AltaLink, L.P.

Management's Discussion and Analysis

March 1, 2024

ALTALINK
A BERKSHIRE HATHAWAY ENERGY COMPANY

Table of Contents

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) reflects events known to us as of March 1, 2024. This MD&A is intended to provide you with an understanding of our business, our strategy, our performance, our expectations for the future, and how we manage risk and financial resources. The Board of Directors approved this MD&A on February 29, 2024, based on the recommendation of the Audit Committee, which reviewed this MD&A in accordance with its terms of reference.

You should read this MD&A in conjunction with our legal advisory on Forward-Looking Information, which we have included at the end of this MD&A, our audited consolidated financial statements for the years ended December 31, 2023 and 2022 (the consolidated financial statements), and the notes thereto.

The financial information in this MD&A is in Canadian dollars, 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 and the twelve-month periods ended December 31, 2023, respectively. Additionally, "AESO" refers to the Alberta Electric System Operator, "AFUDC" refers to Allowance for Funds Used During Construction, "AHLP" refers to AltaLink Holdings, L.P., "AIES" refers to the Alberta Interconnected Electric System, "AILP" refers to AltaLink Investments, L.P., "AIML" refers to AltaLink Investment Management Ltd., "ALP" refers to AltaLink, L.P., "AML" refers to AltaLink Management Ltd., "AUC" refers to the Alberta Utilities Commission, "BHE" refers to Berkshire Hathaway Energy Company, "BHEA" refers to BHE AltaLink Ltd., "CWIP" refers to Construction Work-In-Progress, "DACDA" refers to Direct Assigned Capital Deferral Account, "DBRS" refers to DBRS Limited, "ESG" refers to Environmental, Social, and Governance, "FFO" refers to Funds from Operations, "GAAP" refers to Generally Accepted Accounting Principles, "GCOC" refers to Generic Cost of Capital, "GTA" refers to General Tariff Application, "IFRS" refers to International Financial Reporting Standards, "KLP" refers to KainaiLink, L.P., "NID" refers to Needs Identification Document, "PLP" refers to PiikaniLink, L.P., and "S&P" refers to Standard & Poor's Global Ratings.

Additional information relating to our business, including our Annual Information Form for the year ended December 31, 2022 is available on SEDAR at www.sedar.com.

Executive Summary

2023 Highlights

- We fully delivered on our commitment to customers and Albertans by keeping our annual revenue requirements representing customer costs from 2019 to 2023 below the 2018 level.
- Our average customer satisfaction score of 9.59 improved compared to 9.57 in 2022. Our 2023 results were our best annual results achieved to date.
- Our employee safety performance as measured by total recordable injury frequency rate was 0.48, representing three injuries, matching our result in 2022. In November 2023, for the seventh consecutive year, we received the Electricity Canada President's Award for Safety Excellence as the best performing transmission company with 300 to 1,500 full-time employees in 2022.
- Our average customer outage duration of 9.2 minutes increased marginally as compared to 9.1 minutes in 2022, which was our best annual result. In November 2023, we received the Electricity Canada 2023 Reliability and Resiliency Award which recognizes a utility that has showcased dedication in asset management, innovation in reliability, outage communications, and overall reliability and resiliency management as evaluated by an external panel of experts.
- We reached a Negotiated Settlement Agreement with customer groups on the majority of our 2024-2025 GTA. On February 12, 2024, the AUC approved the negotiated settlement agreement. Under the agreement, AltaLink will reduce its applied-for operating expenses by $7.0 million and sustaining capital expenditures by $38.8 million for the 2024-2025 test period. The agreement does not include AltaLink's proposed wildfire deferral account, certain investment programs within the wildfire mitigation plan, and actual and forecast salvage expenditures from the 2019-2023 GTA and the 2024-2025 GTA, respectively. These items will be heard in an AUC hearing in March 2024.
- On May 6, 2023, the Province of Alberta declared a province-wide state of emergency due to wildfires. In May and June 2023 wildfires in Alberta burned more than 1.9 million hectares of land, the most in Alberta's history. AltaLink's transmission system was impacted by wildfires in the Edson, Drayton Valley, and Brazeau areas of Alberta. None of these fires initiated from AltaLink's operations. AltaLink restored service to all customers impacted from these wildfires by July 3, 2023, and completed all structure repairs by August 10, 2023, making this AltaLink's largest restoration efforts to date. AltaLink filed an application for cost recovery regarding the damaged transmission lines on December 20, 2023 with the AUC.
- On October 9, 2023, the AUC issued its decision on the GCOC for 2024 and beyond for Alberta's regulated electric and gas utilities, approving a set equity ratio and a formula to determine return on equity. The AUC set the deemed equity ratio of 37% and set a notional return on equity of 9.00%, which is subject to formulaic adjustments utilizing 30-year Government of Canada bond yields and Canadian utility spreads. On November 20, 2023, under the approved formula, the AUC issued an order approving 9.28% as the final return on equity for 2024 for Alberta utilities.
- On November 14, 2023, the Alberta Court of Appeal overturned the AUC's decisions regarding the legality of the current customer contribution regime and the AUC's ability to deny a utility its return on investment. In its decision, the allocation issue (between transmission facility owners and distribution facility owners, who is entitled to the investment) as well as the fair return issue (no one is allowed to earn a return on the investment) were returned to the AUC for rehearing and reconsideration on the basis that the AUC did not provide adequate notice that it was considering disallowing any utility from earning a fair return on the investment. The Court remitted the fair return issue and the allocation issue back to the AUC so that the appellants are provided an opportunity to present their case fully and fairly.
- We earned comprehensive income of $297.8 million compared to $311.2 million in 2022. Our comprehensive income decreased primarily due to higher interest rates on short-term debt, higher operating costs mainly as a result of inflation, an actuarial loss compared to an actual gain in 2022, and lower revenue on equity returns on a lower rate base.

- We invested $279.0 million in capital assets compared to $230.0 million in 2022 to ensure continued electric system reliability, to replace assets damaged by wildfires, and to connect clean energy generation.

Strategic Highlights

- We continue to advance our commitment to operate our business in a sustainable and affordable manner as well as maintaining our Sustainable Electricity Company designation from Electricity Canada since 2014. Our annual ESG Report highlights the Environmental, Social, and Governance objectives we are working to meet including a greenhouse gas management plan which identifies focus areas to help get AltaLink to net zero by 2050.

- From 2015 to 2021, through a combination of rate levelization and cost saving efforts, we reduced our cumulative tariffs by $1.4 billion for our customers. Our efforts continue to keep rates low for customers because we are not currently collecting funds for the recovery of income taxes based on the flow-through method and we sought and received AUC approval to reduce the salvage recovery we collect based on our new methodology.

- We actively work with energy companies to connect their facilities to our transmission grid. AltaLink has enabled the interconnections for clean energy generation facilities, and continues to work with its customers to develop interconnections for their electrification and load projects. To enable energy transition in a cost-effective manner, we support the use and optimization of existing transmission assets wherever appropriate as it requires less incremental investment. However, the energy transition may necessitate additional electricity transmission and strengthened transmission interties with neighboring jurisdictions.

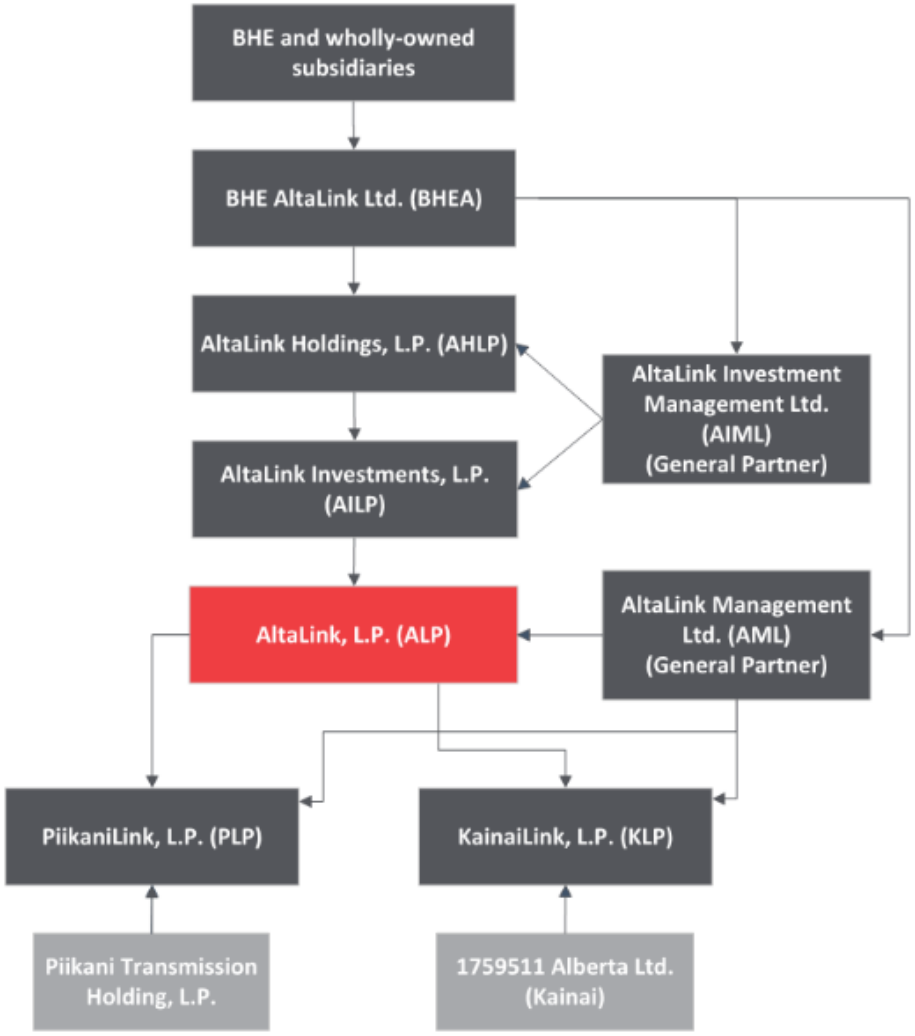
- We believe that building positive, respectful, trusting relationships with local Indigenous communities is the foundation for successful project outcomes and collaborative partnerships. We consult with Indigenous communities in ways that add value to both the community and our business. Our long-term partnerships with the Piikani Nation and the Kainai-Blood Tribe continue to hold transmission investments and provide the First Nations with 51% of the net income from PiikaniLink, L.P. and KainaiLink, L.P.

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. AIML manages both AILP and its sole limited partner, AHLP. AHLP is wholly owned by BHEA, which itself is a wholly owned, indirect subsidiary of BHE.

Our operations and headquarters are in Alberta, where we provide reliable, safe, and efficient service to Albertans. We are regulated by the AUC and the AESO directs both the operation of the interconnected electrical system and our new capital projects.



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.

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 Canadian transmission facility owners in terms of reliability, safety, customer satisfaction, 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. Additionally, we host an annual "Let's Connect" event to update customers on industry trends and our key customer service initiatives.

We measure customer service performance through a third-party survey process, using the resulting 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.

The following chart summarizes our strong customer service performance.

Our average customer satisfaction score was 9.59 in 2023 compared to 9.57 in 2022 and 9.43 in 2021. Our 2023 results were our best annual results achieved to date.

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 successfully delivering customer requirements. We aim to provide a clear link between each employee's total direct compensation to both business performance and their own individual performance. In particular, each employee's incentive pay is dependent on AltaLink's actual performance compared to previously established goals and targets in alignment with customer interests. 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, in building spaces of mutual respect and trust. Our DE&I Plan stresses the importance of frequent communication to foster a culture of awareness and understanding within AltaLink. The plan also includes 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 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 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 that all employees feel physically and psychologically safe as well as 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 on these matters, continuously investing in DE&I education.

In 2023, employees completed Inclusive Language training to support an inclusive work environment. In 2022, employees completed leader-led Bystander training to build skills and raise awareness on how to respectfully intervene should they encounter bias in the workplace.

In the second quarter of 2023, we conducted our second DE&I survey. We had a 74% participation rate and this survey indicated steady progress from our first DE&I survey in 2021. Top rated items were that AltaLink actively supported diversity and inclusion; a welcoming workplace climate; and leadership that fosters an inclusive environment.

Employee engagement and support to the community

We continuously strive to attract, retain, and develop a high-quality, diverse workforce. Our workforce enables us to sustain our business, and to remain at the forefront of innovation and continuous improvement. We employ approximately 690 skilled and dedicated employees who maintain and operate our facilities and deliver on the capital transmission projects. Using an independent third-party, we regularly conduct employee engagement surveys with all employees. Employee surveys will continue to be conducted each year on varied topics as employee expectations continue to evolve.

In the third quarter of 2023, we conducted an Employee Engagement Survey with an 82% participation rate from employees. Employee responses demonstrated an increase of 8% in overall engagement compared to our 2022 Summer Pulse Survey. Workplace safety and our hybrid work model were the most highly rated items in the 2023 survey.

We launched our hybrid work model in 2022 to provide employees with flexibility regarding how and where they work. This model allows eligible employees to work from home on Mondays and Fridays, while Tuesdays through Thursdays remain core days spent in the office. In addition to increased flexibility in the workplace, we continue to provide enhanced wellness and mental health support to our employees.

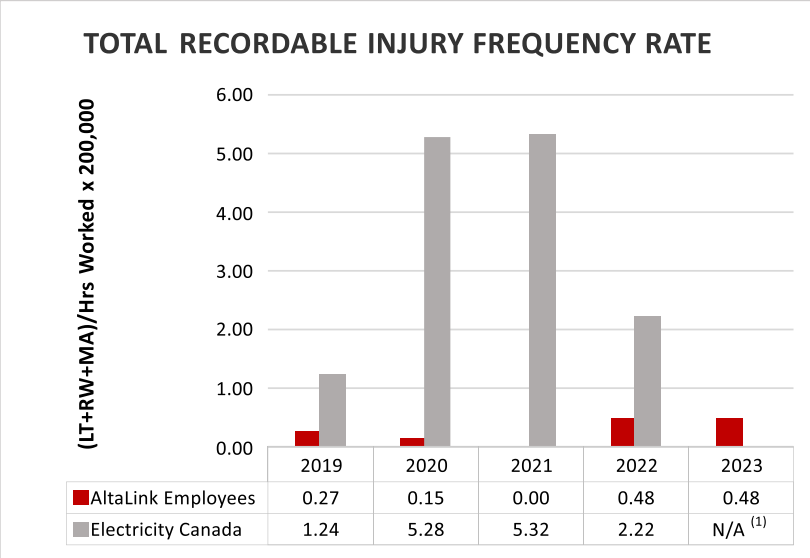
AltaLink and its employees support the communities in which we live through community investment and as employees volunteer throughout the year. In 2023, our employees raised $804,496 for the United Way after the dollar-for-dollar match by AltaLink, bringing our total to almost $11.3 million since 2002. 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 2023, the program raised over $18.7 million for more than 270 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, focussing our entire organization on building a culture of safety accountability and responsibility. 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.

Our safety statistics measured by total recordable injury frequency rate include all lost time (LT), restricted work (RW) and medical aid (MA) incidents per 200,000 exposure hours worked by employees. The following chart summarizes our strong safety performance.



	2019	2020	2021	2022	2023
AltaLink Employees	0.27	0.15	0.00	0.48	0.48
Electricity Canada	1.24	5.28	5.32	2.22	N/A [1]

Our total recordable injury frequency rate for employees was 0.48 in 2023, representing three injuries, and 0.48 in 2022 compared to the 2.22 average reported by Electricity Canada for 2022.

1. *Electricity Canada Transmission Employees injury frequency rate is not available at this time.*

In November 2023, for the seventh consecutive year, we received the Electricity Canada President's Award of Safety Excellence as the best performing transmission company with 300 to 1,500 full-time employees in 2022.

Safety codes

We are committed to public safety and are accredited by the Alberta Safety Codes Council. To maintain our accreditation, we must adhere to a Quality Management Plan that requires us to ensure that all our substation and transmission lines meet Alberta Electric Utility Code requirements. Alberta Safety Codes Council monitors all accredited companies for compliance with their Quality Management Plans and safety codes.

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

We strive to be leaders in environmental best practices and 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 also promote clean energy and actively work to connect clean energy generation facilities to our 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, indicating 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, the AUC regulates us 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 regulated transmission tariffs, including settlements of deferral and reserve accounts, from the AESO. The AESO determines whether an expansion or enhancement of the transmission system is required and directs us to enhance and expand the transmission system. We and other transmission facility owners are permitted to charge tariffs for the use of our transmission facilities. The AUC regulates all tariffs under the provisions of the *Electric Utilities Act* (Alberta) in respect of rates and terms and conditions of service.

