Financial Statements

AltaLink, L.P.
Years ended December 31, 2010 and 2009

ALTALINK

INDEPENDENT AUDITOR'S REPORT

To the Partners of AltaLink, L.P.

We have audited the accompanying financial statements of AltaLink, L.P., which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of net income, comprehensive income and retained earnings, changes in partners' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AltaLink, L.P. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

February 25, 2011
Calgary, Alberta

Chartered Accountants

BALANCE SHEETS
(IN THOUSANDS OF DOLLARS)

As at	December 31, 2010	December 31, 2009
ASSETS		
Current		
Cash and cash equivalents	**$ 12,783**	$ 8,319
Accounts receivable and other *[note 4]*	**37,911**	32,180
Assets related to rate-regulated activities *[note 5]*	**5,985**	1,469
	56,679	41,968
Property, plant and equipment *[note 6]*	**2,066,560**	1,687,990
Customer deposits *[note 7]*	**48,965**	62,842
Assets related to rate-regulated activities, long-term *[note 5]*	**1,000**	2,378
Accrued benefit pension asset *[note 8]*	**2,023**	2,042
Goodwill	**202,066**	202,066
	$ 2,377,293	$ 1,999,286
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable and other	**$ 134,619**	$ 122,183
Liabilities related to rate-regulated activities *[note 5]*	**4,342**	11,073
Current portion of long-term debt *[note 10]*	**390**	376
	139,351	133,632
Other liabilities *[note 9]*	**6,100**	6,450
Customer deposits liability *[note 7]*	**48,965**	62,842
Liabilities related to rate-regulated activities, long-term *[note 5]*	**104,555**	124,445
Asset retirement obligations *[note 11]*	**239,343**	186,305
Long-term debt *[note 10]*	**1,029,821**	804,107
	1,568,135	1,317,781
Commitments and Contingencies *[note 16]*		
Partners' equity		
Partners' capital *[note 17]*	**638,436**	549,036
Retained earnings	**170,722**	132,469
	809,158	681,505
	$ 2,377,293	$ 1,999,286

See accompanying notes to the financial statements

Approved on behalf of the Board of Directors

Director

Director

STATEMENTS OF NET INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

(IN THOUSANDS OF DOLLARS)

Year ended	December 31, 2010	December 31, 2009
REVENUE		
Transmission tariff *[notes 5 and 13]*	$ 275,984	$ 236,134
Miscellaneous revenue *[note 14]*	19,593	14,927
Allowance for equity funds used during construction	9,560	6,597
	305,137	257,658
EXPENSES		
Operating	(88,499)	(72,155)
Property taxes	(18,142)	(16,475)
Depreciation and accretion	(89,639)	(79,150)
	(196,280)	(167,780)
	108,857	89,878
Interest and amortization of deferred financing fees *[note 10c]*	(53,601)	(44,422)
Allowance for debt funds used during construction	10,669	7,281
Gains on disposals of assets	328	3,792
Net and comprehensive income for the year	$ 66,253	$ 56,529
Retained earnings, beginning of year	$ 132,469	$ 98,783
Distributions	(28,000)	(22,843)
Net income for the year	66,253	56,529
Retained earnings, end of year	$ 170,722	$ 132,469

See accompanying notes to the financial statements

STATEMENTS OF CHANGES IN PARTNERS' EQUITY

(IN THOUSANDS)

			Interest in Retained Earnings		
	Units	Partners' Capital	Limited Partner	General Partner	Total
Balance at December 31, 2008	331,904	$ 408,536	$ 98,739	$ 44	$ 507,319
Net income for the year	—	—	56,523	6	56,529
Distributions	—	—	(22,841)	(2)	(22,843)
Equity investment received	—	140,500	—	—	140,500
Balance at December 31, 2009	**331,904**	**549,036**	**132,421**	**48**	**681,505**
Net income for the year	—	—	66,246	7	66,253
Distributions	—	—	(27,997)	(3)	(28,000)
Equity investment received *[note 17]*	—	89,400	—	—	89,400
Balance at December 31, 2010	**331,904**	**$ 638,436**	**$ 170,670**	**$ 52**	**$ 809,158**

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF DOLLARS)

Year ended	December 31, 2010	December 31, 2009
OPERATING ACTIVITIES		
Net income for the year	$ 66,253	$ 56,529
Asset retirement obligations settled	(8,211)	(1,236)
Items not involving cash:		
Depreciation and accretion	89,639	79,150
Amortization of deferred financing fees	1,710	1,604
Allowance for funds used during construction	(20,229)	(13,878)
Gains on disposals of assets	(328)	(3,792)
Change in non-current assets and liabilities related to rate-regulated activities	7,684	(4,752)
Change in other non-cash items	(330)	803
Funds generated from operations	136,188	114,428
Change in non-cash working capital items *[note 15]*	(15,683)	9,656
Cash provided by operating activities	120,505	124,084
INVESTING ACTIVITIES		
Capital expenditures	(477,441)	(364,541)
Change in non-cash working capital items *[note 15]*	11,141	71,890
Use of customer contributions related to capital expenditures	64,023	70,552
Proceeds from disposals of assets	332	3,841
Cash used in investing activities	(401,945)	(218,258)
FINANCING ACTIVITIES		
Net senior debt issued	275,014	102,592
Net change in bank credit facilities	(48,258)	(117,080)
Distributions	(28,000)	(22,843)
Equity investment received *[note 17]*	89,400	140,500
Other *[note 15]*	(2,252)	(676)
Cash provided by financing activities	285,904	102,493
Net increase in cash and cash equivalents	4,464	8,319
Cash and cash equivalents, beginning of year	8,319	—
Cash and cash equivalents, end of year	$ 12,783	$ 8,319
Cash interest paid during the year	$ 49,365	$ 45,091

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 2611-3rd 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).

