Alberta Utilities Commission

AltaLink Management Ltd.
2024-2025 General Tariff Application and Negotiated Settlement Agreement

KainaiLink Limited Partnership
2024-2025 General Tariff Application

PiikaniLink Limited Partnership
2024-2025 General Tariff Application

June 19, 2024

Alberta Utilities Commission
Decision 28174-D02-2024
AltaLink Management Ltd.
2024-2025 General Tariff Application and Negotiated Settlement Agreement
Application 28174-A001

KainaiLink Limited Partnership
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Application 28174-A002

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Proceeding 28174

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Contents

List of tables

Alberta Utilities Commission

Calgary, Alberta

AltaLink Management Ltd.
2024-2025 General Tariff Application and Negotiated Settlement Agreement

Decision 28174-D02-2024
Proceeding 28174

1 Decision summary

1. In this decision, the Alberta Utilities Commission provides the reasons for its approval of AltaLink Management Ltd.'s Negotiated Settlement Agreement (NSA) reached in respect of its 2024-2025 general tariff application (GTA), as well as its decision on the following issues related to salvage and to wildfires, which were not included in the NSA:

(i) The 2024-2025 forecast salvage expenditures.

(ii) The 2019-2023 actual salvage expenditures.

(iii) AltaLink's request to recover $11 million in returns incurred over the 2022-2023 test period applicable to prudent 2019-2021 actual salvage expenditures.

(iv) Wildfire Mitigation Plan (WMP) business cases for programs A2: Targeted Component and Structure Replacements; A3: Line Rebuilds in High-Risk Fire Areas (HRFAs); and A5: Top Ignition Causing Lines Upgrades.

(v) The proposed wildfire damages deferral account.

2. Issues (iii) and (v) were excluded by the Commission prior to negotiations, and parties were unable to reach a settlement on issues (i), (ii) and (iv).

3. On issues (i) and (ii), the Commission finds that based on the evidence filed in this proceeding, the 2019-2023 actual salvage expenditures and the 2024-2025 salvage forecast expenditures are reasonable. In making this determination, the Commission finds that AltaLink's allocation methodology is reasonable and can be used to determine whether the 2019-2023 actual salvage expenditures are reasonable and to forecast future salvage expenditures.

4. On issue (iii), the Commission finds that AltaLink's request for returns on 2019-2021 actual salvage expenditures would constitute impermissible retroactive ratemaking, and therefore denies AltaLink's request. The 2019-2021 actual salvage expenditures will be added to AltaLink's opening rate base for the 2024-2025 test period.

5. On issue (iv) the Commission approves forecast expenditures of $11.76 million in total over the 2024-2025 test period, which is the same level of expenditure that was approved for AltaLink's prior 2022-2023 test period. AltaLink had applied to increase WMP expenditures for non-settled programs by $49.52 million[1] due to increasing wildfire risk in Alberta. In this decision, the Commission finds that AltaLink has not sufficiently demonstrated that an

[1] Made up of expenditure increases of $15.6 million in program A2, $3.59 million in program A3, and $30.33 million in program A5.

incremental risk of wildfires being ignited by its assets exists that would justify AltaLink's proposed incremental expenditures over the 2024-2025 test period. In particular, the Commission notes that AltaLink assets have historically caused only a small number of wildfires, often resulting in little to no damages or consequences. Further, while AltaLink's consultant, Forsite Consultants Ltd., completed significant modelling as to the potential spread and consequences of wildfires caused by AltaLink assets, AltaLink has not provided a quantitative probability assessment of likelihood of AltaLink asset deficiencies causing ignition events that cause wildfires. As a result, the Commission does not approve AltaLink's request to increase WMP expenditures.

6. On issue (v), the Commission denies AltaLink's requested wildfire damages deferral account. The Commission finds that AltaLink has not demonstrated that its existing wildfire risk protection is insufficient and that AltaLink requires further protection through a deferral account. Nor is the Commission convinced that the introduction of a deferral account would prevent a credit downgrade in the event of a catastrophic wildfire.

2 Application background

7. AltaLink is a transmission facility owner (TFO) that provides regulated electric transmission service in Alberta. AltaLink recovers the costs of providing electric transmission service through its transmission tariff, which must be approved by the Commission. Once approved, AltaLink recovers its tariff amounts from Alberta ratepayers through the Alberta Electric System Operator (AESO), which collects the costs of transmission services provided to Alberta ratepayers from the ratepayers' respective distribution facility owners, and from customers directly connected to the transmission system.

8. On April 28, 2023, AltaLink filed the 2024 to 2025 GTAs for AltaLink, PiikaniLink and KainaiLink. In its application, AltaLink requested permission to seek an NSA via a negotiated settlement process (NSP).

9. The Commission issued notice of the application on May 2, 2023.[2] The following parties filed statements of intent to participate (SIP):

- Consumers' Coalition of Alberta (CCA)
- Office of the Utilities Consumer Advocate (UCA)
- TransAlta Corporation
- Industrial Power Consumers Association of Alberta (IPCAA)
- Alberta Direct Connect Consumers Association (ADC)
- Alberta Federation of Rural Electrical Associations (AFREA)[3]

[2] Exhibit 28174-X0243, Notice of application, May 2, 2023.

[3] See Exhibit 28174-X0269, AUC letter - Ruling on AltaLink request to suspend the proceeding and AFREA late SIP. AFREA submitted a late SIP, which was approved by the Commission in a letter issued on July 13, 2023.