We 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 conducting our business and in our relations with our colleagues, customers, shareholders, business partners, and other stakeholders. We are committed to ethical practices with policies in place to ensure we operate at the highest standard for our customers. Every year, we require employees 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 transition. Our focus on continuous improvement and operational excellence covers our project execution, maintenance, operating, work planning, and scheduling activities.

We strive to continuously 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 use life extension and risk-based asset replacement programs to ensure timely and effective replacement of assets that have reached the end of their useful lives.

Wildfires and storm emergency response

In May and June 2023 wildfires in Alberta burned more than 1.9 million hectares of land, the most in Alberta's history, after an extraordinarily dry and hot spring. AltaLink's transmission system was impacted by wildfires in the Edson, Drayton Valley, and Brazeau areas of Alberta. None of these fires initiated from AltaLink's operations. AltaLink restored service to all customers impacted from these wildfires by July 3, 2023, and completed all structure repairs by August 10, 2023. The restoration of the damaged transmission lines cost $22.4 million in 2023 and AltaLink filed an application with the AUC to recover the costs on December 20, 2023.

Further to the wildfires, on June 19, 2023, a portion of AltaLink's transmission system experienced a spring snowstorm with heavy wet snow and winds. Restorations were completed and AltaLink restored service to all impacted customers by June 30, 2023. The restoration of the damaged transmission lines cost $2.3 million in 2023 and AltaLink filed an application with the AUC to recover the costs on December 20, 2023.

These wildfire and snowstorm events resulted in AltaLink's largest restoration efforts to date.

AltaLink is implementing further improvements in its situational awareness of current and forecast weather and fire conditions and taking increased proactive measures to protect its assets, minimize future damage and maintain public safety. On August 31, 2023, AltaLink filed an amendment to its 2024-2025 GTA with additional measures to address the increase in wildfire risk. The amendment introduced: a dynamic wildfire model; a change (shortened duration) to maintenance timing; a new program to address the top ignition-causing lines; and a request for a wildfire deferral account for future catastrophic wildfire damages. These elements of the wildfire mitigation plan will enable safe operation of the power grid for the public and communities. The amendment increased AltaLink's Wildfire Mitigation Plan capital expenditures from $16.0 million to $38.5 million in 2024 and from $14.6 million to $38.4 million in 2025. AltaLink reached an agreement with customer groups on the Negotiated Settlement Agreement in December 2023 to proceed with the dynamic wildfire model and incremental vegetation management activities outlined within its Wildfire Mitigation Plan. The remaining elements will proceed to the scheduled hearing in March 2024. Please refer to "2024-2025 General Tariff Application" section of this MD&A.

Wildfire mitigation plans

AltaLink has developed and implemented detailed wildfire mitigation plans for its service territory since 2019. AltaLink files and gets AUC approval for its wildfire mitigation plan as part of its GTA process. AltaLink has received approval for its wildfire mitigation plan in both the 2019-2021 and 2022-2023 GTA periods. These plans include improvements in situational awareness, meteorological systems, and risk modelling; investments in asset hardening and vegetation management; and AltaLink's ongoing elevated fire risk operating practices and policies, including inspections, recloser blocking procedures, and public safety power shutoff (PSPS).

Asset hardening and vegetation management

AltaLink has and continues to invest in specific asset improvements targeted to reduce the risk of wildfire ignition from AltaLink's operations. These hardening efforts reduce the likelihood of AltaLink's transmission lines to spark a wildfire at locations of high fire risk.

Approximately 15% of AltaLink's transmission lines are in High Risk Fire Areas (HRFAs). Of these HRFA lines, 27% are in urban areas and communities, 23% are in forested areas, with the remaining 50% located in agricultural, grassland or native prairie.

Situational awareness, meteorology, and risk modelling

AltaLink uses available integrated meteorology and camera systems available from the Alberta Government and has installed 13 of 17 planned incremental weather and camera stations in support of improvements to its situational awareness. This weather information, combined with expert third party assessment, provides weather and fire risk forecasting daily for AltaLink's service territory. AltaLink has established a Daily Hazard Forecast Report provided to the organization and field crews as well as implemented an information portal in the control room. AltaLink initially completed its fire risk modelling and HRFA mapping in 2020 and is planning to complete an update of the modelling in 2024. AltaLink is developing further enhanced fire weather modelling tools in 2024. AltaLink has completed policy updates and training regarding field operations and contractor crew fire management and preventive practices.

Asset inspection program

AltaLink completes asset inspections for all its facilities on an annual basis. For lines located in HRFAs, inspection frequencies are twice per year to review structure and vegetation conditions.

Public safety power shutoffs

PSPS are operating protocols used as a preventative measure of last resort during periods of extreme wildfire risk where a transmission line or lines would be de-energized proactively under certain conditions to reduce the risk of wildfire ignition. In determining whether to initiate a PSPS, AltaLink works with local public safety authorities in consideration of data from its wildfire risk forecasting tools and meteorological systems. If the forecast exceeds thresholds, escalating action is taken proactively starting from the seven-day forecast outlook. AltaLink has and continues to conduct stakeholder engagement and exercises related to its PSPS process.

Capital projects

We energized or completed $231.5 million of capital project additions in the year ended December 31, 2023 (2022 - $261.4 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 can compete, enabling access to low-cost generation, which includes clean energy generation for customers.

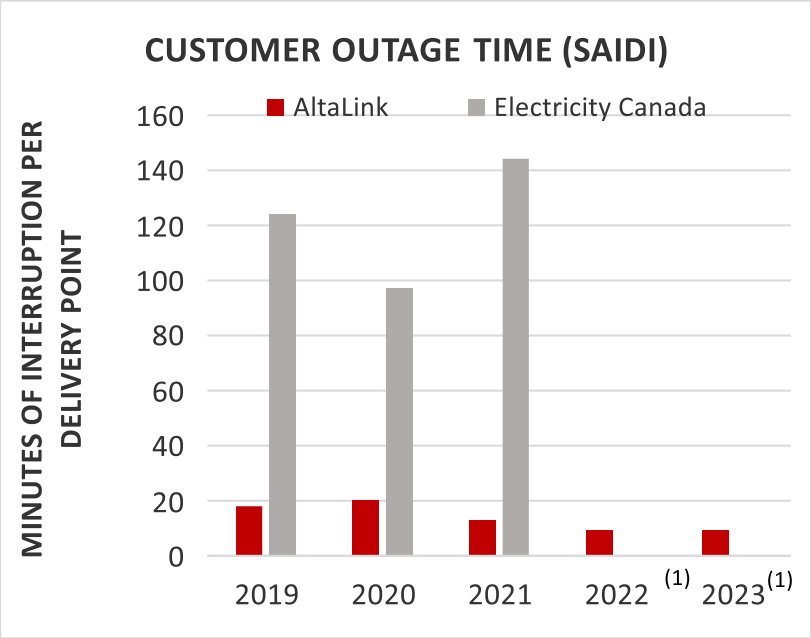
We operate our transmission system to minimize disruption of service to our customers. Severe weather and other unplanned events cause service disruptions to which we respond as quickly as possible. Our proactive operating practices and capital investment have delivered a long-term trend of improved reliability. Our reliability statistics are consistently above the national average, as reported by Electricity Canada, who has ranked us in the top quartile of Canadian electric utilities for outage duration and frequency. In November 2023, AltaLink received the Electricity Canada 2023 Reliability and Resiliency Award which recognizes a utility that has showcased dedication in asset management, innovation in reliability, outage communications, and overall reliability and resiliency management as evaluated by an external panel of experts.

On March 10, 2023, the AESO released the Reliability Requirements Roadmap, providing an analysis of Alberta grid reliability based on changes in energy supply mix arising from the energy transition. The AESO identified three emerging reliability challenges: frequency stability, system strength, and flexibility capability. The AESO continues to progress and consult with industry on improvement plans in these areas. AltaLink continues to collaborate with the AESO on solutions.

In 2023, our customer reliability was impacted by the major wildfire and snowstorm events described above. Due to the size and nature of the events, the customer interruptions qualify as a major event under Electricity Canada guidelines and are excluded from the ongoing reliability performance metrics.

AltaLink's reliability of service, exclusive of the major events described above, continues to be strong. Our 2023 average customer outage duration was marginally higher than our 2022 results, primarily due to increased system outages caused by customer equipment and increased frequency of wildlife contacts. We continue to work on improvement plans and coordination with customers to prevent 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.

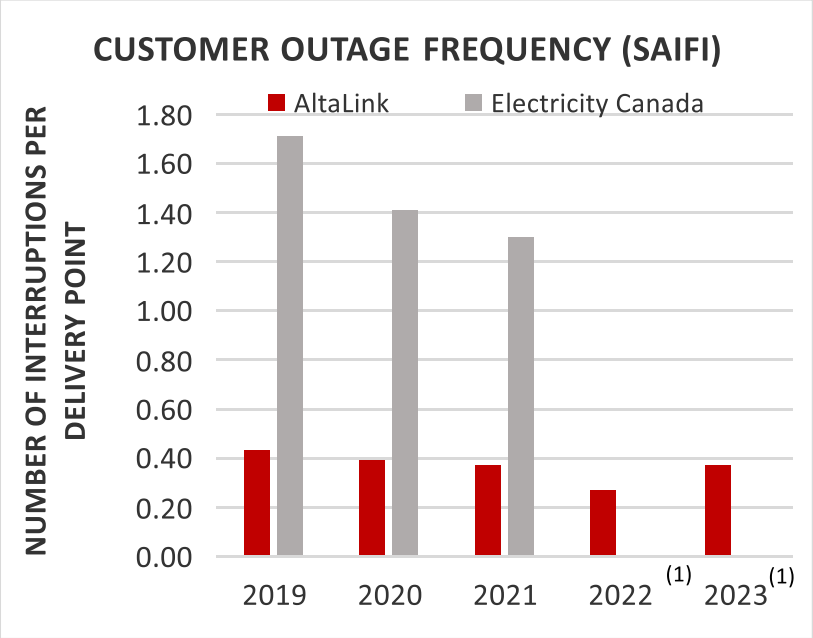
The charts that follow summarize our reliability performance for the past five years, showing continued favourable comparisons to the latest information reported by Electricity Canada.



Our average customer outage duration time was 9.2 minutes in 2023 and 9.1 minutes in 2022 compared to the 144.2 minute average reported by Electricity Canada for 2021. Our 2022 results were our best annual results achieved to date.

1. *Electricity Canada customer outage time numbers are not available at this time.*

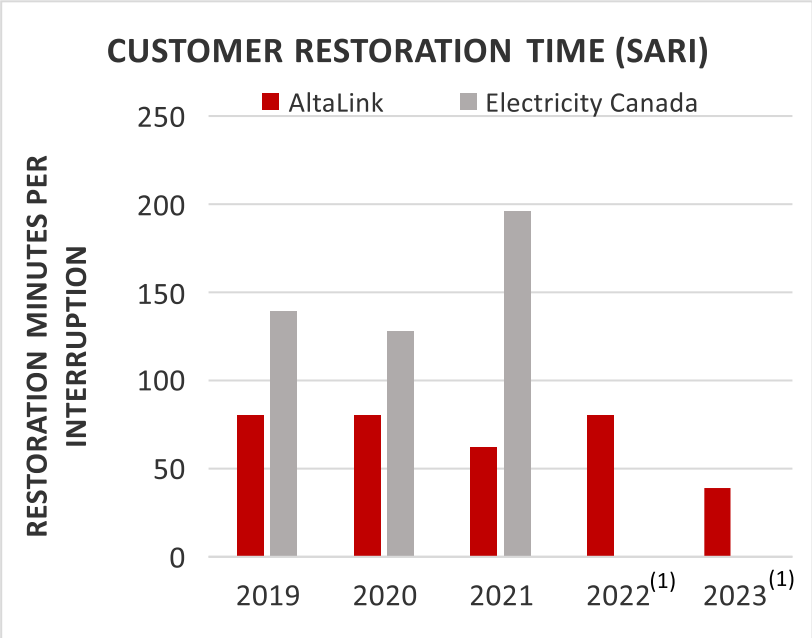
System Availability Interruption Duration Index (SAIDI) is the average number of interruption minutes per delivery point.



Our customer outage frequency was 0.37 in 2023 and 0.27 in 2022 compared to the 1.30 average reported by Electricity Canada for 2021.

1. *Electricity Canada customer outage frequency numbers are not available at this time.*

System Availability Interruption Frequency Index (SAIFI) is the average number of interruptions per delivery point.



Our customer restoration time was 39 minutes in 2023 and 80 minutes in 2022 compared to the 196 minute average reported by Electricity Canada for 2021.

1. *Electricity Canada customer restoration time numbers are not available at this time.*

System Average Restoration Index (SARI) is the average number of interruption minutes per sustained interruption.

Cyber and physical security

Our cyber and physical security management system is modelled based on the International Organization for Standardization requirements and the 27000 family of standards and it helps us to identify and use best practices to keep the grid secure. As part of our ongoing efforts to enhance our cyber security preparedness, we underwent an external audit conducted by the British Standards Institute in June 2023 and recertified our information security management system. In addition, AltaLink is audited every three years against the Alberta Reliability Standards (ARS) including Critical Infrastructure Protection (CIP) standards. These standards are closely aligned with the North American Electric Reliability Corporation CIP standards. Compliance with the CIP standards is critical to mitigating cybersecurity risks to Alberta's bulk electric system. The ARS CIP standards provide a comprehensive list of security controls to help utilities effectively and securely operate Alberta's bulk electric system.

In 2023, we continued to upgrade our cyber security preparedness by adding controls to meet compliance requirements and to keep up with best practices. Given the outbreak of Russian hostilities against Ukraine in 2022, the Governments of Canada and the United States issued repeated requests for critical infrastructure providers (the electricity industry in particular) to adopt a "shields up" approach with additional cyber security measures.

In 2022, a significant increase in serious physical security attacks on substations and the electrical grid in North America changed the nature of the physical security threats relevant to utility infrastructure. This contributed to an unprecedented number of serious disruptions to the electricity grid in North America. These attacks have continued to increase in 2023. Physical attacks on critical infrastructure in the United States continue to highlight the vulnerability of utility infrastructure to such attacks. AltaLink has requested additional funding from its regulator the AUC through its GTA to allow incremental investment in physical security measures at key locations in 2024 and 2025.

AltaLink has also 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 AUC-approved regulated debt and equity capital structure 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" and "A-" credit ratings 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 June 23, 2023, S&P reaffirmed its issuer credit rating and senior secured rating on AltaLink at "A", but revised its outlook from stable to negative due to the potential that BHE's business or financial risk could weaken over the next 24 months if BHE-owned PacifiCorp faces significantly increased liabilities related to the 2020 wildfires. On November 21, 2023, S&P downgraded the credit ratings of AltaLink by one notch from "A" to "A-" with a stable outlook. The ratings downgrade reflects S&P's view using their group ratings methodology that BHE will not provide extraordinary support to its subsidiaries under all foreseeable circumstances. On July 21, 2023, DBRS reaffirmed its ratings on AltaLink including the Issuer rating, Medium-Term Note (Secured) and Senior Secured Note rating at "A" with stable trends. The financial strength demonstrated through "A" and "A-" credit ratings allow us to keep debt financing costs low for our customers. In 2023, our weighted average cost of long-term debt was 3.93% (2022 – 3.91%).

Return on 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. On October 9, 2023, the AUC issued its decision on the GCOC for 2024 and beyond for Alberta's regulated electric and gas utilities, approving a set equity ratio and a formula to determine return on equity. The AUC set a deemed equity ratio of 37% and increased return on equity from 8.5% to a notional 9.00%, which is subject to formulaic adjustments using 30-year Government of Canada bond yields and Canadian utility spreads. On November 20, 2023, under the approved formula, the AUC issued an order approving 9.28% as the final return on equity for 2024 for Alberta utilities.

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.

The table below summarizes our mid-year rate base and CWIP:

(in millions of dollars)	**2023**	2022	2021
Mid-year rate base including minority interests	**$ 7,434.3**	$ 7,510.9	$ 7,551.9
Mid-year CWIP	**149.7**	138.0	133.2

For the year ended December 31, 2023, our capital program included approximately $169.4 million of capital replacement and upgrade projects and $32.8 million of information technology and corporate facilities projects. Partially offsetting these was an approximate $0.6 million reduction in expansion projects directly assigned to us by the AESO due to customer contributions and vendor refunds exceeding project expenditures.