The Partnership is indirectly owned by two limited partners. SNC-Lavalin Transmission Ltd. indirectly owns 76.92% of AltaLink, L.P. through subsidiaries, and Macquarie Transmission Alberta Ltd. owns the remaining 23.08%.

During the years ended December 31, 2010 and 2009, the Partnership operated solely in one reportable geographical and business segment, the ownership and operation of regulated electricity transmission facilities in the Province of Alberta. The segment includes the ownership and operation of Alberta's portion of the interconnection facilities which connect its network with the transmission system in British Columbia, and allows electricity to flow into and out of Alberta. For the year ended December 31, 2010, approximately 94% (*Tariff Revenue and AFUDC Equity*) (December 31, 2009 – 94%) of the Partnership's revenue is from the Alberta Electrical System Operator (AESO).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The Partnership's management has prepared these financial statements on a going concern basis in accordance with Canadian generally accepted accounting principles (GAAP), including accounting policies described in note 2(b) for the recognition and measurement of assets and liabilities related to rate regulated activities. All amounts reported are in Canadian dollars.

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.

b) Rate regulation

The Partnership is regulated by the AUC, pursuant to the Electric Utilities Act (Alberta) (EUA), the Public Utilities Board Act (Alberta), the Alberta Utilities Commission (AUC) Act, 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 Alberta Electric System Operator (AESO) administers the transmission of all electric 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 the Partnership with a reasonable opportunity to recover its 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) on construction work in progress (CWIP). The Partnership applies for tariff revenue based on forecasted 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 forecasted, other than for certain prescribed costs, as explained below. These costs relate to the provision of services during the test years, i.e. services which have occurred in the past, and the settlement of these costs is not contingent on the provision of future services. Approved tariffs are billed to, and received from, the AESO in equal monthly instalments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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, permitted under GAAP, 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 revenues are deferred as assets or liabilities on the balance sheet. Assets related to rate-regulated activities represent costs incurred in the current period or in prior periods that are expected to be settled in future periods. Liabilities related to rate-regulated activities represent amounts collected which are either held as reserves for future use or are to be refunded in future periods.

If, in management's judgment, a reasonable estimate can be made regarding the impact a future regulatory 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.

c) 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 that 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. Other factors impacting these estimates include fluctuations in interest rates, changes in economic conditions and changes in governing legislation and regulations. 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 estimated cash flows used to assess any potential impairment of long-lived assets; the allowance for doubtful accounts; the allowance for obsolescence of materials and supplies; the estimated useful lives of assets; the estimates of future costs to dismantle physical assets; the recovery of costs associated with direct assigned projects; the valuation of intangible assets with indefinite lives, such as goodwill; 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 assets and liabilities related to rate-regulated activities.

d) Revenue recognition

Revenues from rate-regulated activities are recognized on the accrual basis in accordance with tariffs approved by the AUC, and include an estimate of services provided but not yet billed to the AESO. Any tariffs that have been received but not yet earned are not recognized as revenue and are classified as liabilities related to rate-regulated activities in the financial statements. Miscellaneous revenue includes, but is not limited to, services provided on a cost recovery basis to other utilities.

e) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and customer contributions. Cost includes direct labour, materials, allocated overhead and an allowance for funds used during construction. AFUDC represents the cost of debt and equity financing incurred during construction as approved by the AUC and 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.

The Partnership capitalizes major replacements and upgrades if these costs are betterments and provide future economic benefits.

Certain additions to property, plant and equipment are made with the assistance of cash contributions from customers. Customer contributions are received from the customer when facility project costs to interconnect a customer exceed the level of Local Investments defined by the AESO's Customer and System Contribution Policy. The amortization of these contributions is on the same basis as, and offsets the depreciation charge of, the assets to which they relate.

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 and net realizable value. Cost is determined on a weighted average cost basis, other than for major equipment which is determined on a specific item basis.

Property, plant and equipment are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable from estimated undiscounted future cash flows.

Depreciation is calculated on a straight-line basis at annual rates approved by the AUC based on the estimated useful lives of the assets. Assets are grouped into equal life groups for depreciation purposes. Changes to depreciation rates are accounted for on a prospective basis. The net proceeds from the retirement or disposal of an asset in the normal course of business are 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.

	Depreciation Rates
Lines	1.73% - 6.24%
Substations	1.85% - 6.78%
Buildings & equipment	2.71% - 20.00%
Land & CWIP	Not subject to depreciation
Long-lived assets	See note 11
Customer contributions	3.35%

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 of goodwill.

Management performed a goodwill impairment test as at December 2010 by examining the business and regulatory environment, current market conditions, the ownership structure, financing activities, credit ratings, and interest rates. It 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 December 2009 and that the carrying value of the goodwill has not been impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

h) 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 and as assets related to rate-regulated activities. Deferred financing costs that are not expected to be recovered through transmission tariffs 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 tariffs are amortized using methods and rates approved by the AUC. The amortization of deferred financing fees is included as part of interest on debt.

i) Asset retirement obligations

The future dismantling costs forecasted at the time of construction, which can be reliably estimated, are recognized as an asset retirement obligation. 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.

j) Employee future benefit plans

The Partnership sponsors a defined benefit pension plan, a defined contribution pension plan, a supplemental pension plan and other post-employment benefits. Contributions made by the Partnership to the defined contribution plan are expensed when incurred. The cost of the defined benefit pension plan, supplemental pension plan and other post-retirement benefits plans is actuarially determined 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 defined benefit pension plan assets are measured at fair value. 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. 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.

