AltaLink, L.P.

Management's Discussion and Analysis

May 8, 2023

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 May 8, 2023. 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 Audit Committee reviewed and approved this MD&A on April 25, 2023, in accordance with its terms of reference and as delegated by the Board of Directors.

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 months ended March 31, 2023 and 2022 (the first quarter consolidated financial statements), and our audited consolidated financial statements for the years ended December 31, 2022 and 2021 (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 March 31, 2023 and the twelve-month period ended December 31, 2022, 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; "ESG" mean Environmental, Social and Governance, "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

- On April 28, 2023, we extended our commitment to our customers for a sixth consecutive year by filing our general tariff application which will maintain our 2024 tariff below the 2018 level of $904 million. We also applied for less than a one per cent increase to our 2025 tariff. In 2023, we continued to fulfill our commitment to customers by controlling our costs despite inflation to deliver affordable transmission services to customers.

- We had zero employee injuries, representing a total recordable injury frequency rate of zero, matching our performance for the same quarter in 2022.

- In February 2023, we ratified a two-year agreement with the United Utility Workers' Association of Canada (UUWA) for 2022 and 2023.

- We achieved a customer satisfaction average score of 9.16 out of 10 compared to 9.43 for the same quarter in 2022; however, we remain in line with the top quartile of Electricity Canada member utilities.

- Our reliability of service was impacted by a couple of unique outages caused by third parties and wildlife. Therefore, our customer outage duration of four minutes was higher compared to two minutes for the same quarter in 2022, and more in line with our average performance over the past five years.

- We earned net and comprehensive income of $72.8 million compared to $75.3 million for the same quarter in 2022. Our income decreased mainly due to higher interest expense as a result of higher interest rates on short-term debt, and the equity return on a lower rate base.

- We invested $61.1 million in capital assets compared to $57.0 million for the same quarter in 2022 primarily to ensure continued electric system reliability.

- On April 5, 2023, S&P reaffirmed its issuer credit rating and senior secured rating on AltaLink at "A" with a stable outlook. An "A" rating allows us to keep debt financing costs low for our customers.

Strategic Highlights

- As a designated Electricity Canada 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.

- From 2015 to 2021, through a combination of rate levelization and gross cost saving efforts, we reduced our cumulative tariffs by $1.4 billion for our customers. These efforts continue to keep rates low for our customers, since we continue to recover income taxes on the flow through method and salvage based on our proposed methodology which was approved by the AUC.

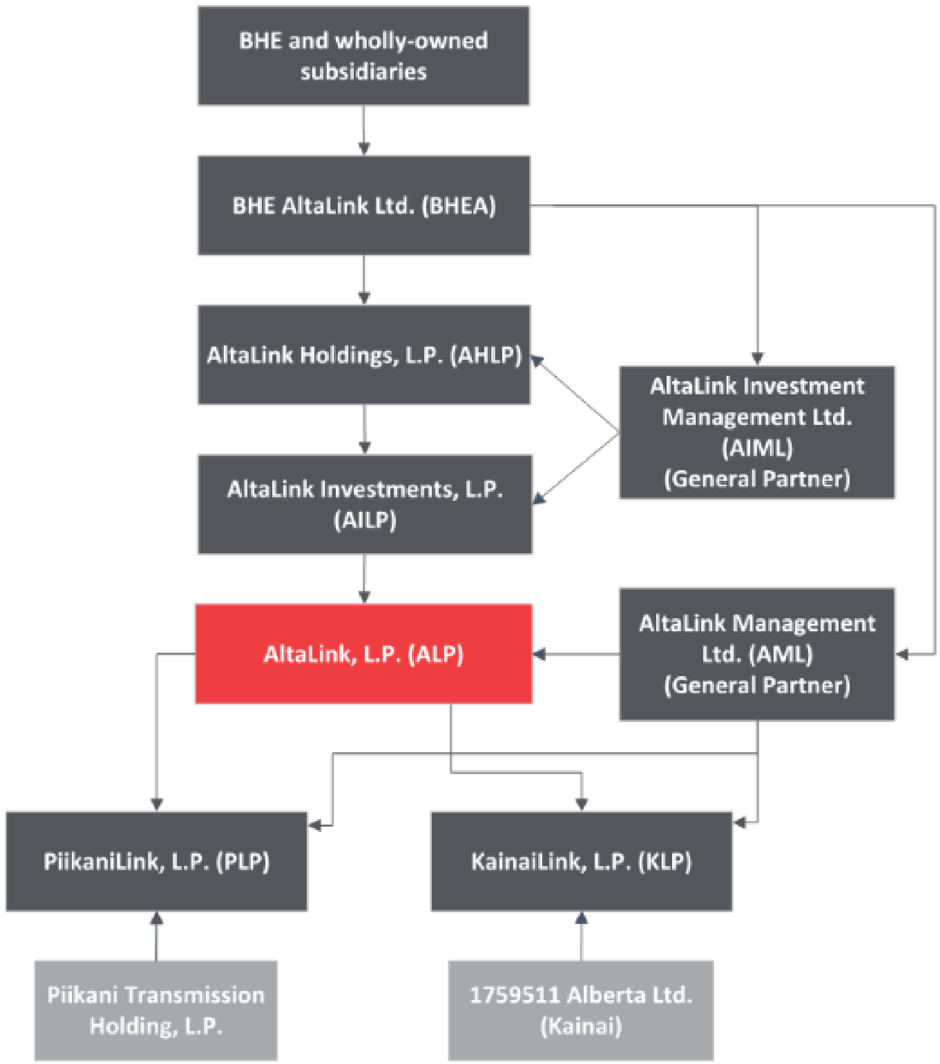
- We promote and actively work with energy companies on the connection of clean energy generation facilities to our existing transmission grid. The Canadian federal government continues to advance its Clean Electricity Regulation to achieve a net-zero emitting electricity system by 2035. The AESO released 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. We will use existing transmission assets wherever possible to enable the transition to clean energy, as it requires less incremental investment. However, these energy transition initiatives are expected to necessitate additional electricity transmission and strengthened 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.

