In the absence of rate regulation, these reserve accounts would not exist on the balance sheet and would be recorded as period expenses or revenue on the income statement.

The pension liability account represents amounts for pension expense which the Partnership collected in revenue but for which no contribution has been made into the plan. This liability has been extinguished to a certain extent, through required funding of the plan, while not recognizing any pension expense and resulting revenue, and it is expected that this will continue in the future.

### Deferral accounts

Deferral accounts are intended to mitigate the impact to customers as a result of variances between forecast and actual costs. To the extent actual costs differ from the approved forecast, the following year's revenue requirement may be adjusted accordingly. The Partnership has a number of deferral accounts. The Partnership's direct assigned capital deferral account captures the difference between the tariff earned on forecasted capital additions and those earned on actual capital additions for projects directly assigned by the AESO. The intent of the insurance premium deferral account is to capture the non-controllable cost variances with respect to commercial insurance premiums. The property tax deferral account is intended to capture the difference between forecast taxes other than income taxes and the actual taxes incurred. The long-term debt cost deferral account records the differences between the forecast and actual cost of a debt issue due to changes in interest rates, a change in term or change in the issue costs. The CRA deferral account records the differences between the forecasted provincial tax effect of expense claims and the actual expense claims which have been filed with the CRA.

The Annual Tower Payments account records the difference between the forecasted and actual expenses.

In the absence of rate regulation, these deferral accounts would not exist on the balance sheet and would be recorded as period expenses or revenue on the income statement.

## 7. Regulatory assets and liabilities (cont'd)

### 500 kV costs

In 2007, the EUB, in Decision 2007-075 voided the Genesee to Langdon 500 kV Project based on a finding that the EUB's administration of the hearings had "accumulated into a reasonable apprehension of bias". In the Partnership's 2009-2010 GTA, it asked the AUC to include approximately \$38.6 million of costs related to the Genesee to Langdon 500 kV Project in 2007 rate base. In its 2009-10 GTA Decision, the AUC: (i) stated that the Partnership should not be harmed financially by the project's cancellation; (ii) directed the Partnership to invoice the AESO for \$35.0 million of the project costs; and (iii) directed the Partnership to recover the balance of the project costs in its 2009-10 revenue requirements. Pursuant to the AUC's directions, the Partnership invoiced the AESO for \$35.0 million and included in its compliance filing a request to recover the balance of the project costs, financing costs since the cancellation of the project, and recovery of income taxes related to the project costs.

On December 1, 2009, the AESO applied to the AUC to review and vary the 2009-10 GTA Decision. In doing so, the AESO asked the AUC to direct the Partnership to recover the \$35.0 million amount under its 2009-10 tariffs. The AESO paid \$35.0 million to the Partnership on December 31, 2009, pending the AUC's decision on the AESO's review and variance application. When the AUC issues its decision, the effects of the decision will be recorded in the financial statements for the period in which the decision is issued.

Prior to the 2009-10 GTA Decision, the Partnership accounted for the voided 500 kV project costs as capital assets, consistent with its 2009-2010 general tariff application. Following the 2009-10 GTA Decision, the Partnership reclassified the remaining net book value of \$36.7 million from capital assets to regulatory assets. When the AUC rules on its compliance filing, it will recognize the difference, if any, between the amount it is allowed to recover and the amounts it previously recognized in its financial statements. The Partnership expects that the AUC's ruling on its compliance filing will not have a material adverse impact on its financial results.

### Regulated financing fees

As directed by the AUC, finance fees associated with the Partnership's initial Bridge Bonds were rolled over into replacement debt and they are being recovered in transmission revenue over the terms of the new debt issues: five years (2003-2008) for the \$100 million debt issue, 10 years (2003-2013) for the \$200 million debt issue, and approximately 9.5 years for the \$125 million debt issue. The balance represents the unrecovered debt issue costs. In the absence of rate regulation, GAAP would require the write-off of unamortized debt issue costs in the year the debt is retired.

Deferred financing fees are being amortized using the effective interest rate method. For the year ended December 31, 2009, amortization of finance fees totalled \$1.6 million (December 31, 2008 - \$1.7 million), which is \$0.5 million (December 31, 2008 - \$0.5 million) higher than would have been recorded in the absence of rate regulation.

### Pension asset offset

In order to recognize the pension expense or income in these financial statements on the same basis as it is recovered through the rates charged to customers, a regulatory liability has been established which is equal to the pension asset recognized. This liability is being reduced or increased on the same basis as the pension asset is reduced or increased.

In the absence of rate regulation, under GAAP, the amount of pension expense that would have been recorded for the year ended December 31, 2009 is \$3.8 million (December 31, 2008 - \$3.0 million) versus \$3.4 million (December 31, 2008 - \$2.7 million) actually recorded as a result of rate regulation. Consequently, net income for the year ended December 31, 2009 is \$0.4 million (December 31, 2008 - \$0.3 million) higher than would have been recorded in the absence of rate regulation.

