AltaLink, L.P.

Management's Discussion and Analysis

August 8, 2022

ALTALINK
A BERKSHIRE HATHAWAY ENERGY COMPANY

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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) reflects events known to us as of August 8, 2022. This MD&A is intended to provide you with an understanding of our business, our strategy, our performance, our expectations for the future, and how we manage risk and financial resources. The Board of Directors approved this MD&A on August 4, 2022, based on the recommendation of the Audit Committee, which reviewed this MD&A in accordance with its terms of reference.

You should read this MD&A in conjunction with our legal advisory on Forward-Looking Information, which we have included at the end of this MD&A, as well as our unaudited consolidated condensed interim financial statements for the three and six months ended June 30, 2022 and 2021 (the second quarter consolidated financial statements), and our audited consolidated financial statements for the years ended December 31, 2021 and 2020 (the consolidated financial statements) and the notes thereto.

The financial information in this MD&A is presented in Canadian dollars, which is our functional currency.

Unless otherwise noted, references in this MD&A to "we", "us", "our", "AltaLink" or "the Partnership" mean AltaLink, L.P. together with its subsidiary entities, PiikaniLink, L.P. and KainaiLink, L.P., references to a "quarter" and "year" refer to the three-month period ended June 30, 2022 and the twelve-month period ended December 31, 2021, respectively. References to "AESO" mean Alberta Electric System Operator; "AFUDC" mean Allowance for Funds Used During Construction; "AHLP" mean AltaLink Holdings, L.P.; "AIES" mean Alberta Interconnected Electric System; "AILP" mean AltaLink Investments, L.P.; "AIML" mean AltaLink Investment Management Ltd.; "ALP" mean AltaLink, L.P.; "AML" mean AltaLink Management Ltd.; "AUC" mean Alberta Utilities Commission; "BHE" mean Berkshire Hathaway Energy Company; "BHEA" mean BHE AltaLink Ltd."; "CWIP" mean Construction Work-In-Progress; "DACDA" mean Direct Assigned Capital Deferral Account; "DBRS" mean DBRS Limited; "FFO" mean Funds from Operations; "GAAP" mean Generally Accepted Accounting Principles; "GCOC" mean Generic Cost of Capital; "GTA" mean General Tariff Application"; "IFRS" mean International Financial Reporting Standards; "KLP" mean KainaiLink, L.P.; "NID" mean Needs Identification Document; "PLP" mean PiikaniLink, L.P.; and "S&P" mean Standard & Poor's Global Ratings.

Additional information relating to our business including our Annual Information Form for the year ended December 31, 2021 is available on SEDAR at www.sedar.com.

Executive Summary

Quarter Highlights

- Our average customer satisfaction score of 9.69 improved compared to 9.45 for the same quarter in 2021.
- Our reliability of service as measured by customer outage duration of three minutes improved compared to four minutes for the same quarter in 2021.
- On June 30, 2022, with the release of our 2021 ESG Report, AltaLink continues to demonstrate its commitment to sustainability as it operates the transmission system that supplies millions of Albertans with electricity.
- We had one injury compared to zero injuries for the same quarter in 2021. Our total recordable injury frequency rate for the first half of 2022 was 0.30. Our safety record is strong with only one employee safety incident over the past 27 months.
- On April 19, 2022, AltaLink filed revised 2022 and 2023 revenue requirements including PLP and KLP of $878.8 million and $882.7 million, respectively, in response to additional information requested by the AUC on April 14, 2022. On May 17, 2022, the AUC approved the revised revenue requirements as filed, allowing AltaLink to fully deliver on its flat-for-five commitment to our customers to keep our rates at or below the 2018 level of $904 million during the five-year period from 2019 to 2023.
- On June 24, 2022, the AUC varied its Decision 26509-D01-2022 stating that AltaLink substantiated the Pipeline Electrical Interference Mitigation Program forecast capital expenditures at issue, with the exception of forecast capital expenditures that are wholly the responsibility of the pipeline owner. As a result, the AUC approved 91% of the Program's forecast capital expenditures, totaling $4.3 million for 2022 and $3.0 million for 2023.
- On May 9, 2022, S&P reaffirmed its issuer credit rating and senior secured rating on AltaLink at "A" with a stable outlook. On July 21, 2022, DBRS reaffirmed its issuer rating on AltaLink's medium-term notes at "A" with a stable trend. An "A" rating allows us to keep debt financing costs low for our customers.
- We earned net and comprehensive income of $77.0 million compared to $76.0 million for the same quarter in 2021. Our net and comprehensive income increased due to the fact that the second quarter 2022 results did not have a loss on the sale of assets and certain non-recoverable depreciation which occurred in 2021.
- We invested $62.3 million in capital assets compared to $65.5 million for the same quarter in 2021 to connect renewable as well as natural gas generation and to ensure the continued reliability of the electricity network.

Strategic Highlights

- We committed to our customers that our applications to the AUC will keep our transmission tariffs flat for five years at or below the 2018 level of $904 million from 2019 to 2023. We submitted our 2019-2021 and 2022-2023 GTAs which the AUC approved, allowing us to fully deliver on this commitment.
- From 2015 to 2021, through a combination of rate levelization and gross cost saving efforts, we reduced our cumulative tariffs by more than $1.4 billion for our customers.
- As a designated Electricity Canada (formerly Canadian Electricity Association) Sustainable Electricity Company since 2014, we continue to advance our commitment to operate our business in a sustainable and affordable manner. Our annual ESG Report highlights the objectives we are progressing across Environmental, Social and Governance areas of our business.

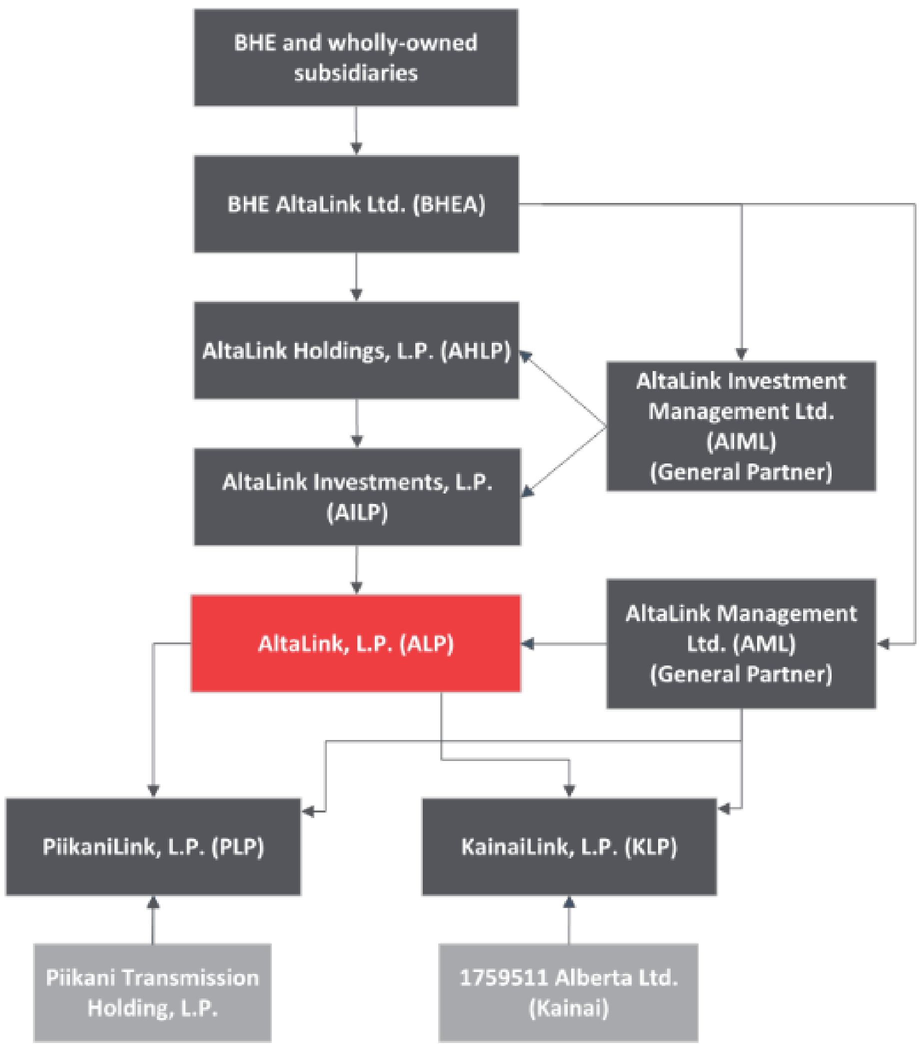
- We promote and actively work with energy companies on the connection of renewable generation facilities to our existing transmission grid. The use of existing transmission assets requires less incremental transmission cost, and it is more sustainable. The Canadian federal government continues to advance its Clean Electricity Standard to achieve a 100% net-zero emitting electricity system by 2035. The AESO released its Net-Zero Emissions Pathway Report that outlines potential supply and demand combinations to enable Alberta to reach a net-zero electricity system by 2035. These energy transition initiatives are expected to necessitate additional electricity transmission to connect renewable energy generation as well as strengthen Alberta's transmission interties with neighboring jurisdictions.

Our Ownership Structure

ALP is a limited partnership, formed under the laws of Alberta on July 3, 2001 pursuant to the Limited Partnership Agreement between AML, as general partner, and AILP, as the sole limited partner. The general partner manages the regulated electricity transmission facilities that we own and operate in the Province of Alberta.

Both AILP and its sole limited partner AHLP are managed by AIML. AHLP is wholly-owned by BHEA, a wholly-owned indirect subsidiary of BHE.

Our operations and headquarters are located in Alberta, where we provide reliable, safe and efficient service to Albertans. We are regulated by the AUC. The AESO directs us on what to build and directs the operation of the interconnected electrical system.



Our Business and Strategies

We build, own and operate regulated electricity transmission facilities in the Province of Alberta. Through our transmission facilities, we deliver electricity safely, reliably and efficiently to approximately 85% of Alberta's population to meet continuously changing customer needs under all operating conditions. We connect generation plants to major load centres, cities and large industrial plants throughout our 226,000 square kilometre service area, which covers a diverse geographic area, including most major urban centres in central and southern Alberta. Our transmission facilities comprise approximately half of the total kilometres in the Alberta Interconnected Electric System, including interconnections with British Columbia's transmission system that link Alberta with the North American western interconnected system.

For more details regarding our business and strategies, please refer to "Our Business and Strategies" section of our MD&A for the year ended December 31, 2021.

Our Vision and Core Principles

Our vision is to be the best energy company in serving customers, while delivering sustainable energy solutions. Our six core principles further define our values, strategies and vision:

We use certain measures to determine whether we are meeting our goals and the needs of our customers. Our performance continues to compare favourably to other transmission facility owners in Canada for reliability, safety and cost-effectiveness.

Customer Service

We are focused on delivering reliability, dependability, low prices and exceptional service to our customers. We are committed to providing innovative solutions that customers want and need.

Customer performance

Customer feedback is essential to improving the customer service experience. Our customer service representatives pride themselves in having the pulse on customer requirements. They achieve this through planned touch point meetings throughout the year. In addition, we host an annual "Let's connect" event to update customers on industry trends and our key customer service initiatives.