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. The final employee future benefit expense recognized in these financial statements is adjusted for amounts which will be recovered within rates.

k) Income 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, income tax expense is not recognized in these financial statements.

l) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

m) 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.

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) Fair value of financial instruments

Financial Instrument	Designated Category	Measurement Basis	Associated Risks	Fair Value at December 31, 2010
Cash and cash equivalents	Held for trading	Fair value	• Market • Credit • Liquidity	Measured at fair value
Accounts receivable and other	Loans and receivables	Initially at fair value and subsequently at amortized cost	• Credit • Liquidity	Carrying value approximates fair value due to nature of asset [2]
Assets related to rate-regulated activities	Loans and receivables	Initially at fair value and subsequently at amortized cost	• Credit • Liquidity	Carrying value approximates fair value due to nature of asset [1]
Accounts payable and other	Other financial liabilities	Initially at fair value and subsequently at amortized cost	• Liquidity	Carrying value approximates fair value due to nature of liability [2]
Liabilities related to rate-regulated activities	Other financial liabilities	Initially at fair value and subsequently at amortized cost	• Liquidity	Carrying value approximates fair value due to nature of liability [1]
Long-term debt	Other financial liabilities	Initially at fair value and subsequently at amortized cost	• Market • Liquidity	$1,103.6 million [3]
Customer deposits	Held for trading	Fair value	• Market • Credit • Liquidity	Measured at fair value [4]
Customer deposits liability	Other financial liabilities	Initially at fair value and subsequently at amortized cost	• Liquidity	Carrying value approximates fair value due to nature of liability [4]

1. Assets and liabilities related to rate-regulated activities are expected to be settled following approval of regulatory filings. These amounts have typically been settled at or close to management's estimate.
2. Accounts receivable and other and accounts payable and other are expected to mature in less than one year.
3. Fair values are determined using quoted market prices for the same or similar issues. Where market prices are not available, fair values are estimated using a discounted cash flow analysis based on the Partnership's current borrowing rate for similar borrowing arrangements. The quoted market prices used in this determination are classified as level 1 inputs in accordance with the provisions of Section 3862 of the CICA Handbook.
4. Customer deposits are comprised of contributions in advance of construction and operating and maintenance charges in advance. The cash portions of both are held in cash or short-term investments.

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT'D)

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 73% of its accounts receivable balance is due from the AESO (December 31, 2009 – 91%). The remainder is comprised mainly of accounts receivable due from other utilities for tower and land leases and the provision of other services, as well as GST receivable from the Government of Canada. The credit risk is mitigated by the fact that the AESO has been established under the Electric Utilities Act (Alberta), while the remainder of the receivables are mostly due from investment grade utilities and the Government of Canada.

The Partnership's maximum exposure to credit risk, without taking into account collateral held, equals the current carrying values of cash and cash equivalents, accounts receivable and other, regulatory assets and customer deposits as disclosed in these financial statements.

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.

Interest rate risk

To the extent that the AUC attributes the Partnership's debt to the regulatory rate base and assets under construction, the Partnership is entitled to recover financing costs associated with such debt. By virtue of the approved long-term debt deferral account, financing costs related to senior debt issued in 2009 and 2010 were not subject to forecast risk on interest rates. Interest costs associated with commercial paper and bank credit facilities are excluded from the long-term debt deferral account; therefore, the Partnership is exposed to forecast risk on interest rates related to such debt, which the AUC regulates as short-term debt.

On December 22, 2010 the Partnership filed its general tariff application (GTA) for 2011 to 2013. In that application, the Partnership did not request a long-term debt deferral account in respect of senior debt forecast to be issued during those years. In the same application, the Partnership has asked the AUC to discontinue the disallowance of financing costs attributed to goodwill in Decision 2009-151. In the application, management outlined its position that as at December 31, 2009 and December 31, 2010, the Partnership's capital structure included sufficient equity to finance 100% of goodwill in addition to equity allowed under the regulated capital structure. It is also management's position that since all of the Partnership's long-term debt, as disclosed in Note 10, is attributable to the regulated rate base and assets under construction, none of the financing costs forecast in the application should be disallowed by the AUC.

If the application is approved by the AUC as filed, the tariff would include recovery of interest costs on all debt at pre-determined fixed rates. Although the Partnership would not be exposed to interest rate risk on senior debt and subordinated debt outstanding as at December 31, 2010, the Partnership would be exposed to interest rate risk on all long-term debt issued in future years. To manage interest rate risk, the Partnership controls the proportion of fixed and variable rate debt instruments and maintains access to diverse financing sources.

Foreign exchange risk

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

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT'D)

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 liquidity 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 surplus funds are invested in highly liquid financial instruments.

e) Capital risk management

In managing its capital, the Partnership includes partners' capital, retained earnings and total long-term debt 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 manages refinancing risk by diversifying the maturity dates of its debt obligations.

SUMMARY OF CAPITAL STRUCTURE

As at	December 31, 2010		December 31, 2009	
	(millions)	%	(millions)	%
Total long-term debt, including current portion	**$ 1,037.7**	**56.2**	$ 810.9	54.3
Partners' capital	**638.4**	**34.6**	549.0	36.8
Retained earnings	**170.7**	**9.2**	132.5	8.9
Total	**$ 1,846.8**	**100.0**	$ 1,492.4	100.0

Total long-term debt does not include deferred financing fees of $7.4 million (December 31, 2009 - $6.4 million).

As at December 31, 2010, the Partnership was subject to externally imposed capital structure requirements under the master trust indenture and the bank credit facilities. These agreements limit the amount of debt that can be incurred relative to partners' equity. The Partnership was in compliance with these capital structure requirements as at December 31, 2010.