## 7. Regulatory assets and liabilities (cont'd)

### Future income tax liability

As a limited partnership, AltaLink does not pay federal or provincial income taxes directly. Instead, income taxes are paid by the corporations that ultimately hold limited partnership interests in the Partnership. The revenue requirement includes an allowance for income taxes attributable to the Partnership's regulatory net income. In calculating this allowance, the Partnership currently uses the future income tax method for federal income taxes and the flow-through method for provincial income taxes. In its 2009-10 GTA Decision, the AUC approved the Partnership's request to continue using the future income tax method for federal income taxes. By continuing to allow the future income tax method for federal income taxes, the AUC provides the Partnership with higher tariffs and cash flow to support cash flow credit metrics during the construction of major transmission projects. Previously, in Decision 2007-012, the AUC had directed the Partnership to switch to the flow-through method for federal income taxes in 2009 and subsequent years. The AUC approved the Partnership's proposal to continue to use the future income tax method in determining deemed federal income tax expenses in 2009-10. The AUC indicated that it will review the necessity for a further delay in implementation at the time of our next GTA. The AUC has also directed the Partnership to recommend options as to the disposition of federal future income taxes paid in previous periods.

### Generic cost of capital

The 2009 GCOC Decision continued the AUC's generic approach to regulatory cost of capital matters for electricity and natural gas utilities under its jurisdiction. The generic cost of capital sets the deemed capital structure, expressed as proportions of debt and equity, for each utility and prescribes a generic return on equity to be applied against the common equity allowed in the deemed capital structure. The Partnership is required to use its deemed capital structure and the generic return on equity when calculating tariff revenue requirements.

In its 2009 GCOC Decision, the AUC increased the Partnership's equity ratio to 36% from 33% and increased the generic return on equity to 9% from the interim rate of 8.75%. The approved generic return on equity will remain in effect for 2009 and 2010 and, on an interim basis, for 2011. The AUC decided not to continue with the previous adjustment formula for the generic return on equity, which resulted in generic returns on equity of 9.6% for 2004, 9.5% for 2005, 8.93% for 2006, 8.51% for 2007, and 8.75% for 2008. Had the AUC continued with this adjustment formula, the generic return on equity would have been set at 8.61% for 2009.

### Other items affected by rate regulation

The AUC permits AFUDC to be included in the rate base, based on the Partnership's weighted average cost of capital. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only an interest component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation.

The regulatory rate base consists of property, plant and equipment less the cost of assets under construction and includes a provision for working capital, site restoration costs, and the regulatory asset and liability accounts identified in the table above.

## 8. Property, plant & equipment

	Lines <sup>1</sup>	Substations <sup>2</sup>	Buildings & Equipment <sup>3</sup>	Land & CWIP <sup>4</sup>	Long-Lived Assets <sup>5</sup>	Customer Contributions <sup>6</sup>	Total
(in thousands of dollars)							
<b>Cost</b>							
As at Jan 1, 2008	\$ 501,908	\$ 767,238	\$ 89,357	\$ 140,618	\$ 44,165	\$ (106,489)	\$ 1,436,797
Additions	68,612	86,060	22,793	4,252	1,771	(33,117)	150,371
Retirements	(1,282)	(1,526)	(6,204)	(28)	(751)	—	(9,791)
As at Dec 31, 2008	569,238	851,772	105,946	144,842	45,185	(139,606)	1,577,377
Additions	47,669	126,918	35,052	156,200	117,142	(23,903)	459,078
Retirements	(1,321)	(1,019)	(8,108)	(49)	—	—	(10,497)
Reclass voided 500kV costs	(29,090)	(2,159)	—	(5,388)	—	—	(36,637)
<b>As at Dec 31, 2009</b>	<b>\$ 586,496</b>	<b>\$ 975,512</b>	<b>\$ 132,890</b>	<b>\$ 295,605</b>	<b>\$ 162,327</b>	<b>\$ (163,509)</b>	<b>\$ 1,989,321</b>
<b>Accumulated Depreciation</b>							
As at Jan 1, 2008	\$ (85,467)	\$ (164,436)	\$ (25,474)	\$ —	\$ (21,062)	\$ 11,260	\$ (285,179)
Depreciation expense	(30,461)	(50,454)	(8,861)	—	(2,281)	4,251	(87,806)
Retirements & salvage	9,604	2,741	6,118	—	751	—	19,214
As at Dec 31, 2008	(106,324)	(212,149)	(28,217)	—	(22,592)	15,511	(353,771)
Depreciation expense	(19,320)	(45,340)	(10,760)	—	—	5,175	(70,245)
Reclass SRC	77,657	48,786	272	—	18,360	—	108,355
Retirements & salvage	2,932	3,441	7,957	—	—	—	14,330
<b>As at Dec 31, 2009</b>	<b>\$ (45,055)</b>	<b>\$ (205,262)</b>	<b>\$ (30,748)</b>	<b>\$ —</b>	<b>\$ (40,952)</b>	<b>\$ 20,686</b>	<b>\$ (301,331)</b>
<b>Net Book Value</b>							
As at Dec 31, 2008	\$ 462,914	\$ 639,623	\$ 77,729	\$ 144,842	\$ 22,593	\$ (124,095)	\$ 1,223,606
<b>As at Dec 31, 2009</b>	<b>\$ 541,441</b>	<b>\$ 770,250</b>	<b>\$ 102,142</b>	<b>\$ 295,605</b>	<b>\$ 121,375</b>	<b>\$ (142,823)</b>	<b>\$ 1,687,990</b>