10. On May 25, 2023, the Commission granted AltaLink's request to commence an NSP.[4] On July 5, 2023, AltaLink filed a letter requesting that the process be suspended in order for AltaLink to amend the wildfire-related sections of its GTA in response to "unprecedented wildfire events in its service area."[5] The Commission acknowledged the high volume of wildfires in Alberta in spring 2023 and approved AltaLink's request, directing AltaLink to limit its updates to its WMP and related wildfire references.[6] The Commission indicated that the review of the refiled application would continue under Proceeding 28174, and that the Commission would not require interveners to refile SIPs.

11. On August 31, 2023, AltaLink refiled its GTA, which included amendments to its planned WMP expenditures, and a new request for a wildfire damages deferral account.[7] Within these applications, AltaLink sought approval of:

(i) Revenue requirements of $887.5 million and $904.2 million in 2024 and 2025, respectively.

(ii) Transmission tariffs of $895.7 million and $904.2 million in 2024 and 2025, respectively.

(iii) Approval of its deferral accounts, including its 2021-2022 deferral account reconciliation.

(iv) Establishment of a new wildfire damages deferral account (for third-party damages).

(v) Continued use of previously approved reserve accounts, and reconciliation of existing reserve accounts.

12. AltaLink, in its capacity as General Partner of AltaLink Limited Partnership, is also the general partner of PiikaniLink and of KainaiLink. PiikaniLink and KainaiLink were formed to carry on business as the TFOs for PiikaniLink and KainaiLink transmission assets, respectively. AltaLink operates and maintains the transmission assets of PiikaniLink and KainaiLink.

13. The PiikaniLink and KainaiLink applications sought approval of their respective 2024 and 2025 revenue requirements. Both applications were prepared by AltaLink using approved methodologies consistent with previous Commission decisions.[8] AltaLink requested Commission approval of:

(i) Revenue requirements and transmission tariffs for KainaiLink of $3.0 million and $3.0 million in 2024 and 2025, respectively.

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[4] Exhibit 28174-X0251, AUC letter - Process schedule and response to CCA request for blackout periods, May 25, 2023.

[5] Exhibit 28174-X0266, AltaLink letter, July 5, 2023.

[6] Exhibit 28174-X0269, AUC letter - Ruling on AltaLink request to suspend process and AFREA late SIP, July 11, 2023.

[7] Exhibit 28174-X0273, AltaLink 2024-2025 GTA Amendment Cover Letter, August 31, 2023.

[8] See Decision 22612-D01-2018: AltaLink Management Ltd., AltaLink L.P. Transfer of Specific Transmission Assets to PiikaniLink L.P. and KainaiLink L.P. and the Associated 2017-2018 General Tariff Applications, Proceeding 22612, Applications 22612-A001, 22612-A002, 22612-A003, 22612-A004, November 13, 2018; and Decision 23848-D01-2020: AltaLink Management Ltd., 2019-2021 General Tariff Application, Negotiated Settlement Agreement and Excluded Matters, Proceeding 23848, April 16, 2020.

(ii) Revenue requirements and transmission tariffs for PiikaniLink of $4.7 million and $4.7 million in 2024 and 2025, respectively.

(iii) Continued use of previously approved deferral accounts and reconciliation of existing deferral accounts.

14. On November 24, 2023, the Commission confirmed that it would be excluding the following matters from any NSP that the parties were undertaking in the proceeding:

- AltaLink's request to recover $11 million in returns incurred over the 2022-2023 test period applicable to prudent 2019-2021 actual salvage expenditures.
- The proposed wildfire damages deferral account.[9]

15. On December 12, 2023, AltaLink informed the Commission[10] that it had reached a partial NSA on the AltaLink 2024-2025 GTA, with ADC, the CCA, IPCAA, the UCA and AFREA. The NSA settled all matters from the AltaLink GTA within the scope of the NSP except for the following:

- The 2024-2025 forecast salvage expenditures.
- The 2019-2023 actual salvage expenditures.
- WMP business cases A2: Targeted Component and Structure Replacements; A3: Line Rebuilds in HRFAs; and A5: Top Ignition Causing Lines Upgrades.

16. The NSA resulted in a $7.0 million reduction in AltaLink's applied-for operating costs and a $38.5 million reduction in AltaLink's applied-for capital expenditures over 2024 and 2025, reducing the applied-for revenue requirement by $12 million. The Commission issued an approval of the NSA with reasons to follow on February 12, 2024.[11] The reasons for the Commission's approval of the NSA are discussed in Section 3 of this decision. All matters excluded from the NSA (either by the Commission or by parties) are addressed in Section 4. The PiikaniLink and KainaiLink GTAs are discussed in Section 5.

3 Negotiated settlement

17. On February 12, 2024, the Commission approved the NSA, in a decision with reasons to follow. This section provides the reasons for the Commission's approval of the NSA.

3.1 Legal framework governing negotiated settlements

18. Sections 134 and 135 of the *Electric Utilities Act* authorize the Commission, with some limitations, to approve a negotiated settlement.

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9 Exhibit 28174-X0421, AUC letter - Final direction on the settlement process, November 24, 2023. The exclusion of these matters was first communicated to the parties by the Commission in letters dated September 20, 2023 (Exhibit 28174-X0284, AUC letter - Ruling on CCA requests, amended final issues list and other matters) and November 7, 2023 (Exhibit 28174-X0416, AUC letter - Ruling on CCA motions and other matters).

10 Exhibit 28174-X0438, AltaLink Letter to AUC - Negotiated Settlement Outcome, December 12, 2023.

11 Decision 28174-D01-2024: AltaLink Management Ltd., 2024-2025 General Tariff Application Negotiated Settlement Agreement, Proceeding 28174, February 12, 2024.

19. Section 132 of that act authorizes the Commission to establish rules in respect of negotiated settlements, including settlements of rate-related matters.