4. ACCOUNTS RECEIVABLE AND OTHER

As at	December 31, 2010	December 31, 2009
(in thousands of dollars)		
Accounts receivable	**$ 31,677**	$ 24,534
Prepaid expenses and deposits	**6,234**	7,646
Total	**$ 37,911**	$ 32,180

As at December 31, 2010, 97.0% of accounts receivable have been outstanding for less than 30 days (December 31, 2009 – 99.5%). The Partnership does not require an allowance for doubtful accounts.

5. RATE REGULATED ACTIVITIES

a) Summary of assets and liabilities arising from rate-regulated activities

(in thousands of dollars)	As at December 31, 2010	Change to regulatory asset/liability balance in 2010	Remaining recovery/ settlement period (years)	As at December 31, 2009
Assets related to rate-regulated activities				
Reserve accounts				
Hearing costs [A]	**$ 696**	**$ 254**	1-2	$ 442
Self-insurance [A]	**5,985**	**5,985**	1-2	—
Deferral accounts				
Long-term debt [A]	—	**(977)**	—	977
Other				
Regulated financing fees [B]	**304**	**(487)**	1-2	791
500 kV costs	—	**(1,637)**	—	1,637
Total assets related to rate-regulated activities	**6,985**			3,847
Less: Current portion of assets related to rate-regulated activities	**(5,985)**			(1,469)
Assets related to rate-regulated activities, long-term	**$ 1,000**			$ 2,378
Liabilities related to rate-regulated activities				
Reserve accounts				
Self-insurance [A]	$ —	**$ (1,398)**	—	$ 1,398
Canada Revenue Agency [B, C]	**404**	—	—	404
Deferral accounts				
Taxes other than income tax [A]	**2,125**	**(5,203)**	1-2	7,328
Insurance premiums [A]	—	**(570)**	—	570
Long-term debt [A]	**4,647**	**2,378**	1-2	2,269
Direct-assign capital [B]	**9,228**	**9,095**	1-2	133
Income taxes [B]	**1,000**	**1,000**	1-2	—
Other costs associated with short-term debt [A]	**1,700**	**1,700**	1-2	—
Other				
Annual tower payments [A]	**2,364**	**1,069**	1-2	1,295
Pension liability [C]	**3,734**	**111**	—	3,623
Pension asset offset *[note 8]* [C]	**2,023**	**(19)**	—	2,042
Future income tax liability	—	**(8,100)**	—	8,100
Reserve for salvage costs [B,C]	**81,672**	**(26,684)**	—	108,356
Total liabilities related to rate-regulated activities	**108,897**			135,518
Less: Current portion of liabilities related to rate-regulated activities	**(4,342)**			(11,073)
Liabilities related to rate-regulated activities, long-term	**$ 104,555**			$ 124,445

A. For the identified reserve and deferral accounts, the change in the balances of assets and liabilities related to rate-regulated activities in the current year reflects disposition by the AUC 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, 2010 is nil (December 31, 2009 – nil).

B. The change in these accounts has an effect on net income.

C. Due to the nature of the account, the settlement period is unknown.

5. RATE REGULATED ACTIVITIES (CONT'D)

For some of the items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by future decisions of the AUC.

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 residual reserve may be released in the next regulatory period. If expenses incurred in the current period 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 has the following reserve accounts:

Hearing costs

The hearing costs reserve account represents a reserve for costs incurred, including those of interveners, in relation to proceedings before the AUC in which the Partnership is an Applicant.

Self-insurance

The self-insurance reserve provides insurance funds for otherwise uninsurable or uninsured losses that are $0.1M or greater.

Canada Revenue Agency

The Canada Revenue Agency (CRA) reserve represents the forecasted income tax effect of expense claims which have yet to receive final CRA approval.

Deferral accounts

Deferral accounts capture the difference between the Partnership's revenue approved in a GTA Decision and the actual amount incurred, which the Partnership is entitled to recover from the AESO. These differences arise because estimated and/or forecast costs are used in the determination of revenue during a GTA, and they are replaced subsequently by the actual costs. This reconciliation is reviewed, and to the extent that the actual costs are considered prudent, approved by the AUC.

The Partnership has the following deferral accounts:

Long-term debt

The long-term debt deferral account captures the differences between the forecast and actual cost of new long-term debt issues due to changes in interest rates, change in term, issue date or issue costs.

Taxes other than income tax

The taxes other than income tax deferral account captures the difference between forecasted property taxes and business taxes and the actual property taxes and business taxes incurred.

Insurance premiums

The insurance premium deferral account captures the difference between forecast and actual costs with respect to commercial insurance premiums. Commencing 2009, insurance premiums do not have deferral account treatment.

5. RATE REGULATED ACTIVITIES (CONT'D)

Direct assign capital

The direct assign capital deferral account captures the difference between the tariff earned based on forecast capital additions and the tariff based on actual capital additions for projects directly assigned by the AESO.

Income taxes

The income taxes deferral account captures revenue requirement variances arising from the forecast statutory income tax rates and capital cost allowance rates used in the GTA being different from actual rates.

Other costs associated with short-term debt

The other costs associated with short-term debt deferral account captures the difference between forecast and actual costs associated with short-term debt.

Other

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. A portion of the financing fees associated with the Bridge Bonds has been attributed to non-regulated operations and is not recoverable in the tariff. 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, 2010, amortization of finance fees totalled $1.7 million (December 31, 2009 - $1.6 million), which is $0.5 million (December 31, 2009 - $0.5 million) higher than would have been recorded in the absence of rate regulation.