Our customer service performance is measured through a third party survey process. We use the survey feedback to establish specific initiatives aimed at improving our customers' experience. We use the average survey score out of 10 as the measure of customer satisfaction. Our average customer survey score for the 12 months ended June 30, 2022 was 9.48, an improvement compared to 9.21 for the same period in 2021.

Employee Commitment

We equip employees with the resources and support they need to be successful. We encourage teamwork and provide a safe, rewarding, equitable, and inclusive work environment. We make no compromise when it comes to safety and security.

Our employees' knowledge and dedication to "keeping the lights on" through operational excellence is key to our ability to deliver customer requirements successfully. We aim to provide a clear link between employees' total direct compensation and both business performance and the employee's own performance. In particular, each employee's incentive pay depends upon how the business performs against established goals and targets that are aligned with the interests of our customers. Additional information on AltaLink's incentive plans is included in our Annual Information Form available on SEDAR at www.sedar.com.

Diversity, equity and inclusion (DE&I)

We believe in an inclusive environment which for us means a space of mutual respect, trust and commitment. Our DE&I Plan includes frequent communication and listening sessions to build awareness and understanding, training and resources for leaders and employees, DE&I events and Employee Resource Groups to actively engage employees.

In 2021, we completed our first DE&I pulse survey. We had a 79% participation rate and received over 80% favourable responses in terms of AltaLink actively supporting DE&I in the workplace; a workplace climate that was welcoming of all employees regardless of their religion, race, ethnicity, gender, age or sexual orientation; and leadership who foster an inclusive work environment.

Employee engagement and support to the community

We strive continuously to attract, retain and develop a high-quality and diverse workforce. Our workforce enables us not only to sustain our business, but also to remain at the forefront of innovation and continuous improvement. We employ approximately 700 skilled and dedicated employees to maintain and operate our facilities and deliver on the capital transmission projects planned in Alberta. Using an independent third party, we conduct regular employee engagement pulse surveys with all employees.

In 2021, we conducted a third pulse survey on our COVID-19 response. We had an 87% response rate and received favourable scores on senior leadership communication through the COVID-19 pandemic, team effectiveness and manager support. We continue to provide wellness and mental health support to our employees in addition to increased flexibility in the workplace.

AltaLink and its employees support the communities in which we live and work throughout the year through employee volunteerism and community investment. In each of 2020 and 2021, our employees raised over $1 million dollars for the United Way after the dollar for dollar match by AltaLink.

Safety

Our safety record is strong with only one employee safety incident over the past 27 months.

The safety and security of our employees, customers, and the general public is our top priority. We have the Environmental, Health and Safety Leadership Committee that meets monthly to provide guidance and oversight with respect to safety. Our safety management initiatives encompass all aspects of our safety systems and focus our entire organization on safety accountabilities, responsibilities and culture. We strive to continuously improve our safety performance through focused training and ongoing commitment to our safety culture and safety management processes.

We consistently attain strong safety metrics, and our employee injury frequency rate continues to be significantly better than those of our peers, as reported by Electricity Canada.

The following table summarizes our strong safety performance.

	Twelve months ended June 30,	
	2022	2021
Total recordable injury frequency rate[1]	**0.16**	0.00

1. Number of all lost time, restricted work and medical aid incidents per 200,000 exposure hours worked by employees.

In November 2021, for the fifth consecutive year, we received the Electricity Canada President's Award of Excellence for employee safety as the best performing transmission company with 300 to 1,500 employees in 2020.

As we are committed to public safety, we continue to maintain our accreditation from the Alberta Safety Codes Council to ensure that our transmission facilities comply with all Alberta Electric Utility Code requirements.

Environmental Respect

We are committed to using natural resources wisely and protecting our environment for the benefit of future generations. Our Environmental RESPECT Policy details this commitment in the areas of Responsibility, Efficiency, Stewardship, Performance, Evaluation, Communication and Training.

We believe responsible environmental management is good business; it benefits our customers and improves the quality of the environment in which we live.

We have an environmental management system that is modelled after the International Organization for Standardization (ISO) requirements and ISO 14001:2015 standard. The environmental management system is a framework for systematically managing environmental risks and improving environmental performance.

Corporate sustainability is important to our overall business strategy, which collectively considers environmental, social and economic aspects in our business planning, decision making and governance. On June 30, 2022, AltaLink released its 2021 ESG Report, which is available on www.altalink.ca.

We provide environmental leadership through innovative practices and sound risk management. In designing and constructing new transmission facilities, as well as operating and maintaining our existing facilities, we consider ways to reduce land use impacts and improve efficiency. We strive to be leaders in environmental best practices. We also promote and actively work with energy companies to connect their renewable generation facilities to our existing transmission grid.

We are maintaining our accreditation from the Right-of-Way Stewardship Council for our sustainable integrated vegetation management practices. We were the first utility in Canada to receive this third-party independent confirmation that our practices for environmental management of our transmission rights-of-way meet industry standards of excellence.

Regulatory Integrity

We adhere to a policy of strict regulatory compliance and pursue frequent, open communication with stakeholders regarding our business performance.

As a transmission facility owner, we are regulated by the AUC, pursuant to the Electric Utilities Act (Alberta), the Public Utilities Act (Alberta), the Alberta Utilities Commission Act (Alberta), and the Hydro and Electric Energy Act (Alberta). Through various regulatory decisions, these statutes and their respective regulations impact our tariffs, construction, operations and financing.

We receive all our regulated transmission tariffs, including settlements of deferral and reserve accounts, from the AESO. We and other transmission facility owners are permitted to charge tariffs for the use of our transmission facilities. Such tariffs are regulated by the AUC under the provisions of the Electric Utilities Act (Alberta) in respect of rates and terms and conditions of service.

We have developed a Code of Ethics and Business Conduct for how we conduct business and a Compliance Plan to achieve the purposes of the Inter-Affiliate Code of Conduct as ordered by our regulator. We seek to promote integrity and transparency in all aspects of how we conduct our business and in our relations with our colleagues, customers, shareholders, business partners, and other stakeholders.

Operational Excellence

Together with our employees, we pride ourselves on excellence in every aspect of our work. Our high standards for operations and system maintenance enable us to meet and exceed our customers' expectations, perform our work safely, and preserve our assets.

We focus on "keeping the lights on" for Albertans and are committed to reinforcing and maintaining Alberta's transmission infrastructure to ensure that the province's electricity grid can enable economic growth and support the energy transformation. Our focus on continuous improvement and operational excellence spans our project execution, maintenance, work planning, and scheduling activities.

We strive to continue to implement business improvements across our organization to deliver reliable, affordable, and safe transmission service to our customers.

Operations and asset management

We design and implement operational, maintenance and information technology capital investments to fulfill our commitment to the safe, reliable and cost-effective operation of our transmission business. Our program-based maintenance activities cover a broad functional spectrum of the transmission business, including safety management, transmission lines, substations, telecommunications, meters, vehicles, buildings, tools, control centre and information technology improvements. We utilize life extension and long-range asset replacement programs to ensure timely and effective replacement of assets which have reached the end of their useful lives.

Capital projects

We energized or completed $44.2 million of capital project additions in the second quarter of 2022 (2021 – $99.0 million). Please refer to "Major Capital Projects" section of this MD&A.

Reliability

A strong, efficient, and reliable transmission system ensures Albertans have access to multiple generation resources from across the province. A reliable transmission system also ensures that all generators are able to compete, enabling access to low-cost generation including renewable generation for customers.

We operate our transmission system to minimize disruption of service to our customers. Severe weather and other unplanned events cause service disruptions to which we respond as quickly as possible. We have a long-term trend of improving reliability through proactive operating practices and capital investment. Our reliability statistics are better than those of our peers, as reported by Electricity Canada, which has ranked us in the top quartile of Canadian electric utilities for outage duration and outage frequency.

Our reliability of service provided to customers continues to be strong. Our average customer outage duration in the 12 months ended June 30, 2022 of 8 minutes improved compared to 16 minutes for the same period in 2021, primarily due to our efforts in preventing outages by efficiently directing maintenance to high risk assets and quick and efficient restoration efforts when outages occur. The frequency of outages, which represents the average number of interruptions per delivery point, in the 12 months ended June 30, 2022 of 0.28 improved compared to 0.42 for the same period in 2021. Restoration performance in the 12 months ended June 30, 2022 of 64 minutes also improved compared to 66 minutes for the same period in 2021. Our ongoing focus on capital maintenance investments, operating maintenance activities and initiatives to reduce restoration times, continues to provide strong power system reliability in support of our customers.

The table below summarizes our reliability performance.

	Twelve months ended June 30,	
	2022	2021
Duration of outages (SAIDI)[1]	**8**	16
Frequency of outages (SAIFI)[2]	**0.28**	0.42
Restoration time (SARI)[3]	**64**	66

1. System Availability Interruption Duration Index is the average number of interruption minutes per delivery point.
2. System Availability Interruption Frequency Index is the average number of interruptions per delivery point.
3. System Average Restoration Index is the average number of interruption minutes per sustained interruption.

Cyber security

During the six months ended June 30, 2022, we continued to upgrade our cyber security preparedness by adding controls to meet compliance requirements and to keep pace with best practices. With the outbreak of Russian hostilities against Ukraine in February 2022, the Governments of Canada and the United States have issued repeated requests for critical infrastructure providers (in particular the electricity industry) to adopt a "shields up" approach with additional security measures. AltaLink has been working closely with federal and provincial government security agencies and industry partners to implement additional security controls. AltaLink continues to monitor developments closely.

Financial Strength

We are excellent stewards of our financial resources. Backed by BHE, we invest in hard assets and focus on long-term opportunities that will contribute to our future strength.

We align our financing strategy with the regulated debt and equity capital structure approved by the AUC and with targets for our key financial metrics. We finance our operations and maintenance capital expenditures from operating cash flows, and we intend to fund the growth capital expenditures from the balance of our operating cash flows, additional borrowings under our capital markets platform and, if required, equity contributions from our limited partner, AILP.

AltaLink's Senior Debt has an "A" credit rating from DBRS and S&P. On May 9, 2022, S&P reaffirmed its issuer credit rating and senior secured rating on AltaLink at "A" with a stable outlook. On July 21, 2022, DBRS Limited confirmed AltaLink's Issuer Rating and the rating of its Medium-Term Notes (which includes the 2020-1 Senior Secured Notes) at "A" and the rating of its Commercial Paper at R-1 (low). All trends are Stable.

DBRS upgraded the Issuer Rating and the Senior Unsecured Bonds rating of AILP to A (low) from BBB (high) on July 21, 2022. The trend on both ratings remains at stable. The improvement in the credit rating reflects AILP's decreasing unconsolidated debt leverage.