1. *Lines* – transmission lines, related equipment and surface rights.
2. *Substations* – substation and telecontrol equipment.
3. *Buildings & Equipment* – Office buildings, vehicles, tools and instruments, office furniture, telephone and related equipment and computer hardware and software.
4. *Land & CWIP* – Land, capitalized inventory and emergency capital spare parts, and assets under construction.
5. *Long-Lived Assets* – originally established as the offset to the Asset Retirement Obligations (see note 11).
6. *Customer Contributions* – Customer contributions (see note 3e).

The total amount of AFUDC capitalized for the year ended December 31, 2009 was \$13.9 million (\$5.8 million for the year ended December 31, 2008) at a capitalization rate of 6.81% (6.72% for the year ended December 31, 2008).

The following table reconciles our capital expenditures to the increase in net book value during 2009:

	(in thousands of dollars)
Increase in net book value in the year <sup>1</sup>	\$ 464,384
Add: Proceeds from disposals of assets	3,841
Depreciation	70,245
Customer contributions related to capital expenditures	70,552
Less: Non-cash items	
Gains on disposals of assets	3,792
AFUDC	13,878
Reclassification of site restoration	108,355
Increase in ARO	118,456
<b>Capital expenditures</b>	<b>\$ 364,541</b>

1. Included in this figure is \$23.9 million for customer contributions related to capital additions.

## 9. Employee future benefits plans

	Year ended			
	December 31, 2009		December 31, 2008	
	Pension Plan	Other benefits	Pension plan	Other benefits
	(in thousands of dollars)			
<b>Fair value of plan assets</b>				
Balance, beginning of year	\$ 7,011	\$ —	\$ 8,420	\$ —
Employee contributions	14	—	17	—
Company contributions	212	1	101	9
Benefit payments	(222)	(1)	(131)	(9)
Actual gain (loss) on plan assets	1,113	—	(1,396)	—
<b>Balance, end of year</b>	<b>8,128</b>	<b>—</b>	<b>7,011</b>	<b>—</b>
<b>Accrued benefits obligation</b>				
Balance, beginning of year	6,625	1,971	7,941	2,454
Current service cost	75	283	149	347
Employee contributions	14	—	17	—
Benefit payments	(222)	(1)	(131)	(9)
Interest cost	495	165	439	152
Experience (gain) loss	627	245	(1,790)	(973)
<b>Balance, end of year</b>	<b>7,614</b>	<b>2,663</b>	<b>6,625</b>	<b>1,971</b>
<b>Funded status</b>				
Funded status – surplus (deficit)	514	(2,663)	386	(1,971)
Supplemental pension plan	—	(457)	—	(346)
Unamortized past service costs	—	317	—	371
Unamortized actuarial losses (gains)	1,528	(231)	1,794	(496)
Solvency deficiency payment	—	—	(101)	—
<b>Accrued asset (liability), end of year</b>	<b>\$ 2,042</b>	<b>\$ (3,034)</b>	<b>\$ 2,079</b>	<b>\$ (2,442)</b>
<b>Amortization period in years</b>	<b>4</b>	<b>15</b>	<b>4</b>	<b>15</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Discount rate for funded status	6.70	6.00	7.50	7.40
Discount rate for expense determinations	7.50	7.40	5.50	5.50
Expected long-term rate of return on plan assets	7.00	—	7.00	—
Rate of compensation increase	4.00	—	4.00	—
Health care cost escalation	—	5.00	—	5.00
Dental care cost escalation	—	5.00	—	5.00
Provincial health care premium escalation	—	N/A	—	3.50

## 9. Employee future benefits plans (cont'd)

### a) Description

The General Partner employs staff and provides administrative and operational services to the Partnership on a cost reimbursement basis. As part of the purchase of the transmission assets the Partnership assumed pension obligations in respect of the transmission employees that are part of the defined benefit plan. At the valuation date of April 30, 2002, pension assets to be transferred exceeded the related liabilities assumed. The pension obligation was transferred by the Partnership to the General Partner at the value of the pension surplus and the Partnership is credited with any pension income and charged for any pension expense. The transfer resulted in a long-term pension asset being established in the Partnership which is being reduced through pension expense charges or increased by pension income. Any cash funding of the pension plan by the General Partner is reimbursed by the Partnership. The Partnership has indemnified the General Partner for all costs and liabilities associated with its employment of staff, including any pension liabilities. As such the pension is reported as if it is held by the Partnership even though the legal plan sponsor and employer of the staff is the General Partner.