AILP and AHLP were formed within a group structure to issue debt and own regulated entities. 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, 2022.

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 satisfaction score for the 12 months ended March 31, 2023 of 9.54 improved compared to 9.44 for the same period in 2022 and 9.13 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. To date Employee Resource Groups include Women + Power (Alberta-based women's network for women in Energy); BEAUTIE (Black Employees and Allies United to Inspire Equity); InspirAsian (Asian and Pacific Islander Employees and Allies); Pride Connection (LGBTQ2+ employees and their allies); and Our Familia (Latino, Latina and Latinx employees and allies).

In February 2023, we issued Celebrating Our Differences: 2022 Diversity, Equity, and Inclusion Report. This report is a helpful resource for employees to better understand what we are trying to achieve, why DE&I is a business priority, and what ongoing work is occurring. Our goal is to ensure all employees feel physically and psychologically safe and have a sense of belonging at work. Over the last two years, we have spent a significant amount of time listening, exploring, and implementing best practices. We have also invested in education on DE&I.

In 2022, employees completed leader-led Bystander training to build skill and awareness of how to respectfully intervene if they encounter bias in the workplace.

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 682 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 surveys with all employees.

In 2022, we launched a Hybrid Work Program providing employees flexibility in how and where they work. This program allows eligible employees to work from home Mondays and Fridays, with Tuesday through Thursday being core days in the office.

In the third quarter of 2022, we conducted a sample survey to determine employee perspectives on our current work environment. Consistent with other industries and jurisdictions, engagement was lower than previous COVID-19 surveys but still favorable. Our intent is to conduct additional surveys in 2023. Our third-party survey provider indicated that across industries and jurisdictions, employee engagement is currently down. Highest-rated items from the survey were leadership engagement, as well as recommending AltaLink to others as a good place to work. 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 2022, our employees raised $906,562 for the United Way after the dollar-for-dollar match by AltaLink, bringing our total to almost $10.5 million since 2002. AltaLink and its employees donate their time through our Global Days of Service program and United Way Days of Caring events, contributing hundreds of hours to organizations across Alberta. AltaLink is also the presenting sponsor of the Shaw Birdies for Kids program at the Shaw Charity Classic PGA Champions golf tournament. In 2022, more than $17.4 million was raised for more than 260 youth-based charities in Alberta.

Safety

The safety and security of our employees, customers, and the general public is our top priority. Our monthly Environmental, Health and Safety business review provides management 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 attain strong safety metrics, and our employee injury frequency rate is better than those of our peers, as reported by Electricity Canada for transmission employees.

The following table summarizes our strong safety performance.

	Twelve months ended March 31,		
	2023	2022	2021
Total recordable injury frequency rate[1]	**0.48**	0.00	0.00

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

In the last nine months of 2022, we experienced three employee injuries from two incidents resulting in the 2023 total recordable injury frequency rate of 0.48. Prior to these incidents, our strong safety performance was demonstrated by going more than two years without a recordable employee injury from April 2020 to March 2022.

In November 2022, for the sixth consecutive year, we received Electricity Canada President's Award of Excellence for employee safety as the best performing transmission company with 300 to 1,500 employees in 2021.

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 at 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 clean energy 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. We are committed to being ethical and have policies in place to ensure we operate at the highest standard for our customers. Every year, AltaLink employees are required to acknowledge and sign-off on their commitment to our Code of Ethics and Business Conduct and its associated policies.

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.

We continue to monitor the COVID-19 situation and directions from Alberta Health Services to ensure the safety of our employees and the public and the reliability of our operations.

Capital projects

We energized or completed $23.9 million of capital project additions in the first quarter of 2023 (2022 – $18.2 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 clean energy 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 for the 12 months ended March 31, 2023 was higher compared to the same period in 2022 primarily due to unique outage events caused by third parties and wildlife in the first quarter of 2023. We continue to work on improvement plans in preventing outages by efficiently directing maintenance to high risk assets and efficient restoration efforts when outages occur. 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.