500 kV costs

In its Decision 2009-151, the AUC ordered us to recover costs for a voided project. These amounts have now been fully collected.

Annual tower payments

The annual tower payments placeholder account captures the difference between the forecasted and actual expenses.

Pension liability

As part of the acquisition of the assets and liabilities in 2002, the pension liability was transferred to the Partnership. The Pension Liability account represents amounts for pension expense which had been collected in revenue but for which no contribution had been made into the plan. This liability has been extinguished to a certain extent, through required funding of the plan, while not recognising any pension expense and resulting revenue, and it is expected that this will continue in the future.

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 liability related to rate-regulated activities 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, 2010 is $4.7 million (December 31, 2009 - $3.8 million) versus $4.4 million (December 31, 2009 - $3.4 million) actually recorded as a result of rate regulation. Consequently, net income for the year ended December 31, 2010 is $0.3 million (December 31, 2009 - $0.4 million) higher than would have been recorded in the absence of rate regulation. See Note 8.

5. RATE-REGULATED ACTIVITIES (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 construction of major transmission projects. Amounts received in transmission tariff revenue for future income taxes since the inception of the Partnership have been included in net income and retained earnings.

As part of the acquisition of the assets and liabilities in 2002, a liability for future income taxes of $8.1 million was transferred to the Partnership. Since the Partnership does not pay income taxes directly, this liability has been settled by transferring it to the Partners.

Reserve for salvage costs

The reserve for salvage costs represents amounts collected in revenue which are associated with the cost of dismantling the Partnership's property, plant and equipment when retired. This liability will be extinguished as property, plant and equipment dismantling expenses are incurred. Recognition of the expense associated with the reserve for salvage costs is described in Note 11.

b) Regulatory decisions

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

On August 20, 2010 the AUC approved transmission tariff revenue of $287.6 million for 2010 ($279.5 million - 2009) in Decision 2010-409.

On June 21, 2010 the AUC issued Decision 2010-284 approving the Partnership's Direct Assign Capital Deferral Account Reconciliation application for 2007 and 2008.

6. PROPERTY, PLANT & EQUIPMENT

	Lines [1]	Substations [2]	Buildings & Equipment [3]	Land & Work in Progress [4]	Long-Lived Assets [5]	Customer Contributions[6]	**Total**
(in thousands of dollars)							
Cost							
As at January 1, 2009	$ 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)
As at December 31, 2009	586,496	975,512	132,890	295,605	162,327	(163,509)	1,989,321
Additions	256,729	257,733	22,783	(1,420)	49,465	(97,434)	487,856
Retirements	(4,461)	(3,068)	(5,515)	(3)	(3,404)	—	(16,451)
As at December 31, 2010	**$ 838,764**	**$ 1,230,177**	**$ 150,158**	**$ 294,182**	**$ 208,388**	**$ (260,943)**	**$ 2,460,726**
Accumulated Depreciation							
As at January 1, 2009	$ (106,324)	$ (212,149)	$ (28,217)	$ —	$ (22,592)	$ 15,511	$ (353,771)
Depreciation expense	(28,225)	(45,340)	(10,760)	—	—	5,175	(79,150)
Reclass of reserve for salvage costs	96,348	38,974	375	—	—	—	135,697
Amortization of long-lived asset	—	—	—	—	(18,360)	—	(18,360)
Retirements & salvage	2,857	3,441	7,955	—	—	—	14,253
As at December 31, 2009	(35,344)	(215,074)	(30,647)	—	(40,952)	20,686	(301,331)
Depreciation expense	(31,843)	(51,685)	(14,022)	—	—	7,911	(89,639)
Amortization of long-lived asset	—	—	—	—	(21,565)	—	(21,565)
Retirements and salvage	(3,085)	12,501	5,549	—	3,404	—	18,369
As at December 31, 2010	**$ (70,272)**	**$ (254,258)**	**$ (39,120)**	**$ —**	**$ (59,113)**	**$ 28,597**	**$ (394,166)**
Net Book Value							
As at December 31, 2009	$ 551,152	$ 760,438	$ 102,243	$ 295,605	$ 121,375	$ (142,823)	$ 1,687,990
As at December 31, 2010	**$ 768,492**	**$ 975,919**	**$ 111,038**	**$ 294,182**	**$ 149,275**	**$ (232,346)**	**$ 2,066,560**

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 & Work in Progress* – 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 2f).

The total amount of allowance for funds used during construction (AFUDC) capitalized for the year ended December 31, 2010 was $20.2 million (year ended December 31, 2009 - $13.9 million) at a capitalization rate of 6.79% (year ended December 31, 2009 – 6.81%).

7. CUSTOMER DEPOSITS

As at	December 31, 2010	December 31, 2009
(in thousands of dollars)		
Contributions in advance of construction	$ 37,476	$ 50,620
Operating and maintenance charges in advance	11,489	12,222
Total	$ 48,965	$ 62,842

Liabilities related to customer deposits equal the customer deposits.

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

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

As at December 31, 2010 customer deposits earn an effective interest rate of 1.03% (As at December 31, 2009 – 0.25%). Interest received is accumulated throughout the year, and the interest related to contributions in advance of construction is paid annually to the AESO.

8. EMPLOYEE FUTURE BENEFITS PLANS

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 (DBP). 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 AltaLink Pension Plan (the Plan) are continuing in that component, and all other employees and any new employees are covered under the defined contribution plan (DCP). The DCP is an 8% employer and 2% employee funded contribution plan and the DBP component requires the employees to contribute 2% of eligible earnings, which includes base salary plus short-term incentive pay.

