AltaLink, L.P.

Management's Discussion and Analysis

August 4, 2017

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 4, 2017. 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. Our Board of Directors approved this MD&A on August 1, 2017, based on the recommendation of our 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 condensed interim financial statements for the three and six months ended June 30, 2017 and 2016 (Second Quarter Financial Statements), and our audited financial statements for the years ended December 31, 2016 and 2015 (the 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. and references to a "quarter" and "year" refer to the three-month period ended June 30, 2017 and the twelve-month period ended December 31, 2016, respectively. References to "AESO" mean Alberta Electric System Operator; "AFUDC" mean Allowance for Funds Used During Construction; "AUC" mean Alberta Utilities Commission; "BHE" mean Berkshire Hathaway Energy Company; "BHEA" mean BHE AltaLink Ltd."; "CEA" mean Canadian Electricity Association; "CWIP" mean Construction Work-In-Progress; "GTA" mean General Tariff Application"; "GCOC" mean Generic Cost of Capital; "DACDA" mean Direct Assigned Capital Deferral Account filing; and "IFRS" mean International Financial Reporting Standards.

Additional information relating to our business including our Annual Information Form for the year ended December 31, 2016 is available on SEDAR at www.sedar.com.

Executive Summary

Quarter Highlights

During the three months ended June 30, 2017:

- We earned net and comprehensive income of $80.8 million (three months ended June 30, 2016 - $80.5 million). Our net income was consistent year over year due to our increased regulatory capital investment being partially offset by one-time regulatory adjustments recognized in the second quarter 2016;
- Reliability of service provided to customers in the first half of 2017 was below our performance in the first half of 2016. A series of freezing fog and ice storm events early in January 2017 caused several momentary outages that contributed to outage frequency being slightly behind our 2016 performance; and several spring wind storms damaged some radial transmission lines impacting outage duration;
- Our employee and contractor safety results continue to be strong and are consistent with the same period in 2016;
- Customer satisfaction of direct customers was 93%, which is a slight improvement over the same period in 2016;
- We energized the Red Deer Project 423L transmission line, to reinforce reliability in the area;
- We reached a new collective bargaining agreement with the International Brotherhood of Electrical Workers (IBEW) which is effective from January 1, 2017 to December 31, 2018;
- We invested $101.1 million (three months ended June 30, 2016 - $216.8 million) in capital assets to ensure continued reliability of the electricity network and help enable Alberta's renewable energy future; and
- Our flexible Western Alberta Transmission Line (WATL) high voltage direct current technology was able to quickly reverse the direction of power flow to cost-effectively bring energy to where it was needed in the Province. In May 2017, 41% of the energy transmitted on WATL was primarily wind generated energy moving in a south to north direction, the most ever in Alberta on a monthly basis.

Strategic Highlights

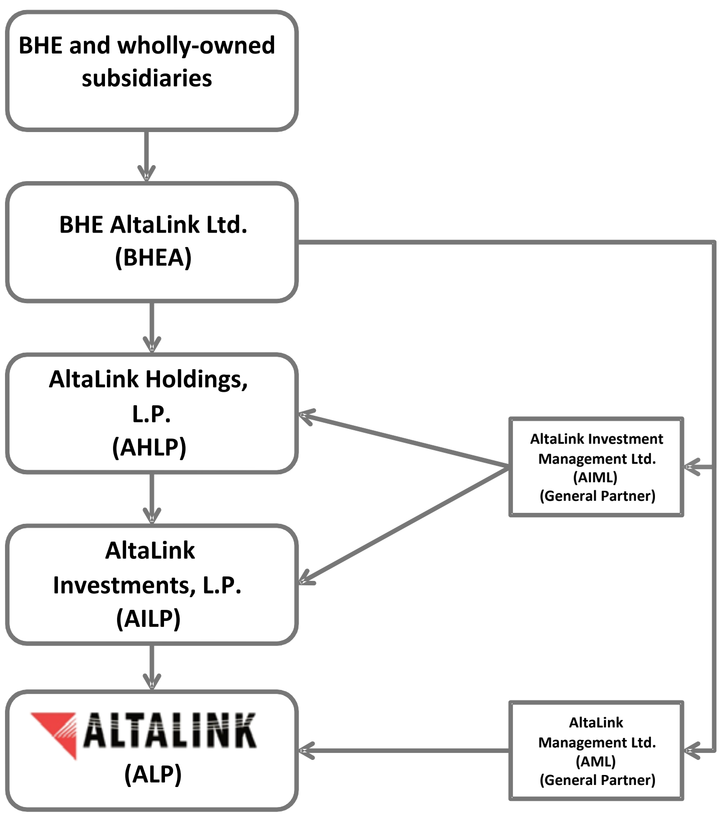
- Our existing transmission grid is ready to deliver reliable and affordable clean energy to Albertans without significant investment in new transmission lines or substations. Specifically, we are ready to work with the AESO to help enable its Renewable Electricity Program. The first phase of the Program will procure up to 400 megawatts of renewable electricity generation and connect it to the Alberta transmission grid by 2019.
- Our employees are focused on ways to get more out of our existing grid to maximize value and reduce costs for our customers.
- Our reliable, efficient transmission system ensures that all generators must compete, enabling access to low cost generation for all customers.

Our Ownership Structure

We are a limited partnership, formed under the laws of Alberta on July 3, 2001 pursuant to the Limited Partnership Agreement between AltaLink Management Ltd. (AML), as general partner, and AltaLink Investments, L.P. (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, AltaLink Holdings, L.P. (AHLP) are managed by AltaLink Investment Management Ltd. (AIML). AHLP is wholly-owned by BHEA, a wholly-owned 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 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, 2016.

Our Vision and Core Principles

Our vision and strategy is to be the best transmission company in serving customers, while delivering long-term, sustainable solutions. Our core principles are customer service, employee commitment, environmental respect, regulatory integrity, operational excellence, and financial strength.

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 and exceptional service to our customers.

Customer performance

To measure our performance on customer service, we survey our customers to garner feedback and perceptions on service attributes that are unique to each customer segment. We use the survey results and feedback to establish specific initiatives aimed at improving our customers' experience. Customer satisfaction of direct customers in the second quarters 2017 and 2016 were 93% and 92%, respectively. Customer satisfaction of direct customers for the first half of 2017 and 2016 were 86% and 87%, respectively.

External engagement

We focus our landowner, government, Indigenous and media engagement practices on providing our stakeholders with timely, transparent and easy to understand information about our transmission projects and business. Our processes are designed to gather stakeholder input to help us identify and select routes for our new projects with low overall impacts on land use and landowners. We continue this engagement through the lifecycle of our facilities. We survey landowners after consultation and during construction of significant projects, as well as those who already host our facilities, to address any concerns that arise and build long-term relationships.

Employee Commitment

We equip employees with the resources and support they need to be successful. We encourage teamwork and provide a safe, rewarding work environment. We make no compromise when it comes to safety, and we align our short-term and long-term incentive pay with the needs of our customers.