On March 10, 2023, the AESO released the "Reliability Requirements Roadmap", providing an analysis of Alberta grid reliability based on the changes in energy supply mix arising from the energy transition. The AESO identified three emerging reliability challenges: frequency stability, system strength, and flexibility capability. AltaLink is reviewing the report and providing feedback to the AESO on potential near-term and long-term solutions.

The table below summarizes our reliability performance.

	Twelve months ended March 31,		
	2023	2022	2021
Duration of outages (SAIDI)[1]	**11.1**	9.1	16.2
Frequency of outages (SAIFI)[2]	**0.42**	0.31	0.45
Restoration time (SARI)[3]	**54**	54	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.

Cyber and physical security

During the three months ended March 31, 2023, 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 2022, the Governments of Canada and the United States issued repeated requests for critical infrastructure providers (in particular the electricity industry) to adopt a "shields up" approach with additional cyber security measures.

A significant increase in serious physical security attacks on substations and the electrical grid in North America have changed the nature of the physical security threats relevant to utility infrastructure. There has been an unprecedented number of serious, disruptive physical security attacks on the electricity grid in North America. Recent physical attacks by domestic terrorists in the United States have highlighted the vulnerability of utility infrastructure to physical attack. The success of these attacks, which caused blackouts and major system disruptions, has confirmed the widespread harm that even isolated attacks can cause.

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 April 5, 2023, 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 ratings on AltaLink including the Issuer credit rating, Medium-Term Note (Secured) and Senior Secured Note rating at "A" and the rating of its Commercial Paper at R-1 (low). All trends are Stable.

The financial strength demonstrated through an "A" credit rating allows us to keep debt financing costs low for our customers. For the three months ended March 31, 2023, our weighted average cost of long-term debt was 4.00% (March 31, 2022 – 3.90%).

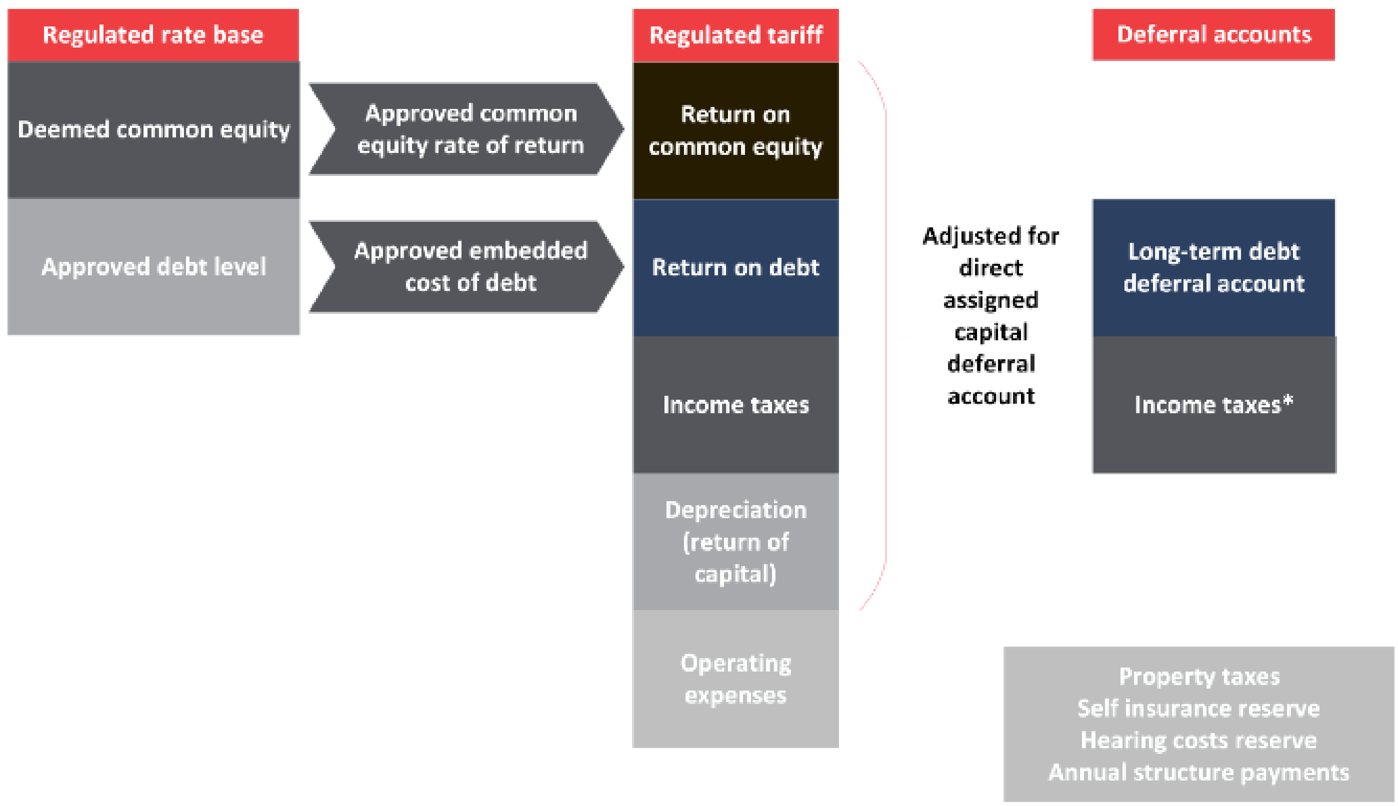
Capital investment

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, 2022.