Those members who at the date of the acquisition were covered by the defined benefit component of the plan are continuing in that component, and all other employees and any new employees are covered under the defined contribution component. The defined benefit provisions of the plan provide a final average pay type benefit. The defined contribution component of the plan is an 8% employer and 2% employee funded contribution plan and the defined benefit component requires the employees to contribute 2% of eligible earnings, which includes base salary plus short-term incentive pay.

The latest actuarial valuation was done as at December 31, 2007, and extrapolated to December 31, 2009. The effective date of the next required valuation for funding purposes is December 31, 2010.

Other accrued employment benefits include the health and dental coverage provided to some employees.

In addition, the General Partner has a supplemental pension plan. The supplemental pension plan is provided to those employees who exceed the income tax limits on maximum pension contributions in a year. The supplemental pension plan is a defined contribution plan with 8% (2008 – 6%) employer contributions, which is not registered. Membership in the supplemental pension plan is automatic once registered pension plan contributions have reached the maximum annual amount.



## 9. Employee future benefits plans (cont'd)

### b) Costs recognized

	Year ended			
	December 31, 2009		December 31, 2008	
	Registered	Other	Registered	Other
	(in thousands of dollars)			
Current service cost	\$ 75	\$ 283	\$ 149	\$ 347
Interest cost on benefit obligation	495	165	439	152
(Gain) loss on plan assets	(1,113)	—	1,396	—
Experience (gain) losses	627	245	(1,790)	(973)
Difference between expected return and actual return on plan assets	619	—	(1,987)	—
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefits obligation for the year	(353)	(265)	2,042	990
Difference between amortization of past service costs for the year and actual plan amendments for the year	—	53	—	53
Expense	350	481	249	570
Regulatory adjustment to offset expense	(350)	—	(249)	—
Defined contribution expense of registered pension plan	3,415	—	2,729	—
Supplemental pension expense	—	112	—	67
Net expense recognized in the financial statements	\$ 3,415	\$ 593	\$ 2,729	\$ 637

Sensitivity to changes in assumed health care cost trend rates as at December 31, 2009 are as follows:

	One percentage point increase	One percentage point decrease
	(in thousands of dollars)	
Effect on total service and interest cost	\$ 58	\$ (50)
Effect on post-retirement benefits obligation	332	(289)

The asset mix of the defined benefit component of the pension plan as of December 31, 2009 consists of 59% equity, 37% bonds, and 4% cash (December 31, 2008 – 55% equity, 39% bonds and 6% cash).

## 10. Debt

	Effective interest rate	Maturing	December 31, 2009	As at December 31, 2008
(in thousands of dollars)				
Senior Debt [note 10d]				
Series 03-2, 5.430%	5.804%	2013	\$ 325,559	\$ 325,701
Series 2006-1, 5.249%	5.299%	2036	150,000	150,000
Series 2008-1, 5.243%	5.312%	2018	100,000	100,000
Series 2008-1 (additional issue), 5.243%	5.328%	2018	102,358	—
			677,917	575,701
Series 3, subordinated 8.000% [note 12]	8.020%	2012	85,000	85,000
Commercial paper [note 10b]	0.501%	2011	47,982	26,951
Bank credit facilities [note 10b]	N/A	2011	—	137,735
			810,899	825,387
Less: Deferred financing fees				
Series 3, 8.000%			42	55
Series 03-2, 5.430%			3,796	4,769
Series 2006-1, 5.249%			1,068	1,086
Series 2008-1, 5.243%			878	891
Series 2008-1 (additional issue), 5.243%			632	56
			6,416	6,857
Total debt, net of deferred financing fees			804,483	818,530
Less: current portion of long-term debt			376	142
<b>Total long-term debt</b>			<b>\$ 804,107</b>	<b>\$ 818,388</b>

The Partnership does not intend to redeem any of its long-term debt prior to maturity.