20. Section 6 of Rule 018: *Rules on Negotiated Settlements* sets out requirements for the contents of a negotiated settlement application and places the onus on the applicant to provide sufficient evidence to support the application and to enable the Commission to understand and assess the agreement. Section 7 of Rule 018 includes requirements for the Commission's assessment of the agreement. The Commission structured the settlement process in this proceeding in accordance with Rule 018.

21. In considering these requirements, the Commission has taken into account the direction of the Alberta Court of Appeal as set out in *ATCO Electric Limited v Alberta (Energy and Utilities Board)* (ATCO Electric decision), where the court found that the ultimate responsibility for approving negotiated settlements resides with what is now the AUC.[12] The Commission must therefore ensure that the NSA will result in just and reasonable rates; that none of the NSA provisions, individually or collectively, are patently against the public interest or contrary to law; and that the process used to arrive at the NSA was fair.

22. In assessing a negotiated settlement, the Commission is aware that while one or more of the interested parties to a settlement may represent certain stakeholders, none will represent all stakeholders. Further, as noted by the court in the ATCO Electric decision, "… even a broad range of Interveners will not necessarily translate into a wide spectrum of positions since parties may make trade-offs which leave other issues unresolved, unaddressed or compromised."[13] Consequently, the NSP and NSA do not replace a full and informed review by the Commission as to what is in the overall public interest. Given that AltaLink requested and received Commission approval to negotiate a settlement, subsequently negotiated with parties representing ratepayers, executed the NSA, and then applied to the Commission for approval of the original NSA in its entirety, the Commission has proceeded on the basis that the NSA satisfies AltaLink's interests and has only assessed the NSA from the point of view of ratepayers. This is consistent with the ATCO Electric decision.[14]

23. Given the statutory requirements, Rule 018, the relevant case law and its own prior decisions on negotiated settlements in rate cases,[15] the Commission considered the following in making its determination on whether the NSA should be accepted or rejected in its entirety:

- **Review of the NSP**
  - Was the NSP procedurally fair, both with respect to adequate notice having been served and with respect to the conduct of the negotiation process itself?

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12 *ATCO Electric Limited v Alberta (Energy and Utilities Board)*, 2004 ABCA 215 [ATCO Electric decision].

13 ATCO Electric decision, paragraph 138.

14 ATCO Electric decision, paragraph 146.

15 See, for example, Decision 21149-D01-2016 (Errata): ENMAX Power Corporation, Distribution 2015-2017 Performance-Based Regulation – Negotiated Settlement Application and Interim X Factor, Proceeding 21149, October 3, 2016, paragraph 29; Decision 25726-D01-2021: ENMAX Power Corporation, 2021-2022 General Tariff Application Negotiated Settlement Agreement and Excluded Matters, Proceeding 25726, June 16, 2021, paragraph 23; Decision 23966-D01-2020 (Corrigenda): ENMAX Power Corporation, 2018-2020 General Tariff Application Negotiated Settlement Agreement and Excluded Matters, Proceeding 23966, July 30, 2020; and Decision 26207-D01-2021: Direct Energy Regulated Services, 2020-2022 Default Rate Tariff and Regulated Rate Tariff – Negotiated Settlement Agreement, Proceeding 26207, June 4, 2021, paragraph 18.

- **Review of the NSA**
  - Does the settlement result in rates, and terms and conditions that are just and reasonable?
  - Is the settlement patently against the public interest or contrary to law?

24. Performing this assessment requires the Commission to review both the individual provisions of the NSA and the NSA as a whole.

25. The Commission's findings on the NSP and on the provisions of the NSA are discussed in sections 3.2 and 3.3, respectively. The Commission findings on excluded matters, including both Commission-excluded matters and matters excluded by parties are addressed in Section 4.

3.2 Review of the NSP

26. The first factor that the Commission considers is whether the NSP that resulted in the NSA was fair.

27. Starting with the issue of adequate notice, Section 3 of Rule 018 deals with the provision of notice by a utility to parties who may be interested in participating in negotiations. Under Section 3, the Commission requires a statement in a settlement agreement confirming that proper notice was provided by the applicant to all interested parties. AltaLink submitted that adequate notice was provided to parties, noting that it met with customer groups prior to filing its GTA, and submitted a formal request to pursue an NSA as part of its initial application.[16] The NSA includes a statement confirming that AltaLink provided proper notice to all interested parties.[17] With the exception of TransAlta, all parties that registered to intervene in this proceeding are signatories to the NSA. TransAlta is not a signatory to the NSA but raised no concerns regarding the NSA. The Commission finds that AltaLink provided adequate notice to parties.

28. Turning to the conduct of the negotiation process, AltaLink submitted that the settlement negotiations were conducted in a fair and open manner, and each party was given a reasonable opportunity to raise and discuss any matters related to the 2024-2025 GTA.[18] The CCA, the UCA and IPCAA also filed additional correspondence with the Commission attesting to the fair and open manner in which the negotiation was conducted.[19] The Commission notes that all participants in the negotiations are sophisticated parties, and considers that they represent a cross-section of Alberta residential, small business, commercial and industrial ratepayers. The Commission is satisfied that the parties had the opportunity to participate meaningfully, and that the negotiations were conducted in an open and fair manner.

29. Finally, Section 6(1) of Rule 018 provides that, when an agreement is reached on all or some of the issues, the text of the agreement, including a representation that no party has withheld relevant information, must be circulated to all parties to the agreement. The NSA

16 Exhibit 28174-X0001, AML 2024-2025 GTA Cover Letter, April 28, 2023.
17 Exhibit 28174-X0443, Negotiated Settlement Agreement Application, PDF page 4, paragraph 14.
18 Exhibit 28174-X0443, Negotiated Settlement Agreement Application, PDF pages 16-17, paragraphs 45-46.
19 Exhibit 28174-X0439, IPCAA Notice of Fairness of NSP; Exhibit 28174-X0440, CCA Support for AML NSA; Exhibit 28174-X0441, UCA Letter to Commission Re. Fairness of NSP.

addresses this requirement under Section 11.[20] The Commission accepts that the requirements of Section 6(1) of Rule 018 have been met.