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 August 17, 2022, the AUC approved revised final transmission tariffs for AltaLink, including monthly tariffs for PLP and KLP, of $83.7 million per month effective September 1, 2022, for the remainder of 2022, and $73.6 million per month for 2023.

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

Our total approved interim refundable transmission tariff, including monthly tariffs for PLP and KLP, was $57.4 million per month from January to May 2022.

2024-2025 General Tariff Application

On April 28, 2023, AltaLink filed its 2024-2025 GTA with the AUC. Our revenue requirement is $894.1 million and $908.6 million for 2024 and 2025, respectively, which extends AltaLink's previous five-year commitment to maintain its tariff at or below $904 million from 2019 to 2023 for another year.

The application also requests the approval of $98.9 million of salvage costs incurred from 2019 to 2021 based on additional information filed.

The table below summarizes the 2024 and 2025 transmission tariffs applied for on April 28, 2023.

(in millions of dollars)	2025 Applied for	2024 Applied for
Return on equity	$ 232.7	$ 233.8
Return on debt	195.0	193.9
Operating costs	179.1	176.7
Depreciation and amortization	301.6	289.5
Miscellaneous revenue offset	(7.5)	(7.5)
Revenue requirement – ALP	**900.9**	**886.4**
Other adjustments	—	8.2
Transmission tariffs as filed April 28, 2023 – ALP	**900.9**	**894.6**
Transmission tariffs as filed April 28, 2023 – PLP	**4.7**	**4.7**
Transmission tariffs as filed April 28, 2023 – KLP	**3.0**	**3.0**
Transmission tariffs as filed April 28, 2023	**$ 908.6**	**$ 902.3**

* Totals may not add due to rounding

The table below summarizes the GTA forecasted gross capital expenditures for 2024 and 2025.

(in millions of dollars)	2025 Applied for	2024 Applied for
Gross capital expenditures	**$ 359.9**	**$ 361.8**

2022-2023 General Tariff Application

On July 26, 2022, AltaLink submitted its second compliance filing application for AltaLink's 2022 revenue requirement at $870.8 million, with total 2022 revenue requirement, including PLP and KLP, of $878.9 million and AltaLink's 2023 revenue requirement at $875.0 million, with total 2023 revenue requirement, including PLP and KLP, of $883.0 million. On August 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 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 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.

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, and approved on August 17, 2022.

(in millions of dollars)	2023 Approved	2022 Approved
Return on equity	$ 243.3	$ 240.5
Return on debt	183.8	183.9
Operating costs	170.4	167.0
Depreciation and amortization	309.8	299.8
Miscellaneous revenue offset	(8.2)	(8.5)
Revenue requirement – ALP	**899.2**	**882.7**
Accumulated depreciation surplus refund	(60.0)	(60.0)
Others	—	(6.5)
Transmission tariffs as filed April 30, 2021 – ALP	**839.2**	**816.2**
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**
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**
Impact of net capital and salvage reductions	(0.1)	(0.1)
Transmission tariffs as filed March 25, 2022 – ALP	**873.1**	**862.5**
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**
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**
Transmission tariffs as filed July 26, 2022 – PLP	4.9	5.1
Transmission tariffs as filed July 26, 2022 – KLP	3.1	3.3
Total transmission tariffs as filed July 26, 2022 and approved August 17, 2022	**$ 883.0**	**$ 872.7**

* 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**

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.

Generic Cost of Capital Proceeding

AltaLink and other stakeholders filed evidence on February 1, 2023. AltaLink filed expert evidence recommending a 10.3% return on equity, on a recommended equity ratio of 40%. Other utilities filed evidence recommending a range of 9.5% to a minimum of 10% return on equity with a recommended equity ratio of 40%. The Consumers' Coalition of Alberta, the Utilities Consumer Advocate and the Industrial Power Consumers Association of Alberta filed intervenor evidence. The return on equity recommended by the intervenors ranges from 6.75% to 7.7%. The equity ratio recommended by the intervenors ranges from 35% to 37%. AltaLink's expert witness, as well as all other utility experts, submitted that they are generally not in favour of implementing a formulaic adjustment mechanism for allowed return on equity due to the challenges in maintaining the Fair Return Standard through formulaic adjustments. The interveners are generally in favour of a formula. The AUC expects to conclude stage two of the 2023 GCOC proceeding in the third quarter of 2023.