Our leadership team's experience and expertise, combined with our employees' knowledge and commitment to "keeping the lights on" through operational excellence, are key to our ability to deliver customer requirements successfully.

Employee engagement

We strive continuously to attract, retain and develop a high quality workforce to enable us to not only sustain our business, but to remain at the forefront of innovation and continuous improvement. We employ approximately 800 skilled and dedicated people to maintain and operate our facilities and to deliver on the capital transmission projects planned in Alberta.

Using an independent third party, we conduct employee engagement surveys with our employees every two years. We initiated an employee engagement survey in the third quarter of 2015 with 95% of employees responding and an employee engagement score of 83%. Our employee engagement score ranks AltaLink in the top quartile of Canadian companies.

On June 1, 2017, we reached a new collective bargaining agreement with the IBEW which is effective from January 1, 2017 to December 31, 2018.

Safety

The health and safety of our employees and contractors is a core value. We have an EHS leadership committee that meets monthly to provide guidance and oversight with respect to safety; there is passionate engagement and discussion during these meetings. 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.

Our long-term trend of safety performance is improving and we consistently attain strong safety metrics. Our employee and contractor Injury Frequency Rates continue to be better than those of our peers, as reported by the CEA.

Our safety statistics include all lost time incidences (LTI) and medical aids (MA) per exposure hours worked by employees, contractors and sub-contractors. The table below summarizes our strong safety performance.

	Twelve months ended	
	June 30, 2017	June 30, 2016
All-Injury Frequency Rate[1]		
AltaLink (Combined)	**0.47**	0.32

1. Number of lost time accidents and medical aid incidents per 200,000 man hours worked by employees and contractors.

In partnership with the Calgary Stampede, AltaLink sponsored and participated in a successful Farm Safety Day at the AltaLink Hall on the Calgary Stampede grounds to provide life-long safety awareness to over 785 children. AltaLink set up a custom-designed electrical safety booth to walk children through a real life display of farm electrical safety. A wide variety of farm safety organizations also set up booths and demonstrations that were popular. Over 45 AltaLink employees participated in this event.

Safety Codes

We are committed to public safety and are accredited by the Alberta Safety Codes Council. To maintain our accreditation, we must adhere to a quality management plan that requires us to ensure that all our substation and transmission lines meet or exceed Alberta Electric Utility Code requirements. Alberta Municipal Affairs monitors all accredited companies for compliance with their quality management plans and safety codes. We have submitted our annual safety codes report to the Alberta Safety Codes Council who has confirmed acceptance of our report in the first quarter 2017. Additionally, AltaLink completed a planned site program review of our safety codes quality management plan with Municipal Affairs who were satisfied with the program. One program enhancement, to include more period inspections/field verifications in our program, was implemented in the first quarter 2017.

Environmental Respect

We are committed to using natural resources wisely and protecting our environment for the benefit of future generations.

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 (EMS) that is modelled after the International Organization for Standardization (ISO) 14001:2015 requirements. The EMS 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 and decision making.

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 received 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 Alberta Utilities Commission, 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, rates, construction, operations and financing.

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

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 future economic growth. Our continuous improvement culture and focus on operational excellence encompasses our project execution programs, maintenance processes, centralized work planning, and scheduling.

We continuously implement business improvements across our organization to deliver reliable and safe transmission service to our customers.

Operations and Asset Management

We design and implement operational, maintenance and capital investment practices to fulfill our commitment to the safe, reliable and cost effective operation of our transmission business. Our program-based maintenance activities cover the broad functional spectrum of the transmission business, including safety management, transmission lines, substations, telecommunications, meters, vehicles, buildings, tools, control centre and information technology. 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 life.

Capital Projects

We energized or completed $92.5 million of capital projects in the second quarter of 2017.

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 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. Nevertheless, 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 consistently better than those of our peers, as reported by the CEA, which ranks us in the top quartile of Canadian electric utilities.

In the six months ended June 30, 2017, a series of freezing fog and ice storm events in early January caused several momentary outages that contributed to outage frequency being slightly behind our 2016 performance. Additionally, AltaLink has experienced several longer duration outages on remote radial lines caused by several spring wind storms that contributed to our outage duration of the past 12 months being higher than the same period last year.

The table below summarizes our reliability performance for the current and past year, which compares favorably to the latest information reported by the CEA.

	Twelve months ended	
	June 30, 2017	June 30, 2016
Duration of outages (SAIDI)[1]		
AltaLink	**37**	22
Frequency of outages (SAIFI)[2]		
AltaLink	**0.77**	0.69
Restoration time (SARI)[3]		
AltaLink	**99**	60

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.

Financial Strength

We are excellent stewards of our financial resources. Backed by Berkshire Hathaway, 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 capital structure approved by the AUC and with targets for our key financial metrics. Historically 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 equity contributions from our limited partner, AILP.

Continued investment in our regulated capital assets provides reliability of supply of transmission service to our customers and is one of the key 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. In October 2016, the AUC approved an equity return of 8.5% and an equity ratio of 37% for 2017. 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.

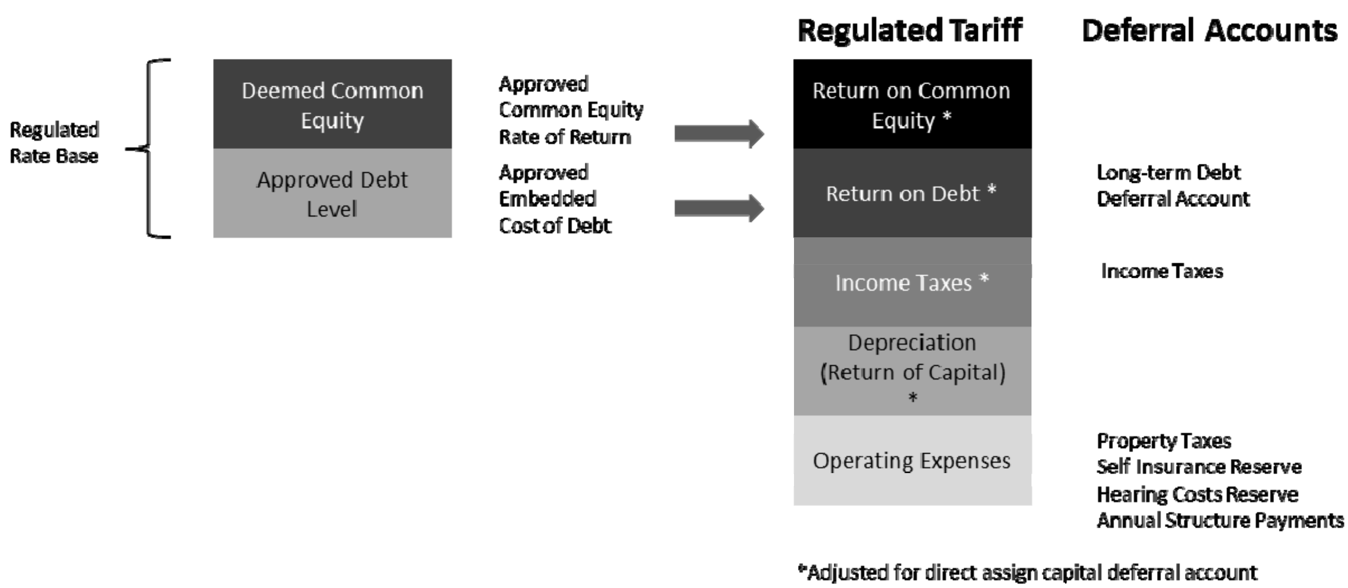
AltaLink's Medium-Term Notes have an "A" rating from DBRS and S&P. The financial strength demonstrated through an "A" rating allows us to keep debt financing costs low for our customers. On January 26, 2017, S&P confirmed the rating.