Environmental, Social, and Governance

ESG Strategy

As a regulated transmission provider, ESG is integrated in our vision to be the best energy company in serving customers while delivering sustainable energy solutions. Our transmission system is critical infrastructure that connects businesses, industries, and 85% of Alberta's population to the electricity generated across the province. Our ESG strategies are embedded within our six core principles with objectives associated with each ESG element.

ESG Objectives	
	Environmental We are committed to deliver long-term sustainable solutions to our customers. We seek opportunities to avoid or minimize environmental impacts, to reclaim and restore where impacts are unavoidable, and maintain a responsible approach to resource consumption.
	Social Our commitment to the communities we serve includes the delivery of safe, reliable, and affordable transmission services; our community investment strategy; and meaningful consultation practices. We are dedicated to creating a diverse and inclusive workforce and make no compromises when it comes to providing a healthy and safe work environment.
	Governance We are fair and transparent in everything we do. We are committed to being ethical and have policies in place to ensure we operate at the highest standard for our customers.

Our core principles guide our business and support our commitment to sustainability. For more details regarding our six core principles, please refer to "Our Vision and Core Principles" section of this MD&A.

As an electric transmission company, we play an important role in enabling electric generating companies to transition to a low-carbon economy. We have made key investments in our infrastructure, and we continue to enable the connection of renewable energy generation around the province. AltaLink's ESG opportunities are driven by operational excellence strategies and the energy transition to enable the connection of renewable electricity generation as described in the "Major Capital Projects" section of this MD&A.

AltaLink's Board of Directors sets strategy and reviews management's response to EH&S issues and climate related risks, including compliance with applicable legislation, regulatory requirements, and industry standards.

AltaLink manages ESG risks following our Enterprise Risk Management Framework and program which was modelled after the ISO 31000 standard for risk management. A primary goal of our program is to provide uniform processes to identify, analyze, evaluate, report, and mitigate our key risks for the benefit of our customers and shareholders, including ESG risks. We analyze all risks using our risk severity scale which includes ESG impacts and not just financial impacts. Please refer to the "Risk Management" section of this MD&A for further information on our framework and processes and our ESG risks. AltaLink's ESG risks include environmental, health and safety, climate change, wildfires, transmission reliability, cyber and physical security, and electric and magnetic fields.

AltaLink's management have modelled our EH&S management system after the ISO 14001:2015 requirements, the international standard for environmental management systems and ISO 45001, the international standard for occupational health and safety management systems. We support the day-to-day management and enhance the effectiveness of our system through appropriate reporting, record keeping, training, and audit processes.

Sustainable Electricity Leader | Chef de file en matière d'électricité durable

Our commitment to sustainability is important to our overall business strategy and is part of our business planning, decision making, and governance. Every decision and every plan considers environmental, social, and governance impacts now and for the future. Since 2014, when we first received the Electricity Canada's Sustainable Electricity Leader designation, we have made a commitment to operate our business sustainably and affordably. In 2019, we became the first Canadian utility to be re-designated as a **Sustainable Electricity Leader ™**. We have continued to build on our practices to ensure sustainability is a driving force in our work every day.

Our mechanisms to integrate sustainability into our everyday business decision-making processes include:

- Incorporating an ESG focus when making business decisions through comprehensive business cases and ESG specific risk impact criteria;
- Recognizing that sustainability is not a separate initiative focused only on environmental initiatives – it is interconnected to every aspect of our business;
- Undertaking decisions in a manner that does not unnecessarily deplete and wherever possible enhances natural resources for future generations;
- Utilizing strategies that promote innovation and technology;
- Using longer time frames that extend beyond annual business planning to assist in addressing risk management issues; and
- Continually including comprehensive collaboration, especially among non-traditional partners as much as possible as this provides a critical opportunity for creative and effective solutions.

Our commitment to strong ESG performance has long been core to how we do business. Our current ESG programs and initiatives include:

- Environmental RESPECT policy
- Oil-filled equipment polychlorinated biphenyls (PCBs) and spill management
- Greenhouse gas reduction program
- Right-of-way management programs
- Recycling and waste management programs
- Avian protection program
- DE&I and hybrid work programs
- Community investment program
- Indigenous relations program
- Cyber and physical security management system
- Sustainable procurement initiative
- Wildfire mitigation and management program
- Integrated EH&S management system

We report information on our ESG programs, performance metrics and trends in an annual ESG Report. The Global Reporting Initiative Standards continue to inform the content of our annual ESG Report. Please refer to our 2022 ESG Report, which is available on www.altalink.ca in the Sustainability section.

Our Commitment to the Environment

We are committed to meeting or surpassing all environmental legislation and regulations and implementing good environmental management practices. The Board of Directors meets quarterly to review our environmental management system, including our response to environmental, health and safety issues, compliance with applicable legislation, regulatory requirements and industry standards.

All aspects of our transmission business are subject to one or more levels of environmental legislation and regulations. Although primarily regulated at the provincial level, jurisdiction over the environment is also shared by federal agencies and local managing authorities. Federal legislation is the primary regulating authority in situations involving federal lands (e.g. National Parks, First Nations' lands), navigable waters, trans-boundary environmental impacts (e.g. ozone depleting substances), issues of national concern (e.g. hazardous substances such as PCBs) and migratory birds. Provincial legislation applies to all aspects of the construction, operation, and maintenance of our transmission facilities (e.g. *Environmental Protection and Enhancement Act* (Alberta), *Water Act* (Alberta), *Wildlife Act* (Alberta), *Public Lands Act* (Alberta), *Historical Resources Act* (Alberta)). In 2023, we spent approximately $5.3 million (2022 – $3.9 million) to manage environmental aspects of our business, mainly for environmental assessments for new and upgraded transmission facilities.

Oil-filled equipment, PCBs and spill management system

The primary risk associated with oil-filled equipment, including PCBs, at our facilities is the potential for spills or releases of transformer insulating oil.

Our EH&S management system defines control procedures and is designed to identify risks along with proposed mitigation. Our standards, procedures, and management practices are comprehensive. Examples include:

- We have a Spill Prevention and Response Standard, a PCBs Handling Standard and Procedure, and we have provided related training to field personnel and contractors;
- We have installed secondary oil containment features at all new transformer locations, as required in our containment design standard;
- We monitor and analyze transformer oil for PCBs content; and
- We track and manage incidents through an incident management database.

Greenhouse gas reduction

In 2023, AltaLink committed to reaching net zero greenhouse gas emissions by 2050. Part of the greenhouse gas reduction program is currently focused on preventing releases from sulfur hexafluoride (SF6) gas filled equipment and improving our fleet vehicle fuel efficiency.

SF6 is a potent greenhouse gas that is used in electrical equipment. We track our top-ups to SF6 gas filled equipment and prioritize the repair of leaking equipment to minimize impacts to the environment. We have a SF6 Reporting Standard and Handling Procedure and have provided training to field personnel.

Using data gathered over previous years, we were able to work with vehicle operators to reduce overall consumption of fuel and reduce idle times. This allowed us to reduce our greenhouse gas emissions associated with operation of our fleet and reach internal fuel efficiency targets for the year.

Rights-of-way management

Trees coming into contact with transmission lines create both a safety risk and a fire hazard. We use an integrated approach to manage vegetation on rights-of-way, including annual patrols to monitor vegetation growth and assess maintenance requirements.

We maintain our accreditation from the Right-of-Way Stewardship Council for our sustainable integrated vegetation management practices and successfully completed a full site re-certification in 2022.

Recycling and waste management

We encourage the reduction, reuse and recycling of wastes through a number of recycling programs, including used transformer insulating oil, salvaged wood poles, paper, aluminum and copper wire, general scrap metal, and battery recycling. General waste and construction waste is delivered to municipal landfill sites through waste service companies.

We have developed a process to recycle large transformers, which typically are larger than a full-sized pick-up truck and which may contain trace amounts of PCBs. We ensure salvaged metals are clean of any trace amounts of PCBs prior to recycling. In 2023, we recycled nine large transformers (2022 – seven transformers).

Avian protection

Our Avian Protection Plan is designed to reduce the impact transmission facilities can have on birds. The plan includes set standards and processes for preventing collisions by installing bird markers that make power lines more visible to birds in flight, reducing bird collisions with our transmission facilities between 60% and 90%. In 2023, we had 42 incidents of bird collisions with our transmission facilities (2022 – 59 incidents).

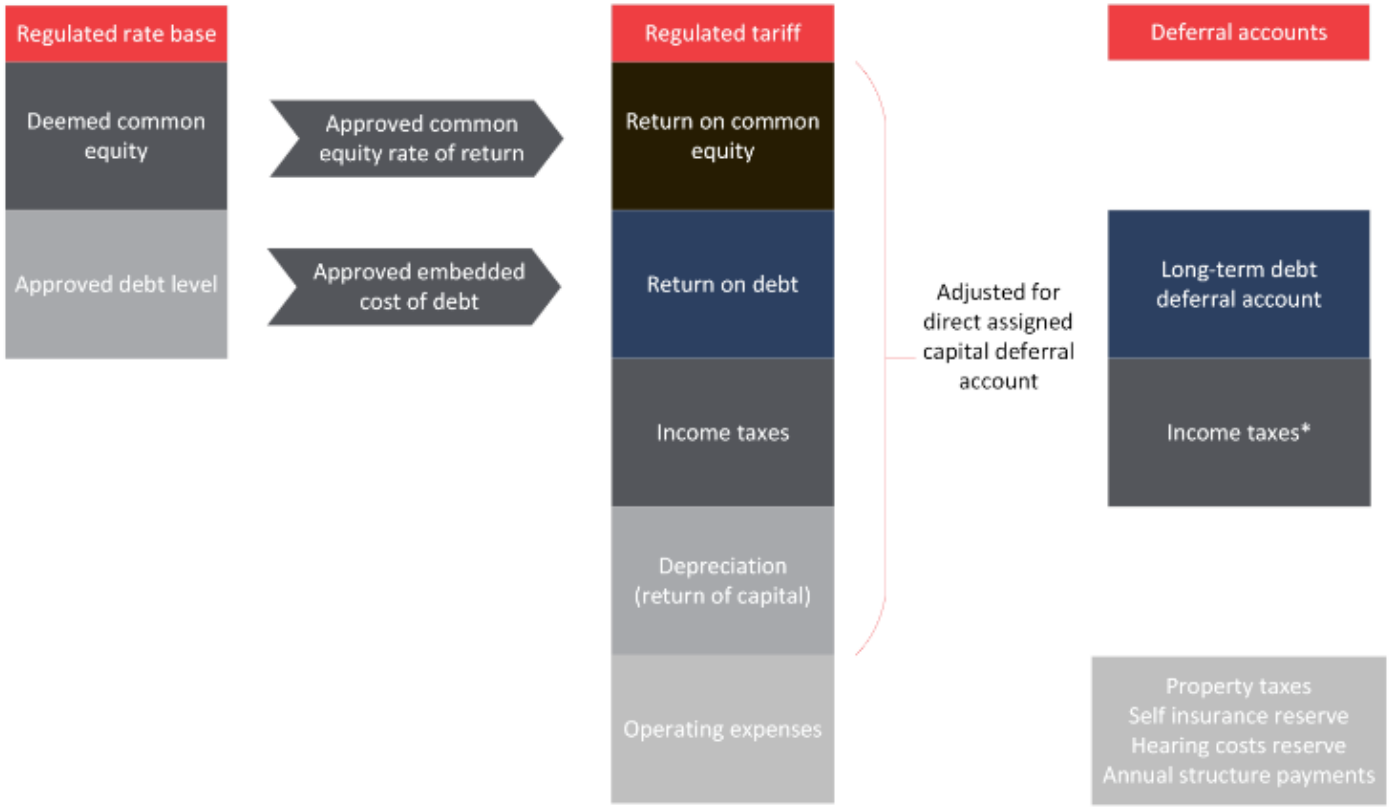
In 2021, through a collaboration with FulcrumAir Inc., we became the first utility in the world to use robotic technology to install bird diverters. The new tool, called LineFly, employs autonomous robotic technology that is carried by an unmanned aerial vehicle to safely and precisely install bird markers at any desired spacing. Working with FulcrumAir Inc., we helped develop a prototype for a robot that could mark an entire span of power line with bird diverters, saving time and reducing the cost associated with traditional installation techniques. Deploying this new robotic technology means that bird diverters can be installed in almost any type of weather condition, beyond line of sight and in areas that might otherwise be difficult to reach, such as wetlands or environmentally sensitive rights-of-way.

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. Under this model, the AUC provides us with a reasonable opportunity to (i) earn a fair return on equity; and (ii) recover our forecast costs, including operating expenses, depreciation, borrowing costs and taxes (including deemed income taxes) associated with our regulated transmission business. The AUC must approve tariffs that are just, reasonable, and not unduly preferential, arbitrary or unjustly discriminatory. Our transmission tariffs are not dependent on the price or volume of electricity transported through our transmission system. We receive our annual transmission tariffs from the AESO in equal monthly instalments, based on the revenue requirement approved by the AUC for the applicable year. We and the AESO settle amounts owing or due in respect of deferral and reserve accounts after the AUC issues its decision on these matters. Tariff adjustments arising from deferral and reserve accounts relate to services we have provided in past periods and their settlement is not contingent on providing future services.

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



* We will recover income taxes through regulated tariffs in future years when the taxes are deemed to be paid using the flow-through calculation method.

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 December 1, 2023, the AUC approved 2024 interim refundable transmission tariffs for AltaLink, including monthly tariffs for PLP and KLP, of $73.6 million per month effective January 1, 2024.

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 December 12, 2023, AltaLink advised the AUC that it reached a negotiated settlement with customer groups on the majority of its 2024-2025 GTA. On December 19, 2023, AltaLink filed the agreement with the AUC for approval. On February 12, 2024, the AUC issued Decision 28174-D01-2024 with respect to AltaLink's 2024-2025 GTA, approving the negotiated settlement agreement as filed. Under the agreement, AltaLink will reduce its applied-for operating expenses by $7.0 million and sustaining capital expenditures by $38.8 million for the 2024-2025 test period. The agreement does not include AltaLink's proposed wildfire deferral account, certain components of the wildfire mitigation plan, and actual and forecast salvage expenditures from the 2019-2023 GTA and the 2024-2025 GTA, respectively. AltaLink's total revised revenue requirements adjusted for the negotiated settlement are $891.4 million for 2024 and $903.7 million for 2025. Information responses and AltaLink's rebuttal evidence on the negotiated settlement and the items excluded from the negotiated settlement were provided on February 5, 2024, and February 23, 2024, respectively. AltaLink will be adjusting its 2024 revenue requirement and the 8.50% return on equity included in its application filed on December 19, 2023, to the 9.28% return on equity approved by the AUC in the 2024 GCOC proceeding. An oral hearing to address the excluded matters is scheduled for March 11, 2024, to March 13, 2024.

On December 20, 2023, AltaLink filed an application with the AUC to recover all costs incurred as a result of the May and June 2023 wildfire and storm events. AltaLink requested AUC approval of $18.5 million of capital expenditures relating to the repair and replacement of damaged or destroyed transmission facilities, and $6.2 million of salvage expenditures relating to the removal of damaged or destroyed transmission facilities. AltaLink also requested AUC approval to include the capital expenditures in its 2024 opening rate base and the salvage expenditures in its net salvage reserve account effective December 31, 2023.

On August 31, 2023, AltaLink filed an amendment to its 2024-2025 GTA with additional measures to address the increase in wildfire risk. The amendment introduced: a dynamic wildfire model; a change (shortened duration) to maintenance timing; a new program to address the top ignition-causing lines; and a request for a wildfire deferral account for future catastrophic wildfire damages. These elements of the wildfire mitigation plan will enable safe operation of the power grid for the public and communities. The amendment increased AltaLink's Wildfire Mitigation Plan capital expenditures from $16.0 million to $38.5 million in 2024 and from $14.6 million to $38.4 million in 2025. AltaLink's total amended revenue requirements for 2024 and 2025 are $895.3 million and $911.9 million, respectively.

On July 5, 2023, AltaLink requested the AUC to suspend the schedule for its 2024-2025 GTA until August 31, 2023. AltaLink required the schedule delay to amend its application. The amendment is in response to the unprecedented wildfire events that AltaLink experienced in the areas of Edson, Drayton Valley, and Brazeau in May and June 2023. On July 11, 2023, the AUC allowed AltaLink to refile its application and directed AltaLink to limit its application updates to its Wildfire Mitigation Plan and related wildfire references.

On April 28, 2023, AltaLink filed its 2024-2025 GTA with the AUC. Our revenue requirements are $894.1 million and $908.6 million for 2024 and 2025, respectively.