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. If required, an oral hearing will take place from May 15, 2023 to May 19, 2023. On September 15, 2022, stakeholders filed initial submissions on relevant comparator utilities that could serve as the basis for identifying the variables to be considered for a formula-based approach. On October 14, 2022, AltaLink and other stakeholders attended a technical conference to reach a consensus on the comparator group of representative utilities. On November 10, 2022, the AUC provided its ruling on the comparator group of representative utilities and on November 29, 2022, the AUC issued its final issues list for the proceeding.

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 was conducted in two stages. The first stage determined the cost of capital parameters for 2023 and the second stage considered 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.

2021-2022 Deferral Accounts Reconciliation

On April 28, 2023, AltaLink filed its 2021-2022 deferral accounts reconciliation along with its 2024-2025 GTA. The reconciliation included 25 projects with total gross capital additions of $155.7 million for 2021 and 2022, as well as AltaLink's other deferral accounts for taxes other than income taxes, long-term debt, and annual structure payments.

Alberta Electric System Operator Tariff Decision - Distribution Facility Owners Contribution

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 was heard on February 8, 2023 and the Alberta Court of Appeal's decision is expected in the third quarter of 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 was 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, 2022.

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.

The Canadian Federal Government has concluded formal stakeholder consultations on both the discussion paper "A clean electricity standard in support of a net-zero electricity sector" and the corresponding framework proposal for the Clean Electricity Regulation. The draft regulation is expected to be published in the Canada Gazette, Part 1 in the summer of 2023, followed by a 75-day public comment period. The regulatory design of the Clean Electricity Regulation will drive progress toward a net zero electricity grid by 2035.

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 Dominant: 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 investments, which include generation capital, generation 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 investments from 2022 to 2041 represents a 30% to 36% increase in mainly generation capital investments relative to the baseline included in the 2021 Long-Term Outlook. Transmission revenue requirements represent less than 10% of this incremental cost. Compared to the transmission cost estimate of $2.2 billion in the 2022 Long-Term Plan, the additional transmission capital cost represents an incremental:

- $0 to $500 million 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 identifies $1.3 billion in transmission projects over a 10 year period, which results in $150 million to $200 million per year on average over that 10 year period. This results in 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 various stages of development:

Central East Transfer-Out

The proposed Central East Transfer-Out development will enable clean energy generation integration and 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 $340 million with our share of project costs estimated at $180 million, $150 million of costs in the first stage and $30 million of costs in the second stage. The project received permit and license on August 10, 2021.

On December 1, 2022, the AESO issued Direction to AltaLink and ATCO Electric to commence Stage 1 construction on the project.

AltaLink and ATCO Electric have initiated detailed design and engineering for the project. Currently, AltaLink is forecasting an in-service date for its scope of work to be in the first quarter of 2026 and is aligned with the AESO's 2022 Long-Term Plan.

Vauxhall Area Transmission Development

The proposed Vauxhall Area Transmission development includes the construction of a new 138 kilovolt transmission line approximately 14 kilometres long and the uprate of an existing line to enable clean energy generation integration and manage congestion in the Taber area. The AESO and AltaLink filed a joint NID and facility application on December 9, 2022. The AUC has scheduled an oral regulatory hearing for the project in June 2023. The anticipated in-service date is 2024, pending AUC approval of the project. The current estimated cost of the project is $20 million.

Southeast Development

The AESO is developing a Southeast transmission plan in response to strong interest in renewable development in the Southeast region of Alberta. The aggregate capacity of proposed generation projects exceeds the current transmission capacity, and the AESO is exploring potential solutions. To address short-term requirements, the AESO issued a Project Assistance Direction to AltaLink in August 2022 to assist in the study of voltage support alternatives in the Cassils-Bowmanton-Whitla area. On February 9, 2023 the AESO hosted the Cassils-Bowmanton-Whitla Path Congestion presentation for stakeholders. The presentation described longer term requirements to include the addition of new double circuit 240 kilovolt transmission lines. On March 22, 2023, the AESO filed a Notice of Consideration for an Abbreviated Need Approval Process with the AUC for the Bowmanton 244S Substation Voltage Support Project. The Abbreviated Need Approval Process closed April 6, 2023 with the expectation for AltaLink to file the Bowmanton 244S Substation Voltage Support Project facility application to the AUC in the second quarter of 2023. The current AESO cost estimate for the voltage support and new transmission lines is approximately $450 million, with a forecasted in-service date of 2028-2029.

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 clean energy 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 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 kilometre transmission 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 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. 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. 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. AltaLink is awaiting next steps from the AESO.

In November 2021, the AESO directed AltaLink to uprate an existing transmission line to reduce congestion in the area. The construction on the line was completed in October 2022. This uprate defers the Provost to Edgerton and Nilrem to Vermilion Project in-service date potentially as late as 2027.