On July 7, 2017, S&P revised their outlook on Berkshire Hathaway Energy Company (BHE), AltaLink's ultimate parent, to negative from stable following its announcement of the US$18 billion acquisition of Oncor Electric Delivery Co. LLC. S&P also revised the outlook on AltaLink's "A" rating to negative from stable, which solely reflects the application of S&P's group rating methodology and the associated flow-through impact on the partnership. AltaLink's Medium-Term Notes were rated "A-" with a stable outlook prior to BHE's acquisition of AltaLink on December 1, 2014.

Transmission Tariffs

Overview
Under the Electric Utilities Act, 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:



For more details regarding our transmission tariffs, please refer to the "Transmission Tariffs" section of our MD&A for the year ended December 31, 2016.

The AESO is responsible for directing the safe, reliable and economic operation of the Alberta Interconnected Electric System (AIES), including long-term transmission system planning. To meet these 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 November 28, 2016, the AUC approved the 2017 interim refundable transmission tariff at $70.4 million per month effective January 1, 2017.

2015-2016 General Tariff Application

During the second quarter 2017, AltaLink responded to information requests from the AUC with respect to its second compliance filing amendment filed on April 6, 2017. Further directions or a final decision from the AUC is expected in the third quarter 2017.

On March 9, 2017, a technical conference was held with representatives from the AUC and the Consumers' Coalition of Alberta, with AltaLink in attendance. All key aspects of AltaLink's approach and methodologies used in its compliance filing to address Commission directives were reviewed and discussed during the meeting. On April 6, 2017, AltaLink filed an amendment to its second compliance filing to remove $7.1 million of recapitalized AFUDC associated with cancelled projects that were not capitalized to rate base, and to increase the amount of income tax refund related to previously collected CWIP-in-rate base by $3.9 million. As a result of this amendment, AltaLink's forecast transmission tariffs were reduced from $678.8 million to $674.9 million for 2016, and remained unchanged at $599.4 million for 2015, compared to the January 30, 2017 second compliance filing.

On December 16, 2016, the AUC issued its decision with respect to AltaLink's 2015-2016 GTA compliance filing. In this decision the AUC found that AltaLink had either complied with or the AUC had otherwise relieved AltaLink from its compliance with all its directions in Decision 3524-D01-2016 except for Directive 47, which dealt with the determination of the refund for previously collected CWIP-in-rate base and all related amounts. In its original compliance filing, AltaLink had proposed to separately determine the refund of CWIP-in-rate base and the recapitalization of AFUDC to achieve revenue neutrality for ratepayers and AltaLink. Instead, the AUC has directed AltaLink to re-calculate the impact of removing CWIP-in-rate base and re-capitalize AFUDC for each of the years 2011 to 2014, and in each year include the accumulated net return and related impacts in no cost capital. On January 30, 2017, AltaLink filed its second compliance filing as directed by the AUC and requested a technical conference to explain the technical aspects of the filing.

On October 20, 2016, AltaLink updated its 2015-2016 GTA compliance filing to reflect the impacts of the GCOC Decision issued on October 7, 2016 on the 2016 revenue requirement.

On September 1, 2016, AltaLink revised its 2015-2016 GTA compliance filing to reflect the impact of AltaLink's 2012-2013 deferral account reconciliation compliance filing. The resulting change to the 2015 and 2016 revenue requirements were minimal.

On July 19, 2016, AltaLink filed its 2015-2016 GTA compliance filing in response to the May 9, 2016 AUC Decision 3524-D01-2016 pertaining to the 2015-2016 GTA. The AUC process included information requests and responses and then a decision setting transmission tariff rates for the 2015 and 2016 test years.

2017-2018 General Tariff Application

During the second quarter 2017, AltaLink responded to information requests from the AUC with respect to its 2017-2018 negotiated settlement agreement application filed on February 8, 2017. Further directions or a final decision from the AUC is expected in the third quarter 2017.

On February 8, 2017, AltaLink filed with the AUC the 2017-2018 negotiated settlement application. The application consisted of negotiated reductions of $15.5 million of operating expenses and $40.0 million of transmission capital maintenance and information technology capital expenditures over two years, as well as an increase to miscellaneous revenue of $2.5 million over two years. These reductions resulted in a $24.2 million (1.3%) net decrease to the two-year total revenue requirement applied for in AltaLink's 2017-2018 GTA GCOC amendment filed in October 2016. In addition, AltaLink proposed to provide significant tariff relief through the refund of previously collected accumulated depreciation surplus of $130.3 million ($125.2 million net of other related impacts). The negotiated settlement agreement also provided for additional potential reductions over the two years through a 50/50 cost savings sharing mechanism. The approval of this negotiated settlement would significantly reduce hearing costs and regulatory lag.

On December 13, 2016, the AUC approved AltaLink's request on September 8, 2016 to enter into a negotiated settlement process scheduled to commence in January 2017. Negotiated settlement discussions between AltaLink and customer groups commenced on January 17, 2017 and concluded on January 27, 2017. Customer groups present included the Industrial Power Consumers Association of Alberta, the Utilities Consumer Advocate, the Alberta Direct Connect Consumer Association, and the Consumers' Coalition of Alberta. The parties successfully reached a negotiated settlement on all aspects of AltaLink's 2017-2018 GTA, as well as the refund of previously collected accumulated depreciation surplus, which provides tariff relief to ratepayers during the current difficult economic climate in Alberta. While reaching agreement in principle to refund AltaLink's accumulated depreciation surplus over the 2017-2018 two-year test period, there are differences on the quantum of the refund.

On October 28, 2016, AltaLink amended its 2017-2018 GTA to reflect the impacts of the GCOC Decision issued on October 7, 2016 and other updates and revisions. See "2016 Generic Cost of Capital Proceeding" below for further discussion of the decision.

On September 14, 2016, as directed by the AUC, AltaLink amended its 2017-2018 GTA to remove certain sections of the application related to AltaLink's proposal to revise treatment of FortisAlberta customer contributions. Previously, AltaLink updated and refiled its 2017-2018 GTA on August 4, 2016, to reflect the findings and conclusions of the AUC presented in the 2015-2016 GTA decision (3524-D01-2016) issued on May 9, 2016. We had previously filed the 2017-2018 GTA on February 16, 2016.