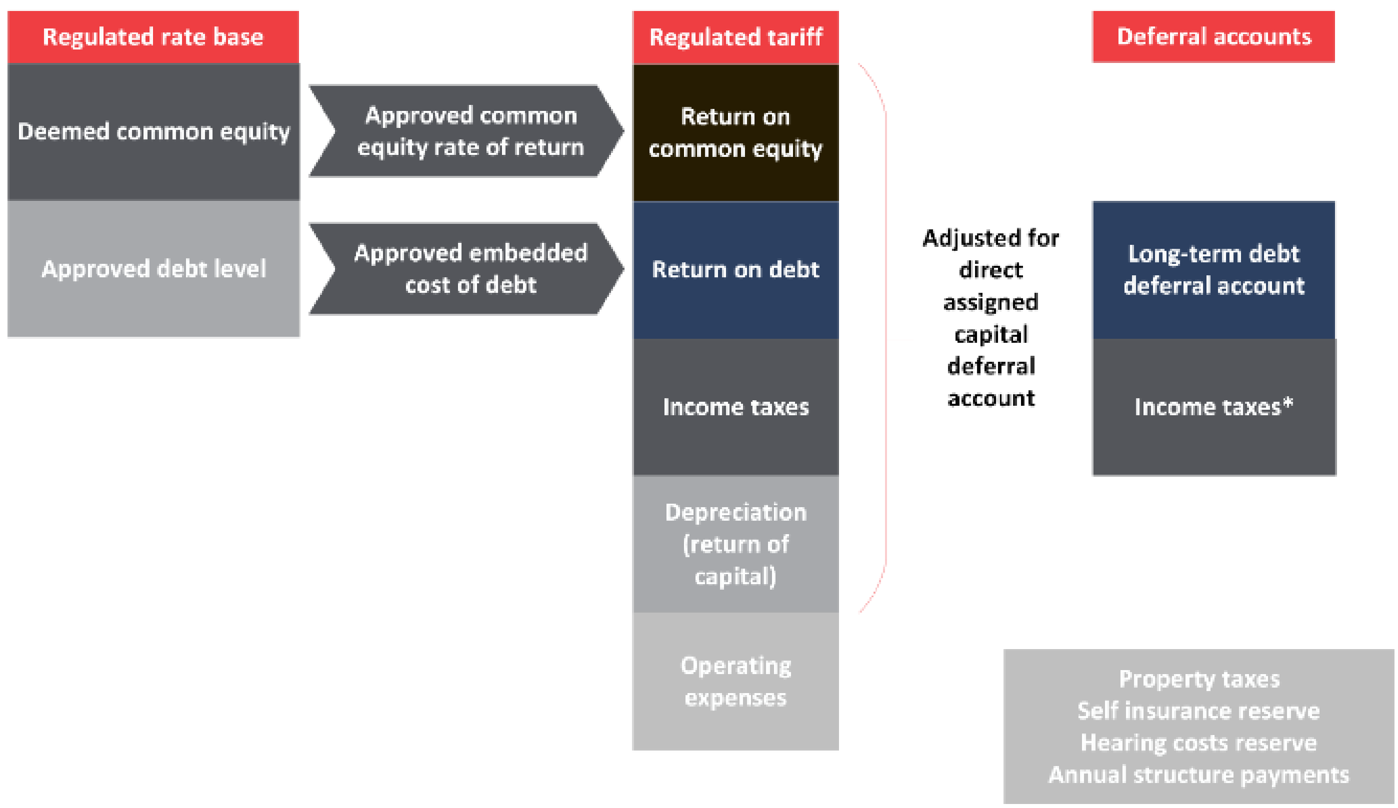
The financial strength demonstrated through an "A" credit rating allows us to keep debt financing costs low for our customers. For the six months ended June 30, 2022, our weighted average cost of long-term debt was 3.90% (June 30, 2021 – 3.90%).

Capital investment
Continued investment in our regulated capital assets provides reliability of supply of transmission service to our customers and is one of our indicators of future revenue streams. As a regulated utility, we earn most of our net income from allowed returns on equity invested in our regulated capital assets. The AUC approved an equity return of 8.5% and an equity ratio of 37% for 2019 through 2023. We calculate our allowed returns on equity by multiplying our mid-year investments in rate base and CWIP by the equity ratio and rate of return approved by the AUC. Our operating cash flow relates primarily to (i) the return on equity on our rate base; and (ii) recovery of depreciation on our rate base assets.

Transmission Tariffs

Overview
Under the Electric Utilities Act (Alberta), we prepare and file applications with the AUC for approval of tariffs to be paid by the AESO for the use of our transmission facilities, and the terms and conditions governing the use of those facilities. The AUC reviews and approves such tariff applications based on a cost-of-service regulatory model under a forward test year basis.

The following diagram outlines the principal components of our transmission tariff revenue:



* Income taxes are recovered through regulated tariffs in future years when the taxes are deemed to be paid using the flow through calculation method.

For more details regarding our transmission tariffs, please refer to the "Transmission Tariffs" section of our MD&A for the year ended December 31, 2021.

The AESO is responsible for directing the safe, reliable and economic operation of the AIES, including long-term transmission system planning. To meet long-term planning needs, the AESO directs us to expand and reinforce the AIES within the area in which we operate. We are obligated to fulfill these directions pursuant to the Transmission Regulation.

Interim tariffs

On May 17, 2022, the AUC approved final transmission tariffs for AltaLink, including monthly tariffs for PLP and KLP, of $83.6 million per month effective June 1, 2022, for the remainder of 2022, and $73.6 million per month for 2023.

Our total approved interim refundable transmission tariff, including monthly tariffs for PLP and KLP, was $57.4 million per month as of January 1, 2022 until a final tariff was approved.

On March 15, 2021, the AUC approved AltaLink's proposed 2021-2023 Tariff Refund Application resulting in a final tariff of $46.5 million per month starting April 2021, which includes monthly tariffs for PLP and KLP. On November 19, 2020, the AUC approved a 2021 monthly tariff starting at $71.4 million per month, which includes monthly tariffs for PLP and KLP.

2022-2023 General Tariff Application

On June 24, 2022, the AUC varied its Decision 26509-D01-2022 with respect to AltaLink's proposed Pipeline Electrical Interference Mitigation Program capital expenditures. The AUC ruled that AltaLink substantiated the majority of Pipeline Electrical Interference Mitigation Program forecast capital expenditures at issue, with the exception of forecast capital expenditures that are wholly the responsibility of the pipeline owner. As a result, the AUC approved 91% of the forecast capital expenditures, totaling $4.3 million for 2022 and $3.0 million for 2023. On July 26, 2022, AltaLink filed its compliance filing to reflect the increased capital as approved by the AUC, resulting in increased revenue requirements of $0.1 million and $0.3 million for 2022 and 2023 respectively.

On May 17, 2022, the AUC issued a decision with respect to AltaLink's application to review and vary its proposed $120.0 million refund of accumulated depreciation surplus. While the AUC found that the refund would provide consumers with some modest relief on their electricity bills, it determined that the long-term costs outweigh the short-term benefits and the refund would not be fair to future customers. The AUC also found that economic indicators, with the exception of inflation, showed an improvement in the Alberta economy. The AUC did not agree that Alberta's economy had materially deteriorated.

On April 19, 2022, AltaLink filed revised 2022 and 2023 revenue requirements including PLP and KLP of $878.8 million and $882.7 million, respectively, in response to additional information requested by the AUC on April 14, 2022. On May 17, 2022, the AUC approved the revised revenue requirements as filed, allowing AltaLink to fully deliver on its flat-for-five commitment to our customers.

On March 17, 2022, AltaLink filed another review and variance application with the AUC. The application requested the AUC to review and vary its decision to deny AltaLink's proposed $120.0 million refund of accumulated depreciation surplus, given material changes in circumstances since the decision was issued in January 2022.

On March 11, 2022, the AUC issued Decision 27172-D01-2022 with respect to AltaLink's review and variance application. In this decision, the AUC decided to review the Pipeline Electrical Interference Mitigation Program issue on its own motion, since AltaLink is required to undertake this program to comply with applicable laws and standards but was not awarded any funds to carry out the program. In the same decision, the AUC dismissed the request for review of the Wildfire Mitigation Plan opening balance issue, on the basis that AltaLink did not meet the requirements for a review. On April 12, 2022, AltaLink filed supplemental information requested by the AUC for the review of the Pipeline Electrical Interference Mitigation Program issue.

On February 18, 2022, concurrent with the 2022-2023 General Tariff Application Compliance Filing, AltaLink filed a review and variance application with the AUC. The application requested the AUC to review and vary its decision to (i) deny all costs for the Pipeline Electrical Interference Mitigation Program, a total of $7.9 million for the 2022-2023 test period, and (ii) deny $1.5 million of costs in AltaLink's 2022 opening rate base related to its Wildfire Mitigation Plan. AltaLink considers it unsafe to operate transmission lines adjacent to pipelines without appropriate mitigations in place and considers that the evidence demonstrates the Wildfire Mitigation plan program expenditures were approved in AltaLink's 2019-2021 GTA and were previously shown to have been prudently incurred.

On January 19, 2022, the AUC issued Decision 26509-D01-2022 with respect to AltaLink's 2022-2023 GTA. The AUC did not approve AltaLink's proposed refund due to an anticipated improvement in general economic conditions in Alberta. The AUC supported the following key areas of focus for AltaLink:

- The AUC approved AltaLink's continued implementation of its Wildfire Mitigation Plan, including $2.1 million of forecast operating expenses and $20.4 million of forecast capital investment to reduce the risk of fires.
- The AUC approved $4.4 million for AltaLink's higher priority forecast transmission line clearance mitigation capital.
- The AUC approved $26.0 million for security and compliance capital to support AltaLink's ongoing efforts to protect customers and the AIES from increasing and evolving cyber threats.

The AUC approved $331.5 million in total capital expenditures for information technology and capital replacement and upgrade programs, as compared to $407.1 million requested in AltaLink's GTA. The AUC reduced AltaLink's 2022 opening net salvage reserve account by $98.9 million, subject to review and further justification in AltaLink's next GTA. In addition, the AUC directed AltaLink to reduce its direct assigned capital expenditure forecast by $214.1 million due to delayed in-service dates, as directed by the AESO, for several projects. The AUC also reduced AltaLink's forecasted labour escalation from 2.65% to 1.80% for both 2022 and 2023. On February 18, 2022, AltaLink filed its compliance filing with a two-year total revenue requirement of $1,742.2 million.

In July 2021, AltaLink engaged in a new AUC mediated settlement process with various customer groups as part of the tariff process. Unfortunately, no settlement was reached in the mediation process and as a result, the matter proceeded to a written hearing. On September 3, 2021, AltaLink provided responses to information requests from the AUC and filed an amended application to reflect certain adjustments and forecast updates. Oral argument and reply argument were completed in a virtual hearing in October 2021.

On April 30, 2021, AltaLink filed its 2022-2023 GTA delivering on the last two years of our commitment to keep rates flat for customers at or below the 2018 level of $904 million for the five-year period from 2019 to 2023. The two-year application achieves flat tariffs by continuing to transition to the AUC-approved salvage recovery method and continuing the use of the flow-through income tax method with an overall year over year increase of approximately 2% in 2022 and 2023 revenue requirements. In addition, similar to the $80.0 million refund of the previously collected accumulated depreciation surplus approved by the AUC for 2021, AltaLink proposed to provide further similar tariff reductions over the two years by refunding an additional $60.0 million per year. AltaLink provided responses to information requests from intervenors on July 9, 2021.

The table below summarizes the 2022 and 2023 transmission tariffs applied for on April 30, 2021, amended on September 3, 2021, filed on April 19, 2022 and approved on May 17, 2022 and the 2021 approved transmission tariff on March 15, 2021.