On May 16, 2008, the Partnership filed a short form base shelf prospectus to facilitate the issuance of medium-term notes. This shelf prospectus has a 25 month life and permits the Partnership to issue up to an aggregate of \$800.0 million of secured, medium-term notes. On May 29, 2008, \$100.0 million of Series 2008-1 notes were issued under the shelf prospectus and the proceeds were used to repay \$100.0 million of Series 03-1 notes, which matured on June 5, 2008. On May 14, 2009, \$100.0 million of additional Series 2008-1 medium-term notes were issued under the shelf prospectus and the proceeds were used to repay outstanding commercial paper. The Series 2008-1 notes are senior secured obligations of the Partnership. Collateral for the secured debt obligations consists of a first floating charge security interest on the Partnership's present and future assets. Additional Series 2008-1 notes were issued at a premium of \$2.6 million, which will be amortized over the term of the related debt.

## 10. Debt (cont'd)

### a) Capital markets platform

The Partnership has implemented a financing structure referred to as the “Capital Markets Platform” (CMP) to finance the operation, maintenance and development of its assets. The CMP incorporates various debt instruments and borrowings, including term bank debt, revolving bank lines of credit, publicly-issued and privately-placed term debt securities, bankers’ acceptances, commercial paper and medium-term notes.

The Master Trust Indenture (MTI) dated April 28, 2003 between the Partnership, the General Partner and BNY Trust Company of Canada, as trustee, establishes common covenants for the benefit of all lenders under the CMP. The Capital Markets Platform governs all indebtedness, including the ranking and security (if any) of the various debt instruments. Indebtedness is calculated as total short-term and long-term debt adjusted for deferred financing fees. Total capital is calculated as equity plus indebtedness. The Partnership is not permitted to borrow other than under the Capital Markets Platform, except in certain limited circumstances and, in any event, not in excess of an aggregate of \$20.0 million. One of the principal covenants is that the Partnership cannot become liable for any indebtedness, unless the aggregate amount of all indebtedness does not exceed 75% of the total capitalization.

Under the Indenture, the Partnership may issue two categories of debt, namely (i) senior debt and (ii) subordinated debt. Bonds may be issued as either “Obligation Bonds” (to directly evidence the indebtedness of the Partnership to the holder of such debt) or as “Pledged Bonds” (to be held by the holder as collateral security for the indebtedness specified in the related instrument of pledge). The specific terms and conditions of each series of bonds under the Capital Markets Platform are set forth in the series supplement authorizing the series. It is expected that publicly-issued and privately-placed bonds will be in the form of Obligation Bonds, whereas all other indebtedness of the Partnership under the Capital Markets Platform will be supported by Pledged Bonds.

The Partnership has secured the obligations relating to the Series 03-2 Senior Bonds, Series 3 Subordinated Bonds, Series 2006-1 Medium-term Notes, Series 2008-1 Medium-term Notes and its credit facilities. Collateral for the secured debt obligations consists of a first floating charge security interest on the Partnership’s present and future assets. The Series 03-2 Senior Bonds, Series 2006-1 Medium-term Notes, Series 2008-1 Medium-term Notes and the credit facilities rank equally with each other and all future senior secured indebtedness that is issued by the Partnership.

### b) Bank credit facilities

As at December 31, 2009, the Partnership had \$485.0 million (2008 - \$285.0 million) of committed bank credit facilities which mature in 2011.

As at December 31, 2009	Committed	Drawdowns	Commercial Paper Outstanding	Availability	Maturity Date
			(in thousands of dollars)		
Commercial paper back-up facility	\$ 400,000	\$ —	\$ 47,982	\$ 352,018	December 17, 2011
Revolving line of credit	85,000	—	—	85,000	April 30, 2011
	<b>\$ 485,000</b>	<b>\$ —</b>	<b>\$ 47,982</b>	<b>\$ 437,018</b>	

## 10. Debt (cont'd)

As at December 31, 2008	Committed	Drawdowns	Commercial Paper Outstanding	Availability	Maturity Date
(in thousands of dollars)					
Commercial paper back-up facility	\$ 200,000	\$ 137,735	\$ 26,951	\$ 35,314	December 10, 2011
Revolving line of credit	85,000	—	—	85,000	May 1, 2011
	<u>\$ 285,000</u>	<u>\$ 137,735</u>	<u>\$ 26,951</u>	<u>\$ 120,314</u>	

The commercial paper back-up facility provides support for the borrowing under the unsecured commercial paper program of \$200.0 million. Drawdowns under the commercial paper back-up facility may be in the form of Canadian prime rate loans and bankers' acceptances. As at December 31, 2009, borrowing under this facility was nil (December 31, 2008 – \$137.7 million). Commercial paper issued reduces the availability under the \$400.0 million commercial paper back-up facility. As at December 31, 2009, commercial paper outstanding was \$48.0 million (December 31, 2008 - \$27.0 million). The average term to maturity for outstanding commercial paper was 11 days as at December 31, 2009 (December 31, 2008 – 11 days) with a weighted average interest rate of 0.40% (December 31, 2008 – 2.72%).