We lowered salvage rates ($107 million) and proposed lower depreciation rates ($50 million) for certain assets in the 2017-2018 GTA. This would further reduce transmission rates for customers by approximately $157 million over the 2017-2018 period.

The table below summarizes the forecast transmission tariffs for 2016 to 2018:

	2018	2017 Applied for	2016
(in millions of dollars)			
Return on equity	$ 242.2	$ 231.8	$ 212.8
Return on debt	206.6	195.4	176.2
Operating costs	180.1	175.7	157.2
Miscellaneous revenue offset	(12.2)	(9.1)	(7.9)
Depreciation and amortization	372.8	350.3	304.2
Revenue requirement	989.5	944.1	842.4
Refund of previously collected CWIP-in-rate base	—	—	(123.2)
Refund of previously collected future income taxes	—	(90.9)	(44.3)
Transmission Tariff as originally applied for February 2016	**989.5**	**853.2**	**674.9**
Impacts of the 2015-2016 GTA decision	(59.9)	36.9	—
Update to 2017-2018 forecasts	(17.5)	(4.7)	—
Settlement of self-insurance reserve balance	—	0.6	—
Transmission Tariff as filed August 4, 2016	**912.1**	**886.0**	**674.9**
Remove FortisAlberta customer contributions proposal	1.7	0.5	—
Transmission Tariff as amended September 14, 2016	**913.8**	**886.5**	**674.9**
Impact of the 2016 GCOC Decision	9.0	8.7	—
Other updates and revisions	(4.3)	(3.9)	—
Transmission Tariff as amended October 28, 2016	**918.5**	**891.3**	**674.9**
Impacts of negotiated settlement application:			
Operating expense and capital expenditure reductions, and miscellaneous revenue increase	(13.5)	(10.7)	—
Accumulated depreciation surplus refund (net of related impacts)	(61.2)	(64.0)	—
Other revisions	(1.1)	—	—
Transmission Tariff as applied for February 8, 2017	**$ 842.7**	**$ 816.6**	**$ 674.9**

**Totals may not add due to rounding*

In the 2017-2018 GTA, we forecasted total capital expenditures of $594.3 million in 2017 and $334.9 million in 2018. The forecast total capital expenditures are reduced to $573.6 million for 2017 and $314.3 million for 2018 in the negotiated settlement application filed on February 8, 2017.

CWIP-In-Rate Base Relief

In its Decision (3524-D01-2016) issued on May 9, 2016 regarding the 2015-2016 GTA, the AUC approved AltaLink's customer rate relief, through the discontinuance of CWIP-in-rate base and a return to AFUDC accounting effective January 1, 2015.

Income Taxes and Future Income Tax Relief

In the AUC's Decision 3524-D01-2016 issued on May 9, 2016, AltaLink's request to apply the future income tax (FIT) funding method for calculating income taxes for 2015 and the flow-through method for calculating income taxes for 2016 was approved. The AUC did not approve AltaLink's proposal to refund FIT already collected in revenue during 2015 and prior years. We have deducted future income taxes collected from our regulatory rate base in calculating our revenue requirement. We will continue to do this with the balance accumulated to date, however, the balance has not grown as a result of transition to the flow-through method.

2018 Generic Cost of Capital Proceeding

On July 5, 2017, the AUC denied the utilities' request that the interim determinations of 8.5% return on equity and deemed capital structures for 2018 be made final, by stating that it is not prepared to finalize 2018 values in the absence of an evidentiary process and its intention to issue the GCOC decision for 2018, 2019 and 2020 by the end of 2018 to reduce regulatory lag. The AUC also confirmed the process timelines with an oral hearing scheduled for March 2018.

In May 2017, each of the utilities filed submissions with the AUC to request that the interim determinations of 8.5% return on equity and deemed capital structures for 2018 be made final. The Utilities Consumer Advocate and the City of Calgary did not object to the utilities' applications. However, the Consumers' Coalition of Alberta objected to the applications and proposed a return on equity of 8.3% or an abbreviated process to determine final return on equity for 2018.

On April 20, 2017, the AUC initiated a proceeding to consider whether changes in the approved return on equity and deemed equity ratios are warranted, including the consideration of short-term and long-term effects of income tax methodologies on cost of capital and the overall revenue requirement. The initial process schedule contemplated a hearing commencing in late October 2017, with a final decision issued in the first quarter of 2018.

2016 Generic Cost of Capital Proceeding

On October 7, 2016, the AUC released Decision 20622-D01-2016 with respect to its GCOC proceeding to set the deemed capital structure and generic return on equity for 2016 and 2017. The AUC set the return on equity at 8.3% for 2016 and 8.5% for 2017. AltaLink's equity ratio was set at 37% for 2016 and 2017.

Deemed capital structure and generic returns	**Approved 2017**	**Approved 2016**	Approved 2015
Deemed capital structure			
Common equity ratio	**37.00%**	**37.00%**	36.00%
Debt ratio	**63.00%**	**63.00%**	64.00%
Generic returns			
Return on equity	**8.50%**	**8.30%**	8.30%

The AUC set deemed common equity ratio for each regulated utility that is consistent with credit ratings in the A category on a stand-alone basis and determined that company specific adjustments were not required for the large capital build program of AltaLink. The AUC also concluded that there was a directional increase in generic business risk, mainly due to concerns with the principles reflected in the Utility Asset Disposition decision. See "*General Tariff Applications*" above for the estimated impact of the decision on AltaLink's revenue requirement.

Deferral Account Reconciliation Application

On June 20, 2017, the AUC ruled that the scope of the deferral account proceeding would not be extended to consider the utilization of the assets for which final cost approval is sought. However, the AUC will initiate a separate proceeding to address the issue of transmission asset utilization and how the corporate and property law principles applied in the Utility Asset Disposition (UAD) decision may relate.

On April 5, 2017, AltaLink filed its application with the AUC with respect to AltaLink's 2014 direct assigned projects and deferral accounts and specific 2015 direct assigned projects. The application includes approximately $2.0 billion in net capital additions. In this application, AltaLink requests the AUC approve a one-time charge to the AESO of $95.4 million.

First Nations Asset Transfer Applications

On April 27, 2017, AltaLink, on behalf of the PiikaniLink Limited Partnership and the KainaiLink Limited Partnership, filed transfer applications and 2017-2018 general tariff applications with the Alberta Utilities Commission. The Transfer Applications request approval for sale and transfer of approximately $91.0 million of transmission assets located on reserve lands to new limited partnerships, including debt financing and affiliate cross charging procedures for each new limited partnership. The 2017-2018 General Tariff Applications of the new partnerships include revenue requests totaling $17.2 million for both partnerships for the two years. The transfers are part of the agreement which allowed AltaLink to route the Southwest Project on reserve lands.