(in millions of dollars)	2023 Approved	2022 Approved	2021 Approved
Return on equity	$ 243.3	$ 240.5	$ 236.0
Return on debt	183.8	183.9	188.2
Operating costs	170.4	167.0	161.6
Depreciation and amortization	309.8	299.8	287.7
Miscellaneous revenue offset	(8.2)	(8.5)	(8.4)
Revenue requirement – ALP	**899.2**	**882.7**	**865.1**
Accumulated depreciation surplus refund	(60.0)	(60.0)	(240.4)
Others	—	(6.5)	—
Transmission tariffs as filed April 30, 2021 – ALP	**839.2**	**816.2**	**624.7**
DACDA projects forecast update	(2.4)	(3.1)	—
Financing cost update	1.7	0.4	—
Other adjustments	(2.9)	(2.1)	—
Transmission tariffs as amended September 3, 2021 – ALP	**835.5**	**811.5**	**624.7**
Net impact of removing accumulated depreciation refund	56.4	58.9	—
Adjustment to salvage reserve 2022 opening balance	(3.9)	(4.1)	—

Net impact of forecast direct assigned capital reductions	(4.3)	0.7	—
Net impact of forecast non-direct assigned capital reductions	(5.8)	(1.8)	—
Forecast operating expense reduction	(1.8)	(1.3)	—
Other adjustments	(2.9)	(1.2)	—
Transmission tariffs as filed February 18, 2022 – ALP	**873.2**	**862.6**	**624.7**
Impact of net capital and salvage reductions	(0.1)	(0.1)	—
Transmission tariffs as filed March 25, 2022 – ALP	**873.1**	**862.5**	**624.7**
Net impact of further depreciation adjustments	1.6	1.7	—
Other adjustments	(0.1)	—	—
Transmission tariffs as filed April 19, 2022 and approved May 17, 2022 – ALP	**874.7**	**864.2**	**624.7**
Pipeline Interference Mitigation Stage 2 Review and Variance Compliance Filing	0.3	0.1	—
Transmission tariffs as filed July 26, 2022 – ALP	**875.0**	**864.4**	**624.7**
Transmission tariffs as filed July 26, 2022 – PLP	4.9	5.1	5.0
Transmission tariffs as filed July 26, 2022 – KLP	3.1	3.3	3.2
Total transmission tariffs as filed July 26, 2022	**$ 883.0**	**$ 872.7**	**$ 632.9**

* Totals may not add due to rounding

The table below summarizes the GTA approved gross capital expenditures for 2022 and 2023.

(in millions of dollars)	2023 Approved	2022 Approved
Gross capital expenditures	**$ 196.5**	**$ 201.3**

2021-2023 Rate Relief Application

On April 15, 2021, the AUC issued Decision 26248-D02-2021, and confirmed its approval of AltaLink's customer tariff refund as provided in Decision 26248-D01-2021, issued on March 15, 2021, and also detailed its reasons for the decision. Specifically, the AUC found that the exceptional circumstances faced by Alberta ratepayers in 2021 brought to bear an unprecedented need for ratepayer relief that has not existed previously. These exceptional circumstances included the current economic downturn due to the COVID-19 pandemic, the collapse in the world price of oil and the resulting significant negative impact to Albertans and businesses. As a result, immediate and temporary relief was warranted.

On March 15, 2021, the AUC issued Decision 26248-D01-2021 on AltaLink's 2021-2023 Tariff Refund Application. The AUC approved a 2021 customer tariff refund in the amount of $230.0 million and a net 2021 tariff reduction of $223.5 million, which provided Alberta ratepayers with immediate tariff relief in 2021. The approved 2021 tariff refund included a refund of $150.0 million of previously collected future income tax and a refund of $80.0 million of accumulated depreciation surplus. The AUC approved AltaLink's Tariff Refund Application resulting in a revised revenue requirement of $873.3 million for 2021 and a revised transmission tariff of $632.9 million, which included tariffs for PLP and KLP.

On January 18, 2021, driven by the sudden and unexpected pandemic and economic shutdown that has negatively impacted all Albertans, AltaLink filed an application with the AUC that requested approval of tariff relief measures totaling $350.0 million over the three-year period, 2021 to 2023. The tariff relief measures consisted of a proposed refund to customers of $150.0 million of previously collected future income taxes and $200.0 million of surplus accumulated depreciation. The future income tax refund would have been evenly distributed over the two-year period, 2021 to 2022, with $75.0 million included in each year. The accumulated depreciation surplus would have been refunded over the three-year period, 2021 to 2023, with $60.0 million included in 2021 and 2022, and $80.0 million in 2023.

2019-2021 Negotiated Settlement Cost Sharing Application

On June 30, 2022, AltaLink filed its cost sharing application with the AUC, requesting approval to provide a one-time payment of $0.8 million to customers as a result of savings achieved from 2019 through 2021. On August 2, 2022, the AUC issued Decision 27498-D01-2022 with respect to AltaLink's cost sharing application, approving the application as filed.

2023 Generic Cost of Capital Proceeding

On June 29, 2022, the AUC initiated stage two of the 2023 GCOC proceeding to determine the cost-of-capital parameters for 2024 and future test years. The AUC stated it will use a formula-based approach to determine the appropriate return on equity in the proceeding. Initial stakeholder submissions are due on September 15, 2022, and if required, an oral hearing will take place from May 15, 2023 to May 19, 2023.

On March 31, 2022, the AUC issued Decision 27084-D01-2022 with respect to the first stage of the 2023 GCOC proceeding. The AUC approved the extension of the 2022 return on equity of 8.5% and deemed equity ratio of 37% for 2023 on a final basis, recognizing lingering uncertainty and continued volatility of financial markets due to the COVID-19 pandemic.

	Approved 2023	Approved 2022	Approved 2021
Deemed capital structure			
Common equity ratio	**37.00%**	**37.00%**	**37.00%**
Debt ratio	**63.00%**	**63.00%**	**63.00%**
Generic returns			
Return on equity	**8.50%**	**8.50%**	**8.50%**

On January 3, 2022, the AUC initiated the 2023 GCOC proceeding. The proceeding will be conducted in two stages. The first stage will determine the cost of capital parameters for 2023 and the second stage will consider returning to a formula-based approach to establish cost of capital adjustments, commencing in 2024. The AUC considers a formula-based approach could increase transparency and predictability and will save customers and utilities time and resources associated with having fully litigated proceedings every one to three years.

With respect to the second stage, the AUC plans to commence the 2024 GCOC proceeding to establish a formula-based approach in the third quarter of 2022 and to conclude in the second quarter of 2023.

2020 Deferral Accounts Reconciliation

On January 19, 2022, the AUC issued Decision 26509-D01-2022 for AltaLink's 2022-2023 GTA. The GTA decision also approved AltaLink's 2020 Deferral Accounts Reconciliation. The AUC approved the 2020 capital deferral account total as filed, including $26.2 million of gross capital project additions. The AUC also approved the other deferral accounts for taxes other than income taxes, long-term debt and annual structure payments as filed.

On April 30, 2021, AltaLink filed its 2020 deferral accounts reconciliation in its 2022-2023 GTA. The reconciliation included four projects with total gross capital additions of $26.2 million.

Alberta Electric System Operator Tariff Decision

On January 12, 2022, the Alberta Court of Appeal heard AltaLink's permission to appeal of the AUC's decisions regarding the legality of the current customer contribution regime and the ability of the AUC to deny a utility its return on investment. The AUC responded that its ruling on the return issue was within its discretion as well as within its public interest mandate. On January 19, 2022, the court granted permission to appeal. The appeal is scheduled to be heard from February 8, 2023 to February 10, 2023.

On May 25, 2021, AltaLink filed its application for permission to appeal AUC Decision 26061-D01-2021 with the Alberta Court of Appeal. As a result of the multiple appeals and the combination of all appeals, the hearing in the Alberta Court of Appeal has been moved from October 2021 to January 2022.

On April 23, 2021, the AUC issued Decision 26061-D01-2021 in respect of its separate AESO customer contribution proceeding, as initiated in November 2020. The AUC ruled that (i) the current policy is legal, but stated that it sends the wrong price signals to distribution facility owners to prefer an investment in transmission; (ii) FortisAlberta can keep its existing investment and can continue to earn a return on its existing investment; and (iii) it is not in the public interest for either a distribution facility owner or a transmission facility owner to earn a return on AESO customer contributions on a go-forward basis. All utilities launched appeals regarding the ability of the AUC to deny a return on an investment that is required by a private utility to serve its customers.

On December 4, 2020, AltaLink filed its application for permission to appeal AUC Decision 24932-D01-2020 with the Alberta Court of Appeal.

On November 10, 2020, the AUC initiated a separate proceeding to (i) examine the legal basis of the current AESO customer contribution policy as it pertains to all transmission facility owners and distribution facility owners, (ii) consider whether there is a need for a new policy, including consideration of AltaLink's proposed policy, and (iii) if approved, set the date on which any new policy would commence. On December 2, 2020, AltaLink filed its submissions in this proceeding, stating that the current customer contribution policy is contrary to business principles as it allows a distribution facility owner to earn a return on assets that are owned, operated and maintained by a transmission facility owner who has all the risk of ownership, and contrary to the legislative scheme in Alberta, which delineates the ownership of transmission and distribution assets. AltaLink also stated that it disagrees with the AUC's decision and that it intends to file an appeal.

On November 4, 2020, the AUC issued Decision 24932-D01-2020 with respect to FortisAlberta's review and variance proceeding. In its decision, the AUC rescinded its findings from the original decision which directed FortisAlberta to transfer the unamortized balance of its AESO contributions as at December 31, 2017, of approximately $375 million to AltaLink, and that the new contribution policy proposed by AltaLink be applied effective January 1, 2018. The AUC's decision was based on two main areas: (i) if the original decision was confirmed, FortisAlberta would incur incremental income tax, carrying costs and debt restructuring costs of at least $117 million that would be required to be recovered from ratepayers; and (ii) the AUC determined that a majority of the approximately $40 million in savings to ratepayers on which the hearing panel relied as the basis for their original decision can be achieved by directing FortisAlberta to adjust the applicable amortization rate for its AESO contributions to match the service lives of the transmission assets.

In July 2020, AltaLink and FortisAlberta filed expert tax evidence on three areas of disagreement as requested by the AUC in May 2020:

- The effect of the AESO's contribution on AltaLink's income tax expense for the years 2018-2022;
- The limitation on the number of prior years for which tax returns can be refiled; and
- Support for the respective positions of FortisAlberta and AltaLink on the amount of the undepreciated capital cost allowance available to FortisAlberta to shield incremental income tax that may be triggered by the transfer of AESO contributions from FortisAlberta to AltaLink.

In December 2019, the AUC reopened the record of the review and variance proceeding and in January 2020, it issued specific information requests to each of FortisAlberta and AltaLink to clarify the evidence previously filed. AltaLink and FortisAlberta filed responses to the AUC information requests at the end of January 2020.