30. In view of the above and having considered the parties' submissions with respect to the NSP, the Commission is satisfied that the NSP was fair and that the requirements set out in sections 3, 6(1) and 6(3)[21] of Rule 018 have been satisfied.

3.3 Review of the NSA

31. The second factor that the Commission considers is whether the NSA is in the public interest, including whether it will result in just and reasonable rates (Section 8(1) of Rule 018). The Commission is also guided by the *Electric Utilities Act* and Section 8(2) of Rule 018, which states that the Commission must intervene if it determines that a unanimous settlement agreement is patently against the public interest or contrary to law.

32. In conducting the public interest assessment, the Commission considered each individual element of the NSA and the NSA as a whole. As to what constitutes the public interest when assessing the attributes and merits of the NSA, the Commission followed the guidance provided in the ATCO Electric decision discussed above. That is, it considered the public interest from the perspective of ratepayers. In arriving at its findings, the Commission reviewed each of the material provisions of the NSA to determine whether any of these provisions appear to be unusual, contrary to accepted regulatory practices, or could result in undue rate effects, service concerns, rates that are unduly preferential, or other concerns in future rate applications. The Commission also considered whether the effect of the NSA would lead to rates and terms and conditions of service that are just and reasonable.

33. AltaLink filed a summary of the terms of the NSA for AltaLink's 2024-2025 GTA, reproduced in Table 1 below. In total, the adjustments resulting from the NSA amount to a reduction of $12.0 million[22] to AltaLink's 2024-2025 revenue requirements.

Table 1. Impact to revenue requirement of agreed adjustments

	2024	2025	Total
	($ million)		
O&M [operating and maintenance] negotiated items			
Holistic O&M reductions	2.5	4.5	7.0
Total O&M negotiated items	**2.5**	**4.5**	**$7.0**
Capital negotiated items			
CRU [capital replacement and upgrade] reductions	0.5	1.6	2.1
Information technology [IT] and security reductions	0.8	2.1	2.9
Total capital negotiated items	**1.3**	**3.7**	**5.0**
Total negotiated reduction	**3.8**	**8.2**	**12.0**

Source: Exhibit 28174-X0445.

20 Exhibit 28174-X0443, Negotiated Settlement Agreement Application, PDF page 28, Clause 11.

21 Section 6(3) sets out the minimum filing requirements for an application for approval of an NSA. They are addressed at paragraphs 14-22 of AltaLink's application: Exhibit 28174-X0443, Negotiated Settlement Agreement Application, PDF pages 4-6.

22 = $7.0 million + $2.2 million + $2.8 million.

34. In addition to the proposed reduction in O&M expenditures, the NSA includes an O&M asymmetric cost-saving sharing mechanism that will return to customers 50 per cent of any cost savings achieved by AltaLink (above the already agreed-upon reductions).[23] Parties also agreed that the capital expenditures for IT and security for the test period will be capped at $59.6 million.[24]

35. The NSA represents a unanimous agreement reached as a result of a successful negotiation. Such negotiations and the resulting NSA typically reflect a number of compromises of different interests and positions of the parties. The signatories to the NSA in this case have historically participated in the testing of AltaLink's GTAs and represent a cross-section of Alberta residential, small business, commercial and industrial ratepayers. The involvement of sophisticated participants supports a finding that the NSA is in the public interest.

36. After reviewing the individual provisions of the NSA, along with the detailed analysis of the application and IR responses, the Commission finds that the NSA, taken as a whole, is not patently against the public interest or contrary to law, and finds that the NSA results in rates and terms and conditions that are just and reasonable, as required by Section 8 of Rule 018. Accordingly, the Commission approves the NSA. The NSA is attached as Appendix 4 to this decision.

4 Matters excluded from the NSA

4.1 Salvage approval requests

37. As part of its application, AltaLink requested approval of:

- its previously disallowed 2019-2021 actual salvage expenditures and related returns;
- 2022-2023 actual salvage expenditures; and
- 2024-2025 forecast salvage expenditures.

4.1.1 Salvage issues in this proceeding

38. In this proceeding, interveners primarily took issue with the allocation methodology AltaLink used to forecast and record its forecast and actual CRU salvage expenses (allocation methodology), claiming that it does not allow for the testing of actual salvage expenses for CRU projects. Additionally, the UCA took issue with how the forecast for CRU salvage is developed using the current allocation methodology.

39. In comparison, while excluded from the NSA, there was minimal discussion with regard to salvage expenses for Direct Assign (DA) projects, which are reported in alignment with the AESO template. AltaLink stated that, unlike CRU projects, due to the nature of DA projects, it uses the direct tracking approach for most DA projects. This is because salvage activities are typically easily delineated from construction activities for DA projects, as DA projects typically involve adding "net new" assets to the grid with very little salvage occurring.[25] The Commission

[23] Exhibit 28174-X0443, Negotiated Settlement Agreement Application, PDF page 25, Clause 5.
[24] Exhibit 28174-X0443, Negotiated Settlement Agreement Application, PDF pages 23-14, Clause 4(c).
[25] Exhibit 28174-X0304, AML-AUC-2023OCT04-005(a) and (b).

finds this explanation reasonable, and thus finds the actual salvage expenses for DA projects reasonable, subject to future true-ups.