The \$85.0 million credit facility may be used for capital expenditures and general corporate purposes. This \$85.0 million facility bears interest at either the lenders' rates for Canadian prime rate loans, U.S. base rate loans, bankers' acceptances or LIBOR loans, plus applicable margins.

### c) Letters of credit

As at December 31, 2009, the Partnership had secured letters of credit outstanding totaling \$0.1 million (December 31, 2008 - \$0.1 million).

### d) Debt facilities

#### *Series 03-1, Series 03-2, Series 2006-1 and Series 2008-1*

The Series 03-1 Senior Bonds had no provision for early redemption and matured on June 5, 2008. The Series 03-2 Senior Bonds, Series 2006-1 and Series 2008-1 medium-term notes are 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.

### e) Interest expense and amortization of deferred financing fees

	Year ended	
	December 31, 2009	December 31, 2008
(in thousands of dollars)		
Deferred financing fees amortized	\$ 1,604	\$ 1,697
Interest on debt	42,818	42,472
Total interest and amortization of deferred financing fees on debt	44,422	44,169
Less: short-term portion of interest on debt	—	—
Total long-term portion of interest and amortization of deferred financing fees	<u>\$ 44,422</u>	<u>\$ 44,169</u>

**10. Debt (cont'd)**

## f) Scheduled principal repayments

		(in thousands of dollars)
<b>Maturing</b>		
2010	\$	376
2011		47,982
2012		85,000
2013		325,409
2014		—
2015 and thereafter		352,132
		\$ 810,899

## 11. Asset retirement obligations

As of December 31, 2009 the estimated total undiscounted amount of asset retirement obligations was approximately \$453.1 million (December 31, 2008 - \$130.7 million). The obligations will be settled over the useful lives of the assets, with the majority of the retirements estimated to occur between 2010 and 2050. In determining the fair value of the asset retirement obligations, the estimated cash flows of new obligations incurred during the year have been discounted, using a discount rate adjusted for credit risks and inflation factors, at 4.96% (2008 – 6.73%). The depreciation rates included in the regulatory revenue requirements include an amount to enable the Partnership to cover the costs of present and future asset retirement obligations. As depreciation expense is recovered through the General Tariff Application process, there is no net income effect on the Partnership's financial statements.

During the second quarter of 2009, the Partnership updated its estimate of costs with the assistance of an independent third party, resulting in an increase in the discounted asset retirement obligations of \$86.6 million. The change is mainly the result of an increase in labour costs.

	December 31, 2009	As at December 31, 2008
	(in thousands of dollars)	
Balance, beginning of year	\$ 60,181	\$ 57,954
Net change in liabilities for the year	118,455	1,915
Liabilities settled in year	(1,236)	(2,651)
Accretion expense	8,905	2,963
Balance, end of year	\$ 186,305	\$ 60,181

Retirement obligations may apply to both the retirement of an entire facility or to parts of the larger system. Interim retirement obligations are recognized in the latter circumstances, when a component is retired prior to the retirement of the entire facility. Asset retirement obligations are recorded as a liability, with a corresponding increase to capital assets.

The Partnership analyzed the component parts of the system to determine whether it has legal obligations associated with the transmission system. The transmission system includes transmission lines, substations and telecom equipment.

Since the Partnership determined that there were no legal obligations associated with the interim retirement of electric substations and telecom sites, interim asset retirement obligations for these sites were not recognized. While there will be future retirement obligations associated with the final retirement of these assets, no obligation has been recognized at this time because the date of final removal cannot be reasonably determined.

The Partnership has determined that there are legal obligations associated with the interim retirement of the component parts of the transmission lines. The calculation of costs to dismantle and remove the component parts, including poles and towers, was estimated using historical information regarding the replacement and retirement of these types of assets.

No asset retirement obligation has been recognized for the final retirement and removal of the transmission lines as the date of the retirement, and therefore the fair value of the obligation, cannot be determined.

## 12. Related party transactions

The Partnership is related to the following companies: SNC-Lavalin Group Inc. (SNC); SNC-Lavalin Transmission Ltd., SNC-Lavalin Transmission II Ltd., SNC-Lavalin Energy Alberta Ltd., SNC-Lavalin Capital Inc., Macquarie Group Inc., Macquarie Transmission Alberta Ltd. and Macquarie GP Holdings Ltd.

In 2002, the Partnership executed a ten-year contract for engineering, procurement and construction management services. These services are provided to the Partnership by SNC-Lavalin ATP Inc., a wholly owned subsidiary of SNC. The terms and conditions of this contract have been reviewed by the AUC and are subject to ongoing regulatory oversight.