On September 22, 2019, the AUC issued Decision 22942-D02-2019 with respect to the 2018 AESO tariff. As part of this decision, the AUC approved AltaLink's proposal to refund contributions made by distribution facility owners relative to transmission projects built and owned by transmission facility owners on the basis that it provided benefit to rate payers but rejected AltaLink's argument that the current customer contribution regime that allowed distribution facility owners to earn returns on transmission facility owner assets was contrary to the legislation. The proposal would benefit distribution customers by flowing through the lower cost of capital of the transmission facility owner rather than the higher cost of capital of the distribution facility owner. As directed by the AUC, AltaLink would pay the unamortized contribution balance of approximately $375 million and add the amount to AltaLink's rate base. The AUC directed the AESO to consult with AltaLink to provide a joint proposal to implement AltaLink's contribution proposal. In September 2019, FortisAlberta filed a review and variance application with the AUC requesting the AUC re-evaluate its findings with respect to AltaLink's customer contribution proposal relative to distribution facility owners. In October 2019, the AUC granted FortisAlberta's request to proceed to a review and variance with the close of record in November 2019 after submissions from FortisAlberta, AltaLink and other interested parties. FortisAlberta has also sought a stay of the AUC's decision. On October 25, 2019, the AUC granted FortisAlberta's stay application. AltaLink filed for permission to appeal the portion of the decision that rejected AltaLink's argument that the current customer contribution regime was contrary to the legislation. FortisAlberta also filed for permission to appeal the decision with the Court of Appeal.

Major Capital Projects

Transmission Planning and Development

For details on transmission planning and development in Alberta, please refer to the "Overview of the Electricity Industry in Alberta", "Transmission Planning and Development", "Our Transmission Facilities" and "Major Capital Projects" sections of our MD&A for the year ended December 31, 2021.

The AESO mandate is defined in the Electric Utilities Act (Alberta) and its regulations, and requires the AESO to assess both current and future needs of the AIES.

On April 15, 2022, the Canadian federal government closed stakeholder comments on the discussion paper "A clean electricity standard in support of a net-zero electricity sector". The Canadian federal government will continue to engage with provinces, territories, Indigenous Peoples, utilities, other electricity sector stakeholders, industry, non-governmental organizations, and Canadians on the regulatory design and Canada's Clean Energy Standard to drive progress towards a net-zero electricity grid by 2035. The federal government is expected to release more details on the outcome of the discussion paper comments and consultation activities later in 2022.

On June 27, 2022, the AESO released its Net-Zero Emissions Pathway Report that outlines potential supply and demand combinations to enable Alberta to reach a net-zero electricity system by 2035 while considering potential implications to reliability, the market and supply, and transmission costs. The AESO's Net-Zero Emissions Pathway Report focused on the following three supply-mix scenarios:

- Dispatchable Dominate: a scenario where thermal units with low carbon emissions resulting from carbon capture or hydrogen combustion technologies continue to form a significant portion of Alberta's supply mix;
- First Mover Advantage: a scenario with continued high growth in renewables and moderate energy storage additions which displace dispatchable thermal units; and
- Renewable and Storage Rush: the highest renewables-addition scenario coupled with high volumes of energy storage and the lowest amount of low carbon thermal-based supply additions.

These scenarios were selected as they were assessed to be the most likely to be implementable by 2035 and within the current market structure, while still providing sufficient variety to enable an analysis of a wide range of potential operational, market and cost outcomes. Within these scenarios, the AESO assumes that the electricity market structure remains as it is today. All the scenarios assume substantial continued supply provided by cogeneration units at industrial sites and that the emissions from these facilities, and any mitigation requirements for these emissions, are associated with the respective host industries. The AESO did not include any additional interties, hydro generation, or small modular reactors within the scenarios, as their long development cycle would be expected to extend beyond the 2035 target timeframe.

The AESO Net-Zero Emissions Pathway Report reached the following conclusions:

- Meeting the less-than-13-year timeline to 2035 is ambitious considering policy and regulation uncertainty, layered regulatory approvals required for projects, technology commercialization timing and cost curves, supply chain challenges, and the long development timelines for all types of energy-related infrastructure;
- Relative to a non-net-zero future, transitioning will require an additional $44 billion to $52 billion in generation capital investments, which include return, generation operating costs and transmission revenue requirements from 2022 to 2041;
- Alberta's market structure is capable of delivering sufficient supply to meet demand during the net-zero transformation;
- The application of offsets will be required to achieve a net-zero electricity system by 2035; and
- Demand growth under a net-zero transition, even considering increased electrification, is expected to be lower than historically observed rates, which the Alberta market has accommodated.

The additional $44 billion to $52 billion in generation capital investments from 2022 to 2041 represents a 30% to 36% increase in generation capital investments relative to the baseline of the 2021 Long-Term Outlook Reference Case. Transmission revenue requirements represent less than 10% of this incremental cost. Compared to the 2021 Long-Term Outlook Reference Case, the transmission capital cost estimates represent an incremental:

- $0 to $500 million of expenditure in the Dispatchable Dominant Scenario;
- $1.5 billion in the First-Mover Advantage Scenario; and
- $3 billion in the Renewables and Storage Rush Scenario.

In addition, the Net-Zero Emissions Pathway Report updated several assumptions presented in the 2021 Long-Term Outlook. The AESO Net-Zero Emissions Pathway Report forecast demonstrates that load is expected to increase by 12,567 gigawatt hours (15%) by 2035 and 21,246 gigawatt hours (25%) by 2041. The combined effect of sectoral electrification and growth in Distributed Energy Resources in the AESO Net-Zero Emissions Pathway Report is markedly higher than the 2021 Long-Term Outlook scenarios by 6% to 7% in 2035. The load forecast is projecting annual growth of 1.1% in 2022-2041 compared to 1.9% in 2002-2021.

The AESO will incorporate the net-zero analysis and future analyses into its market evolution and reliability roadmaps. The AESO will monitor and assess the system for evolving future scenarios and ensure reliability while seeking to minimize cost increases to system users. Such assessments will be ongoing and incorporated into future Long-Term Outlook and Long-term Transmission Plan reports, with the AESO keeping stakeholders informed on potential assessments and findings.

On January 31, 2022, the AESO released its 2022 Long-Term Transmission Plan. Updated every two years, the Long-Term Transmission Plan seeks to optimize the use of the existing transmission system, and plan the development of new transmission to ensure a safe and reliable electricity system that enables a fair, efficient and openly competitive electricity market. The 2022 Long-Term Transmission Plan has a reduced pace of growth as compared to the 2020 Long-Term Transmission Plan. Several projects in the 2020 Long-Term Transmission Plan totaling approximately $1 billion have been deferred by several years in the 2022 Long-Term Transmission Plan. The 2022 Long-Term Transmission Plan identifies potential investment in the range of $150 million to $200 million per year on average over a ten-year period, with a cumulative transmission rate impact of $2 per megawatt hour for the first five to eight years increasing to $3 per megawatt hour after 15 years. The 2022 Long-Term Transmission Plan identifies approximately $900 million of projects in AltaLink's service territory with in-service dates before 2030.

Projects Overview

The following is an overview of the main system projects in active or early stages of development:

Provost to Edgerton and Nilrem to Vermilion Transmission Development

The Provost to Edgerton and Nilrem to Vermilion transmission development involves constructing two new transmission lines in the Central East area to support the integration of new renewable generation and load growth. The lines will initially be energized at 138 kilovolts, with the option of increasing the voltage to 240 kilovolts in the future by upgrading the termination substations. The total cost estimate for the Provost to Edgerton and Nilrem to Vermilion Project is $294 million, with our portion estimated at $238 million and ATCO Electric Ltd.'s (ATCO Electric) portion estimated at $56 million. In 2019, the AUC approved the NID filed by the AESO with construction being triggered based on certain load and congestion triggers being met.

The Provost to Edgerton Development is a 48 kilometres line located in AltaLink's service territory. The Provost to Edgerton Development is estimated at $125 million, with the first stage estimated at $58 million and the second stage estimated at $67 million. AltaLink filed the facility application for the Provost to Edgerton Development on December 11, 2020. The AUC oral hearing for the Provost to Edgerton Development concluded on May 28, 2021. The project received permit and license on August 26, 2021.

The Nilrem to Vermilion Development consists of a new transmission line with approximately 80 kilometres in AltaLink's service territory and 13 kilometres in ATCO Electric's service territory. The line requires a new substation called Drury as well in ATCO Electric's service territory. AltaLink's section of the Nilrem to Vermilion Development is estimated at $113 million and ATCO Electric's section is estimated at $56 million. We filed the facility application for the Nilrem to Vermilion Development on December 4, 2020. The AUC oral hearing for the Nilrem to Vermilion Development concluded on June 25, 2021. On September 23, 2021, the AUC denied AltaLink's and ATCO Electric's facility applications for the Nilrem to Vermilion Development. Some of the reasons cited by the AUC included incomplete and insufficient route information and insufficient coordination between us and ATCO Electric on the overall route. We continue to work with the AESO and ATCO Electric on the next steps for the Nilrem to Vermilion Development.

In November 2021, the AESO directed us to uprate an existing transmission line to reduce congestion in the area. The uprate will be completed in 2022. With this existing line uprated, the Provost to Edgerton and Nilrem to Vermilion Project will be delayed by two to three years with an in-service date between 2025-2027 as per the AESO's 2022 Long-Term Transmission Plan.

Central East Transfer-Out

In August 2020, the AESO filed a NID for the Central East Transfer-Out development in Central East Alberta located in both the AltaLink and ATCO Electric service territories. The proposed development is planned to be executed in two stages. The first stage will consist of a new 240 kilovolt transmission line approximately 135 kilometres long. We will construct 60 kilometres of the line and ATCO Electric will construct 75 kilometres. The second stage will be to add a second 240 kilovolt transmission circuit at a later date depending on the amount of incremental generation in the central east and southeast part of the province. The total cost for the Central East Transfer-Out development is estimated at $310 million with our share of project costs estimated at $159 million, $133 million of costs in the first stage and $26 million of costs in the second stage. We filed the facility application on September 25, 2020. The AUC oral hearing for the Central East Transfer-Out Transmission project concluded on May 14, 2021. The project received permit and license on August 10, 2021.

The congestion milestone for Stage 1 of the Central East Transfer-Out development was reached in October of 2021. The AESO completed its reaffirmation study and filed it with the AUC on May 4, 2022. The reaffirmation study concluded that subregional congestion levels are currently at the lower range of the AESO's target congestion range and could be managed through 2022. The AESO will refresh its reaffirmation study in the fall of 2022 with expectations that congestion levels will continue to increase and potentially trigger the project by the end of 2022 or early 2023. The AESO 2022 Long-Term Plan forecasts an in-service date for the Central East Transfer-Out development from 2025-2027, which will be further refined by the AESO's reaffirmation study.

Vauxhall Area Transmission Development

In December 2021, the AESO directed AltaLink to develop a service proposal and facility application for a transmission development in the Vauxhall area of Alberta. The scope of the work is anticipated to include the construction of a new 138 kilovolt transmission line approximately 14 kilometres long and the uprate of an existing line to enable renewable generation integration and manage congestion in the Taber area. The AESO and AltaLink intend to file a joint NID and facility application in the second half of 2022. The anticipated in-service date would be in 2024, pending approval of the project from the AUC. The current estimated cost of the project is $16 million.

Alberta – British Columbia Intertie Restoration

The AESO continues to review the need to restore Alberta's intertie capability with British Columbia from the existing 800 megawatts to 1,200 megawatts. The current forecast cost for this project is $100 million.