The most recent actuarial valuation was completed as at December 31, 2007 and extrapolated to December 31, 2010. The DBP requires an actuarial valuation every three years. The December 31, 2010 valuation will be completed in the first quarter of 2011.

In addition, the General Partner has a supplemental pension plan (SPP). The SPP is provided to those employees who exceed the Canada Revenue Agency guidelines for maximum pension contributions in a year. The supplemental pension plan is a defined contribution plan with 8% (2009 – 8%) employer contributions, and is not a registered pension plan. Membership in the SPP is automatic once registered pension plan contributions have reached the maximum annual amount.

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

8. EMPLOYEE FUTURE BENEFITS PLANS (CONT'D)

b) Assumptions

The significant actuarial assumptions used in measuring the Partnership's net benefit plan cost are as follows:

Year ended	December 31, 2010		December 31, 2009	
	Pension plan	Other benefits	Pension plan	Other benefits
	%	**%**	%	%
Discount rate for funded status	**5.50**	**5.20**	6.70	6.00
Discount rate for expense determinations	**6.70**	**6.00**	7.50	7.40
Expected long-term rate of return on plan assets	**6.75**	**—**	7.00	—
Rate of compensation increase	**4.00**	**—**	4.00	—
Health care cost escalation	**—**	**4.50**	—	5.00
Dental care cost escalation	**—**	**4.50**	—	5.00

c) Costs recognized

Year ended	December 31, 2010		December 31, 2009	
	Pension plan	Other benefits	Pension plan	Other benefits
(in thousands of dollars)				
Current service cost	**$ 94**	**$ 356**	$ 75	$ 283
Interest cost on benefit obligation	**507**	**178**	495	165
Gain on plan assets	**(782)**	**—**	(1,113)	—
Experience losses (gain)	**1,132**	**(28)**	627	245
Difference between expected return and actual return on plan assets	**233**	**—**	619	—
Actuarial (gain) loss	**(954)**	**28**	(353)	(265)
Difference between amortization of past service costs for the year and actual plan amendments for the year	**—**	**53**	—	53
Expense	**230**	**587**	350	481
Regulatory adjustment to offset expense	**(230)**	**—**	(350)	—
Defined contribution expense of registered pension plan	**4,432**	**—**	3,415	—
Supplemental pension expense	**—**	**98**	—	112
Net expense recognized in the financial statements	**$ 4,432**	**$ 685**	$ 3,415	$ 593

8. EMPLOYEE FUTURE BENEFITS PLANS (CONT'D)

d) Status of plans

Year ended	December 31, 2010		December 31, 2009	
	Pension plan	Other benefits	Pension plan	Other benefits
(in thousands of dollars)				
Fair value of plan assets				
Balance, beginning of year	**$ 8,128**	**$ —**	$ 7,011	$ —
Employee contributions	**10**	**—**	14	—
Company contributions	**211**	**141**	212	1
Benefit payments	**(314)**	**(141)**	(222)	(1)
Actual return on plan assets	**782**	**—**	1,113	—
Balance, end of year	**8,817**	**—**	8,128	—
Accrued benefits obligation				
Balance, beginning of year	**7,614**	**2,663**	6,625	1,971
Current service cost	**94**	**356**	75	283
Employee contributions	**10**	**—**	14	—
Benefit payments	**(314)**	**(141)**	(222)	(1)
Interest cost	**507**	**178**	495	165
Experience loss (gain)	**1,132**	**(28)**	627	245
Balance, end of year	**9,043**	**3,028**	7,614	2,663
Funded status				
Funded status – (deficit) surplus	**(226)**	**(3,028)**	514	(2,663)
Supplemental pension plan	**—**	**(555)**	—	(457)
Unamortized past service costs	**—**	**264**	—	317
Unamortized actuarial losses (gains)	**2,249**	**(259)**	1,528	(231)
Accrued asset (liability), end of year	**$ 2,023**	**$ (3,578)**	$ 2,042	$ (3,034)
Amortization period in years	**4**	**15**	4	15

The asset mix of the defined benefit component of the pension plan as of December 31, 2010 consists of 56% equity, 39% bonds, and 5% cash (December 31, 2009 – 59% equity, 37% bonds and 4% cash).

e) Sensitivity analysis

Sensitivity to changes in assumed health care cost trend rates as at December 31, 2010 are as follows:

	One percentage point increase	One percentage point decrease
(in thousands of dollars)		
Effect on total service and interest cost	$ 82	$ (69)
Effect on post-retirement benefits obligation	323	(280)

9. OTHER LIABILITIES

As at	December 31, 2010	December 31, 2009
(in thousands of dollars)		
Accounts payable	$ 2,522	$ 3,416
Accrued employment benefits liabilities *[note 8d]*	3,578	3,034
Total	$ 6,100	$ 6,450

10. LONG-TERM DEBT

	Effective interest rate	Maturing	As at December 31, 2010	December 31, 2009
(in thousands of dollars)				
Senior debt				
Series 03-2, 5.430%	**5.811%**	2013	$ 325,409	$ 325,559
Series 2006-1, 5.249%	**5.299%**	2036	150,000	150,000
Series 2008-1, 5.243%	**5.354%**	2018	202,246	202,358
Series 2010-1, 5.381%	**5.432%**	2040	125,000	—
Series 2010-2, 4.872%	**4.923%**	2040	150,000	—
			952,655	677,917
Series 3, subordinated 8.000%	**8.020%**	2012	85,000	85,000
Commercial paper			—	47,982
Operating line of credit			—	—
			1,037,655	810,899
Deferred financing fees			(7,444)	(6,416)
Total debt, net of deferred financing fees			1,030,211	804,483
Current portion			(390)	(376)
Total long-term debt			$ 1,029,821	$ 804,107

On August 16, 2010, the Partnership filed a short form base shelf prospectus for 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 $1,300.0 million of secured, medium-term notes. On March 25, 2010, the Partnership issued $125.0 million of Series 2010-1 Medium-Term Notes under the previous shelf prospectus. On November 15, 2010 the Partnership issued $150.0 million of Series 2010-2 Medium-Term Notes under the August 16, 2010 shelf prospectus.

a) Capital markets platform

The Partnership has implemented a financing structure referred to by the Partnership as the "Capital Markets Platform" (CMP) to finance the operation, maintenance and development of its assets. The Capital Markets Platform 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 Capital Markets Platform. 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.