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

	Year ended	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
<b>Receiving/(Rendering) of Services</b>		
Interest on Series 3 Subordinated Bond		
AltaLink Investments, L.P.	\$ 6,800	\$ 6,800
Employee compensation and benefit charges		
AltaLink Management Ltd.	58,858	47,610
Miscellaneous revenue		
AltaLink Investments, L.P.	(211)	(192)
AltaLink Holdings, L.P.	(133)	(135)
Construction related services in Property, Plant and Equipment		
SNC-Lavalin ATP Inc.	200,103	54,423

During the years ended December 31, 2009 and 2008, there were other transactions which were not material individually or in total with SNC-Lavalin Capital Inc., Macquarie North America Ltd., AltaLink Investment Management Ltd., SNC-Lavalin Environmental Inc., and SNC-Lavalin Inc.

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

Amounts included in accounts receivable and accounts payable are:

	As at	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
	Amount owed (to)/from related parties	Amount owed (to)/from related parties
AltaLink Management Ltd.	\$ (6,882)	\$ (4,873)
SNC-Lavalin ATP Inc.	(82,995)	(17,231)
AltaLink Investments, L.P.	(1,063)	(1,092)

As at December 31, 2009 and 2008 accounts receivable and accounts payable included amounts which are not material individually or in total that were owed to/from related parties including AltaLink Investment Management Ltd., AltaLink Holdings, L.P., Macquarie North America Ltd., Heartland Transmission, L.P., Heartland Transmission Management Ltd. and AltaLink Heartland Holdings, L.P.

Unless otherwise stated, 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 usually settled in cash.

### Remuneration of Senior Management

	Year ended	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
Salary and other short-term benefits	\$ 2,729	\$ 2,315
Other long-term benefits	585	566
Post employment benefits	207	162
<b>Total for all senior management</b>	<b>\$ 3,521</b>	<b>\$ 3,043</b>

Senior Management includes the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Operating Officer, Senior Vice President Business Development, Senior Vice President Regulatory Affairs, Senior Vice President External Engagement and General Counsel, and Senior Vice President Human Resources.

Salary and other short-term benefits represent actual salary received during the year, and annual short-term incentive plan that pays out based on the achievement of specific predetermined performance goals and perquisites. Other long-term benefits represent long-term incentive plan (LTIP) award grants earned during the year. LTIP provides incentives aligned with the value created for AltaLink's customers and partners. Post-employment benefits include the defined contribution pension plan and supplemental pension plan.



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

### Remuneration of Board of Directors of General Partner

	Year ended	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
Total fees earned by Directors <sup>1</sup>	\$ 359	\$ 307

- The Board of Directors includes the Chairman of the Board and eight directors. The members of the Board, who are not representatives of the owners, are paid an annual fee plus a fee for meetings attended and additional retainers for serving on board committees.

## 13. Transmission tariff

AltaLink is regulated under a cost-of-service methodology under which all prudently incurred costs are recovered in addition to an allowed return on the rate base.

	Year ended	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
Return – Equity <sup>1</sup>	\$ 33,900	\$ 29,900
Return – Debt <sup>2</sup>	38,500	39,600
Recovery of expenses	154,400	149,500
Deemed income taxes	11,200	9,700
Approved transmission tariff	238,000	228,700
Deferral and reserve account adjustments	(1,866)	(6,472)
Transmission tariff	\$ 236,134	\$ 222,228

- In 2009, the approved return on equity (ROE) was 9.00%, with a deemed common equity ratio of 36%. The Partnership was approved an ROE of 8.75% with deemed common equity ratio of 33% in 2008.
- In 2009, the Partnership was approved a return on debt (ROD) of 5.58%, with a deemed common equity ratio of 64%. In 2008, the approved ROD was 5.78%, with a deemed common equity ratio of 67%.

## 14. Miscellaneous revenue

	Year ended	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
Capital related service contracts to third parties <sup>1</sup>	\$ 7,726	\$ 2,132
Recovery of costs for services provided to other utilities	4,711	4,722
Tower, land and other lease revenue	1,573	1,171
Related party and other billings	917	631
Miscellaneous revenue	\$ 14,927	\$ 8,656

- There is no significant net income impact as this revenue is based on cost recovery.

## 15. Supplemental cash flow information

	Year ended	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
(Increase) decrease in accounts receivable	\$ (3,545)	\$ 20,727
(Increase) decrease in prepaid expenses and deposits	3,830	(3,369)
Increase in accounts payable and accrued liabilities	77,465	1,295
Increase (decrease) in other liabilities	434	(49)
Increase in current regulatory assets and liabilities	3,362	928
Change in non-cash working capital items	81,546	19,532
Related to investing activities	(71,890)	5,452
Related to operating activities	\$ 9,656	\$ 24,984

## 16. Net change in other financing activities

	Year ended	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
Deferred financing fees paid	\$ (676)	\$ (984)
Increase in contributions in advance of construction	(10,870)	(1,238)
Increase in contributions in advance of construction liability	10,870	2,014
Increase in operating and maintenance charges in advance	(4,489)	(5,351)
Increase in operating and maintenance charges in advance liability	4,489	5,351
	\$ (676)	\$ (208)

## 17. Regulatory decisions

The effects of the following Decisions have been reflected in these financial statements:

### a) 2004-06 Deferral Accounts

Decision 2008-076 was issued on August 26, 2008 confirming full recovery of the Direct Assign capital deferral account for May 2004 through December 2006 and the disposition of other deferral accounts. On January 30, 2009, the Partnership was directed to settle the related regulatory assets and liabilities with the AESO in the amount of \$1.4 million, which was paid on February 17, 2009.