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 filed for on April 28, 2023, amended on August 31, 2023, and revised on December 19, 2023, as a result of the negotiated settlement agreement.

(in millions of dollars)	2025 Applied for	2024 Applied for
Return on equity	$ 234.0	$ 234.2
Return on debt	195.9	194.2
Operating costs	179.4	176.9
Depreciation and amortization	302.3	289.7
Miscellaneous revenue offset	(7.5)	(7.5)
Revenue requirement – ALP	**904.2**	**887.5**
Other adjustments	—	8.2

Transmission tariffs as amended August 31, 2023 – ALP	**904.2**	**895.7**
Forecast operating expense reductions	(4.5)	(2.5)
Forecast tariff reductions resulting from capital expenditure reductions	(3.7)	(1.3)
Transmission tariffs as filed December 19, 2023 – ALP	**896.0**	**891.9**
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 December 19, 2023	**$ 903.7**	**$ 899.6**

* Tariffs are subject to changes based on the final approval of the GTA, including impacts of the 2024 GCOC decision
** 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	**$ 364.6**	**$ 364.9**

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, except for forecast capital expenditures that are wholly the pipeline owner's responsibility. 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 outweighed the short-term benefits, and the refund would not be fair to future customers. The AUC also found that economic indicators, except for inflation, showed an improving Alberta economy. The AUC did not agree that the 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. 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 GTA Compliance Filing, AltaLink filed a review and variance application with the AUC. The application requested the AUC 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 that the Wildfire Mitigation plan program expenditures were approved in AltaLink's 2019-2021 GTA and were previously shown as 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 the $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. Additionally, 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, as part of the tariff process, AltaLink engaged in a new AUC mediated settlement process with various customer groups. Unfortunately, no settlement was reached in the mediation process; 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. A virtual hearing in October 2021 served for the completion of oral argument and reply argument.

On April 30, 2021, AltaLink filed its 2022-2023 GTA delivering the last two years commitment to keep rates flat for customers, maintaining them 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 maintaining the use of the flow-through income tax method with an overall year over year revenue requirement increase of approximately 2% in 2022 and 2023. Additionally, similar to the AUC-approved $80.0 million refund of the previously collected accumulated depreciation surplus 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 for a one-time payment of $0.8 million to customers because 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

On November 20, 2023, under the approved formula, the AUC issued an order approving 9.28% as the final return on equity for 2024 for Alberta utilities. On October 9, 2023, the AUC issued its decision on the GCOC for 2024 and beyond for Alberta's regulated electric and gas utilities, approving a set equity ratio and a formula to determine return on equity. The AUC set the deemed equity ratio of 37% and set a notional return on equity of 9.00%, which is subject to formulaic adjustments using 30-year Government of Canada bond yields and Canadian utility spreads.

	Approved 2024	Approved 2023	Approved 2022
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	**9.28%**	**8.50%**	**8.50%**

On June 26, 2023, AltaLink and other stakeholders filed written argument following an oral hearing from May 29, 2023, to June 2, 2023. AltaLink and other utilities reiterated that (i) financial and business risks have increased since the 2018 GCOC proceeding and this should compel the AUC to increase the allowed return on equity and deemed equity ratio from its current level; (ii) the current post-pandemic economic environment, with quantitative tightening and inflation, coupled with fiscal stimulus, does not support the adoption of a formula; and (iii) a formula that reduces the cost of capital calculation to a few basic variables is unlikely to reliably achieve a fair return over time that allows the utilities to attract capital, especially in the present rapidly evolving market conditions. Intervenors argued the opposite, that utilities' business risk has declined since the 2018 GCOC proceeding and that conditions are more favourable now for the implementation of a formulaic return.

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 intervenors recommended a return on equity ranging from 6.75% to 7.7% and an equity ratio ranging 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. The interveners were generally in favour of a formula.

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. 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 with the goal of reaching 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 the lingering uncertainty and continued volatility of financial markets due to the COVID-19 pandemic.

On January 3, 2022, the AUC initiated the 2023 GCOC proceeding, which 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 as well as save customers and utilities time and resources associated with having fully litigated proceedings every one to three years.

2021-2022 Deferral Accounts Reconciliation

On February 12, 2024, the AUC issued Decision 28174-D01-2024 with respect to AltaLink's 2024-2025 GTA. The AUC approved the negotiated settlement agreement as filed. This includes approval of AltaLink's 2021-2022 deferral accounts reconciliation, which was filed along with its 2024-2025 GTA.

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

The Alberta Court of Appeal heard the appeal February 8, 2023, and issued its decision on November 14, 2023. In its decision, the Court overturned the AUC's decisions regarding the legality of the current customer contribution regime and the AUC's ability to deny a utility its return on investment. In its decision, the allocation issue (between transmission facility owners and distribution facility owners, who is entitled to the investment) as well as the fair return issue (no one is allowed to earn a return on the investment) were returned to the AUC for rehearing and reconsideration on the basis that the AUC did not provide adequate notice that it was considering disallowing any utility from earning a fair return on the investment. The Court remitted the fair return issue and the allocation issue back to the AUC so that the appellants are provided an opportunity to present their case fully and fairly. The Court offered guidance on what the AUC may wish to consider and made several statements that are supportive of AltaLink's position, including: (i) the Court noted that a distribution facility owner may provide the initial contribution and the transmission facility owner can then rebate the contribution; (ii) the option of a transmission facility owner repaying the distribution facility owner to assume total ownership may be a viable alternative.

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

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 Alberta Court of Appeal moved the hearing 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 24932-D01-2020 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 of December 31, 2017, of approximately $375 million to AltaLink, and that AltaLink's proposed new contribution policy 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 review and variance proceeding record and in January 2020, it issued specific information requests for clarification on the previously filed evidence to both FortisAlberta and AltaLink. 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 as it relates 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 rejecting 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.

Our Transmission Facilities

The AIES is a network or grid of transmission facilities operating at high voltages ranging from 69 to 500 kilovolts. The grid delivers electricity from generating units across the province representing 20,777 megawatts of available generation capacity through approximately 26,000 kilometres of transmission lines and over 600 substations. The AIES is interconnected to British Columbia's transmission system through a 500 kilovolt circuit and two 138 kilovolt circuits that we own and operate. The AIES is also interconnected to Saskatchewan's transmission system via a 150 megawatt direct current converter station and to Montana's transmission system via a 230 kilovolt transmission line.

Our transmission facilities are an integral part of the AIES, as our service area covers 226,000 square kilometres and we service approximately 85% of Alberta's population. We own approximately 13,400 kilometres of transmission lines and 311 substations which we manage and operate through our control centre and telecommunications network. Our transmission system includes a 342 kilometre high voltage direct current transmission link, to facilitate power transfer, grid resiliency and reduce power system losses for the benefit of customers. Our transmission lines are comprised of wood or metal support structures, conductors, foundations, insulators, connecting hardware and grounding systems. Our substations are comprised of high-voltage power transformers, power circuit breakers, switches, capacitor and reactor banks, protection and control systems, metering and monitoring systems, buildings and security systems. Our substations integrate the transmission lines into a network and transform the voltage of electricity to meet the requirements of generators and customers. We generally accept electricity into our system at our generator interconnection substations and deliver power to distribution facility owners and wholesale customers at our customer supply substations. Where the transmission system connects to a distribution network, transmission substations step down the voltage to distribution level voltages. The high voltage direct current transmission link includes solid state power electronic equipment (valves), converter transformer, cooling systems and control systems utilized in the direct current conversion process.

Our real-time control centre and telecommunications system enable us to continuously monitor, control and manage our transmission facilities and coordinate with the AESO and other transmission facility owners. Our telecommunications system includes microwave radio, fibre optic cable, power line carrier and mobile radio systems. To further support the maintenance and operation of our transmission facilities, we own and operate office and service buildings, transport and work equipment, and information technology assets.

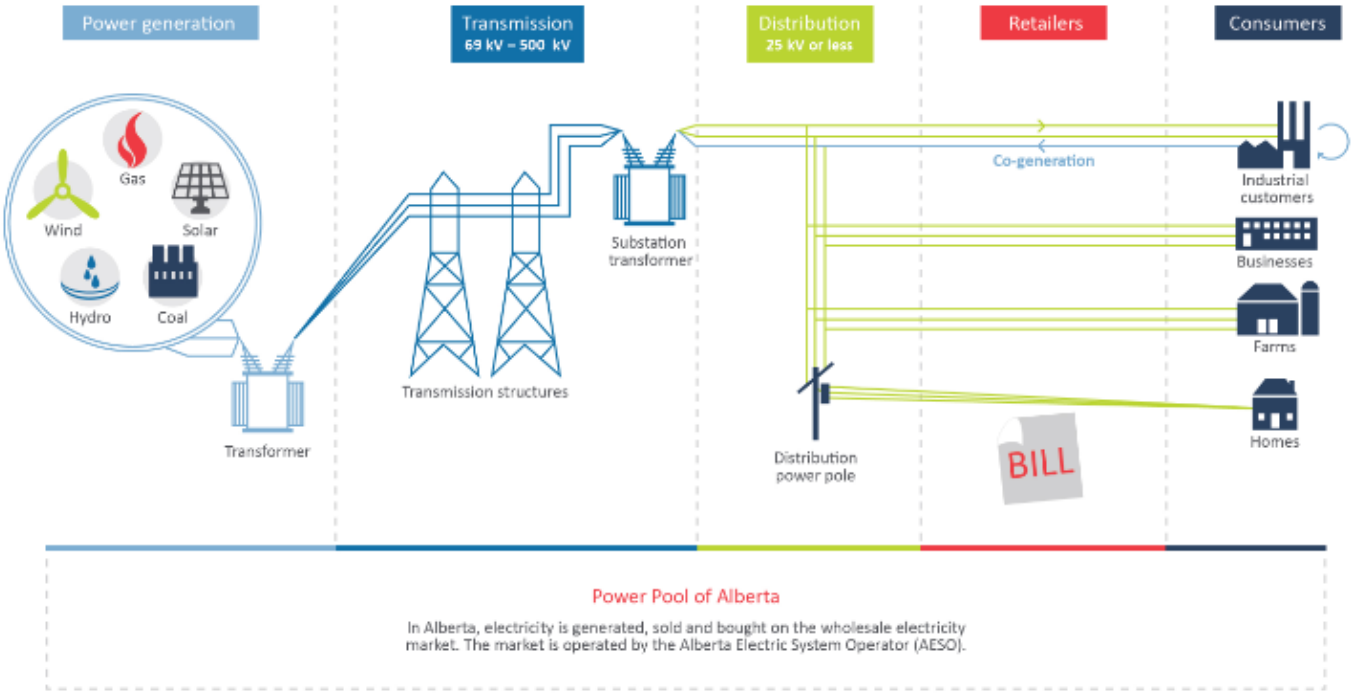
Most of our transmission facilities are situated on lands owned by private landowners, railway companies, industrial customers, and federal and provincial governments, for which we have obtained appropriate land use rights through utility right-of-way agreements, crossing agreements, land easements, permits, licences and other agreements. We also own land, office and storage space used in connection with our operations. In addition, we lease office space and rent storage space on customary terms and at market rates.

Overview of Electricity Industry in Alberta

The electricity industry in Alberta consists of four principal segments:

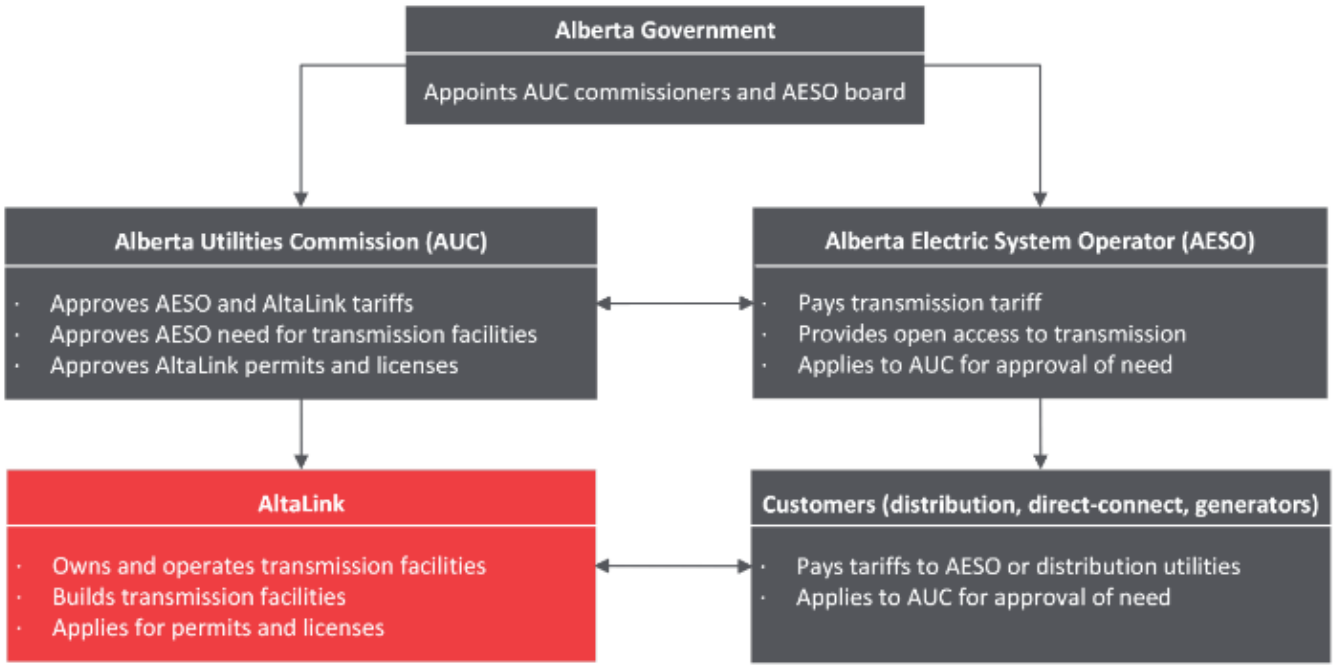
- **Generation** is the production of electric power. Generators sell wholesale power into the Power Pool (wholesale electricity market) operated by the AESO or through direct contractual arrangements. Most of the power produced in Alberta is generated using natural gas or wind as the fuel source, with coal, solar, and hydro power adding the majority of the remaining supply.
- **Transmission** is the conveyance of electricity at high voltages. Alberta's transmission system or grid is operated by transmission facility owners, which are regulated by the AUC, and is composed of high voltage power lines and related facilities which transmit electricity from generating facilities to distribution networks and directly connected end-users.
- **Distribution** is the conveyance of electricity at lower voltages. Distribution facility owners are regulated by the AUC and are responsible for arranging for, or providing, regulated rate and regulated default supply services to convey electricity from transmission systems and distribution-connected generators to end-use customers. Distribution facility owners are responsible for (i) providing non-discriminatory distribution access and arranging for transmission access for end-use electricity customers, and (ii) constructing and upgrading electricity distribution systems to deliver electricity safely, reliably and efficiently.
- **Retail** is the offering for sale or selling of electricity to end-use customers. In Alberta, retailers can procure energy through the Power Pool, through direct contractual arrangements with energy suppliers or ownership of generation facilities and arrange for its distribution to end-use customers. Retailers often bundle the sale of electricity with other services and products. Retailers include "self-retailers" who perform the retailing function on their own behalf. Self-retailers interact with other participants in the Alberta electricity industry, such as distribution utilities, in the same manner as other retailers.

In Alberta's electricity marketplace, market participants interact in several ways. The following diagram represents an overview of this interaction:



We and other transmission facility owners in Alberta are regulated by the AUC as utilities, primarily under the *Electric Utilities Act* (Alberta) and the *Public Utilities Act* (Alberta). Under the *Electric Utilities Act* (Alberta), we must operate and maintain our transmission facilities in a manner that is consistent with the safe, reliable and economic operation of the transmission system; assist the AESO in carrying out its duties, responsibilities and functions; and provide the AESO with use of our transmission facilities to carry out its duties, responsibilities and functions.