Other AUC Decisions

In the 2015-2016 GTA proceeding, AltaLink submitted that it has concerns about regulatory lag that exists with respect to DACDA applications, GTAs and GCOC applications and that it opposed any process that would result in delays in filing applications. AltaLink made clear that it intended to file a combined DACDA application for the years 2014 and 2015. In the 2012-2013 DACDA decision, the AUC directed AltaLink to ensure there is no less than 6 months separation between the filing of its GTA and its DACDA applications and that AltaLink may not file its next DACDA application until at least 6 months have elapsed from the time AltaLink files its changes or updates to the 2017-2018 GTA. The AUC also directed AltaLink to file its 2014 and 2015 DACDA applications separately and in full accordance with additional time restrictions set out above. We believe these directions will further delay regulatory decisions of the prudency assessment of capital expenditures, and may delay our recovery of balances owed to us. In the compliance decision for the 2012-2013 DACDA, the AUC recognized the imbalance between the projects proposed to be in AltaLink's 2014 and 2015 DACDAs and stated it was willing to consider a proposal by AltaLink to shift certain 2015 projects to its 2014 DACDA. On January 18, 2017, AltaLink filed a proposal with the AUC to include six direct assigned projects previously in its 2015 DACDA, in AltaLink's 2014 DACDA. The AUC approved AltaLink's proposal on February 7, 2017. AltaLink included these 2015 direct assigned projects in its 2014 deferral account reconciliation application filed April 5, 2017.

Potential Impact of Regulatory Decisions on Credit Ratings

On July 7, 2017, S&P revised their outlook on BHE, AltaLink's ultimate parent, to negative from stable following its announcement of the US$18 billion acquisition of Oncor Electric Delivery Co. LLC. S&P also revised the outlook on AltaLink's "A" rating to negative from stable, which solely reflects the application of S&P's group rating methodology and the associated flow-through impact on the partnership. AltaLink's Medium-Term Notes were rated "A-" with a stable outlook prior to BHE's acquisition of AltaLink on December 1, 2014.

On February 19, 2016, S&P raised the ratings on AltaLink, L.P. to "A" from "A-" solely as a consequence of an upgrade to AltaLink's parent company, BHE and the application of S&P's group rating methodology. S&P noted that the stand-alone credit profile of AltaLink, L.P. is unchanged at "a-" and confirmed the business risk profile of AltaLink, L.P. is unchanged at 'excellent'. On January 26, 2017, S&P confirmed the ratings.

In a report dated October 14, 2016, DBRS Limited (DBRS) viewed the 2016 GCOC Decision as mostly credit neutral for Alberta-based rate-regulated transmission and distribution utilities (Alberta Utilities). DBRS continues to consider the regulation in Alberta to be reasonable for the Alberta Utilities' current ratings and also considers the AUC's continued support to maintain ratings in the "A" rating range as a positive for the regulatory regime.

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, 2016.

The AESO mandate is defined in the Electric Utilities Act and its regulations, and requires the AESO to assess both current and future needs of Alberta's interconnected electrical system. On July 20, 2017, the AESO released the 2017 Long-Term Outlook (LTO), which is a forecast used as one input to guide the AESO in planning Alberta's transmission system. An update to the current 2015 Long-Term Plan released in November 2015, is expected before the end of 2017. The 2017 LTO describes the factors that drive load growth and generation development in Alberta and the assumptions the AESO has made to understand the impacts. The AESO notes that Alberta's electricity industry is in a state of transition, due in part to changing policies and economic drivers that can significantly impact load growth and development of generation. Since mid-2014, the AESO's outlook for economic growth within the province has been revised downward in response to changes in the price outlook for crude oil. As a result, the 2017 LTO results in lower anticipated load growth compared to previous AESO long term outlooks. In addition, the AESO has also considered the impacts on increased energy efficiency to load growth and has aligned the 2017 LTO with the Government of Alberta's Climate Leadership Plan. The AESO's 2017 LTO is consistent with AltaLink's view on anticipated load growth.

In December 2016, the AESO directed us to cancel five projects including three in the Southern Alberta Transmission Reinforcement (SATR) project (Goose Lake to Etzikom Coulee ("GLEC"), Picture Butte to Etzikom Coulee ("PBEC"), Etzikom Coulee to Whitla ("ECW")), Vermillion to Red Deer and Edgerton to Provost Transmission Development and the remaining portion of Central East Transmission Development. The recovery of costs associated with these cancelled projects were filed in our 2014 DACDA Application.

Overview

The following table is an overview of the main projects currently in progress:

Project/ Description	Need Application	Facility Application	Status
Southern Alberta Transmission Reinforcement Large scale project to construct transmission lines and substations across southern Alberta to interconnect up to 2,700 MW of proposed wind generation projects. **Stage I**	AUC approved in 2009	• All applications approved.	• All projects complete.
Stage II	AUC approved in 2009	• Three applications approved. • Two projects pending direction from the AESO to proceed. • Three projects cancelled.	• All three approved projects are energized. • CRRCR[1] and Cypress are waiting for AESO direction to proceed. • PBEC, GLEC and ECW were cancelled in December 2016.
Red Deer Region Transmission Development Reinforcement and enhancements of the transmission system in the central Alberta region.	AUC approved in 2012	• All applications for construction approved.	• Completion scheduled for Q4 2017.
South and West of Edmonton Area Transmission Development Reinforcement to the 240 kV and 138 kV system for the South and West of Edmonton Area to alleviate reliability constraints.	AUC approved in 2014	• All applications approved.	• Completion scheduled for Q4 2017.
Provost to Edgerton and Nirem to Vermillion Transmission Development Reinforcement of the transmission system in the Central East part of Alberta	In progress		• Awaiting AESO direction to proceed to Facility Application

1. Castle Rock Ridge to Chapel Rock Transmission project

Non-GAAP Financial Measures

We use certain financial metrics that are not defined under accounting principles generally accepted in Canada, i.e. IFRS.

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.

For more details regarding our non-GAAP financial measures, please refer to the "Non-GAAP Financial Measures" section of our MD&A for the year ended December 31, 2016.

Financial Position and Cash Flows

Financial Position

In the following table, we discuss significant changes (over $30.0 million) in our Statement of Financial Position as at June 30, 2017 compared to December 31, 2016. Our Second Quarter Financial Statements include more detailed information regarding the changes in our property, plant and equipment.