Chapel Rock to Pincher Creek

The Chapel Rock to Pincher Creek development in Southwest Alberta will enable the integration of future renewable generation and enhance the transfer-out capability in the area, contributing to the restoration of the Alberta and British Columbia intertie capability. This development consists of a new 240 kilovolt transmission line approximately 40 kilometres long between the Pincher Creek area and a new 500 kilovolt substation to be called Chapel Rock. The current total estimate of capital additions is $350-400 million. The AESO indicated in their 2022 Long-Term Transmission Plan that the timing for this project will depend on the pace at which renewables generation commits to connect to the transmission system in the Southwest part of the province. The AESO plans to file the NID approximately four years before forecasted congestion occurs. We are currently waiting for further direction from the AESO on the timing of the project prior to completing a service proposal and facility application.

Southeast Development

The AESO is developing a Southeast transmission plan in response to strong interest in renewable development in the Southeast region. The aggregate capacity of the proposed projects exceeds the current transmission capacity, and the AESO is exploring three conceptual solutions, all of which include new double circuit 240 kilovolt transmission lines. The AESO is currently performing detailed planning studies. The current AESO cost estimate for this project is $450 million, with a forecasted in-service date of 2028-2029.

Non-GAAP Financial Measures

We use certain financial metrics that are not defined under accounting principles generally accepted in Canada, i.e. IFRS. Such non-GAAP financial measures provide our management and our investors with additional insight into our financial performance and financial condition, expanding on the information that we provide in our consolidated financial statements. In particular, our investors, lenders and credit rating agencies use certain non-GAAP financial measures to calculate debt covenants and financial ratios.

We believe earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortization (EBITDA) are useful supplemental measures to analyse our operating performance and to provide indications of the results generated by our principal business activities prior to the consideration of certain expenses. We use EBITDA to measure our operating performance, before considering our financing strategy or recognizing costs for the consumption and replacement of our capital assets.

FFO represents earnings before depreciation and amortization, finance costs, non-controlling interests, actuarial gains or losses, and losses on the disposal of assets less interest paid. FFO should not be considered to be an alternative to, or more meaningful than, "cash provided by operating activities". We believe that FFO is a useful supplemental measure to analyze our ability to generate cash flow to fund capital investment and working capital requirements. Adjusted FFO represents FFO after adding back disallowed net capital costs.

References to "earnings" in this section of MD&A mean comprehensive income before losses on the disposal of assets.

These non-GAAP financial measures do not have any standardized meaning and therefore are unlikely to be comparable to similar measures presented by other companies.

Financial Position and Cash Flows

Financial Position

In the following table, we discuss significant changes (over $25.0 million) in our statement of financial position as at June 30, 2022 compared to December 31, 2021.

(in millions of dollars)	Increase/(Decrease)	Explanation
Trade and other receivables [note 5]	121.1	The increase is primarily due to higher AESO tariff receivables and accrued revenue due to the timing of the 2022 tariff and the customer refund in 2021 as well as higher prepaid property tax expenses.
Other non-current assets [note 5]	36.4	The increase is primarily due to $36.0 million of receivables for the recovery of deemed future income taxes.
Commercial paper and bank credit facilities [note 10]	56.0	The increase is primarily due to issuance of commercial paper to fund operating and capital expenditures together with the lower interim 2022 tariff that was being collected.
AltaLink, L.P. equity	66.1	We generated comprehensive income of $152.3 million and distributed $(86.2) million to AILP and AML.

Cash Flows

	Three months ended June 30,		Six months ended June 30,	
(in millions of dollars)	**2022**	2021	**2022**	2021
Cash, beginning of period	**$ 0.8**	$ 5.9	**$ 6.6**	$ 4.2
Cash flow provided by (used in):				
Operating activities	**42.3**	25.3	**129.5**	115.1
Investing activities	**(53.7)**	(52.9)	**(99.9)**	(98.7)
Financing activities	**14.9**	21.8	**(31.9)**	(20.5)
Cash, end of period	**$ 4.3**	$ 0.1	**$ 4.3**	$ 0.1

Operating activities

For the three and six months ended June 30, 2022, our cash flow from operating activities increased by $17.0 million and $14.4 million, respectively, compared to the same periods in 2021. The changes are primarily due to the collection of a higher tariff from the AESO in the first half of 2022. A lower tariff was collected from the AESO in the first half of 2021 as a result of the AUC's approval of AltaLink's 2021 customer tariff refund in its 2021-2023 Tariff Refund Application and AltaLink's net salvage methodology in its 2019-2021 GTA.

Investing activities

For the three and six months ended June 30, 2022, our cash flow used in investing activities was generally consistent with the same periods in 2021 increasing by $0.8 million and $1.2 million, respectively.

Financing activities

For the three months ended June 30, 2022, our cash flows provided by financing activities decreased by $6.9 million compared to the same period in 2021. This change is primarily due to distributing $(31.7) million more to AILP and AML in 2022, receiving $(10.6) million of equity from AILP in 2021, partially offset by issuing $35.5 million more of commercial paper in 2022.

For the six months ended June 30, 2022, our cash flows used in financing activities increased by $11.4 million compared to the same period in 2021. This change is primarily due to distributing $(32.2) million more to AILP and AML in 2022, receiving $(10.6) million of equity from AILP in 2021, and receiving a $(3.0) million lease incentive in 2021, partially offset by issuing $34.5 million more of commercial paper in 2022.

Commitments

		Payments due by periods			
(in millions of dollars)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt excluding interest	**$ 4,750.0**	**$ 275.0**	**$ 850.0**	**$ 350.0**	**$ 3,275.0**

We have contractual commitments for the repayment of long-term debt of $4,750.0 million (December 31, 2021 – $4,750.0 million), as disclosed in note 10 - Scheduled principal repayments, in our second quarter consolidated financial statements.

We are committed to lease payments of $70.4 million (December 31, 2021 – $72.3 million), as disclosed in note 12 - Lease liabilities, in our second quarter consolidated financial statements.

We also have contractual commitments associated with the construction of new facilities as at June 30, 2022 of $91.3 million (December 31, 2021 – $101.8 million), as disclosed in note 17 - Commitments, in our second quarter consolidated financial statements.

Liquidity and Capital Resources

Liquidity

We generally issue commercial paper to finance our day-to-day cash requirements. The commercial paper program, together with our lines of credit and anticipated long-term debt issuance, provides us with sufficient liquidity to finance our planned operations and capital projects.

The aggregate of our bank credit facilities at June 30, 2022 was $575.0 million (December 31, 2021 – $575.0 million). On December 15, 2021, we extended the maturity dates for our credit facilities to December 15, 2026 to increase the term and reduce pricing risk. The $500.0 million facility provides support to our commercial paper program, under which $192.5 million of commercial paper was outstanding as at June 30, 2022 (December 31, 2021 – $136.5 million). All bank credit facilities may be used for general corporate purposes. As at June 30, 2022, we had $380.8 million of liquidity remaining under those facilities (December 31, 2021 – $436.9 million). We consider our liquidity arrangements to be adequate to accommodate our expected capital expenditures and working capital requirements over the next few years.

We plan to finance our projected capital investments, working capital requirements and any maturities of long-term debt through a prudent combination of cash flow from operating activities, new long-term debt, and equity contributions from AILP.

We use short-term interest-bearing instruments issued by highly rated counterparties to invest temporary cash balances and amounts we receive from customers in advance of construction and operating and maintenance charges. We remit to the individual customers all investment income related to deposits received from those customers for construction projects and utilize investment income we earn on deposits received from customers for future operating and maintenance costs.

Liquidity, coverage and capital ratios[1]

(in millions of dollars)	Twelve months ended June 30, **2022**	2021
Comprehensive income	**$ 309.1**	$ 303.6
Actuarial (gain) loss	**(0.9)**	0.3
Non-controlling interests	**1.9**	1.7
Loss on disposal of assets	**5.2**	6.4
Finance costs	**186.0**	185.5
EBIT	**501.3**	497.5
Depreciation and amortization	**285.4**	284.2
EBITDA	**786.7**	781.7
Interest paid	**(187.5)**	(188.1)
FFO	**599.2**	593.6
Disallowed net capital costs	**1.5**	5.6
Adjusted FFO	**$ 600.7**	$ 599.2

(in millions of dollars)	Twelve months ended June 30, **2022**	2021
Net cash provided by operating activities	**$ 291.5**	$ 363.8
Disallowed net capital costs	**(1.5)**	(5.6)
Change in non-cash working capital	**43.4**	5.6
Third party contributions revenue	**25.5**	25.1
Customer tariff refund	**153.3**	76.7
Change in financial assets and liabilities related to regulated activities, non-current	**86.4**	83.9
Change in deferred revenue for salvage	**(1.4)**	44.6
Change in other	**2.0**	(0.5)
FFO	**599.2**	593.6
Disallowed net capital costs	**1.5**	5.6
Adjusted FFO	**$ 600.7**	$ 599.2

(in millions of dollars)	As at June 30, **2022**	2021
Letters of credit	**$ 1.7**	$ 1.7
Less: cash	**(4.3)**	(0.1)
Other post-employment benefits obligations[2]	**4.6**	4.9
Short-term debt (excluding outstanding cheques)	**192.5**	164.0
Long-term debt	**4,724.9**	4,723.3
Lease liabilities	**51.9**	53.6
Total debt	**4,971.3**	4,947.4
Cash	**4.3**	0.1
Accrued interest on debt	**26.0**	26.0
Financing fees, premiums and discounts	**25.1**	26.7
Less: other post-employment benefits obligations[2]	**(4.6)**	(4.9)
Total debt as per Master Trust Indenture and bank credit facilities	**5,022.1**	4,995.3
Total equity including non-controlling interests	**3,696.8**	3,513.4
Less: AltaLink equity investment in subsidiaries	**(15.9)**	(15.9)
Total capitalization	**$ 8,703.0**	$ 8,492.8

	Twelve months ended June 30, 2022	2021
Interest paid	**$ 187.5**	$ 188.1
Interest expense[3]	**$ 189.0**	$ 188.3
EBIT interest expense coverage[4]	**2.65X**	2.64X
EBITDA interest expense coverage[5]	**4.16X**	4.15X
FFO interest paid coverage[6]	**4.20X**	4.15X
FFO/Debt[7]	**12.05%**	12.00%
Adjusted FFO/Debt	**12.08%**	12.11%
Total debt/total capitalization as per Master Trust Indenture[8]	**57.71%**	58.82%
Total debt/total capitalization as per bank credit facilities[9]	**57.71%**	58.82%

1. Please refer to "Non-GAAP Financial Measures" section of this MD&A for further information concerning the non-GAAP financial measures used in this table.
2. For the purposes of calculating total debt, other post-employment benefits obligations of $6.0 million as at June 30, 2022 were adjusted to reflect an after-tax amount equal to $4.6 million using an income tax rate of 23% (June 30, 2021 – $6.4 million was adjusted to $4.9 million).
3. Interest expense is calculated as the sum of interest expense, amortization of deferred financing fees and interest expense on lease liabilities.
4. EBIT interest expense coverage is calculated as EBIT divided by interest expense.
5. EBITDA interest expense coverage is calculated as EBITDA divided by interest expense.
6. FFO interest paid coverage is calculated as the sum of FFO and interest paid divided by interest paid.
7. FFO/Debt is calculated as FFO divided by total debt.
8. The AltaLink Master Trust Indenture contains a debt to total capitalization covenant with a limit of 75%.
9. AltaLink's credit facilities contain a debt to total capitalization covenant with a limit of 75%. The calculation includes required adjustments for both non-recourse debt and equity contributions in Permitted Joint Arrangement Subsidiaries.