The following diagram outlines our relationships with the AUC, the AESO and other participants in the electricity industry:



Alberta Utilities Commission

The AUC is an independent quasi-judicial agency established by the Alberta Government to regulate and oversee Alberta's electricity industry. The AUC is responsible for ensuring that electrical utility services are delivered fairly, responsibly and in the public interest. In doing so, its duties include:

- **Adjudication and Regulation** - The AUC regulates and adjudicates issues related to the operation of electric utilities within Alberta;
- **General Tariff and other applications** - The AUC processes and approves general tariff applications relating to revenue requirements, capital expenditure prudency, and sets rates of return for regulated utilities. The AUC also processes deferral account applications, which include the review of prudency for all costs related to direct assigned capital projects. In determining tariffs, the AUC ensures utility rates are just and reasonable;
- **Facilities Applications** - The AUC approves new electricity transmission facilities and issues permits to build and licences to operate electricity transmission facilities;
- **Enforcement** - The AUC reviews operations and accounts of electric utilities, and conducts on-site inspections to ensure compliance with industry regulations and standards. The AUC adjudicates enforcement issues and may impose administrative penalties when market participants contravene or fail to comply with: (i) any provision of the *Alberta Utilities Commission Act* (Alberta), SA 2007, c A-37.2 or any other enactment under the AUC's jurisdiction, including the *Electric Utilities Act* (Alberta), SA 2003, c E-5.1 and *Hydro and Electric Energy Act* (Alberta), RSA 2000, c H-16 and any regulations made thereunder; (ii) any AUC decision, order or rule; or (iii) AESO rules or reliability standards; and
- **Information and Knowledge** - The AUC collects, stores, analyzes, appraises, and disseminates information to fulfil its duties.

Alberta Electric System Operator

The Alberta Electric System Operator is an independent system operator that oversees the AIES and its wholesale electricity market (the Power Pool). The AESO is responsible for directing the safe, reliable and economic operation of the AIES, including long-term transmission system planning.

The system operators at the AESO's control centre monitor and operate the AIES to keep the power grid physically stable and balanced by: (i) dispatching electric power generation in Alberta; (ii) scheduling electricity flow within interconnected power grids; and (iii) coordinating real-time operations with transmission facility owners. The physical operation of our transmission facilities can only be performed through our control centre. By law, we must comply with directions from the AESO's control centre unless we consider that there is a real and substantial risk of damage to our transmission facilities or risk to the safety of our employees, the public, or the environment. The AESO also contracts with generation and distribution companies and large industrial consumers of electricity to provide system access services to the AIES.

As operator of the Power Pool, the AESO receives electricity supply offers and demand bids, sets the schedule for dispatching generating plants, reports the Power Pool price for each hour, carries out financial settlement for the electricity exchanged through the Power Pool, and schedules generating plants to provide system support services, such as operating reserve. All electricity entering or leaving the AIES, including electricity imported into and exported from Alberta, is exchanged through the Power Pool. The AESO recovers the cost of market operations through a charge on all megawatt hours traded therein.

We and other transmission facility owners receive all our transmission tariff revenues from the AESO. The AESO, in turn, charges wholesale tariffs, approved by the AUC, in a manner that promotes fair and open access to the AIES and facilitates a competitive market for the purchase and sale of electricity. The AESO aggregates tariffs paid to all transmission facility owners, costs associated with transmission losses, system support services and other operating costs.

The AESO tariff must ensure that the just and reasonable costs of the transmission system are charged to distribution companies; customers who are industrial systems; customers who have an interval meter, receive electricity directly from the transmission system and have arranged for system access service; and exporters. Except as otherwise provided by the Transmission Regulation, line losses caused by the transmission of electricity are location-based and assessed against suppliers. The AESO's wholesale tariffs are based on the following principles:

- **Customer Rates** - All end-users (or load customers) are charged the same "postage stamp" tariff for transmission service, regardless of where they are located in Alberta.
- **Supplier Rates** - All suppliers are charged the same "postage stamp" tariff for transmission service in addition to an adjustment for losses which are location specific.
- **Import/Export Rates** - All importers or exporters are charged the same "postage stamp" tariff for transmission service in addition to an adjustment for losses which are location specific.

Alberta Reliability Standards

The AESO continues to introduce mandatory Alberta Reliability Standards for planning and operating the AIES and its interties to other jurisdictions. Alberta Reliability Standards are the planning and operating rules that electric utilities follow to ensure reliable systems.

In Alberta, the AESO recommends reliability standards for approval by the AUC. The AESO monitors compliance with approved reliability standards, which are binding and enforced by the Market Surveillance Administrator. The Market Surveillance Administrator may impose penalties on transmission facility owners, including us, for non-compliance with approved Alberta Reliability Standards.

Alberta Reliability Standards include Critical Infrastructure Protection Standards. In November 2023, AltaLink commenced its triannual AESO audit of Alberta Reliability Standards. The audit will be completed in April 2024.

We continue to work with the AESO and the Market Surveillance Administrator on the implementation of ongoing improvements and new standards.

Transmission Planning and Development

The AESO directs us and other transmission facility owners to upgrade and expand the transmission system consistent with:

- The Transmission Regulation, which among other things, requires the expansion and enhancement of the AIES to enable the transmission of all anticipated in-merit electricity under normal conditions;
- The Electric Statutes Amendment Act, 2009, as amended; and
- The AESO's Long-term Transmission Plans.

The AESO's responsibilities include long-term transmission planning and management, including assessing the current and future needs of market participants, and planning the capability of the transmission system to meet those needs. Except for critical transmission infrastructure, designated under the Electric Statutes Amendment Act, 2009, and the *Electric Utilities Act* (Alberta), 2003, the AESO determines whether an expansion or enhancement of the transmission system is required. If so, the AESO must file a need application with the AUC for approval. A need application is not required for maintenance upgrades, enhancements or other modifications to existing transmission facilities if it improves efficiency or operation of the transmission facility, but does not materially affect capacity.

The AESO directs us to prepare and submit facility applications to the AUC for permits to construct and licences to operate the transmission facilities to meet the identified need. In some cases, the AESO and AltaLink may jointly file need applications and facility applications. Except for critical transmission infrastructure, the AESO generally determines whether we are eligible to prepare and submit facility applications based on the geographic area in which we operate. In addition, the Lieutenant Governor in Council may make regulations respecting the determination of who may apply for construction or operation of transmission facilities, including determining who may apply based on a competitive process. Under the Transmission Regulation, the AESO has established rules or practices respecting competitive tenders, the preparation of cost estimates, project scope documents and schedule documents for projects.

In 2014, the Government of Alberta amended the Transmission Regulation and enacted a new regulation - the Transmission Deficiency Regulation. The Transmission Regulation amendments are technical amendments concerning changes in timing and authority for certain components of the transmission facility approval process, including the legislative requirement for a Needs Identification Document.

The Transmission Deficiency Regulation implemented the province's Market Participant Choice and Approved Cost Estimate initiatives. These initiatives were later added into the AUC and AESO's processes and procedures. Market Participant Choice allows a Market Participant to construct their own interconnection to the grid in certain circumstances. After an agreed upon period of time, the Market Participant must transfer ownership of the interconnection to the transmission facility owner in whose service territory it is located. The Market Participant remains responsible for any costs incurred by the transmission facility owner because of actions taken by the user during design or construction of the interconnection facility.

The Approved Cost Estimate provisions require a transmission facility owner to submit a cost estimate for designated projects to the AUC for approval after obtaining a permit to construct. The AUC may make rules for the Approved Cost Estimate process and may approve an amount higher or lower than the estimate submitted by the transmission facility owner. Actual project costs must be considered prudent if the costs are equal to or less than the Approved Cost Estimate. Since the implementation of the Approved Cost Estimate provision into Regulation, the AUC has not required AltaLink or other transmission facility operators to utilize the process.

Cost Estimates

Prior to filing a facility application with the AUC, we provide the AESO with a service proposal that includes our initial cost estimate for the project, which reflects our proposed route, preliminary design and other information available to us at the time.

After the AESO accepts our service proposal, we include the initial cost estimate as part of our facility application with the AUC. The AUC's process to review and approve facility applications may take up to two years or more from the date of filing, depending on the complexity of the project and other factors. On all system projects, six months after the AUC issues a permit and licence pursuant to an approved facility application, we are required to provide the AESO with a post permit and licence estimate. The timing of the updated cost estimate may be as long as three years after our service proposal and may vary materially from the initial cost estimate. The updated cost estimate reflects a significant amount of additional information that typically includes the AUC's approved route, contracted construction labour and material pricing, geotechnical information, scope changes from detailed design, and any other material information that may impact the final project cost.

Once the project is completed, we include the final costs in our DACDA application to the AUC where we seek approval to include our final and prudently incurred costs of the project into our rate base.

Electricity Policy Review

Deregulation and restructuring of parts of Alberta's electricity industry began in 1996 and continues to evolve. We are subject to changing political conditions and changes in provincial regulations and permitting requirements.

On October 23, 2023, the Ministry of Affordability and Utilities of Alberta distributed a discussion green paper titled *Transmission Policy Review: Delivering the Electricity of Tomorrow* which aims to build off previous stakeholder feedback and engagement processes and take the next steps toward determining the appropriate transmission policies for Alberta's success over the coming years. Key foundational principles include maintaining regulated transmission as a monopoly service with planning conducted by the AESO, and maximizing the efficiency of the current transmission system by optimizing the use of current infrastructure and ensuring that new infrastructure is only built when necessary, and when new transmission expansion does occur, its efficient use is maximized. The scope of the consultation includes analysis of the effectiveness of locational signals for generation siting on Alberta's transmission system, the line loss calculation, non-wires solutions, the zero-congestion policy, cost allocation for transmission wires and ancillary services, and intertie development. AltaLink provided written feedback to inform a government report to the Minister of Affordability and Utilities on November 30, 2023.

On November 30, 2023, the AESO hosted its second Stakeholder Symposium including a Market Pathways Industry update including feedback obtained from the Market Pathways industry executive working group established in October 2023 to inform its recommendation report to the Minister of Affordability and Utilities. AltaLink participated in this industry engagement. The report, submitted to the Minister of Affordability and Utilities February 1, 2024, intended to help inform government of the potential market mechanisms that can support a reliable supply mix in an affordable and durable way. The AESO will provide their recommendation on market incentives, design and the role of new dispatchable technologies. Key feedback from the executive working group included:

- General agreement on the case for change, and that a long-term discussion on the structure of the market is required;
- Agreement that some change is required to the current market structure to deliver short-term reliability and the extent of the change required is driven by current policy uncertainty;
- Recognition that policies, including the Transmission Regulation, retail treatment and the market structure interact, and must work together to achieve the desired objectives; and
- Implementation of enhancement to the current energy-only market structure could be achieved within a 2–3-year window and significant change from the current structure would require multiple year implementation.

The Canadian Federal Government published its draft Clean Electricity Regulations (CER) in the Canada Gazette, Part 1 on August 19, 2023. This commenced a formal 75-day public comment period, which closed November 2, 2023. The proposed regulations introduce a prohibition against electricity generation units emitting more than an annual average of 30 tonnes of carbon emissions per gigawatt hour of electricity generated over a calendar year. No new unabated natural gas-fired generation would be permitted after 2025, and existing facilities would be phased out subject to identified flexibility provisions. The proposed regulations would apply to all units with a capacity of 25 megawatts or greater that generate electricity using fossil fuels, and that are connected to an electricity system that is subject to North American Electric Reliability Corporation reliability standards. The regulatory design of the CER will drive progress toward a net zero electricity grid by 2035 by moving to low and non-carbon emitting electricity sources. AltaLink participated in this engagement and filed a submission on November 2, 2023. The release of the final regulations is expected in 2024.

On November 30, 2023, the AESO released a submission on the federal government's draft CER, including Alberta's unique challenges related to decarbonization, reliability, and affordability considerations. The key messages include:

- Alberta is already experiencing reliability challenges (frequency, system strength and flexibility) due in part to the pace and magnitude of intermittent renewables penetration onto the grid.
- Reliability via resource adequacy is not a simplistic assessment, it must be carefully calibrated to reflect the realities and uncertainties of supply and demand.
- With increased intermittent supply in the system, having adequate resources able to produce sufficient energy to meet demand in all hours is complex and necessitates robust analysis.
- Post-2034, AESO's modelling indicates the CER leads to an unreliable system based on resource adequacy analysis that outlines adverse impacts due to restrictions in cogeneration operations, stringent emissions requirements for unproven abated technologies, anticipated plant-life and operations post the end of plant life.
- The application of the draft CER in Alberta creates significant reliability, cost and technology risk to achieve limited emissions reductions and does not support the objective of an electricity system further supporting the decarbonization of the economy as a whole.
- Large-scale dispatchable generation investment is at risk due to investor uncertainty created by the draft CER and impracticable 2025 deadline for the deployment of new unabated natural gas-fired resources.

On August 3, 2023, the Government of Alberta announced a pause on approvals for new renewable energy projects to provide time for a review of policies and procedures for developing renewable electricity generation until February 29, 2024. The AUC will review land use, selection and reclamation procedures for renewable projects to help inform government policy decisions around the ongoing development of electricity generation in Alberta. While the pause on approvals is in place, the AUC announced it would continue to process applications up to the approval stage while the moratorium is in effect. The AUC continued to hold all approval permits until February 29, 2024. AltaLink and its customers continue to move forward with facility applications to connect already approved renewable energy projects to Alberta's grid.

On July 19, 2023, the Government of Alberta released the Mandate Letter for the Minister of Affordability and Utilities which included:

- Pushing back against any federal regulation requiring a net-zero power grid by 2035, and instead developing and implementing a comprehensive plan to achieve a carbon-neutral power grid by 2050 that is reliable, affordable, and uses small modular reactors, carbon capture, use and storage, and other emission-reduction technologies;
- Reviewing the operations, policies, and mission of the ministries agencies including the AUC and the AESO, and recommending ways to improve their operations and align its mission with the government's goal of a carbon-neutral power grid by 2050; and
- Reviewing Alberta's electricity pricing system with the goal of reducing transmission and distribution costs for Albertans.

On April 19, 2023, the Government of Alberta released its Emissions Reduction and Energy Development Plan which includes as aspiration to achieve a carbon neutral economy by 2050, and to do so in an affordable and reliable way that ensures energy security. In the electricity sector, the plan commits to the following:

- Continuing work with consumers, industry, and regulators to support new technologies including energy storage;
- Exploring diversification of low-emitting technologies in Alberta, including carbon capture, use and storage, hydrogen, and small modular nuclear reactors to provide a more robust electricity grid moving forward;
- Considering energy management supports to continue driving energy efficiency and emissions reduction projects in industrial and commercial facilities;
- Advocating for federal financial support to maintain affordable electricity while moving to low-emitting generation sources; and
- Reviewing Alberta's distribution and transmission policies to ensure ongoing reliability, affordability, and coordinated efforts to increase efficiency.

Major Capital Projects

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

On November 15, 2023, the AESO issued a preliminary update on the 2024 Long-term Outlook. The AESO is re-evaluating scenarios to include decarbonization by 2050, as well as decarbonization by 2035. AltaLink and other stakeholders provided feedback to the AESO which was published on the AESO's website on December 8, 2023. The 2024 Long-term Outlook is expected in the second quarter of 2024. The next Long-Term Transmission Plan is also expected to be completed in the first quarter of 2025.

On September 1, 2023, the AESO initiated its cluster study interconnection process for generators and energy storage projects. As of October 1, 2023, the AESO has reported approximately 40,000 megawatts of generation in the queue related to approximately 140 projects that will be part of the first cluster. The first set of cluster studies is anticipated to be completed in the third quarter of 2024.

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 in which 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.

The AESO selected these scenarios as it assessed them to be the most likely to be implementable by 2035 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 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 likely extend beyond the 2035 target timeframe.

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

- Meeting the less-than-13-year timeline to 2035 is ambitious given 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 can deliver sufficient supply to meet demand during the net-zero transformation;
- Achieving a net-zero electricity system by 2035 will require the application of offsets; and
- Demand growth under a net-zero transition, even considering increased electrification, will likely be lower than historically observed rates, which the Alberta market accommodated.

The additional $44 billion to $52 billion in forecast investments from 2022 to 2041 represents a 30% to 36% increase mainly pertaining to 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 Transmission 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 Net-Zero Emissions Pathway Report forecast demonstrates that the AESO expects load 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, increasing 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, ensuring 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 of 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, while planning the development of new transmission; altogether it ensures 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 its planned execution contains two stages. The first stage will consist of a new 240 kilovolt transmission line approximately 135 kilometres long. AltaLink will construct 50 kilometres of the line and ATCO Electric Ltd. (ATCO Electric) will construct the other 85 kilometres. The second stage will add a second 240 kilovolt transmission circuit depending on the amount of incremental generation in the province's central east and southeast areas. The project received permit and licence 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. Both AltaLink and ATCO Electric updated the estimated cost to reflect current market conditions. On October 5, 2023, the AESO formally approved the revised total cost estimated at $489 million, with AltaLink's share of project costs estimated at $223 million. The previous total cost estimate was $310 million, with AltaLink's share of project costs estimated at $159 million.