40. As a result, in the sections that follow, the Commission focuses solely on CRU salvage expenses. The Commission first provides a background of AltaLink's current allocation methodology for CRU projects and of previous Commission directions, and then examines AltaLink's allocation methodology and considers whether it is reasonable. The Commission then determines that the 2019-2023 actual CRU salvage expenses, as well as the 2024-2025 CRU salvage forecast are reasonable, and provides direction for future proceedings.

4.1.1.1 AltaLink's allocation methodology of forecasting and recording salvage costs for CRU projects

41. In its application, AltaLink stated that it currently forecasts its total capital and salvage expense for each CRU project based on its historical average cost of completing projects of the same type, having regard for any specific work requirements during the test period. AltaLink then applies the appropriate salvage allocation percentage from its salvage allocation methodology to the total forecast project expenditure (net of materials) to determine the forecast salvage expenditure amount for that project. The forecast capital expense for the CRU project is then the total forecast expense for the project less the forecast salvage expense.[26] Salvage expenses are allocated in the same way, using the salvage allocation percentages on the actual total project expenses (net of materials), although, as noted below, AltaLink does not specifically track actual salvage expenses separately from total project expenses.

42. AltaLink provided an example of a project where the unit total project expense is equal to $100, inclusive of $10 of materials. Assuming the applicable salvage allocation is 30 per cent:[27]

- Salvage expense would be ($100-$10) x 30 per cent = $27.
- AltaLink would then record a CRU capital expense for $100-$27 = $73, and salvage expense of $27 for a total project expense of $100.

43. AltaLink stated that it does not plan or track salvage activities and expenses separately from other aspects of the project for CRU projects. It stated that, in the case of CRU projects, it is neither efficient nor practical to delineate the expenses specifically for the salvage portion of a project, as salvage activity is highly integrated with the rest of the overall execution of the project.[28] AltaLink also explained that this salvage allocation methodology is based on a salvage study that was completed in 2013-2014. This study resulted in the application of a standard salvage percentage to specific project types. In 2022, AltaLink conducted an in-depth review of the standard salvage percentages assigned to each project type within the 2013-2014 Cost of Salvage Study. In the 2022 review, AltaLink randomly selected a sample of 98 of approximately 3,000 projects for review from the 2019-2021 test period. AltaLink's primary conclusion from the review is that the standard salvage percentages established in the 2013-2014 Cost of Salvage Study are still an accurate representation of the salvage effort associated with CRU programs that have a salvage component.[29]

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[26] Exhibit 28174-X0006.01, application, PDF page 281, paragraph 984.
[27] Exhibit 28174-X0006.01, application, PDF page 282, paragraph 988.
[28] Exhibit 28174-X0006.01, application, PDF page 284, paragraph 995.
[29] Exhibit 28174-X0006.01, application, PDF page 284, paragraphs 999-1002.

4.1.1.2 Previous Commission directions

44. In previous proceedings, the Commission has expressed concern with AltaLink's claim that it does not track salvage activities and expenses separately from other aspects of a CRU project.

45. In Decision 25870-D01-2020,[30] the Commission approved AltaLink's request to change from the existing traditional method of collecting net salvage expense (traditional recovery methodology) to its current method of collecting net salvage (capitalize and expense recovery methodology), but indicated that it expected AltaLink to provide sufficiently detailed information for the purposes of testing the prudency of costs of removal. Initially in Decision 25870-D01-2020,[31] and then again in Decision 24681-D01-2020,[32] the Commission directed that for each future GTA or direct assigned capital deferral account, AltaLink was required to provide sufficiently detailed information for the purposes of testing the prudency of removal costs, whether recorded to the net salvage reserve account during the period of transition, capitalized to the cost of a replacement asset, or recorded in association with a terminal asset retirement. The Commission also stated that it expected AltaLink to address the deficiencies in relation to the tracking and reporting of information and the provision of explanations of its salvage expenses in its future filings. The Commission stated that AltaLink was aware of, and committed to, the requirement for testing "the prudency of the actual costs incurred for cost of removal [as being] assessed similar to all other project costs."[33]

46. Subsequently, in Decision 26509-D01-2022 (Corrigenda),[34] the Commission did not approve AltaLink's 2019-2021 actual CRU net salvage expenses, determining that AltaLink had not provided sufficient information to test the prudence of those expenses in accordance with the Commission's prior direction. The Commission directed AltaLink to remove its 2019-2021 actual CRU salvage expenses in the amount of $98.9 million from its 2019-2021 net salvage reserve account. The Commission stated that it would test the prudency of the 2019-2021 expenses in the next GTA and, that if those expenses were found prudent, they may be added to the opening balance of AltaLink's net salvage reserve account for the first year of the next test period. The Commission reiterated that it is important for AltaLink to clearly report its net salvage expenses as it transitions to its capitalize and expense recovery method, which is different from the traditional recovery method used by most other utilities in Alberta.[35]

4.1.2 Is AltaLink's allocation methodology reasonable for recording actual CRU salvage expenses?

47. The Commission finds that AltaLink's allocation methodology is reasonable and can be used to determine whether the 2019-2023 actual salvage expenses are reasonable. The

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[30] Decision 25870-D01-2020: Stage 2 Review and Variance of Decision 23848-D01-2020, AltaLink 2019-2021 General Tariff Application, Proceeding 25870, November 19, 2020..

[31] Decision 25870-D01-2020, paragraph 36.

[32] Decision 24681-D01-2020: AltaLink Management Ltd., 2016 to 2018 Deferral Accounts Reconciliation Application, Proceeding 24681, December 11, 2020, paragraphs 70-84.

[33] Decision 24681-D01-2020, paragraph 82.