### b) 2009-2010 GTA & GCOC Decisions

On October 2, 2009, the AUC issued Decision 2009-151 regarding the Partnership's General Tariff Application for 2009 and 2010 and on November 12, 2009 the AUC issued Decision 2009-216 regarding the Generic Cost of Capital (GCOC) proceeding. On December 23, 2009, the Partnership submitted a Compliance Filing Application to reflect the findings, conclusions and directives of both of these decisions. The Partnership has reflected its best estimate of the GTA Decision, the GCOC Decision and the Compliance Filing in these financial statements. In accordance with the Partnership's accounting policy outlined in note 3(a), any effects of the AUC's final decision on the Partnership's Compliance Filing Application will be reflected in the financial statements in the period in which the decision is issued.

## 17. Regulatory decisions (cont'd)

### c) Genesee to Langdon 500 kV Project Costs

In Decision 2009-151, the Partnership was directed to recover \$35.0 million of costs related to the Genesee to Langdon 500 kV project from the AESO and to include the balance of the costs in the 2009-2010 revenue requirements. On December 31, 2009 the Partnership received \$35.0 million from the AESO, which is reflected in these financial statements.

## 18. Commitments

On September 22, 2005 the Partnership entered into a 20 year operating lease for its head office. The Partnership is committed to additional operating leases for other premises in Red Deer, Lethbridge and Calgary that all have lease terms up to five years. Of the total expected minimum lease payments, 85% relates to the Partnership's head office leases.

Expected minimum lease payments in future years are as follows:

	Year ended	
	December 31, 2009	December 31, 2008
	(in thousands of dollars)	
Operating lease obligations payable on non-cancellable leases are as follows:		
No later than 1 year	\$ 3,199	\$ 3,549
No later than 2 years	3,583	3,166
No later than 3 years	3,564	3,166
No later than 4 years	3,335	3,166
No later than 5 years	<u>2,710</u>	<u>3,047</u>
Later than 1 year and no later than 5 years	13,192	12,545
Later than 5 years	<u>24,760</u>	27,557
	<u>\$ 41,151</u>	<u>\$ 43,651</u>

## 19. Contingencies

In Decision 2007-012, the AUC had directed the Partnership, effective January 1, 2009 to begin using the flow-through (i.e. current taxes payable) method for determining deemed federal and provincial income tax expenses to be included in its revenue requirement. The AUC also indicated that a determination with respect to the accumulated but unpaid future income tax amounts as at December 31, 2008 would have to be made. In Decision 2009-151, the AUC approved the Partnership's proposal to continue using the future income tax method for 2009 and 2010 and indicated that it will review the matter again at the time of the next GTA. As a result, there is no impact on the Partnership's financial statements.

In addition, from time to time, the Partnership is subject to other legal proceedings, assessments and claims in the ordinary course of business. The Partnership was served with an action on June 5, 2009 alleging that the Plaintiff and the Partnership had concluded a binding agreement for the sale to the Plaintiff of certain lands. At this time, in the opinion of management, none of these matters is reasonably expected to result in a material adverse effect on the Partnership's financial position or results of operations.

## 20. Partners' capital

The Partnership is authorized to issue an unlimited number of units. The units are voting and participate equally in profits, losses and capital distributions of the Partnership. The Partnership is also authorized to issue preferred partnership units which have the same rights, privileges, restrictions and conditions attaching to all other units except that in the event of the liquidation, dissolution or winding-up of the Partnership, holders of each preferred unit are entitled to participate preferentially in any distribution. The Partnership has not issued any preferred units.

The General Partner does not hold any units in the Partnership. It manages the operations of the Partnership, and has a 0.01% interest in the profits, losses and capital distributions of the Partnership.

Any units issued by the Partnership must first be offered to the existing limited partners in proportion to their ownership interests. Any units offered for sale by any of the existing limited partners to non-owners must first be offered to the existing limited partners. Generally, only units not purchased by the existing limited partners can be issued to outside parties.

During the year, the Partners invested additional equity of \$140.5 million (2008 - nil). No partnership units were issued during the year (2008 - nil).

## 21. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

**ALTALINK**