AltaLink and ATCO Electric are currently completing detailed design and engineering, material procurement and land acquisition activities for the project. Currently, AltaLink is forecasting an in-service date in the second quarter of 2026 aligning with the AESO's 2022 Long-Term Transmission Plan.

Vauxhall Area Transmission Development

To enable clean energy generation integration and manage congestion in the Taber area, 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. The AESO and AltaLink filed a joint NID and facility application on December 9, 2022. The AUC oral regulatory hearing for the project was held in June 2023. The project received permit and licence on September 19, 2023. The anticipated in-service date is early 2025. The current estimated cost of the project is $20 million.

Southeast Development and Southwest 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. The current AESO cost estimate for the new transmission lines is $450 million, with a forecasted in-service date of 2028-2029.

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, and permit and licence was received June 6, 2023. The Bowmanton 244S Substation Voltage Support project is estimated at $9 million with an in-service date in the fourth quarter of 2024.

In addition, the AESO indicated that a Southwest Development project adjacent to the Southeast Development would be required. This Southwest Development project would continue to enable generation in the south part of the province and direct power flows to the load center of Calgary. The AESO indicated that the timing of the Southwest Development would be similar to that of the Southeast Development. AltaLink is currently assisting the AESO in reviewing connection options.

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 licence 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 awaits next steps from the AESO.

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

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 1,000 megawatts. The current forecast cost for this project is $100 million. On June 27, 2023, at its Stakeholder Symposium, the AESO reiterated that the interties provide a range of benefits including improved grid resiliency, reliability and electricity market economic opportunities, and that the AESO's restoration of the Alberta-British Columbia Intertie is a priority.

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 to 1,200 megawatts. This development consists of a new 240 kilovolt transmission line approximately 40 kilometres long between the Pincher Creek area and a new 500 kilovolt Chapel Rock substation. The current total estimated capital additions are $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 connecting to the transmission system in the Southwest part of the province. The AESO plans to file the NID approximately four years before the 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 an alternative to, or more meaningful than, "cash provided by operating activities". We believe that FFO is a useful supplemental measure in analyzing 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 the MD&A denote comprehensive income before losses on the disposal of assets.

These non-GAAP financial measures do not have standardized meanings and are therefore 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 $50.0 million) in our statement of financial position during the year ended December 31, 2023:

(in millions of dollars)	Increase/(Decrease)	Explanation
Trade and other receivables [note 6]	73.8	The increase is primarily due to the timing of AESO tariff payments. As of December 31, 2023, we had two months of tariffs in our receivables, compared to one as of December 31, 2022.
Other non-current assets [note 11]	79.9	The increase is primarily due to $71.2 million of receivables for the recovery of deemed future income taxes.
Long-term debt maturing in less than one year [note 13]	(150.0)	The decrease is because we repaid $(500.0) million Medium-Term Notes in November 2023 and we reclassified $350.0 million Medium-Term Notes maturing June 2024 from non-current.
Long-term debt [note 13]	148.0	The increase is primarily because we issued $500.0 million of Senior Secured Notes to repay $500.0 million Medium-Term Notes due in November 2023 and we reclassified $(350.0) million Medium-Term Notes maturing June 2024 to current.
AltaLink, L.P. equity	72.5	The increase is primarily because we generated comprehensive income of $297.8 million and distributed $(225.4) million to AILP and AML.

Cash Flows

(in millions of dollars)	Quarter ended December 31, 2023	Quarter ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Cash, beginning of period	**$ 1.6**	$ 8.0	**$ 0.1**	$ 6.6
Cash flow provided by (used in):				
Operating activities	**50.2**	144.9	**431.6**	460.4
Investing activities	**(48.0)**	(56.5)	**(198.5)**	(203.0)
Financing activities	**3.0**	(96.3)	**(226.4)**	(263.9)
Cash, end of period	**$ 6.8**	$ 0.1	**$ 6.8**	$ 0.1

Operating activities

For the quarter ended December 31, 2023, our cash flow from operating activities decreased by $94.7 million, compared to the same period in 2022. The change is primarily due to having one additional month of tariff outstanding from the AESO for $73.6 million which was collected in 2024 and the timing of the collection of the final tariff from the AESO in 2022.

For the year ended December 31, 2023, our cash flow from operating activities decreased by $28.8 million, compared to the same period in 2022. The change is primarily due to having one additional month of tariff outstanding from the AESO for $73.6 million which was collected in 2024, partially offset by the collection of higher final monthly tariffs from the AESO in 2023 due in part to the December 2021 customer refund.

Investing activities

For the quarter and year ended December 31, 2023, our cash flow used in investing activities decreased by $8.5 million and $4.5 million, respectively, compared to the same periods in 2022. The changes are primarily due to vendor refunds and customer contributions, partially offset by higher capital expenditures including the restoration of wildfire-damaged transmission assets for customers in 2023.

Financing activities

For the quarter ended December 31, 2023, our cash flows used in financing activities decreased by $99.3 million, compared to the same period in 2022. The change is primarily due to issuing $225.0 million more of Senior Secured Notes and having $100.8 million more of net issuance of commercial paper in 2023. These changes are partially offset by repaying ($225.0) million more of Medium-Term Notes in 2023.

For the year ended December 31, 2023, our cash flows used in financing activities decreased by $37.5 million, compared to the same period in 2022. The change is primarily due to issuing $225.0 million more of Senior Secured Notes in 2023, distributing $19.7 million less to AILP and AML in 2023, and having $20.2 million more of net issuance of commercial paper in 2023. These changes are partially offset by repaying ($225.0) million more of Medium-Term Notes in 2023.

Commitments

(in millions of dollars)	Total	Payments due by periods: Less than 1 year	2-3 years	4-5 years	After 5 years
Long-term debt excluding interest	**$ 4,750.0**	**$ 350.0**	**$ 350.0**	**$ —**	**$ 4,050.0**

We have contractual commitments to repay long-term debt of $4,750.0 million (December 31, 2022 – $4,750.0 million), as disclosed in our annual audited consolidated financial statements in note 13 - Scheduled principal repayments.

We are committed to lease payments of $64.3 million (December 31, 2022 – $68.4 million), as disclosed in our annual audited consolidated financial statements in note 15 - Lease liabilities.

We also have contractual commitments associated with the construction of new facilities as at December 31, 2023 of $140.1 million (December 31, 2022 – $90.8 million), as disclosed in our annual audited consolidated financial statements in note 26 - Commitments.

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 December 31, 2023 was $725.0 million (December 31, 2022 – $575.0 million). On December 15, 2023, we extended the maturity dates for our bank credit facilities to December 15, 2028 to increase the term and reduce pricing risk. The $500.0 million facility provides support to our commercial paper program, under which $129.0 million of commercial paper was outstanding as at December 31, 2023 (December 31, 2022 – $121.5 million). AltaLink may use the $500.0 million and $75.0 million bank credit facilities 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. We have not drawn any amount on the AILP inter-affiliate credit facility as of December 31, 2023. As at December 31, 2023, we had $594.9 million of liquidity remaining under those facilities (December 31, 2022 – $451.8 million). We consider our liquidity arrangements 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 of facilities. We remit to the individual customers all investment income related to deposits received from those customers for construction projects and we use the investment income earned on deposits received from customers for future operating and maintenance costs.

Liquidity, coverage and capital ratios[1]

(in millions of dollars)	Twelve months ended December 31, 2023	2022
Comprehensive income	**$ 297.8**	$ 311.2
Actuarial loss (gain)	**0.3**	(2.1)
Non-controlling interests	**1.7**	1.7
Loss on disposal of assets	**8.4**	3.2
Finance costs	**197.2**	188.9
EBIT	**505.4**	502.9
Depreciation and amortization	**293.9**	287.0
EBITDA	**799.3**	789.9
Interest paid	**(177.9)**	(189.7)
FFO	**621.4**	600.2
Disallowed net capital costs	**—**	1.5
Adjusted FFO	**$ 621.4**	$ 601.7

(in millions of dollars)	Twelve months ended December 31, 2023	2022
Net cash provided by operating activities	$ **431.6**	$ 460.3
Disallowed net capital costs	**—**	(1.5)
Change in non-cash working capital	**51.3**	34.5
Third party contributions revenue	**27.2**	25.3
Change in financial assets and liabilities related to regulated activities, non-current	**82.3**	81.7
Change in deferred revenue for salvage	**9.5**	(2.0)
Change in other	**19.5**	1.9
FFO	**621.4**	600.2
Disallowed net capital costs	**—**	1.5
Adjusted FFO	$ **621.4**	$ 601.7

(in millions of dollars)	As at December 31, 2023	2022
Letters of credit	$ **1.1**	$ 1.7
Less: cash	**(6.8)**	(0.1)
Other post-employment benefits obligations[2]	**3.6**	3.2
Short-term debt (excluding outstanding cheques)	**129.0**	121.5
Long-term debt	**4,722.4**	4,724.4
Lease liabilities	**48.7**	50.8
Total debt	**4,898.0**	4,901.5
Cash	**6.8**	0.1
Accrued interest on debt	**48.1**	27.2
Financing fees, premiums, and discounts	**27.6**	25.6
Less: other post-employment benefits obligations[2]	**(3.6)**	(3.2)
Total debt as per Master Trust Indenture and bank credit facilities	**4,976.9**	4,951.2
Total equity including non-controlling interests	**3,769.3**	3,696.9
Less: AltaLink equity investment in subsidiaries	**(15.9)**	(15.9)
Total capitalization	$ **8,730.3**	$ 8,632.2

	Twelve months ended December 31, 2023	2022
Interest paid	$ **177.9**	$ 189.7
Interest expense[3]	$ **200.4**	$ 191.7
EBIT interest expense coverage[4]	**2.52X**	2.62X
EBITDA interest expense coverage[5]	**3.99X**	4.12X
FFO interest paid coverage[6]	**4.49X**	4.16X
FFO/Debt[7]	**12.69%**	12.25%
Adjusted FFO/Debt	**12.69%**	12.28%
Total debt/total capitalization as per Master Trust Indenture[8]	**57.01%**	57.36%
Total debt/total capitalization as per bank credit facilities[9]	**57.01%**	57.36%

1. Please refer to the "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 $4.7 million as at December 31, 2023 were adjusted to reflect an after-tax amount equal to $3.6 million using an income tax rate of 23% (December 31, 2022 – $4.1 million was adjusted to $3.2 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 December 31, 2023, our working capital deficiency was $462.0 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. In light of AltaLink's aggregate available credit facilities, the current working capital deficiency is manageable.

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

	2023	2022	2021
Earnings-to-interest coverage on total debt[1,2]	**2.29X[2,3,4]**	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 the "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 December 31, 2023, for the purposes of calculating this ratio, was $498.2 million (December 31, 2022 – $502.9 million). Our pro-forma interest requirement on short and long-term debt for the 12 months ended December 31, 2023 was $217.7 million (December 31, 2022 – $200.7 million).
4. Our pro-forma earnings before interest and income tax for the 12 months ended December 31, 2023 and 2022 is calculated as: comprehensive income of $297.8 million (December 31, 2022 – $311.2 million) plus finance costs of $197.2 million (December 31, 2022 – $188.9 million) plus capitalized borrowing costs of $3.2 million (December 31, 2022 – $2.8 million) plus income taxes of $nil (December 31, 2022 – $nil). Our pro-forma interest requirement on short and long-term debt for the 12 months ended December 31, 2023 and 2022 is calculated as: finance costs of $197.2 million (December 31, 2022 – $188.9 million) plus capitalized borrowing costs of $3.2 million (December 31, 2022 – $2.8 million) plus the net pro-forma effect of interest expense of $17.3 million on the October 11, 2023 issuance of $500.0 million of Series 2023-1 Senior Secured Notes (December 31, 2022 – $9.0 million on the November 28, 2022 issuance of $275.0 million of Series 2022-1 Senior Secured Notes).

Credit Ratings

We strive to maintain an "A" category credit rating to enable credit market access during periods of market turmoil and to minimize financing costs for ratepayers. The AUC in its most recent GCOC Decision 27084-D02-2023 reaffirmed its support for this approach.

	As at December 31,		
	2023	2022	2021
DBRS - Commercial Paper[1]	**R-1 (low)**	R-1 (low)	R-1 (low)
DBRS - Medium-Term Notes (Secured) and Senior Secured Notes	**A**	A	A
S&P - Medium-Term Notes (Secured) and Senior Secured Notes [2]	**A-**	A	A

1. On July 21, 2023, 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. On June 23, 2023, S&P reaffirmed its issuer credit rating and senior secured rating on AltaLink at "A", but revised its outlook from stable to negative due to the potential that BHE's business or financial risk could weaken over the next 24 months if BHE-owned PacifiCorp faces significantly increased liabilities related to the 2020 wildfires. On November 21, 2023, S&P downgraded the credit ratings of AltaLink by one notch from "A" to "A-" with a stable outlook. The ratings downgrade reflects S&P's view using their group ratings methodology that BHE will not provide extraordinary support to its subsidiaries under all foreseeable circumstances.

Results of Operations

Revenue

(in millions of dollars)	Quarter ended December 31, **2023**	2022	2021
Operations	**$ 253.3**	$ 246.7	$ 245.1
Other	**11.2**	9.6	10.2
	$ 264.5	$ 256.3	$ 255.3

(in millions of dollars)	Year ended December 31, **2023**	2022	2021
Operations	**$ 976.5**	$ 952.8	$ 950.8
Other	**39.2**	36.2	39.0
	$ 1,015.7	$ 989.0	$ 989.8

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 rate base returns.

For the quarter and year ended December 31, 2023, our revenue from operations increased by $6.6 million or 2.7% and $23.7 million or 2.5%, respectively, compared to the same periods in 2022. The changes are primarily due to recovery of higher allowable costs of transmission services, partially offset by the returns on a lower rate base.

For the quarter and year ended December 31, 2022, our revenue from operations increased by $1.6 million or 0.7% and $2.0 million or 0.2%, respectively, compared to the same periods in 2021. These changes are primarily due to recovery of higher allowable costs of transmission services.

Other revenue

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

Our other revenue for the quarter and year ended December 31, 2023 increased by $1.6 million and $3.0 million, respectively, compared to the same periods in 2022. These changes are primarily due to higher amortization of third-party contributions and interest revenue on cash deposits.

Our other revenue for the quarter and year ended December 31, 2022 decreased by $0.6 million and $2.8 million, respectively, compared to the same periods in 2021. These changes are primarily due to lower cost recovery revenue from other utilities and third parties.

Operating expenses excluding disallowed capital costs

(in millions of dollars)	**2023**	2022	2021
Quarter ended December 31,	**$ 23.6**	$ 21.5	$ 26.7
Year ended December 31,	**104.8**	99.1	102.3

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

Our operating expenses for the quarter and year ended December 31, 2023 increased by $2.1 million and $5.7 million, respectively, compared to the same periods in 2022. These changes are primarily due to higher software license and subscription fees, higher legal and insurance costs, higher salaries and benefits, and market inflation on utilities and other general operating expenses.

Our operating expenses for the quarter and year ended December 31, 2022 decreased by $5.2 million and $3.2 million, respectively, compared to the same periods in 2021. These changes are primarily due to cost control and less services provided to other utilities and third parties, partially offset by market inflation on contract services, software, insurance, fuel, and utilities.

Disallowed capital costs

(in millions of dollars)	**2023**	2022	2021
Quarter ended December 31,	**$ —**	$ —	$ —
Year ended December 31,	**—**	1.5	0.7

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

On March 19, 2021, the AUC issued its decision on AltaLink's 2019 Deferral Accounts Reconciliation Application. The AUC approved $128.0 million of the total $128.5 million of capital project additions. The AUC disallowed 0.4% of the total capital cost applied for in the application. On April 27, 2021, the AUC issued its decision on AltaLink's 2016-2018 Deferral Accounts Reconciliation Compliance Filing, disallowing an additional $0.2 million reflecting internal labour costs to prepare and support the application.

Property taxes, salvage and other

(in millions of dollars)	**2023**	2022	2021
Quarter ended December 31,	**$ 30.5**	$ 26.1	$ 24.9
Year ended December 31,	**111.6**	98.4	100.3

Property taxes, salvage, and other expenses are recovered dollar for dollar through regulated deferral and reserve account mechanisms and includes property 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 quarter and year ended December 31, 2023 increased by $4.4 million and $13.2 million, respectively, compared to the same periods in 2022. These changes are primarily due to an increase in salvage expense due to higher salvage activities and higher property taxes.

For more details of these costs, please see note 21 - Expenses in our annual audited consolidated financial statements.