[34] Decision 26509-D01-2022 (Corrigenda): AltaLink Management Ltd., 2022-2023 General Tariff Application and 2020 Direct Assigned Capital Deferral Account Reconciliation Application, Application 26509-A001; KainaiLink Limited Partnership, 2022-2023 General Tariff Application, Application 26509-A002; PiikaniLink Limited Partnership, 2022-2023 General Tariff Application, Application 26509-A003, Proceeding 26509, February 11 2022.

[35] Decision 26509-D01-2022 (Corrigenda), paragraphs 676-685.

Commission also finds that its reasonable for AltaLink to continue to use the capitalize and expense recovery methodology, instead of the traditional recovery methodology.

48. In this proceeding, AltaLink stated that it interpreted the Commission’s previous findings and directions as being circumscribed by the salvage allocation approach AltaLink had been using to underpin its salvage expenses in its GTAs for many years. AltaLink stated that it did not interpret the directions as requiring AltaLink to have personnel onsite at all projects in an attempt to track labour hours, vehicle hours and machinery hours specifically to salvage vs. non-salvage activities.[36]

49. Dustin Madsen, on behalf of the CCA, stated that AltaLink is unable to specifically quantify actual salvage expenses or explain in detail why those amounts differ from approved forecasts. As a result, he recommended the Commission find that AltaLink is unable to demonstrate the prudence of its actual salvage expenses due to the allocation methodology employed, and that any differences between actuals and forecast be disallowed.[37] The CCA argued that AltaLink bears the onus to demonstrate the prudence of all its expenses, and where AltaLink fails, it should bear the expense. However, the CCA did note that some amount of the salvage expense is likely reasonable and was supportive of other alternatives, including a lesser disallowance of only the unexplained increases over approved levels.[38] Finally, the CCA recommended that the Commission direct AltaLink to move back to the traditional recovery methodology of salvage expense, stating it is superior to the current capitalize and expense recovery methodology, given that AltaLink is unable to support the reasonableness of its applied for actual salvage expenses. The CCA argued that the traditional recovery methodology ensures any errors in those expenses are corrected over time rather than embedded in rates with no possibility for future adjustment.[39]

50. AltaLink indicated that its salvage expenses and capital expenses are based on total tracked project expenses and material expenses. In other words, because AltaLink’s salvage expenses are calculated based on its tracked non-materials total project expenses, its salvage expenses reflect its tracked actual expense of carrying out the salvage work as part of the total project cost. Forecast salvage expenses are calculated in a similar manner. Because of the largely integrated nature of the capital and salvage work undertaken to complete CRU projects, AltaLink took the position that the drivers of forecast to actual expense variances generally impact both the asset replacement and the salvage work in the same way. However, in circumstances where a variance driver affects the capital expense and salvage expense components of a CRU project differently, such as the substation components program or supervisory control and data acquisition equipment, AltaLink has identified that in its variance explanations.[40]

51. While the Commission is concerned with AltaLink’s apparent misunderstanding of why the Commission has repeatedly requested that detailed actual salvage expenses are to be tracked separately from capital expenses, the Commission appreciates AltaLink’s position that to track the details on more than 1,000 projects a year, during the transition period between the

36 Transcript, Volume 4, pages 563-564.
37 Exhibit 28174-X0422, Evidence of D. Madsen, PDF pages 53-66.
38 Transcript, Volume 4, page 697.
39 Transcript, Volume 4, page 699.
40 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF pages 6-20.

traditional salvage recovery methodology and the capitalize and expense salvage recovery methodology, could be burdensome.[41]

52. The Commission also notes AltaLink's evidence that on average, approximately one-third of the resources who work on CRU projects are internal resources, and two-thirds are external resources, and that AltaLink has previously discussed with contractors their ability to track salvage expenses separately. According to AltaLink, prior to 2014, each contractor used its own estimates to allocate salvage expenses, which resulted in a high degree of variability from project-to-project depending on the contractors/crews involved. AltaLink also confirmed that if its contractors were asked to provide salvage expenses for work undertaken in the future, the contractors would, as in past periods, use some form of allocation.[42] Thus, the Commission agrees with AltaLink that using its own standard methodology results in greater consistency and efficiency. The Commission also notes that like AltaLink, FortisAlberta Inc. has used allocation methods to determine salvage expenses vs. capital replacement expenses.[43]

53. For these reasons, the Commission accepts AltaLink's use of its allocation methodology for recording actual salvage expenses and accepts that tracking actual salvage expenditures for each project would not be practical. The Commission notes, as was also conceded by D. Madsen, that regardless of how the costs are split between capital expenditure and salvage expenditure under the capitalize and expense recovery methodology, the overall impact to rate base is the same.[44] This is because both the capital expenditure piece and the salvage expenditure piece are being capitalized and added to rate base. However, the Commission reiterates its concern from previous decisions that it is important to continue to maintain accurate records of salvage expenses, especially if AltaLink were to ever return (or be required to return) to the traditional salvage recovery methodology. For this reason, as discussed further in Section 4.1.5 below, in order for AltaLink to continue using the capitalize and expense recovery methodology, the Commission will require AltaLink to file an updated salvage allocation study, to provide the Commission with assurances that the allocations currently used are accurate and based on the most recent information.

54. Finally, the Commission also notes that the current salvage allocation methodology has been used by AltaLink since 2014, several years prior to AltaLink implementing the capitalize and expense recovery methodology. The Commission therefore does not agree with the CCA that a move back to the traditional recovery methodology would result in AltaLink providing more detail for salvage expense. This was also acknowledged by the UCA.[45] As a result, the Commission continues to find AltaLink's use of the capitalize and expense recovery methodology to be reasonable.

55. Having determined that AltaLink's current allocation methodology is reasonable, subject to the requirement to file an updated study, the next issue the Commission must determine is the reasonability of the 2019-2023 actual salvage expenses.