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 clean energy 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 clean energy 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 waiting for further direction from the AESO on the timing of the project prior to completing a service proposal and facility application.

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 material changes (over $20.0 million) in our statement of financial position as at March 31, 2023 compared to December 31, 2022:

(in millions of dollars)	**Increase/(Decrease)**	**Explanation**
Property, plant and equipment [note 8]	(21.1)	The decrease is primarily due to $67.6 million in depreciation expense, partially offset by $47.1 million added to construction work-in-progress and completed capital assets.
Trade and other payables [note 10]	20.3	The increase is primarily due to higher accrued interest on long-term debt due to the seasonality of coupon payments.

Cash Flows

(in millions of dollars)	Three months ended March 31, **2023**	2022
Cash, beginning of period	**$ 0.1**	$ 6.6
Cash flow provided by (used in):		
Operating activities	**158.4**	87.3
Investing activities	**(51.2)**	(46.3)
Financing activities	**(102.5)**	(46.8)
Cash, end of period	**$ 4.8**	$ 0.8

Operating activities

For the three months ended March 31, 2023, our cash flow from operating activities increased by $71.1 million compared to the same quarter in 2022. The change is primarily due to the collection of higher final monthly tariffs from the AESO in the first quarter of 2023 compared to interim monthly tariffs in 2022, one of which was reduced by the December 2021 customer refund.

Investing activities

For the three months ended March 31, 2023, our cash flow used in investing activities increased by $4.9 million compared to the same quarter in 2022. The change is primarily due to higher capital project activity.

Financing activities

For the three months ended March 31, 2023, our cash flows used in financing activities increased by $55.7 million compared to the same quarter in 2022. This change is primarily due to distributing $34.9 million more to AILP and AML and repaying $20.2 million more of commercial paper in 2023.

Commitments

		Payments due by periods			
(in millions of dollars)	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long-term debt excluding interest	**$ 4,750.0**	**$ 500.0**	**$ 700.0**	**$ —**	**$ 3,550.0**

We have contractual commitments for the repayment of long-term debt of $4,750.0 million (December 31, 2022 – $4,750.0 million), as disclosed in note 11 - Scheduled principal repayments, in our first quarter consolidated financial statements.

We are committed to lease payments of $67.4 million (December 31, 2022 – $68.4 million), as disclosed in note 13 - Lease liabilities, in our first quarter consolidated financial statements.

We also have contractual commitments associated with the construction of new facilities as at March 31, 2023 of $101.3 million (December 31, 2022 – $90.8 million), as disclosed in note 18 - Commitments, in our first 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 and inter-affiliate credit facilities at March 31, 2023 was $725.0 million (December 31, 2022 – $575.0 million). On December 15, 2022, we extended the maturity dates for our bank credit facilities to December 15, 2027 to increase the term and reduce pricing risk. The $500.0 million facility provides support to our commercial paper program, under which $106.0 million of commercial paper was outstanding as at March 31, 2023 (December 31, 2022 – $121.5 million). The $500.0 million and $75.0 million bank credit facilities may be used for general corporate purposes. On March 31, 2023, we added a $150.0 million inter-affiliate revolving credit facility from AILP to provide additional liquidity for ALP. No amounts were drawn on the AILP credit facility at March 31, 2023. As at March 31, 2023, we had $617.3 million of liquidity remaining under those facilities (December 31, 2022 – $451.8 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 March 31, 2023	2022
Comprehensive income	**$ 308.7**	$ 308.0
Actuarial gain	**(2.1)**	(0.9)
Non-controlling interests	**1.7**	1.9
Loss on disposal of assets	**3.8**	7.0
Finance costs	**191.1**	185.7
EBIT	**503.2**	501.7
Depreciation and amortization	**289.4**	284.5
EBITDA	**792.6**	786.2
Interest paid	**(190.8)**	(187.1)
FFO	**601.8**	599.1
Disallowed net capital costs	**—**	1.7
Adjusted FFO	**$ 601.8**	$ 600.8

(in millions of dollars)	Twelve months ended March 31, 2023	2022
Net cash provided by operating activities	**$ 531.4**	$ 274.5
Disallowed net capital costs	**—**	(1.7)
Change in non-cash working capital	**(36.2)**	(12.8)
Third party contributions revenue	**25.6**	25.5
Customer tariff refund	**—**	230.0
Change in financial assets and liabilities related to regulated activities, non-current	**82.8**	81.2
Change in deferred revenue for salvage	**(3.6)**	1.5
Change in other	**1.8**	0.9
FFO	**601.8**	599.1
Disallowed net capital costs	**—**	1.7
Adjusted FFO	**$ 601.8**	$ 600.8