Property taxes, salvage, and other expenses for the quarter ended December 31, 2022 increased by $1.2 million compared to the same period in 2021 primarily as a result of an increase in salvage expense due to higher salvage activities. Property taxes, salvage, and other expenses for the year ended December 31, 2022 decreased by $1.9 million compared to 2021 primarily as a result of a decrease in salvage expense due to lower salvage activities, partially offset by an increase in property taxes.

Depreciation and amortization

(in millions of dollars)	**2023**	2022	2021
Quarter ended December 31,	**$ 76.3**	$ 74.8	$ 73.6
Year ended December 31,	**293.9**	287.0	284.0

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

Depreciation and amortization for the quarter and year ended December 31, 2023 increased by $1.5 million and $6.9 million, respectively, compared to the same periods in 2022. These changes are primarily a result of capital projects we completed and added to our property, plant and equipment and intangible assets compared to lower asset retirements.

Depreciation and amortization for the quarter and year ended December 31, 2022 increased by $1.2 million and $3.0 million, respectively, compared to the same periods in 2021. These changes are primarily a result of capital projects that have been completed and added to our property, plant and equipment and intangible assets.

Finance costs

(in millions of dollars)	**2023**	2022	2021
Quarter ended December 31,	**$ 52.1**	$ 49.0	$ 47.1
Year ended December 31,	**197.2**	188.9	185.7

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

For the quarter and year ended December 31, 2023 our weighted average cost of long-term debt was 4.11% and 4.03%, respectively (December 31, 2022 – 3.93% and 3.91%, respectively, and December 31, 2021 – 3.90% and 3.90%, respectively).

Our finance costs for the quarter and year ended December 31, 2023 increased by $3.1 million and $8.3 million, respectively, compared to the same periods in 2022. These changes are primarily due to a higher weighted average cost of short-term and long-term debt.

Our finance costs for the quarter and year ended December 31, 2022 increased by $1.9 million and $3.2 million, respectively, compared to the same periods in 2021. These changes are primarily due to a higher weighted average cost of short-term debt.

EBITDA

(in millions of dollars)	**2023**	2022	2021
Quarter ended December 31,	**$ 210.5**	$ 208.7	$ 203.8
Year ended December 31,	**799.3**	789.9	786.4

Our EBITDA for the quarter and year ended December 31, 2023 increased by $1.8 million and $9.4 million, respectively, compared to the same periods in 2022. These changes are primarily due to higher revenue, partially offset by higher salvage expenses, higher operating costs and lower revenue on equity returns on a lower rate base.

Our EBITDA for the quarter and year ended December 31, 2022 increased by $4.9 million and $3.5 million, respectively, compared to the same periods in 2021. These changes are primarily due to lower operating and salvage expenses, partially offset by lower revenue.

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

Comprehensive income

(in millions of dollars)	**2023**	2022	2021
Quarter ended December 31,	**$ 76.4**	$ 84.4	$ 78.6
Year ended December 31,	**297.8**	311.2	307.3

Our comprehensive income for the quarter and year ended December 31, 2023 decreased by $8.0 million and $13.4 million, respectively, compared to the same periods in 2022. The changes are primarily due to higher interest rates on short-term debt, higher operating costs mainly as a result of inflation, an actuarial loss compared to an actual gain in 2022, and lower revenue on equity returns on a lower rate base.

Our comprehensive income for the quarter and year ended December 31, 2022 increased by $5.8 million and $3.9 million, respectively, compared to the same periods in 2021. The changes are primarily due to lower 2022 operating expenses achieved through cost control and 2021 losses on asset retirements and certain non-recoverable depreciation which did not reoccur. These positive variances were partially offset by higher interest expense as a result of higher interest rates on short-term debt compared to lower tariff recovery.

Selected financial information derived from our consolidated financial statements

(in millions of dollars)	**December 31, 2023**	December 31, 2022	December 31, 2021
Net income per partnership unit ($/unit)	**0.898**	0.932	0.923
Comprehensive income per partnership unit ($/unit)	**0.897**	0.938	0.926
Distributions per partnership unit ($/unit)	**0.679**	0.738	0.282
Total assets ($)	**10,017.3**	9,897.8	9,854.8
Short and long-term debt ($)[1]	**4,874.3**	4,867.8	4,881.5

1. The balance before deducting deferred financing fees, which we 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)
December 31, 2023	**264.5**	**76.7**	**331.9**	**0.231**
September 30, 2023	252.2	74.6	331.9	0.225
June 30, 2023	252.8	74.1	331.9	0.223
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

Risk Management

Our transmission business is subject to risks and uncertainties like 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, our corresponding consolidated financial statements, Annual Information Form, press releases, material change reports and other continuous disclosure documents available on SEDAR at www.sedar.com.

Risk Controls and Other Mitigating Measures

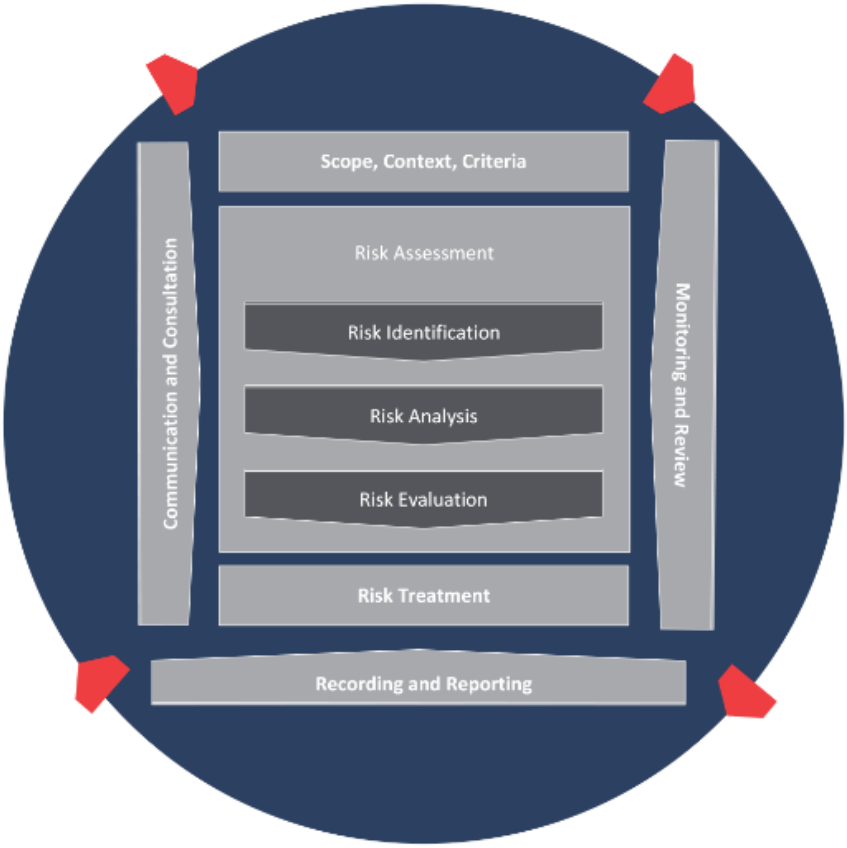
We instituted controls and other mitigating measures to manage the risks we face. Under our risk management program, we conduct quarterly risk evaluations to identify and assess our most significant risks and the strategies through which we manage them.

Our Approach to Enterprise Risk Management

We use an enterprise-wide portfolio approach to manage key business risks. These risks stem from the uncertainty that permeates our business. Managing these risks successfully requires a systematic, structured and timely approach. To achieve this, we have developed an enterprise risk management policy which has been approved by our Board of Directors. We have also defined an Enterprise Risk Management Framework and developed an enterprise risk management program modelled after the ISO 31000 standard. A primary goal of our enterprise risk management program is to provide uniform processes to identify, analyze, evaluate, treat and report our key risks for the benefit of our customers and shareholders. By strengthening our risk management practices, enterprise risk management supports the corporate governance needs of our Board of Directors and the due diligence responsibilities of senior management.

We integrate risk management with our strategic planning and business planning processes to promote and facilitate proactive management of risks and opportunities that may impact our strategic and business objectives.

The following diagram depicts our enterprise risk management process:



Risk Assessments

Risk assessments involve identifying, analyzing and evaluating the risks we face. Some of the methods we use to identify risks and opportunities include management interviews, facilitated risk workshops, and stakeholder discussions. Under our enterprise risk management program, we conduct quarterly risk assessments to identify and analyze our most significant risks and opportunities and the existing controls which manage them. Risk owners are defined for all our key risks. We then combine quantitative and qualitative methods to analyze the residual likelihood and potential impact associated with the risks and opportunities.

We use a heat map as a tool to document residual risk levels for our most significant risks and opportunities. For the top strategic and operational risks, key risk indicators are tracked and risk treatment plans are in place.

Our risk management program includes management's quarterly review and update of current and emerging risks or opportunities against our approved risk criteria.

Risk treatment involves making decisions as to the appropriate course of action to increase or decrease risk to target levels. Risk treatment approaches may include avoiding the risk by discontinuing activities, taking an appropriate amount of additional risk to pursue opportunities, taking actions to modify the likelihood or consequence of the risk, sharing or outsourcing the risk, or making an informed choice to retain the risk at the already appropriate level. Management updates assessments of residual risks on a quarterly basis and reports these assessments to the Board of Directors. Monitoring of risks against risk tolerances, key risk indicators, and the status of ongoing controls and risk treatment plans are reported to the Board of Directors annually.

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, 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 maintaining this coverage.

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 $400 million in general liability insurance. General liability insurance provides coverage for third party bodily injury or property damage resulting from our operations or premises for which we are legally obligated to pay. 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 for several reasons including high premiums. In accordance with past prudent industry practice and certain AUC directives, we self-insure against certain risks for which commercial insurance is not acquired. 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 consequently deny the recovery of damages through rates. In Decision 2013-417 (Utility Asset Disposition), the AUC determined that in the case of an extraordinary retirement of a regulated asset, any under or over recovery of capital investment is allocated to 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 any other indirect, special, or consequential loss or damage. Our liability is therefore confined to a third party's direct loss or damage resulting from our negligence, wilful misconduct or breach of contract while performing our duties, responsibilities and functions.

Risk Factors and Uncertainties

Despite our risk management initiatives, we have no assurance that an individual risk or multiple risks will not adversely affect our business. If we are unable to adequately control or mitigate their effects, such risks could adversely affect our results of operations, financial position and performance and, accordingly, the value of our outstanding securities.

The following are the more significant risks that have an impact on our financial position and results of our operations:

Regulatory Risks

Regulated operations

As a regulated transmission facility owner in Alberta, we are subject to the risks normally faced by companies that are regulated. These risks relate to the AUC directing the amendment of our applied for tariffs or revenue requirements, that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on rate base. In addition, these risks include the disallowance by the AUC of costs incurred. Our ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving our forecasts established in the rate-setting process.

Actual costs could exceed the approved forecast costs if, for example, we incur operational, maintenance and administration costs above those included in our approved revenue requirement, higher expenses due to maintenance capital expenditures being at levels above those provided for in the tariff decisions, or additional financing charges because of increased debt balances or higher interest rates. In the GTA process, the AUC may also review the prudency of non-direct assigned capital costs. We cannot predict how AUC decisions may adversely affect us and there can be no assurance that we can entirely recover the actual costs of non-direct assigned capital work through the revenue requirement. Substantial unrecovered costs could have a material adverse effect.

The AUC authorizes placeholders for key assumptions within the GTA, DACDA and GCOC processes. These assumptions are subject to change during the regulatory process, which may lead to retroactive adjustments for prior periods. The inability to obtain acceptable tariff decisions or to otherwise recover any significant difference between forecast and actual expenses, or changes in key assumptions in a timely manner, could adversely affect our financial condition and results of our operations. Management can do less to mitigate this risk when regulatory decisions are made after the start of the period to which they apply. Regulatory decisions can also delay our recovery of balances owed to us for deferral accounts.

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 could adversely impact us; thus, we neither have nor offer the assurance that we can entirely recover the net book value of assets through the AUC-approved revenue requirement.

On December 19, 2023, the AUC issued its reconsideration decision regarding ATCO Electric's claim for recovery of the net book value of its assets destroyed in the Wood Buffalo wildfire. The AUC granted ATCO Electric the relief it requested: (i) a reversal of the adjustment it had previously directed to ATCO Electric's accumulated depreciation account; (ii) a reversal of the adjustments to ATCO Electric's Performance Based Revenue requirements over the 2018-2023 period; and (iii) recovery of the associated carrying charges. The AUC expressly confined its decision to the facts of this case and confirmed that it was not adopting a new framework or test for assets destroyed by forces of nature. The AUC also reaffirmed its view that the *Electric Utilities Act* does not confer a guaranteed right to prudent cost recovery and alluded to control and fault as possible constraints on prudent cost recovery in future cases. Such constraints may be viewed as setting some boundaries on the AUC's authority to disallow costs and providing grounds for dispute if they become an issue for AltaLink.

On July 7, 2023, the AUC initiated a proceeding to reconsider ATCO Electric's application in Proceeding 21609 as it relates to the recovery of the net book value of the assets destroyed by the Wood Buffalo wildfire. AltaLink registered as a participant in the proceeding. Parties submitted written argument on September 7, 2023 and written reply argument on September 28, 2023.

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 Alberta Court of Appeal heard the appeal April 4, 2023 and issued its decision April 14, 2023 allowing the appeal. The Alberta Court of Appeal returned the matter to the AUC for further consideration and a redetermination given the Court's decision.

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, ATCO Electric shareholders must bear the loss of the remaining $3.2 million net book value of the destroyed assets. ATCO Electric appealed the AUC's decision and the Alberta Court of Appeal granted the leave to 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; therefore, the shareholders would bear the loss of $0.4 million.

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

Transmission system cost bypass by load customers

Our customers may be impacted by load customers bypassing transmission system costs as it could increase costs for remaining load customers. Although we do not have any direct volume or price risk, there is potential for continuous and increasing cross-customer cost subsidization because of the existing design of the AESO tariff. Future regulatory or government policy decisions may result in changes that could adversely affect our financial results by an allocation of these costs to the utility.

On November 10, 2022, the AUC issued its decision denying the AESO's application for its Bulk, Regional and Modernized Demand Opportunity Service Rate Design. In the decision, the AUC directed the AESO to refile its application by January 31, 2025, considering the guidance provided by the AUC in the decision. Generally, the AUC concluded that (i) rate design should incent the most efficient and cost-effective use of the transmission system with a view to forestalling further transmission build; (ii) legislation requires consumers pay for the cost of the transmission system and rates in the AESO tariff cannot vary as a result of the location of a consumer; and (iii) fairness of the rate design is enhanced by not using pricing structures that enable participants to avoid paying for the costs of the system. This guidance aligns with the principles AltaLink advocated throughout the proceeding. The AESO also established additional rate design initiatives to address cost bypass concerns. The AESO carved energy storage out from its revised Bulk and Regional tariff rate design and is soliciting industry input regarding how or whether to proceed with an energy storage tariff. Energy storage captures energy produced at one time, for use at a later time, to reduce imbalances between energy demand and energy production. The AESO also engaged a working group to consider adjustments to its current substation metering practice which contributes to transmission cost bypass. AltaLink is participating in the stakeholder engagement process for both initiatives.

AltaLink participated in a working group established by the AESO and provided input regarding how or whether to proceed with an energy storage tariff. After feedback received from working group members, the AESO determined that, alternatively, pursuing an updated demand opportunity service rate is the most viable option going forward and plans to file an application with the AUC in the first quarter of 2024. Energy storage captures energy produced at one time, for use at a later time, to reduce imbalances between energy demand and energy production.

AltaLink also participated in the AESO's stakeholder consultation to consider adjustments to its current substation metering practice which contributes to transmission cost bypass. This consultation resulted in the AESO's August 31, 2023, Application for Revised Adjusted Metering Practice (AMP) Implementation Plan and Related Amendments to Independent System Operator Tariff (ISO) and Rules. In its application, the AESO stated a revised metering process change was required to improve the current measurement of net flows entering and leaving a substation in order to address the artificial erosion of ISO tariff billing determinants cause by distribution connected generation. AltaLink participated in this proceeding and supported the AESO's application where the close of record occurred on January 15, 2024. The AESO requested that the AUC approve the AMP tariff revisions effective January 1, 2025. A decision from the AUC is expected in the second quarter of 2024.

Government policies impacting the electricity industry

Deregulation and restructuring of parts of Alberta's electricity industry began in 1996 and continues to evolve. We are subject to risks associated with changing political conditions and changes in provincial regulations and permitting requirements. It is not possible to accurately predict changes in political conditions, laws or regulations that could impact our operations. The continuing restructuring of the Alberta electricity industry, including the regulatory environment, could have a material adverse effect on our financial condition and results of our operations. Please refer to "Electricity Policy Review" section of this MD&A.