41 Decision 25870-D01-2020, paragraph 36.
42 Transcript, Volume 4, page 559.
43 Exhibit 28174-X0304, AML-AUC-2023OCT04-024, PDF pages 102-109.
44 Exhibit 28174-X0460, CCA-AUC-2024-JAN19-008(b).
45 Exhibit 28174-X0470, UCA-AUC-2024JAN19-002.

4.1.3 Are AltaLink's actual CRU salvage expenses for 2019-2023 reasonable?

56. Having determined above that AltaLink's allocation methodology is reasonable, for the reasons set out below, the Commission also finds that AltaLink's actual salvage expenses for 2019-2023 are reasonable.

57. In this application, AltaLink stated that it has developed detailed salvage summary reports for each CRU business case from the 2019-2021 GTA explaining the variances from forecast to 2019-2021 actual salvage expenses. AltaLink also provided variance explanations for 2019-2021 forecast/approved vs. actuals salvage programs. Overall, 2019-2021 actual CRU net salvage expenses of $94.5 million were $10 million higher than the approved salvage expenses of $84.6 million.[46]

58. The 2022-2023 actual CRU salvage expenses of $53.2 million were $4.4 million higher than the 2022-2023 approved CRU salvage expenses of $48.8 million.[47] AltaLink also provided detailed variance explanations broken down by program and subprogram.

59. The Commission notes that the information provided by AltaLink in this GTA is significantly more detailed than what was provided in its previous GTA, when the Commission disallowed the actual salvage expenses for 2019-2021 in Decision 26509-D01-2022 (Corrigenda). The Commission has reviewed the variance explanations provided by AltaLink, and the explanations provided in support of the variances for each of the programs and subprograms, and finds these explanations reasonable. These explanations allow the Commission to more readily see how the drivers of the variances affected each component, and to identify where the drivers were different. These breakdowns and explanations, when combined with the Commission's findings above regarding the reasonability of using the allocation methodology, support the Commission's finding that AltaLink's actual salvage expenses have been reasonably incurred. The Commission expects AltaLink to file salvage evidence at least as detailed as was provided in the current proceeding in future GTAs.

4.1.3.1 Should AltaLink be permitted to recover the return on the 2019-2021 actual salvage expenditures for the years 2022 and 2023?

60. The Commission finds that AltaLink is not permitted to recover the return on the 2019-2021 actual salvage expenses for the years 2022 and 2023.

61. In Decision 26509-D01-2022 (Corrigenda), the Commission specifically stated that:

> 686. Accordingly, the Commission directs AltaLink in its compliance filing to remove from its 2022 opening net salvage reserve account its 2019-2020 actual, and 2021 forecast net salvage costs totalling $96.4 million (excluding each year's net salvage costs pertaining to its direct assigned projects) and flow the effect of doing so through its revenue requirement calculations for the years 2022-2023. If AltaLink's actual 2021 net salvage costs are known at the time of its compliance filing, AltaLink is directed to remove those costs.
>
> 687. **If in its next GTA** AltaLink provides the necessary support for its actual 2019-2021 net salvage costs, those costs will be tested for prudency and, if prudent, **may be**

46 Exhibit 28174-X0050, Appendix 18, Attachment 1.

47 Exhibit 28174-X0006.01, application, Section 10.3.7, PDF pages 301-302, Table 10.3.7-1.

> **added to the opening balance of its net salvage reserve account for the first year of that test period**. [emphasis added]

62. In response to a Commission IR, AltaLink stated that it is requesting $11 million in returns incurred over the 2022-2023 test period on the basis that the 2019-2021 actual net salvage costs were prudently incurred. AltaLink stated that the prudence of the costs is independent of the point in time at which the costs are confirmed by the Commission to have been prudent, and that prudent costs are, and have always been, prudent costs irrespective of when the determination is made.[48]

63. While the Commission has determined that AltaLink has demonstrated, through evidence filed in the current proceeding, that the 2019-2021 actual net salvage expenses are prudent, this does not result in a finding that AltaLink should or may recover the $11 million in returns associated with these expenses for 2022 and 2023.

64. The $11 million represents the returns that AltaLink would have received in 2022-2023 if the 2019-2021 salvage expenses and associated 2022-2023 revenue had not been disallowed from rate base in Decision 26509-D01-2022 (Corrigenda). The Commission finds that approving the $11 million in returns would constitute impermissible retroactive ratemaking. Specifically, AltaLink is expressly seeking to recover revenue for the prior period 2022-2023, in relation to 2019-2021 actuals that were disallowed from rate base. Irrespective of when the 2019-2021 salvage expenses are approved, the revenue associated with the 2019-2021 actuals were still considered and disallowed in a prior, historical period.

65. Further, none of the exceptions to the general principle against retroactive and retrospective ratemaking apply.[49] Specifically, Decision 26509-D01-2022 (Corrigenda) approved rates on a final, not interim, basis; there is no deferral account pursuant to which rates could be revised; and rates were fixed by the Commission on a positive approval scheme, not a negative disallowance scheme. Additionally, there is no basis to argue that the knowledge exception applies, as Decision 26509-D01-2022 (Corrigenda) expressly removed the 2019-2021 salvage costs from rate base, and expressly directed AltaLink to remove any related returns from its revenue requirement in 2022-2023, and Decision 26509-D01-2022 (Corrigenda) has not been determined to be a nullity. It is clear from the Commission's prior decision at paragraph 687 reproduced above that the Commission did not intend for the disallowance of the return effected in that decision to be revisited in the next GTA. In addition to constituting retroactive ratemaking, the application by AltaLink to recover these disallowed returns would constitute an out-of-time review and variance of the Commission's previous decision.

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[48] Exhibit 28174-X0304, AML-AUC-2023OCT04-030.