We align our regulatory debt to total capitalization with the capital structure approved by the AUC and with corresponding targets for our overall key financial metrics.

Working capital

At June 30, 2022, our working capital deficiency was $412.5 million (December 31, 2021 – $473.5 million). The working capital deficiency includes trade and other payables, drawn commercial paper and bank credit facilities, long-term debt maturing in less than one year, and the current portion of deferred revenue.

We fund our working capital requirements from cash provided by operating activities, and to the extent necessary, through equity injections from AILP and borrowings under our commercial paper program or drawings on our committed bank credit facilities and new long-term debt.

Earnings Coverage

	Twelve months ended June 30, 2022	2021
Earnings-to-interest coverage on total debt[1,2]	**2.64X[2,3,4]**	2.61X[2,3,4]

1. Earnings-to-interest coverage on total debt is a non-GAAP financial measure. As a result of having distributed securities by way of a medium-term note program using the debt shelf procedures, we must include updated earnings coverage ratios in conjunction with our consolidated financial statements. Please refer to "Non-GAAP Financial Measures" section of this MD&A for further information concerning the non-GAAP financial measures used in this MD&A.
2. Earnings-to-interest coverage on total debt equals pro-forma earnings before interest and income taxes divided by pro-forma interest requirements on short and long-term debt. We calculate this ratio by giving pro-forma effect to any long-term debt issued during the period and the use of the proceeds from such long-term debt issues.

3. Our pro-forma earnings before interest and income tax for the 12 months ended June 30, 2022, for the purposes of calculating this ratio, was $498.1 million (June 30, 2021 – $491.9 million). Our pro-forma interest requirement on short and long-term debt for the 12 months ended June 30, 2022 was $189.0 million (June 30, 2021 – $188.8 million).
4. Our pro-forma earnings before interest and income tax for the 12 months ended June 30, 2022 and 2021 is calculated as: comprehensive income of $309.1 million (June 30, 2021 – $303.6 million) plus finance costs of $186.0 million (June 30, 2021 – $185.5 million) plus capitalized borrowing costs of $3.0 million (June 30, 2021 – $2.8 million) plus income taxes of $nil (June 30, 2021 – $nil). Our pro-forma interest requirement on short and long-term debt for the 12 months ended June 30, 2022 and 2021 is calculated as: finance costs of $186.0 million (June 30, 2021 – $185.5 million) plus capitalized borrowing costs of $3.0 million (June 30, 2021 – $2.8 million) plus the net pro-forma effect of interest expense of $nil on the September 2020 issuance of $225.0 million of Series 2020-1 Senior Secured Notes (June 30, 2021 – $0.5 million).

Credit Ratings

We strive to maintain an "A" category credit rating to enable credit market access during periods of market turmoil and minimize financing costs for ratepayers. The AUC in its most recent GCOC Decision 27084-D01-2022 reaffirmed its support for this approach.

	As at June 30,	
	2022	2021
DBRS - Commercial Paper[1]	**R-1 (low)**	R-1 (low)
DBRS - Medium-Term Notes (secured)[1]	**A**	A
S&P - Medium-Term Notes (secured)[2]	**A**	A

1. On July 21, 2022, DBRS reaffirmed the existing ratings all with stable trends.
2. On May 9, 2022, S&P reaffirmed its issuer credit rating and senior secured rating on AltaLink at "A" with a stable outlook.

Results of Operations

Revenue

	Three months ended June 30,				Six months ended June 30,			
(in millions of dollars)		**2022**		2021		**2022**		2021
Operations	**$**	**233.8**	$	234.9	**$**	**471.3**	$	469.1
Other		**8.7**		9.1		**17.8**		19.6
	$	**242.5**	$	244.0	**$**	**489.1**	$	488.7

Revenue from operations

Revenue from operations includes all revenue earned from providing electricity transmission services, including future income tax revenue. The principal components of our transmission tariff include recovery of forecast operating costs, deemed income taxes, depreciation and amortization expenses, and debt and equity returns on rate base.

For the three months ended June 30, 2022, our revenue from operations decreased by $1.1 million compared to the same period in 2021. The change is primarily due to recovery of lower salvage expenses.

For the six months ended June 30, 2022, our revenue from operations increased by $2.2 million compared to the same period in 2021. The change is primarily due to recovery of higher allowable expenses.

Other revenue

Other revenue includes the amortization of third party contributions and cost recoveries.

Our other revenue for the three and six months ended June 30, 2022 decreased by $0.4 million and $1.8 million, respectively, compared to the same periods in 2021. These changes are primarily due to lower cost recovery revenue from other utilities and third parties.

Operating expenses excluding disallowed capital costs

(in millions of dollars)	Three months ended June 30, **2022**	2021	Six months ended June 30, **2022**	2021
Operating expenses	**$ 25.0**	$ 25.0	**$ 53.5**	$ 53.4

Our operating expenses include salaries and wages, contracted manpower and general and administration costs.

Our operating expenses for the three and six months ended June 30, 2022 were consistent compared to the same periods in 2021.

Disallowed capital costs

(in millions of dollars)	Three months ended June 30, **2022**	2021	Six months ended June 30, **2022**	2021
Disallowed capital costs	**$ —**	$ 0.2	**$ 1.5**	$ 0.7

On January 19, 2022, the AUC issued its decision on AltaLink's 2022-2023 GTA. The AUC disallowed $1.5 million of capital replacement and upgrade project additions related to our Wildfire Mitigation Plan.

On April 27, 2021, the AUC issued its decision on AltaLink's 2016-2018 Deferral Accounts Reconciliation Compliance Filing, disallowing an additional $0.2 million reflecting internal labour costs to prepare and support the application. In total, the AUC approved $940.8 million of the total $946.7 million of capital project additions in the application, disallowing 0.6%.

On March 19, 2021, the AUC issued its decision on AltaLink's 2019 Deferral Accounts Reconciliation Application. The AUC approved $128.0 million of the total $128.5 million of capital project additions. The AUC disallowed 0.4% of the total capital cost applied for in the application.

Property taxes, salvage and other

(in millions of dollars)	Three months ended June 30, **2022**	2021	Six months ended June 30, **2022**	2021
Property taxes, salvage and other	**$ 22.8**	$ 24.4	**$ 47.8**	$ 48.6

Property taxes, salvage and other expenses are recovered dollar for dollar through regulated deferral and reserve account mechanisms and includes property and business taxes, salvage expenses, annual structure payments, and hearing expenses. To the extent that actual costs vary from amounts approved in our tariffs, the difference is refunded to or collected from the AESO and included in Revenue from operations.

Property taxes, salvage and other expenses for the three and six months ended June 30, 2022 decreased by $1.6 million and $0.8 million, respectively, compared to the same periods in 2021. These changes are primarily due to a decrease in salvage expense due to lower salvage activities, partially offset by an increase in property taxes.

Depreciation and amortization

(in millions of dollars)	Three months ended June 30, **2022**	2021	Six months ended June 30, **2022**	2021
Depreciation and amortization	**$ 70.9**	$ 70.0	**$ 141.0**	$ 139.5

We calculate depreciation and amortization on a straight-line basis using various rates which are approved by the AUC.

Depreciation and amortization for the three and six months ended June 30, 2022 increased by $0.9 million and $1.5 million, respectively, compared to the same periods in 2021. These changes are primarily a result of capital projects that have been completed and added to our property, plant and equipment and intangible assets.

Finance costs

(in millions of dollars)	Three months ended June 30, **2022**	2021	Six months ended June 30, **2022**	2021
Finance costs	**$ 46.5**	$ 46.2	**$ 92.3**	$ 91.9

Finance costs include interest expense on short and long-term debt, interest expense on lease liabilities and amortization of deferred financing fees less capitalized borrowing costs.

For the three and six months ended June 30, 2022, our weighted average cost of long-term debt was 3.90% and 3.90%, respectively (June 30, 2021 – 3.90% and 3.90%, respectively).

Our finance costs for the three and six months ended June 30, 2022 increased by $0.3 million and $0.4 million, respectively, compared to the same periods in 2021. These changes are primarily due to a higher weighted average cost of short-term debt.

EBITDA

(in millions of dollars)	Three months ended June 30, **2022**	2021	Six months ended June 30, **2022**	2021
EBITDA	**$ 194.8**	$ 194.3	**$ 386.3**	$ 386.0

Our EBITDA for the three and six months ended June 30, 2022 were generally consistent to the same periods in 2021 increasing by $0.5 million and $0.3 million, respectively.

Please refer to the "Liquidity" section of this MD&A for more information about how we calculate EBITDA.

Net and comprehensive income

(in millions of dollars)	Three months ended June 30, **2022**	2021	Six months ended June 30, **2022**	2021
Net and comprehensive income	**$ 77.0**	$ 76.0	**$ 152.3**	$ 150.6

Our net and comprehensive income for the three and six months ended June 30, 2022 increased by $1.0 million and $1.7 million, respectively, compared to the same periods in 2021. The increases are because the 2022 results did not have a loss on the sale of assets and certain non-recoverable depreciation which occurred in 2021.

Selected financial information derived from our consolidated financial statements

(in millions of dollars)	Three months ended June 30, **2022**	2021	Six months ended June 30, **2022**	2021
Net and comprehensive income per partnership unit ($/unit)	**0.232**	0.229	**0.459**	0.454
Distributions per partnership unit ($/unit)	**0.111**	0.015	**0.260**	0.163
Total assets ($ millions)	**9,970.2**	9,750.6	**9,970.2**	9,750.6
Short and long-term debt ($ millions)[1]	**4,937.6**	4,909.9	**4,937.6**	4,909.9

1. The balance is shown before deducting deferred financing fees, which have been offset against this amount in the consolidated financial statements, in accordance with IFRS.

Summary of quarterly financial information

Quarter ended	Revenue ($ millions)	Net income ($ millions)	Units outstanding (millions)	Net income per unit ($/unit)
June 30, 2022	**242.6**	**77.0**	**331.9**	**0.232**
March 31, 2022	246.5	75.3	331.9	0.227
December 31, 2021	255.3	77.7	331.9	0.234
September 30, 2021	245.8	78.2	331.9	0.236
June 30, 2021	244.0	76.0	331.9	0.229
March 31, 2021	244.7	74.6	331.9	0.225
December 31, 2020	262.8	77.0	331.9	0.232
September 30, 2020	243.1	76.4	331.9	0.230
June 30, 2020	249.8	83.3	331.9	0.251
March 31, 2020	237.5	74.0	331.9	0.223
December 31, 2019	255.8	71.2	331.9	0.215
September 30, 2019	255.1	91.1	331.9	0.275

Risk Management

Our transmission business is subject to risks and uncertainties, including those described below. Our goal is to manage these risks to reasonably protect us from unacceptable outcomes including undesirable financial results. The reader should carefully consider these risk factors and uncertainties in addition to the other information contained in this MD&A, the corresponding consolidated financial statements, our Annual Information Form, press releases, material change reports and our other continuous disclosure documents. For more details regarding our risk factors, please refer to the "Risk Management" section of our MD&A for the year ended December 31, 2021.

Risk Controls and Other Mitigating Measures

We have instituted controls and other mitigating measures to manage the risks we face. Under our risk management program, we conduct quarterly risk evaluations to identify and assess our most significant risks and the strategies through which we manage them.