Financial Risks

Credit ratings

Our credit ratings are not recommendations to purchase, hold or sell our debt securities in that such ratings do not comment as to market price or suitability for a particular investor. AltaLink cannot give assurance that any credit rating will remain in effect for any given period or that our credit ratings will not be revised or withdrawn entirely in the future by the respective credit rating agencies if in their judgment circumstances so warrant. Our credit ratings may not reflect the potential impact of all risks related to our business or our debt securities. In addition, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. If the credit ratings of our debt securities were downgraded, then we would expect that our access to the necessary capital to finance transmission projects may be adversely impacted and the cost of capital available to us would likely be increased.

Regulatory financial risk related to Capital Growth

Previously we have faced higher levels of construction investment, as the AESO directly assigned the construction of large multi-year transmission facility projects to us. We experienced increased debt service obligations because of significantly increased debt capital levels necessary to fund their construction, but without corresponding additions to our rate-base assets during the construction period for such capital projects. During this time, the AUC supported us by providing credit metric support through both CWIP in rate base and the recovery of provincial and federal future income taxes in our revenue requirement. When we emerged from the period of higher investment, the AUC approved our application to discontinue this credit metric support to lower our tariffs for our customers.

Although the AUC has provided credit metric support, there can be no assurance that we will receive the regulatory support necessary to mitigate evolving financial risk as needed. Without this regulatory support we anticipate that, among other things, the ratings of our debt securities may be downgraded, our access to the necessary capital to finance large transmission projects as they arise may be adversely impacted and the cost of capital available to us may be increased.

We cannot predict with certainty how AUC decisions may adversely impact us and there can be no assurance that we can entirely recover the actual costs of directly assigned capital projects through the revenue requirement approved by the AUC. Substantial unrecovered costs could have a material adverse effect on our financial condition and results of our operations.

Competition

In Alberta, our industry has generally operated on the premise that transmission facility owners provide most of the facilities and services required within their respective geographic service territories. However, changes to legislation have been made where the assigning of critical transmission projects may be made through competitive tender regardless of historical service area. In addition, the Lieutenant Governor in Council may make regulations respecting the determination of who may apply for construction or operation of transmission facilities, including determining who may apply based on a competitive process or some other method or process. The AESO applied to the AUC for approval of its proposed framework for competitive bidding. The AUC approved the AESO's application, with conditions. There can be no assurance that any competition related to the provision of transmission services will not have a material adverse effect on our financial condition and results of our operations.

Capital resources and liquidity

Our financial position could be adversely affected if we fail to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. Funds generated from our operations after payment of our expenses (including interest payments on debt) may not be sufficient to fund the repayment of all existing debt when due and anticipated capital expenditures. There may be limitations on the levels of equity capital available to us from our partners. We are substantially wholly owned by AILP and do not use our equity securities as a primary source of capital. Our ability to arrange sufficient and cost-effective debt financing could be affected by numerous factors, including the regulatory environment in Alberta, the results of our operations and financial position, conditions in the capital and bank credit markets, our credit ratings, and general economic conditions. The inability to access sufficient capital for our operations could have a material adverse effect on our financial condition and results of our operations.

Annual impairment tests

Any write-down in the value of goodwill or other assets because of an annual impairment test would result in a non-cash charge that reduces our reported earnings. A write-down of any material amount could have an adverse effect on our compliance with any debt to total capitalization tests under our credit facilities or trust indentures. If our credit metrics were adversely impacted, then we anticipate that, among other things, the credit ratings of our debt securities may be downgraded, our access to the necessary capital to finance transmission projects may be adversely impacted and the cost of capital available to us may be increased.

Operational Risks

Cyber and physical security

We rely on information technology in virtually all aspects of our business. A significant disruption or failure of our information technology systems by physical or cyber attack could result in service interruptions, outages, safety failures, security violations, regulatory compliance failures, an inability to protect corporate information assets against intruders, and other operational difficulties. Attacks perpetrated against our information systems could result in loss of assets and critical information and expose us to remediation costs, damages, fines, and reputational damage.

Although we have taken steps intended to mitigate these risks, including business continuity planning, compliance with Critical Infrastructure Protection Standards, disaster recovery planning, implementing a comprehensive cyber security program, and business impact analysis, a significant disruption or cyber intrusion could lead to misappropriation of assets or data corruption and could adversely affect our results of our operations, financial condition or liquidity. We also engage the services of external experts to evaluate the security of our information technology infrastructure and controls. Additionally, if we are unable to maintain, acquire or implement new technology that is up to date with cyber security requirements, this could have an adverse effect on our results of our operations, financial condition or liquidity. Cyber or physical attacks could further adversely affect our ability to operate facilities, information technology and business systems, or compromise confidential customer and employee information. In addition, physical or cyber attacks against key suppliers or service providers could have a similar effect on us.

Wildfires

Alberta may experience a heightened incidence of wildfires, or wildfire severity due to climate change and other factors. AltaLink cannot predict how the AUC will respond to such heightened incidence, or how the AUC might treat recovery of our investment or damages and whether or not it might impose fines. We have a robust set of procedures to address wildfire risk. We review and update these procedures based on the best practices in other jurisdictions. We apply to the AUC for approval for funds to implement these procedures and mitigation investments. Additional requirements may be imposed by our regulator or legislators in response to heightened risk. We are monitoring all changes to our regulatory framework and will respond to any such changes as they arise.

Electricity transmission facilities may also start wildfires as a result of causes such as equipment operation or failure, trees contacting transmission lines, or lightning strikes on transmission lines or equipment. We may be liable for firefighting costs, damages to personal property, structures, and natural resources, fines, and third party claims including for personal injuries in connection with such fires. These costs could substantially exceed insurance coverage, if any, and such amounts may not be approved by the AUC for recovery, in whole or in part, through increased tariff revenues. Substantial unrecovered costs could have a material adverse effect on our financial condition and results of our operations.

Transmission reliability

We have a facility acceptance process for new assets as they become energized and integrated into our asset base. Material, equipment, engineering or construction deficiencies may be found following acceptance and energization of new assets, prior to expiration of warranty periods. Claims processes are in place to seek recovery of deficiencies found within the warranty periods. Arbitration or litigation may occur in relation to any claims process, which may result in litigation by or against us. Any substantial unrecovered warranty claims or costs incurred beyond the warranty period or costs above the warranty cap could have a material adverse effect on our financial condition and results of our operations.

The reliability of our transmission facilities is critical to the customers who depend upon them. Our transmission assets require maintenance, improvement and replacement to help ensure their reliable performance. We continually develop capital expenditure programs and assess current and future operating and maintenance requirements for our facilities.

Our ability to reliably deliver power is subject to the risk of service interruptions from factors that include equipment failure, accidents, climate change, severe weather conditions and other acts of nature, operator error, labour-related actions, vandalism, sabotage, cyber attacks or terrorism. As a result, our ability to deliver an acceptable level of reliability to our customers may be adversely impacted.

We base our upgrade and maintenance programs on assumptions as to costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters which are not certain. The inability to obtain AUC recognition (in connection with determining our revenue requirements) of expenditures which we believe are necessary to maintain, improve, or replace our transmission assets, the failure to carry out these upgrade and maintenance programs on a timely basis, or the occurrence of significant unforeseen equipment failures or damage could have a material adverse effect on us. The costs of repairing or replacing damaged assets, or responding to customer claims, could substantially exceed insurance coverage, if any, and such amounts may not be approved by the AUC for recovery, in whole or in part, through increased tariff revenues. While we may be liable for direct damages to third parties as a result of our negligence, willful misconduct or breach of contract, we expect that the Liability Protection Regulation would shield us from most claims for indirect damages, such as loss of profit or revenue. The effectiveness, however, of this liability protection is subject to the court's interpretation of the regulation, which has not yet occurred.

The AESO has implemented reliability standards and announced its plans to implement additional standards. These reliability standards are enforced by the Market Surveillance Administrator who may impose penalties for non-compliance. We expect to recover the costs of implementing and complying with these reliability standards through our tariffs. Penalties imposed by the Market Surveillance Administrator for non-compliance, may be substantial and we may not be able to recover these costs through our tariffs. Such penalties may have a material adverse effect on our financial condition and results of our operations.

Climate change

As a transmission facility owner and operator, we are subject to uncertainties caused by climate change and severe weather conditions. These uncertainties include, but are not limited to, the following potential impacts of climate change:

- Customer legal claims due to not being able to reliably transmit power due to service disruptions caused by severe weather;
- Not being able to recover investments in assets or costs related to the repair or replacement of assets damaged by severe weather or required by new environmental laws or regulations;
- Penalties for not being able to comply with laws, regulations, rules, or reliability standards;
- Wildfire, flood, wind, or other damages as a result of more extreme weather;
- Demands on our transmission system due to electric vehicles, charging stations, the transitioning to clean energy generation, and extreme temperatures; or
- Government policy or legislative changes or customer preferences for electrical generation using lower carbon fuels causing certain transmission assets to become stranded and AltaLink's recovery of the related investments impaired and its reputation negatively impacted.

Potential effects of pathogens, or similar crises

Our business could be adversely affected by the outbreak of pathogens or similar crises, through new legislation or regulatory directives limiting our operations or by disruptions to our supply chains, which could adversely impact our ability to transmit reliable electricity or delay certain of our construction and other capital expenditure projects. Delays of our capital projects could result in increased costs which we may not be able to fully recover through the regulatory process. Such disruptions could adversely affect our consolidated financial results and our ability to service our long-term debt.

In addition, the government and regulators could impose other requirements on our business that could have an adverse financial impact on our results or operations. Further, we could be adversely impacted if we experience material payment delays or defaults by the AESO or other customers to which we provide services.

Project execution

We manage multiple capital projects to support our operations and the growth of our transmission system. Our ability to execute capital projects depends upon numerous factors that are normally faced by companies executing large construction projects. These factors include, but are not limited to, changes in project scope, the availability and timeliness of regulatory approvals and other required permits, skilled labour availability and productivity, staff resourcing, availability and cost of material and services, design and construction errors, the ability of contractors to deliver on project commitments and the availability and cost of financing.

Some of these typical project risks may be more pronounced for our transmission facility projects. They include the risks associated with the regulatory approval process, which can involve significant landowner opposition and be delayed due to challenges in areas such as route selection, landowner consultation, compliance (including receiving the required environmental or other permits, approvals and certificates from federal, provincial or municipal agencies), and litigation.

These project risks can translate into performance issues and project delays, which under traditional regulatory accounting would delay the receipt of expected cash flows related to a project. Delays in receiving cash flows for large projects could have an adverse impact on our credit metrics, which are considered by debt rating agencies in assigning a particular rating to our debt securities.

Project risks including inflation can also translate into additional actual project costs. We are dependent upon AUC decisions for recovery of the actual project costs of constructing our facilities. We maintain a capital deferral account that is intended to capture the difference between our forecast costs and the actual costs of capital projects for directly assigned projects. The AUC reviews all project costs recorded in our capital deferral account to determine whether the actual costs of projects were prudently incurred. There can be no assurances that all the actual costs of capital projects will be recovered through an increased revenue requirement approved by the AUC or that a previously approved revenue requirement will not be reduced through the review process. We cannot predict with certainty how AUC decisions may adversely impact us and there can be no assurance that we can entirely recover the actual costs of directly assigned capital projects through the revenue requirement approved by the AUC. Substantial unrecovered costs could have a material adverse effect on our financial condition and results of our operations. Please refer to the "Regulatory financial risk related to Capital Growth" section of this MD&A for additional discussion of the project risk.

Labour relations

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

The collective bargaining agreement between AltaLink and the United Utility Workers' Association (UUWA) expired on December 31, 2023. The Parties commenced bargaining on October 10, 2023, and negotiated for eight days, however, they did not reach an agreement. The Parties jointly applied for mediation in January 2024 which commenced in February 2024.

Approximately 56% of our employees are unionized (approximately 357 UUWA employees and 27 IBEW employees). The provisions of collective agreements affect the flexibility and efficiency of our business. We consider our relationship with these labour union groups to be collaborative; however, there can be no assurances that current relations will not be affected throughout future collective bargaining processes.

Environment, health, and safety

We are subject to regulation relating to the protection of the environment, health and safety, under a variety of federal, provincial and municipal laws and regulations (collectively, EH&S regulation). Among other things, spills and leaks can occur in the operation of electric transmission facilities, including accumulations of fluids containing hydrocarbons, PCBs and other contaminants in soil and gravel at substation and pole sites. Electricity transmission itself has inherent potential risks to safety.

Complying with EH&S regulation may require significant expenditures, including costs for cleanup and damages due to contaminated properties, and costs for implementing appropriate training and work safety programs. Failure to comply with EH&S regulation may result in fines and penalties and regulatory authorities may also seek or order the recovery of natural resource damages, injunctive relief or the imposition of stop work orders. We are also exposed to civil and criminal liability for EH&S matters.

Although we do not expect that the costs of complying with EH&S regulation or dealing specifically with environmental liabilities, as they are known today, will have a material adverse effect on our financial condition or results of our operations, we have no assurance that the costs of complying with future EH&S regulation will not have a material effect.

Electric and magnetic fields

Scientists and public health experts in Canada, the United States and other countries continue to study the possibility that exposure to electric and magnetic fields from power lines, household appliances and other electricity sources may cause health problems. If it were to be concluded that electric and magnetic fields present a health hazard, we may face litigation and be required to take mitigation measures. The costs of any litigation, damages awarded and mitigation measures could have a material adverse effect on our financial condition and results of our operations.

Transactions with Related Parties

Throughout our 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 indemnified AML for employment associated expenses of $31.5 million and $129.0 million, for the quarter and year ended December 31, 2023, respectively, (December 31, 2022 – $24.9 million and $120.0 million, respectively) and liabilities of $24.9 million as at December 31, 2023 (December 31, 2022 – $22.9 million).

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

For more details, please refer to note 18 - Related party transactions in our annual audited consolidated financial statements.

Legal Proceedings and Contingencies

We are subject to legal proceedings, assessments, and claims throughout our ordinary course of business. AltaLink was 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 depend on future legal proceeding results and the likely outcomes are not determinable.

We found equipment, engineering or construction deficiencies following acceptance and energization of certain assets. We have claims processes in place to seek recovery for such deficiencies. We intend to vigorously pursue these claims.

In one instance, we had claimed that specific equipment had inherent design, manufacturing, and other defects that created a risk of personal injury and property damage. On September 27, 2023, through a judicial dispute resolution process led by a justice of the Court of King's Bench (Alberta), all parties agreed to settle the claim in respect of this equipment. AltaLink is passing along all benefit of recovery to customers by lowering rate base, as previously directed by the AUC. The cash recovery was used to pay down debt and return equity to shareholders. There is no gain or loss from this settlement.

Off-Balance Sheet Arrangements

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 reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources require disclosure. We currently have no such off-balance sheet arrangements. For details regarding our commitments, please refer to note 26 - Commitments in our annual audited consolidated financial statements.

Critical Accounting Estimates

We make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. The more significant estimates impacting our financial condition and the results of our operations are disclosed in note 2 - Basis of preparation in our annual audited consolidated financial statements.

Accounting Changes

Rate-regulated project

At the International Accounting Standards Board meetings in July 2015, the Board determined that understanding the following three inter-connected relationships is key to developing a standard for the recognition of rate-regulated activities:

- 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, then throughout 2017, for initial discussions regarding a new accounting model for rate-regulated activities and to explore whether to amend IFRS standards 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 (refer to "Transmission Tariffs" and "Overview of Electricity Industry in Alberta" sections of this MD&A, for examples);
- 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 (refer to "Transmission Tariffs" and "Major Capital Projects" sections of this MD&A, for examples);
- 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 the AUC does not provide specific levelization to sustain AltaLink's credit metrics over a growth period characterized by large multi-year transmission facility projects;
- 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 or changed;
- 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 or may be otherwise retroactively denied;
- 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;
- the risk that transmission system costs bypassed through distribution-connected generation, onsite generation by load customers and net metering practices results in decreased use of system facilities or billing determinant erosion and therefore increased cost of service for remaining system users or an allocation of those costs to the utility; and
- the risk that the level of transmission system expansion or replacement may be impacted as a result of general regulatory or political policies intended to minimize the construction of and costs associated with new transmission, including promoting distribution-connected generation, distributed energy resources, behind-the-meter generation and other non-wires solutions, and the implementation of Alberta's Bill 22, *Electricity Statutes (Modernizing Alberta's Electricity Grid) Amendment Act*.

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 March 1, 2024. 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.