(in millions of dollars)	As at March 31, 2023	2022
Letters of credit	**$ 1.7**	$ 1.7
Less: cash	**(4.8)**	(0.8)
Other post-employment benefits obligations[2]	**3.3**	4.6
Short-term debt (excluding outstanding cheques)	**106.0**	140.0
Long-term debt	**4,724.3**	4,724.5
Lease liabilities	**50.3**	52.4
Total debt	**4,880.8**	4,922.4
Cash	**4.8**	0.8
Accrued interest on debt	**50.4**	48.8
Financing fees, premiums and discounts	**25.7**	25.5
Less: other post-employment benefits obligations[2]	**(3.3)**	(4.6)
Total debt as per Master Trust Indenture and bank credit facilities	**4,958.4**	4,992.9
Total equity including non-controlling interests	**3,685.2**	3,656.4
Less: AltaLink equity investment in subsidiaries	**(15.9)**	(15.9)
Total capitalization	**$ 8,627.7**	$ 8,633.4

	Twelve months ended March 31, 2023	2022
Interest paid	**$ 190.8**	$ 187.1
Interest expense[3]	**$ 193.9**	$ 188.6
EBIT interest expense coverage[4]	**2.60X**	2.66X
EBITDA interest expense coverage[5]	**4.09X**	4.17X
FFO interest paid coverage[6]	**4.15X**	4.20X
FFO/Debt[7]	**12.33%**	12.17%
Adjusted FFO/Debt	**12.33%**	12.21%
Total debt/total capitalization as per Master Trust Indenture[8]	**57.47%**	57.83%
Total debt/total capitalization as per bank credit facilities[9]	**57.47%**	57.83%

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 $4.3 million as at March 31, 2023 were adjusted to reflect an after-tax amount equal to $3.3 million using an income tax rate of 23% (March 31, 2022 – $5.9 million was adjusted to $4.6 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 March 31, 2023, our working capital deficiency was $670.3 million (December 31, 2022 – $663.9 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. The current working capital deficiency is considered manageable in light of AltaLink's aggregate available credit facilities.

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 March 31, 2023	2022
Earnings-to-interest coverage on total debt[1,2]	**2.51X[2,3,4]**	2.63X[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 March 31, 2023, for the purposes of calculating this ratio, was $502.7 million (March 31, 2022 – $496.6 million). Our pro-forma interest requirement on short and long-term debt for the 12 months ended March 31, 2023 was $199.9 million (March 31, 2022 – $188.6 million).
4. Our pro-forma earnings before interest and income tax for the 12 months ended March 31, 2023 and 2022 is calculated as: comprehensive income of $308.7 million (March 31, 2022 – $308.0 million) plus finance costs of $191.1 million (March 31, 2022 – $185.7 million) plus capitalized borrowing costs of $2.9 million (March 31, 2022 – $2.9 million) plus income taxes of $nil (March 31, 2022 – $nil). Our pro-forma interest requirement on short and long-term debt for the 12 months ended March 31, 2023 and 2022 is calculated as: finance costs of $191.1 million (March 31, 2022 – $185.7 million) plus capitalized borrowing costs of $2.9 million (March 31, 2022 – $2.9 million) plus the net pro-forma effect of interest expense of $5.9 million on the November 2022 issuance of $275.0 million of Series 2022-1 Senior Secured Notes (March 31, 2022 – $nil).

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 March 31,	
	2023	2022
DBRS - Commercial Paper[1]	**R-1 (low)**	R-1 (low)
DBRS - Medium-Term Notes (Secured) and Senior Secured Notes [1]	**A**	A
S&P - Medium-Term Notes (Secured) and Senior Secured Notes [2]	**A**	A

1. On July 21, 2022, DBRS reaffirmed the existing ratings all with Stable trends.
2. On April 5, 2023, 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 March 31,	
(in millions of dollars)	**2023**	2022
Operations	**$ 236.7**	$ 237.5
Other	**9.5**	9.0
	$ 246.2	$ 246.5

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 March 31, 2023, our revenue from operations decreased by $0.8 million compared to the same period in 2022. The change is primarily due to recovery of lower salvage expenses and the returns on a lower rate base.

Other revenue

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

Our other revenue for the three months ended March 31, 2023 increased by $0.5 million compared to the same period in 2022. The variance is primarily due to higher cost recovery revenue from other utilities and third parties and higher amortization of third party contributions.

Operating expenses excluding disallowed capital costs

(in millions of dollars)	**Three months ended March 31, 2023**	2022
Operating expenses	**$ 29.1**	$ 28.5

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

Our operating expenses for the three months ended March 31, 2023 increased by $0.6 million compared to the same period in 2022. The change is primarily due to higher costs of services provided to other utilities and third parties and market inflation on materials and contract services, partially offset by lower employee salaries and benefits due to vacancies and lower contracted labour costs.

Disallowed capital costs

(in millions of dollars)	**Three months ended March 31, 2023**	2022
Disallowed capital costs	**$ —**	$ 1.5

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.

Property taxes, salvage and other

(in millions of dollars)	**Three months ended March 31, 2023**	2022
Property taxes, salvage and other	**$ 23.0**	$ 25.0

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 months ended March 31, 2023 decreased by $2.0 million compared to the same period in 2022. This change is primarily due to a decrease in salvage expense due to lower salvage activities and a decrease in hearing expenses.