Insurance and Statutory Liability Protection

Our current insurance policies provide coverage for a variety of losses and expenses that could impact our business. This insurance coverage includes general liability, physical loss of or damage to property and boiler and machinery (including substations), property terrorism, directors' and officers' liability, fiduciary liability, employment practices liability, crime, non-owned aircraft liability, remotely piloted aircraft systems liability and vehicle liability. We believe the extent of this coverage is prudent in the context of our transmission business and utility industry practice, and we anticipate that this coverage will be maintained.

Consistent with certain past AUC decisions, we do not carry insurance for physical loss of, or damage to, transmission lines, towers, poles, or physical damage to certain owned vehicles. We do carry insurance for all other assets and for up to $400 million in general liability insurance. General liability insurance provides coverage for third party bodily injury or property damage for which we are legally obligated to pay arising from our operations or premises. This coverage includes, but is not limited to, fire suppression costs and damages resulting from wildfires. It is not always possible or economically feasible to insure against all risks on our assets or for other exposure to liabilities, and we may decide not to carry insurance against certain risks because of high premiums or for other reasons. In accordance with past prudent industry practice and certain past AUC directives, we self-insure against certain risks for which commercial insurance is not maintained. In the event of an uninsured loss greater than $100,000, we may apply to the AUC to recover the loss through increased funding to our self-insurance reserve or through increased tariffs. Costs claimed through the self-insurance reserve are subject to AUC approval and we cannot predict with certainty how related AUC decisions could adversely impact us. We cannot predict if the regulator may find we have acted imprudently, and may deny the recovery of damages through rates. In Decision 2013-417 (Utility Asset Disposition), the AUC has determined that in the case of an extraordinary retirement of a regulated asset, any under or over recovery of capital investment is for the account of the utility and its shareholders. We do not carry insurance for this risk.

The Liability Protection Regulation defines AltaLink as an agent or contractor of the Independent System Operator and the Electric Utilities Act (Alberta) limits our liability to direct loss or damage arising from our negligence, wilful misconduct or breach of contract in the course of carrying out our duties, responsibilities and functions. Direct loss or damage is defined in the Electric Utilities Act (Alberta) to exclude loss of profits, loss of revenue, loss of production, loss of earnings, loss of contract or other indirect, special or consequential loss or damage.

Risk Factors and Uncertainties

Despite our initiatives in managing risks, there can be no assurance that one or more of them will not adversely affect our business. Our results of operations, financial position and performance and, accordingly, the value of our outstanding securities, could be adversely affected if we are unable to adequately control or mitigate the effects of such risks on our business.

The following are the more significant risks that have an impact on our financial position and results of our operations which have not materially changed during the six months ended June 30, 2022, compared to those disclosed in our MD&A for the year ended December 31, 2021 except for labour relations, as described below.

Regulatory Risks

- Regulated operations
- Utility asset disposition
- Transmission system cost bypass by load customers
- Government policies impacting the electricity industry

Financial Risks

- Regulatory financial risk
- Competition
- Credit ratings
- Annual impairment tests
- Capital resources

Operational Risks

- Cyber and physical security
- Potential effects of pathogens or similar crises
- Wildfires
- Reliability
- Climate change
- Project execution
- Environment, health and safety
- Electric and magnetic fields

Labour relations

In May 2022, AltaLink and the International Brotherhood of Electrical Workers (IBEW) ratified a renewed collective bargaining agreement which is effective January 1, 2021 to December 31, 2024. This is AltaLink's first 4-year collective bargaining agreement term with the IBEW.

The collective bargaining agreement between AltaLink and the United Utility Workers' Association of Canada (UUWA) expired on December 31, 2021. We commenced bargaining with the UUWA in January 2022.

Approximately 55% of our employees are unionized (approximately 376 UUWA employees and 27 IBEW employees). The provisions of collective agreements affect the flexibility and efficiency of our business. We consider our relationship with these labour union groups to be collaborative; however, there can be no assurances that current relations will not be affected throughout future collective bargaining negotiation processes.

Transactions with Related Parties

In the normal course of business, we enter into various transactions with related parties. We record these transactions at exchange values based on normal commercial rates. AML employs all staff who provide administrative and operational services to our business on a cost reimbursement basis. We have indemnified AML for employment associated expenses of $30.9 million and $67.1 million, respectively, for the three and six months ended June 30, 2022 (June 30, 2021 – $32.9 million and $67.8 million, respectively) and liabilities of $23.2 million as at June 30, 2022 (June 30, 2021 – $25.2 million).

Please refer to note 13 - Related party transactions in our second quarter consolidated financial statements for more details.

Legal Proceedings and Contingencies

We are subject to legal proceedings, assessments, and claims in the ordinary course of business. AltaLink has been sued by third parties who seek compensation for damages in respect of certain operating, capital or other activities performed by AltaLink or its contractors. We intend to defend ourselves vigorously against these claims. These contingencies are dependent on future legal proceeding results and the likely outcomes are not determinable.

We have found instances of equipment, engineering or construction deficiencies following acceptance and energization of some assets. We have claims processes in place to seek recovery for such deficiencies. In one instance, we are in litigation and have claimed that specific equipment has inherent design, manufacturing and other defects that create a risk of personal injury and property damage. We have claimed $56.0 million for the cost of replacing specific equipment and the additional inspections required for the equipment. We intend to vigorously pursue these claims.

Off Balance Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. We currently have no such off-balance sheet arrangements. Please refer to note 17 - Commitments in our second quarter consolidated financial statements for details of our commitments.

Critical Accounting Estimates

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. The more significant estimates that have an impact on our financial condition and the results of our operations are disclosed in note 2 - Basis of preparation in our second quarter consolidated financial statements.

Accounting Changes

Rate-regulated project

At the International Accounting Standards Board meetings in July 2015, the Board considered that a key to developing a standard for the recognition of rate-regulated activities is to understand that there are three inter-connected relationships involved, i.e. between:

- The rate-regulated entity and its customers.
- The rate-regulated entity and the regulators.
- The rate-regulator and the entity's customers.

The International Accounting Standards Board met several times in late 2016 and throughout 2017 to have initial discussions on a new accounting model for rate-regulated activities and to explore whether IFRS standards should be amended to reflect the effects of rate regulation. The Board discussions continued in 2018, 2019, and 2020. On January 28, 2021, the Board published an exposure draft of a new IFRS standard on regulatory assets and regulatory liabilities, with comments requested by July 30, 2021. AltaLink provided its comments as part of a comment letter submitted by Electricity Canada.

Forward-Looking Information

This MD&A contains certain statements or disclosures that may constitute forward-looking information under applicable securities laws. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that AltaLink anticipates or expects may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as "anticipate", "believe", "contemplate", "continue", "could", "enable", "expect", "forecast", "future", "intends", "may", "plan", "potential", "will" or other comparable terminology. Forward-looking information presented in such statements or disclosures may, without limitation, relate to: applications to the AUC for approval of, among other things, AltaLink's revenue requirements (including deferral and reserve accounts; capital structure and return on equity; financing plans; treatment of costs for applicable test periods including income taxes, operating expenses, depreciation, capital costs for direct assigned projects and maintenance programs, financing costs related to long-term debt and short-term borrowing, and projected growth in AltaLink's rate base and assets under construction); transmission system expansion forecasts; the anticipated direct assignment of transmission development projects to AltaLink from the AESO pursuant to approved Need Applications or competitive bidding processes; the timing and development of transmission projects and the anticipated capital costs of such projects; business strategy, plans and objectives of management for future operations; forecast business results; the achievement of certain operational and performance measures and the resulting effect on compensation of executive officers; and the anticipated financial performance or condition of AltaLink.

Various factors or assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. These factors and assumptions include but are not limited to:

- no changes in the legislative and operating framework for Alberta's electricity market that are adverse to AltaLink;
- decisions from the AUC concerning outstanding tariff and other applications that are consistent with past regulatory practices and decisions and are obtained in a timely manner;
- approved rates of return and deemed capital structures for AltaLink's transmission business that are sufficient to foster a stable investment climate;
- a stable competitive environment;
- AltaLink obtaining sufficient capital on acceptable terms to finance its transmission system expansion and to pay maturing debt; and
- no significant event occurring outside the ordinary course of business such as a natural disaster, pandemic or other calamity.

These assumptions and factors are based on information currently available to AltaLink including information obtained by AltaLink from third party industry analysts. In some occurrences, material assumptions and factors are presented or discussed elsewhere in this MD&A and in the Annual Information Form in connection with the statements or disclosures containing the forward-looking information. AltaLink cautions readers that the foregoing list of material factors and assumptions is not exhaustive.

The forward-looking information in statements or disclosures in this MD&A is based (in whole or in part) upon factors which may cause actual results, performance or achievements of AltaLink to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. These factors are based on information currently available to AltaLink including information obtained by AltaLink from third party industry analysts. Actual results may differ materially from those predicted by such forward-looking statements. While AltaLink does not know what impact any of these differences may have, its business, results of our operations, financial condition and its credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- the risks associated with being subject to extensive regulation, including risks associated with AUC action or inaction;
- the risk that transmission projects are not directly assigned to AltaLink by the AESO or that AltaLink is not designated for filing a facility application;
- the risk that AltaLink is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures and other obligations;
- the risk that system expansion plans are delayed;
- the risks that the actual costs of completing a transmission project significantly exceed estimated costs, or that the AUC determines actual costs of completing a project were not prudently incurred;
- the risks to AltaLink's facilities and services posed by climate change, severe weather, wildfires, other natural disasters or catastrophic events, including pandemics, and the limitations on AltaLink's insurance coverage or self-insurance regulated by the AUC for losses or recovery of net book value resulting from these events;
- the potential for service disruptions and increased costs if AltaLink fails to maintain and improve its aging asset base or experiences a cyber or physical attack;
- the risks associated with forecasting AltaLink's revenue requirements and the possibility that AltaLink could incur operational, maintenance or administrative costs above those included in AltaLink's approved revenue requirement;
- the risk that transmission system expansion costs that are directed to AltaLink by the AESO or costs incurred by AltaLink in maintaining or upgrading the existing system become stranded and AltaLink's recovery of the related costs is impaired; and
- the risk that transmission system costs bypassed through onsite generation by load customers results in decreased use of system facilities and increased cost of service for remaining system users or an allocation of those costs to the utility.

AltaLink cautions readers that the above list of risk factors is not exhaustive. Other factors, which could cause actual results, performance or achievements of AltaLink to differ materially from those contemplated (whether expressly or by implication) in the forward-looking statements or other forward-looking information, are disclosed in the section entitled “Risk Management” in this MD&A, including the subsection entitled “Risk Factors and Uncertainties”. Risk factors that could lead to such differences include, without limitation, legislative and regulatory developments that could affect costs or revenues, the speed and degree of competition entering the market, global capital markets conditions and activity, timing and extent of changes in prevailing interest rates, currency exchange rates, inflation levels and general economic conditions in geographic areas where AltaLink operates, results of financing efforts, changes in counterparty risk, and the impact of accounting standards issued by standard setters.

All forward-looking information is given as at August 8, 2022. AltaLink is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of these risks, uncertainties and assumptions, readers should not place undue reliance on these forward-looking statements. Any forward-looking information contained herein is expressly qualified by this statement.