	Increase/(Decrease) ($ Millions)	Explanation
Trade and other receivables (note 6)	119.0	Receivables from the AESO increased by $83.1 million as the 2016 interim tariff was lower due to approved customer refunds. In addition, $102.5 million of deferral account balances were reclassified to short-term. This was partially offset by collection of $67.4 million of deferral accounts.
Property, plant and equipment (note 8)	144.4	We added $266.5 million to capital assets and construction work-in-progress, partially offset by $111.3 million in depreciation and $10.9 million in loss on disposal of assets.
Other non-current assets (note 6)	(63.5)	On filing of the 2014 Deferral Account Reconciliation Application, including specific 2015 direct assigned projects, in April 2017, $102.5 million of related deferral account balances were reclassified to short-term. The decrease is partially offset by a $46.0 million increase in the long term future income tax receivable.
Trade and other payables (note 10)	34.6	Trade payables increased primarily due to the timing of capital project activity.
Commercial paper and bank credit facilities (note 11)	82.9	We issued commercial paper during the first half of the year to help fund capital expenditures.
Long-term debt maturing in less than one year (note 11)	200.0	$200 million Medium-Term Notes maturing May 2018 were reclassified to current liabilities.
Long-term debt (note 11)	(199.8)	$200 million Medium-Term Notes maturing May 2018 were reclassified to current liabilities.
Non-current Deferred revenue (note 12)	61.0	We incurred $41.5 million customer contributed project expenditures, and collected $26.1 million revenue for salvage transmission tariff receipts, while $23.7 million of deferrals were recognized as revenue. In addition, $17.0 million less has been transferred to current.
Partner's Equity	39.9	We generated comprehensive income of $163.9 million and distributed $124.0 million to AILP and AML.

Cash Flows

	Three months ended		Six months ended	
(in millions of dollars)	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Cash, beginning of period	**$ 0.3**	$ —	**$ 2.1**	$ 4.0
Cash flow provided by (used in):				
Operating activities	**82.6**	70.2	**248.6**	187.6
Investing activities	**(82.4)**	(211.3)	**(206.8)**	(354.8)
Financing activities	**1.9**	142.6	**(41.5)**	164.7
Cash, end of period	**$ 2.4**	$ 1.5	**$ 2.4**	$ 1.5

Operating Activities

For the three and six months ended June 30, 2017, cash flow from operating activities increased by $12.4 million and $61.0 million respectively, compared to the same periods in 2016. The change is primarily due to an increase in net income, collection of the 2012-2013 deferral accounts reconciliation application amounts owing from the AESO, a prior year increase in trade receivables for the difference between recognized revenue and the approved interim tariff revenues received, partially offset by an increase in the monthly tariff receivable.

Investing Activities

For the three and six months ended June 30, 2017, our cash flow used in investing activities decreased by $128.9 million and $148.0 million, respectively, compared to the same period in 2016. The change is primarily due to lower capital project activities.

Financing Activities

For the three months ended June 30, 2017, cash flows provided by financing activities included the net issue of $66.0 million commercial paper, offset by a $64.0 million distribution to AILP and AML. During the same period in 2016, we issued $350.0 million of long term debt, repaid net $207.6 million of commercial paper, received $10.5 million in equity injections from AILP and distributed $8.5 million to AILP and AML.

For the six months ended June 30, 2017, cash flows used by financing activities included a $124.0 million distribution to AILP and AML, offset by the net issue of $82.9 million commercial paper. During the same period in 2016, we issued $350.0 million of long term debt, repaid net $153.9 million of commercial paper, received $10.5 million in equity injections from AILP and distributed $40.0 million to AILP and AML.

Commitments

We have contractual commitments for the repayment of long-term debt of approximately $4,850.0 million, as disclosed in note 11 – *Scheduled principal repayments*, in our Second Quarter Financial Statements.

We are committed to operating leases of $28.7 million that have lease terms, which expire between 2017 and 2026. Of the total expected minimum lease payments, approximately 89% relates to our head office leases. See note 16 – *Commitments*, in our Second Quarter Financial Statements.

We also have contractual commitments associated with the construction of new facilities as at June 30, 2017 of $266.6 million (December 31, 2016 - $505.2 million).

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 two 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, 2017 was $825.0 million (December 31, 2016 - $825.0 million). The $750.0 million commercial paper backstop facility provides support to our commercial paper program, under which $117.9 million (December 31, 2016 – $35.0 million) of commercial paper was outstanding as at June 30, 2017. All bank credit facilities may be used for general corporate purposes. As at June 30, 2017, we had approximately $696.3 million of liquidity remaining under those facilities. We consider our liquidity arrangements to be adequate to accommodate our expected capital expenditures and working capital requirements over the next few years.

The total issuance under the $2,000.0 million Short Form Base Shelf Prospectus as at June 30, 2017 was $1,150.0 million. The Short Form Base Shelf Prospectus expired in July 2017. AltaLink expects to renew the shelf in the second quarter of 2018.

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 retain investment income we earn on deposits received from customers for future operating and maintenance costs.

Liquidity, Coverage and Capital Ratios[1]

	Twelve months ended June 30, 2017	2016
(in millions)		
Net income	**$ 321.7**	$ 274.9
Loss on disposal of assets	**17.7**	26.2
Finance costs	**188.2**	166.8
EBIT	**527.6**	467.9
Depreciation and amortization	**245.9**	262.1
EBITDA	**773.5**	730.0
Capitalized borrowing costs	**(3.8)**	(9.0)
Finance costs	**(188.2)**	(166.8)
FFO	**$ 581.5**	$ 554.2

	Twelve months ended June 30, 2017	2016
Net cash provided by operating activities	**$ 219.0**	$ 395.8
Change in non-cash working capital items	**351.4**	(253.6)
Third party contributions revenue	**9.9**	25.6
Change in financial assets and liabilities related to regulated activities, non-current	**23.1**	388.4
Change in deferred revenue for salvage	**(18.8)**	1.4
Change in other	**(3.1)**	(3.4)
Funds from operations	**$ 581.5**	$ 554.2

	As at June 30, 2017	2016
Letters of credit	**$ 10.8**	$ 8.8
Short-term debt	**117.9**	295.3
Long-term debt (excluding deferred financing fees, premiums and discounts)	**4,850.0**	4,400.0
Accrued interest on long-term debt	**27.2**	26.3
Total debt	**5,005.9**	4,730.4
Total equity	**3,117.0**	2,847.8
Total capitalization	**$ 8,122.9**	$ 7,578.2

	Twelve months ended June 30, 2017	2016
Interest expense and amortization of financing fees	**$ 192.0**	$ 175.8
EBIT interest coverage	**2.75X**	2.66X
EBITDA interest coverage	**4.03X**	4.15X
FFO interest coverage	**3.03X**	3.15X
FFO/Debt	**11.62%**	11.72%
Total debt/total capitalization as per Master Trust Indenture[2]	**61.63%**	62.42%
Total debt/total capitalization as per bank credit facilities[3]	**61.63%**	62.42%

1. Refer to "Non-GAAP Financial Measures" for further information concerning the non-GAAP financial measures used in this table.
2. The AltaLink Master Trust Indenture contains a debt to total capitalization covenant with a limit of 75%.
3. Both AltaLink 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.

Working Capital

At June 30, 2017, our working capital deficiency was $361.9 million, compared with $180.6 million at December 31, 2016. 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 current portion of deferred revenue.