Depreciation and amortization

(in millions of dollars)	**Three months ended March 31, 2023**	2022
Depreciation and amortization	**$ 72.4**	$ 70.0

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 months ended March 31, 2023 increased by $2.4 million compared to the same period in 2022. This change is primarily a result of capital projects that have been completed and added to our property, plant and equipment and intangible assets compared to lower asset retirements.

Finance costs

(in millions of dollars)	**Three months ended March 31, 2023**	2022
Finance costs	**$ 48.0**	$ 45.8

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 months ended March 31, 2023, our weighted average cost of long-term debt was 4.00% (March 31, 2022 –3.90%).

Our finance costs for the three months ended March 31, 2023 increased by $2.2 million compared to the same period in 2022. This change is primarily due to a higher weighted average cost of short-term and long-term debt.

EBITDA

(in millions of dollars)	**Three months ended March 31, 2023**	2022
EBITDA	**$ 194.1**	$ 191.5

Our EBITDA for the three months ended March 31, 2023 increased by $2.6 million compared to the same period in 2022. The change is primarily due to recovery of higher allowable expenses, partially offset by the equity return on a lower rate base.

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 March 31, 2023**	2022
Net and comprehensive income	**$ 72.8**	$ 75.3

Our net and comprehensive income for the three months ended March 31, 2023 decreased by $2.5 million compared to the same period in 2022. The decrease is primarily due to higher interest expense as a result of higher interest rates on short-term debt and the equity return on a lower rate base.

Selected financial information derived from our consolidated financial statements

(in millions of dollars)	**Three months ended March 31, 2023**	2022
Net and comprehensive income per partnership unit ($/unit)	**0.219**	0.227
Distributions per partnership unit ($/unit)	**0.254**	0.149
Total assets ($)	**9,893.3**	9,908.4
Short and long-term debt ($)[1]	**4,851.2**	4,885.1

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)
March 31, 2023	**246.2**	**72.8**	**331.9**	**0.219**
December 31, 2022	256.3	82.3	331.9	0.248
September 30, 2022	243.6	74.5	331.9	0.225
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

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, 2022.

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 Electric Utilities Act (Alberta) and the Liability Protection Regulation limits our liability by excluding liability for a third party's loss of profits, loss of revenue, loss of production, loss of earnings, loss of contract or other indirect, special or consequential loss or damage. Our liability is therefore confined to a third party's 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.

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 compared to those disclosed in our MD&A for the year ended December 31, 2022, except for utility asset disposition which has been updated on the following page.

Regulatory Risks

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

Financial Risks

- Regulatory financial risk related to Capital Growth
- Competition
- Credit ratings
- Capital resources and liquidity
- Annual impairment tests

Operational Risks

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

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. We cannot predict with certainty how AUC decisions may adversely impact us and there can be no assurance that we can entirely recover the net book value of assets through the revenue requirement approved by the AUC.

On November 4, 2022, AltaLink filed an application with the Alberta Court of Appeal for leave to intervene in ATCO Electric's appeal proceeding. On December 14, 2022, the Alberta Court of Appeal granted AltaLink intervenor status and leave to intervene within ATCO Electric's appeal. The appeal was heard April 4, 2023. The Alberta Court of Appeal issued its decision April 14, 2023 and allowed the appeal. The Alberta Court of Appeal returned the matter back to the AUC for further consideration given the Court's decision and a redetermination.

On October 2, 2019, the AUC issued Decision 21609-D01-2019 with respect to ATCO Electric's application for distribution cost recovery due to the Regional Municipality of Wood Buffalo wildfire. In that decision, the AUC determined that for regulatory purposes the Wood Buffalo wildfire gave rise to an extraordinary retirement of destroyed assets. Accordingly, the remaining $3.2 million net book value of the destroyed assets must be for the account of ATCO Electric shareholders. ATCO Electric appealed the AUC's decision and was granted leave to appeal by the Alberta Court of Appeal.

On October 29, 2014, the AUC issued Decision 2014-297 on ATCO Electric's 2012 Distribution Deferral Account Application. In this decision, the AUC determined among other matters, that the asset retirement caused by the Slave Lake fire was an extraordinary event and therefore the loss of $0.4 million was to be borne by shareholders.

We are monitoring the implications of these and other related decisions on our business and are addressing any increased risks resulting from these decisions. If the AUC determined a loss was "extraordinary", this could negatively impact us as the AUC decided that extraordinary losses are for the account of the utility's shareholders.

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 $33.7 million for the three months ended March 31, 2023 (March 31, 2022 – $36.1 million) and liabilities of $16.0 million as at March 31, 2023 (March 31, 2022 – $20.8 million).

On March 31, 2023, we added a $150.0 million inter-affiliate revolving credit facility from AILP to provide additional liquidity for ALP.

Please refer to note 14 - Related party transactions in our first 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 18 - Commitments in our first 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 first 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 May 8, 2023. 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.