10. LONG-TERM DEBT (CONT'D)

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.

Collateral for the Senior debt obligations and Series 3 Subordinated bonds 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.

b) Bank credit facilities

As at December 31, 2010	Committed	Drawdowns	Commercial Paper Outstanding	Available	Renewal Date
(in thousands of dollars)					
Commercial paper back-up facility	**$ 550,000**	**$ —**	**$ —**	**$ 550,000**	**December 16, 2012**
Operating line of credit	**50,000**	**—**	**—**	**50,000**	**December 16, 2012**
	$ 600,000	**$ —**	**$ —**	**$ 600,000**	

As at December 31, 2009	Committed	Drawdowns	Commercial Paper Outstanding	Available	Renewal Date
(in thousands of dollars)					
Commercial paper back-up facility	$ 400,000	$ —	$ 47,982	$ 352,018	December 17, 2011
Operating line of credit	85,000	—	—	85,000	April 30, 2011
	$ 485,000	$ —	$ 47,982	$ 437,018	

The $550.0 million commercial paper back-up facility provides support for the borrowing under the unsecured commercial paper program and can also be used for general corporate purposes. Drawdowns under either the commercial paper back-up facility or operating line of credit may be in the form of Canadian prime rate loans or bankers' acceptances. It is the Partnership's practice to refinance commercial paper with senior debt. At the renewal date, the Partnership has the option to convert the facility to a one-year term facility.

10. LONG-TERM DEBT (CONT'D)

c) Interest expense and amortization of deferred financing fees

Year ended	December 31, 2010	December 31, 2009
(in thousands of dollars)		
Deferred financing fees amortized	**$ 1,710**	$ 1,604
Interest on debt	**51,891**	42,818
Total interest and amortization of deferred financing fees on debt	**53,601**	44,422
Less: short-term portion of interest on debt	**—**	—
Total long-term portion of interest and amortization of deferred financing fees	**$ 53,601**	$ 44,422

d) Scheduled principal repayments

Maturing	
(in thousands of dollars)	
2011	**$ 390**
2012	**85,000**
2013	**325,251**
2014	**—**
2015	**—**
2016 and thereafter	**627,014**
	$ 1,037,655

e) Letters of credit

As at December 31, 2010, the Partnership had secured letters of credit outstanding of $0.2 million (December 31, 2009 - $0.1 million).

11. ASSET RETIREMENT OBLIGATIONS

The Partnership regularly conducts an analysis to determine whether it is able to estimate future dismantling costs associated with the transmission system, which includes transmission lines, substations and telecom equipment.

The Partnership has determined it is able to estimate reliably the timing and amounts of cash flows for retirement of the existing transmission lines. Interim dismantling costs are recognized when a component of the lines is retired prior to the final retirement of the entire facility.

Since the Partnership determined that there were no legal obligations associated with the retirement of electric substations and telecom sites, interim dismantling costs for these sites were not recognized.

There will be future retirement obligations associated with the final retirement of transmission lines, substations and telecom equipment; however no obligation has been recognized at this time because the date of final removal cannot be reasonably determined.

The calculation of costs to dismantle and remove the component parts of transmission lines, including poles and towers, was estimated using the forecasted future dismantling costs over the period calculated in the latest physical asset life study, as this was the period over which it was determined that reliable estimates could be made of future dismantling.

11. ASSET RETIREMENT OBLIGATIONS (CONT'D)

As of December 31, 2010, the estimated total undiscounted amount of interim dismantling costs was approximately $607.3 million (December 31, 2009 - $453.1 million). The future dismantling costs are expected to be settled over the useful lives of the assets, most of which are expected to be retired between 2011 and 2051. In determining the fair value of the interim dismantling costs, the increase during the period of estimated cash flows of forecast future dismantling costs have been discounted, using a discount rate adjusted for credit risks and inflation factors, at 4.30% (2009 – 4.96%).

In order to recognize future dismantling costs on the same basis as they are recovered through rates charged to customers, an expense for dismantling costs is recorded in a component of depreciation expense. Accretion and depreciation expense on future dismantling costs are offset in the income statement. In the absence of regulatory accounting, under GAAP, the amount of accretion expense and depreciation expense that would have been recorded for the year ended December 31, 2010 is $33.3 million (year ended December 31, 2009 - $28.8 million) compared to $10.3 million (year ended December 31, 2009 - $9.4 million) of dismantling cost expense actually recorded. Consequently, net income for the year ended December 31, 2010 is $23.0 million (year ended December 31, 2009 - $19.4 million) higher than would have been recorded in the absence of regulatory accounting.

In the fourth quarter of 2010, the Partnership increased its asset retirement obligation by $48.6 million mainly due to a one percent increase in the rate of inflation (2010 – 2.00%; 2009 – 1.00%) used to determine estimated future cash flows of additions in the current year.