The electricity transmission industry is a long-cycle capital-intensive business that requires sufficient cash to fund capital expansion projects and planned maintenance. We fund our transmission business 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, 2017	2016
Earnings-to-interest coverage on total debt[1,2]	**2.60X[3]**	2.48X[3]

1. Earnings-to-interest coverage on total debt is a non-GAAP financial measure. As a result of distributing 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 financial statements. Refer to "Non-GAAP Financial Measures" for further information concerning the non-GAAP financial measures used in this MD&A.
2. Earnings-to-interest coverage on total debt equals income before interest expense (including amortization of deferred financing fees) on all indebtedness and income taxes divided by annual interest requirements on long-term debt (including capitalized interest). 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 interest requirement on short and long-term debt for the twelve months ended June 30, 2017 was $197.5 million (June 30, 2016 - $181.4 million), including the pro-forma effect of interest payable on the Series 2016-2 Medium-Term Notes. Our earnings before interest and income tax for the twelve months ended June 30, 2017, for the purposes of calculating this ratio, were approximately $513.7 million (June 30, 2016 - $450.7 million).

Credit Ratings

	Three months ended June 30, 2017	2016
DBRS - Commercial Paper[1]	**R-1 (low)**	R-1 (low)
DBRS - Medium-Term Notes (secured)[1]	**A**	A
S&P's - Medium-Term Notes (secured)[2]	**A**	A

1. On September 20, 2016, DBRS confirmed the existing ratings all with stable trends.
2. On February 19, 2016, S&P raised its long-term corporate credit and senior secured ratings on AltaLink to "A" from "A-", with a stable outlook. The positive rating actions on AltaLink are solely as a result of an upgrade to the ratings of BHE and the application of S&P's group rating methodology. On a stand-alone basis the credit profile of AltaLink, L.P. is "a-". On July 7, 2017, S&P revised their outlook on BHE, AltaLink's ultimate parent, to negative from stable following its announcement of the US$18 billion acquisition of Oncor Electric Delivery Co. LLC. S&P also revised the outlook on AltaLink's "A" rating to negative from stable, which solely reflects the application of S&P's group rating methodology and the associated flow-through impact on the partnership.

Results of Operations

Revenue

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
(in millions of dollars)				
Operations	**$ 230.0**	$ 239.9	**$ 467.6**	$ 458.3
Other	**7.6**	10.0	**20.0**	20.7
	$ 237.6	$ 249.9	**$ 487.6**	$ 479.0

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 return on rate base.

Compared to the same periods in 2016, our revenue from operations decreased by $9.9 million and increased by $9.3 million for the three and six months ended June 30, 2017, respectively. The changes are primarily due to amounts we invested in capital assets in prior years, partially offset by one-time positive adjustments recognized in revenue during the second quarter of 2016, in relation to the 2015-2016 GTA and 2012-2013 DACDA decisions issued by the AUC on May 9, 2016 and June 6, 2016, respectively.

Other revenue

Other revenue includes revenue received from third parties, capital cost recoveries and amortization of customer contributed assets.

Compared to the same periods in 2016, other revenue decreased by $2.4 million and $0.7 million for the three and six months ended June 30, 2017, respectively. The variance is primarily due to a lower volume of services provided to third parties compared to the first six months of 2016, partially offset by certain one-time gains received during the first quarter 2017.

Operating expenses

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
(in millions of dollars)				
Operating expenses	**$ 22.6**	$ 24.8	**$ 47.1**	$ 52.1

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, 2017 decreased by $2.2 million and $5.0 million, respectively, compared to the same periods in 2016. The decrease is primarily due to lower third party recoverable costs, noted within other revenue, combined with generated savings from cost control of contracted services and labour costs.

Property taxes, salvage and other

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
(in millions of dollars)				
Property taxes, salvage and other	**$ 23.2**	$ 19.9	**$ 48.2**	$ 45.7

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

Property taxes, salvage and other expenses increased by $3.3 million and $2.5 million for the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. The changes are primarily a result of an increase in property tax expense as a result of assets put into service, combined with increased hearing costs, partially offset by the timing of salvage spending. For more details of these costs, please see Note 15 of the Second Quarter Financial Statements.

Depreciation and amortization

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
(in millions of dollars)				
Depreciation and amortization	**$ 61.5**	$ 75.8	**$ 122.5**	$ 142.2

We calculate depreciation and amortization on a straight-line basis using various rates which are approved by the AUC. Depreciation for the three and six months ended June 30, 2017 decreased by $14.3 million and $19.7 million, respectively, compared to the same periods in 2016. The decrease is primarily due to lower depreciation rates applied for in the 2017-2018 GTA in February 2017, partially offset by increased property, plant and equipment and intangible asset balances. The effect of using the lower rates applied for in the 2017-2018 GTA has reduced revenue from operations and depreciation and amortization expense by approximately $13.6 million for the first two quarters of 2017.

Finance costs

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
(in millions of dollars)				
Finance costs	**$ 48.1**	$ 42.8	**$ 95.1**	$ 84.9

Finance costs include interest costs and amortization of deferred financing fees less capitalized borrowing costs. Our finance costs for the three and six months ended June 30, 2017 increased by $5.3 million and $10.2 million, respectively, compared to the same period in 2016, primarily due to higher interest costs as a result of an increase in our debt obligations, combined with lower capitalized interest due to lower capital spending.

Earnings before interest, taxes, depreciation and amortization

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
(in millions of dollars)				
EBITDA	**$ 191.8**	$ 205.2	**$ 392.4**	$ 381.1

Our EBITDA for the three months ended June 30, 2017 decreased by $13.4 million compared to the same period in 2016, primarily as a result of one-time positive adjustments recognized in revenue from operations during the second quarter of 2016, in relation to the 2015-2016 GTA and 2012-2013 DACDA decisions issued by the AUC, and an increase in property tax expense, partially offset by increased operational revenue as a result of assets put into service.

Our EBITDA for the six months ended June 30, 2017 increased by $11.3 million, compared to the same period in 2016. The change is primarily due to capital investments made in prior years, combined with savings from continued cost control measures, partially offset by an increase in property tax expense as a result of assets put into service.

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

Net and comprehensive income

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
(in millions of dollars)				
Comprehensive Income	**$ 80.8**	$ 80.5	**$ 163.9**	$ 148.2

Compared to the same period in 2016, our comprehensive income increased by $0.3 million and $15.7 million for the three and six month period ended June 30, 2017, respectively. The increase is primarily due to an increased equity return from our investment in electricity transmission infrastructure, partially offset by the impact of one-time positive adjustments recognized in the second quarter of 2016, in relation to the 2015-2016 GTA and 2012-2013 DACDA decisions issued by the AUC.

Selected financial information derived from our financial statements

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Net and comprehensive income per unit ($/unit)	**0.244**	0.243	**0.494**	0.447
Distributions per unit ($/unit)	**0.193**	0.026	**0.374**	0.121
Total assets ($ millions)	**9,324.1**	8,997.8	**9,324.1**	8,997.8
Short and long-term debt ($ millions)1	**4,962.6**	4,690.2	**4,962.6**	4,690.2

1. The balance is shown before deducting deferred financing fees, which have been offset against this amount in the 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, 2017	**237.6**	**80.8**	**331.9**	**0.244**
March 31, 2017	250.0	83.1	331.9	0.250
December 31, 2016	254.8	79.1	331.9	0.238
September 30, 2016	244.1	78.7	331.9	0.237
June 30, 2016	249.9	80.5	331.9	0.243
March 31, 2016	229.0	67.7	331.9	0.204
December 31, 2015	241.4	65.2	331.9	0.196
September 30, 2015	224.0	61.5	331.9	0.185
June 30, 2015	210.0	58.3	331.9	0.176
March 31, 2015	153.7	24.3	331.9	0.073
December 31, 2014	219.0	66.8	331.9	0.201
September 30, 2014	183.6	54.2	331.9	0.163

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 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, 2016.

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, 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 loss of, or damage to, transmission lines, towers, poles, or physical damage to certain owned vehicles. 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 as a result 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 would apply to the AUC to recover the loss through increased funding to our self-insurance reserve or through an increased tariff. In Decision 2013-47 (UAD), 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.

The Liability Protection Regulation limits our liability in the course of carrying out our duties, responsibilities and functions under the Electric Utilities Act to direct loss or damage arising from our negligence, wilful misconduct or breach of contract. Direct loss or damage is defined in the regulation 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 items that have an impact on our financial position and results of operations which have not materially changed during the three and six months ended June 30, 2017, compared to those disclosed in our MD&A for the year ended December 31, 2016.

- Regulated operations
- Project execution
- Regulatory financial risk
- Reliability
- Government policies impacting the electricity industry
- Capital resources
- Labour relations
- Environment, health and safety
- Electric and magnetic fields
- Annual impairment tests
- Competition
- Credit ratings
- Cyber security
- Transmission system bypass by load customers
- Utility asset disposition

Transmission system bypass by load customers
As a regulated transmission facility owner, we are impacted by load customers bypassing the transmission system. This could increase costs for the remaining load customers. Although we currently do not have any direct volume or price risk, future regulatory or government policy decisions may result in changes that could adversely affect our financial results.

Utility asset disposition
As a regulated transmission facility owner, we are subject to the risk that transmission infrastructure assets could be retired before they are fully depreciated. The AUC has stated it will initiate a proceeding to address the issue of transmission asset utilization and how corporate and property law principles applied in the Utility Asset Disposition decision may relate.

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 all associated expenses of $30.6 million and $64.6 million for the three and six months ended June 30, 2017, respectively, and liabilities of $19.8 million as at June 30, 2017.

Please refer to note 13 – *Related party transactions* in the Second Quarter Financial Statements for more details.

Legal Proceedings and Contingencies

From time to time we are subject to legal proceedings, assessments, claims and regulatory matters in the ordinary course of business.

In 2009, we were served with an action alleging that we and the Plaintiff had concluded a binding agreement for the sale to the Plaintiff of certain lands. This matter has been settled with no material financial impact to AltaLink.

In 2014, we and another utility were served with a number of actions in relation to a grass fire that occurred in 2012. The Plaintiffs allege that damage was caused to cultivated and grazing land, fences and housing by a failure of transmission equipment and that there was soil erosion, loss of use of grazing land, and impacts to crop yield as a result of the fire. They claim that the fire was a result of negligence by us and another utility in operating, maintaining and repairing the transmission equipment.

In 2013 a road construction company damaged another utility's transmission line, which was connected into AltaLink's transmission facilities, causing loss of power. Two refinery owners filed statements of claim for damages against the construction company, who in turn filed third party claims against us and another utility.

The AUC approved a project to upgrade another utility's transmission line that is located on land owned by a First Nation, which had refused to allow us to access its land. In December 2014, the First Nation filed a Statement of Claim against a number of parties, including us. The claim alleges trespass by us, and seeks damages. In March of 2016, the members of the council for the First Nation discontinued the action against all defendants and removed access restrictions; however, one individual certificate of possession holder claims that he did not discontinue their action.

We have a number of cost recovery applications that are currently, or will be, before the AUC, as part of the normal regulatory process for reviewing cost recovery applications before making a final decision on the prudence of such costs.

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. These defects create a risk of causing personal injury and property damage. We have claimed $56 million for the cost of replacing the specific equipment and the additional inspections required for the equipment.

An AltaLink contractor has been sued by a subcontractor who seeks additional compensation in respect of work done by the subcontractor on an AltaLink Project. We have been added as a third party to the action by the contractor.

We intend to defend ourselves vigorously against these claims. At this time, in the opinion of management, the occurrence of a future event confirming a contingent loss is not determinable.

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 16 – *Commitments* in the Second Quarter Financial Statements for details of capital and lease commitments.

Critical Accounting Estimates

The preparation of our financial statements requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. As the AUC has not yet issued a final decision on AltaLink's 2015-2016 and 2017-2018 GTA filings, we estimated our revenue from operations based on our interpretation of the AUC's Decisions issued May 9, 2016, and December 16, 2016, as well as judgements based on historical experience with the Alberta regulatory process. The more significant estimates that have an impact on our financial condition and the results of our operations are disclosed in note 2 in our Second Quarter Financial Statements.

Accounting Changes

Please see note 4 in our Second Quarter Financial Statements for more details regarding our assessment of the impact on our financial statements of adopting the following new or revised standards.

Amendments to standards effective on or after January 1, 2017

In January 2016, the IASB issued amendments to IAS 7 – Statement of cash flows, which became effective on January 1, 2017. These amendments did not have any material impact on the Partnership's financial statements or its disclosures.

New standards effective after 2017

We are evaluating the impact of the following standards on our financial statements.

- In May 2014, the IASB issued IFRS 15 – *Revenue from contracts with customers*, which is effective for financial periods beginning on or after January 1, 2018. In June 2016, the IASB issued a narrow-scope amendment to the standard, *Clarification to IFRS 15 Revenue from contracts with customers*.
- In July 2014, the IASB issued IFRS 9 – *Financial instruments*, which is effective for financial periods beginning on or after January 1, 2018.
- In January 2016, the IASB issued IFRS 16 – *Leases*, which is effective for financial periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 is also applied at the same time.

Rate-regulated project

At the IASB 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 Board agreed that the development of another Discussion Paper would be the most effective way to progress this project.

The IASB met several times in late 2016 and the first half of 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. IASB discussions are expected to continue through the second half of 2017, with a Discussion Paper or Exposure Draft anticipated in the middle of 2018.

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 and prudency of all amounts added to rate base; 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 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 AIF 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 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 posed by severe weather, other natural disasters or catastrophic events and the limitations on AltaLink's insurance coverage for losses 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 security 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; and
- the risk that transmission system expansion that is directed to AltaLink by the AESO becomes stranded and AltaLink's recovery of the related costs is impaired.
- the risk that transmission system bypass through onsite generation by load customers results in decreased use of system facilities and increased cost of service for remaining system users.

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 of August 4, 2017. 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.**