As at	December 31, 2010	December 31, 2009
(in thousands of dollars)		
Balance, beginning of year	**$ 186,305**	$ 60,181
Liabilities incurred in the period	**5,337**	4,051
Liabilities settled in year	**(8,211)**	(1,236)
Accretion expense	**11,784**	8,905
Revisions in estimated cash flows	**44,128**	114,404
Balance, end of year	**$ 239,343**	$ 186,305

12. RELATED PARTY TRANSACTIONS

The Partnership is related to 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., Macquarie GP Holdings Ltd, AltaLink Investments, L.P., AltaLink Management Ltd, SNC Lavalin ATP Inc., AltaLink Holdings L.P., Macquarie North America Ltd., AltaLink Investment Management Ltd., SNC Lavalin Environmental Inc., SNC Lavalin Inc. and AltaLink Heartland Holdings, L.P.

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, 2010	December 31, 2009
(in thousands of dollars)		
Interest		
AltaLink Investments, L.P.	**$ 6,800**	$ 6,800
Employee compensation and benefit		
AltaLink Management Ltd.	**75,914**	58,858
Construction related services		
SNC-Lavalin ATP Inc.	**262,680**	200,103

12. RELATED PARTY TRANSACTIONS (CONT'D)

For the year ended December 31, 2010 and 2009, there were no other material transactions with related parties.

Amounts included in accounts receivable and accounts payable are:

As at	December 31, 2010	December 31, 2009
(in thousands of dollars)	**Amount owed to related parties**	Amount owed to related parties
AltaLink Management Ltd.	**$ (12,986)**	$ (6,882)
SNC-Lavalin ATP Inc.	**(88,573)**	(82,995)
AltaLink Investments, L.P.	**(1,103)**	(1,063)

As at December 31, 2010 and 2009, there were no other material balances with related parties.

Unless otherwise stated, none of the related party transactions incorporate special terms and conditions and no guarantees were given or received.

REMUNERATION OF SENIOR MANAGEMENT

Year ended	December 31, 2010	December 31, 2009
(in thousands of dollars)		
Salary and other short-term benefits	**$ 3,041**	$ 2,729
Long-term benefits	**679**	585
Post employment benefits	**230**	207
Total for all senior management	**$ 3,950**	$ 3,521

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, Senior Vice President Human Resources, and Senior Vice President Projects. The Senior Vice President Projects is a new position created by the Partnership in 2010.

Salary and other short-term benefits represent actual salary received during the year, and annual short-term incentive plan paid out based on the achievement of specific predetermined performance goals and perquisites. 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.

REMUNERATION OF BOARD OF DIRECTORS OF GENERAL PARTNER

Year ended	December 31, 2010	December 31, 2009
(in thousands of dollars)		
Total fees earned by Directors [1]	**$ 373**	$ 359

1. 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

The Partnership is regulated using 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, 2010	December 31, 2009
(in thousands of dollars)		
Return – equity	**$ 43,000**	$ 33,900
Return – debt	**50,100**	38,500
Recovery of forecast expenses	**180,400**	154,400
Deemed income taxes	**14,100**	11,200
Approved transmission tariff	**287,600**	238,000
Deferral, reserve and other adjustments	**(11,616)**	(1,866)
Transmission tariff	**$ 275,984**	$ 236,134

In the 2009-2010 Generic Cost of Capital decision, the AUC approved a return on equity of 9.00%, with a deemed common equity ratio of 36%.

14. MISCELLANEOUS REVENUE

Year ended	December 31, 2010	December 31, 2009
(in thousands of dollars)		
Costs recovered from third parties [1]	**$ 12,510**	$ 7,726
Services provided to third parties	**4,750**	4,711
Tower, land and other lease revenue	**1,446**	1,573
Related party and other revenue	**887**	917
Miscellaneous revenue	**$ 19,593**	$ 14,927

1. The Partnership occasionally provides transmission construction services to third parties (primarily other utilities) on a cost recovery basis; therefore there is no net income impact. Related costs are included in operating expenses.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Year ended	December 31, 2010	December 31, 2009
(in thousands of dollars)		
Change in non-cash working capital items		
Accounts receivable and other	**$ (5,731)**	$ 286
Accounts payable and other	**12,436**	77,899
Current assets and liabilities related to rate-regulated activities	**(11,247)**	3,361
Change in non-cash working capital items	**$ (4,542)**	$ 81,546
Related to operating activities	**$ (15,683)**	$ 9,656
Related to investing activities	**11,141**	71,890
	$ (4,542)	$ 81,546
Net change in other financing activities		
Deferred financing fees	**$ (2,252)**	$ (676)
Customer deposits	**13,877**	15,359
Customer deposits liability	**(13,877)**	(15,359)
	$ (2,252)	$ (676)

16. COMMITMENTS AND CONTINGENCIES

a) Commitments

The Partnership is committed to operating leases for premises in Calgary, Red Deer, Edmonton and Lethbridge that have lease terms which expire between 2011 and 2026. Of the total expected minimum lease payments, 96% relates to the Partnership's head office leases.

Expected minimum lease payments in future years are as follows:

Year ended		December 31, 2010
(in thousands of dollars)		
Operating lease obligations payable on non-cancellable leases are as follows:		
No later than 1 year		$ 3,570
No later than 2 years	**$ 3,545**	
No later than 3 years	**3,453**	
No later than 4 years	**3,470**	
No later than 5 years	**2,756**	
Later than 1 year and no later than 5 years		13,224
Later than 5 years		23,557
		$ 40,351

b) Contingencies

From time to time, the Partnership is subject to 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.

17. 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 $89.4 million (2009 – $140.5 million). No Partnership units were issued during the year (2009 – nil).

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