[49] In Decision 790-D02-2015: Milner Power Inc., Complaints regarding the ISO Transmission Loss Factor Rule and Loss Factor Methodology, ATCO Power Ltd., Complaint regarding the ISO Transmission Loss Factor Rule and Loss Factor Methodology, Proceeding 790, Applications 1606494, 1608563, 1608790, January 15, 2015, Phase 1, PDF page 46, paragraph 153, the Commission stated, "The courts have recognized at least five exceptions to this [retroactive] ratemaking principle. They include: (1) adjustment to interim rates; (2) the use of deferral accounts to deal with differences between forecast and actual costs and revenues; (3) changes to rates as a result of the operation of a negative disallowance scheme; (4) changes to rates where affected parties knew or ought to have known that rates were subject to change (i.e. the 'knowledge exception'); and (5) replacing rates in a tariff that has been determined to be a nullity."

66. Therefore, for the reasons set out above, AltaLink's request to recover the return on the 2019-2021 actual salvage expenditures for the years 2022 and 2023 is denied.

4.1.4 Is AltaLink's 2024-2025 CRU salvage forecast reasonable?

67. The Commission finds that AltaLink's 2024-2025 salvage forecast is reasonable.

68. AltaLink forecasts salvage expenses of $37.2 million in 2024 and $33.9 million in 2025 related to CRU investments. This translates to a 33 per cent increase in average annual CRU salvage expenses in the 2024-2025 test period relative to the 2022-2023 test period, and a 33 per cent increase relative to 2022-2023 actuals.[50]

69. AltaLink stated that the 2022-2023 actual to 2024-2025 forecast salvage variances are mainly attributable to forecast changes in the activities and work levels that will be required to remove, recycle and dispose of the transmission assets forecast for capital replacement for each CRU project, as outlined in the CRU business cases.[51]

70. The UCA raised concerns with the proper application of the allocation methodology used by AltaLink in determining its salvage forecast, stating that AltaLink did not appear to have applied the salvage cost allocation methodology as it proposed. The UCA provided examples of where it believed the salvage calculation was incorrect and included material expenses and recommended that AltaLink should be directed to recalculate salvage based on the capital expenses that exclude materials. The UCA also was concerned that there is a risk of double-counting and that AltaLink's capital expenditure forecasts might be inflated due to the improper inclusion of salvage expenses in historical capital expenses. The UCA recommended that the forecast capital expenses for CRU projects should be recalculated to exclude the forecast salvage expenses, to be consistent with AltaLink's explained methodology.[52]

71. The Commission agrees with AltaLink that the UCA appeared to conflate "capital expenditures" as "total projects costs," and therefore finds that the UCA's claim that AltaLink miscalculated its 2024-2025 forecast is without merit. In its rebuttal, AltaLink provided several explanations and examples illustrating the difference between "total project costs," "capital expenditures" and "salvage expenditures."[53] It is clear to the Commission from AltaLink's explanations and examples that the salvage allocation percentage has been applied to non-material project costs to derive capital expenses and salvage expenses. Furthermore, capital expenses, including historical capital expenses used to set the forecasts, are net of the salvage expenses determined by AltaLink's methodology, and thus there is no double-counting that occurs. Finally, the Commission notes that AltaLink has also provided the forecast number of units and unit cost to be completed for each subprogram, as well as the historical amounts for each of these, in addition to discussing the forecast variances in the business cases. In the Commission's view, this information provides sufficient detail and justification for the 2024-2025 forecast salvage expenses.

72. Given the reasons set out above, along with the findings in Section 4.1.2 regarding the use of the allocation methodology, the Commission is satisfied that AltaLink's 2024-2025

[50] Exhibit 28174-X0006.01, application, PDF page 298, Table 10.3.4-2.
[51] Exhibit 28174-X0006.01, application, PDF pages 298-299.
[52] Exhibit 28174-X0436, Evidence of A. McLaren and H. Mahmudov on behalf of the UCA, PDF pages 12-19.
[53] Exhibit 28174-X0482.01, AML rebuttal evidence, paragraphs 6-20.

salvage forecast is reasonable. In its compliance filing to this decision, AltaLink is directed to update its 2024-2025 salvage forecast to reflect the WMP expenditures approved in this decision.

4.1.5 Update of salvage allocation study

73. In Section 4.1.2, the Commission found that AltaLink's allocation methodology used to record actual salvage expenses and forecast salvage expenses is reasonable. However, the Commission also noted that the current allocation percentages are based on the 2013-2014 salvage allocation study. While AltaLink completed a review in 2022 of its salvage allocation percentages to confirm the ongoing reasonableness, this review consisted of a relatively small sample size of 98 projects. Further, it has been more than a decade since the last full study. The Commission therefore finds that it would benefit all parties for AltaLink to complete a comprehensive allocation study to ensure all salvage allocation percentages are accurate. The CCA stated it supported this type of study to help ensure the accuracy of actual salvage expenses if an allocation method continues to be used.[54] The Commission directs AltaLink to complete a full salvage allocation study to be filed by way of a report to the Commission. The study should, at a minimum:

- Include field-verified time studies where personnel are onsite at sample projects to track time and costs related to three categories of activities: integrated (construction and salvage) activities; construction-only activities; and salvage-only activities, with a view to gathering information that would further assist in assessing the reasonableness of AltaLink's standard salvage allocation percentages. Such information should include the time and costs related to the elements identified in the salvage cost matrix[55] from the 2013-2014 salvage study.

- The sample should include multiple projects in each asset category, and the overall sample size should be statistically representative of the total number of projects. AltaLink must also provide the statistical assessment to the Commission in the study report.

- Where the projects sampled include both replacement and salvage activity that is being completed concurrently, any integrated (construction and salvage) activities should be clearly identified separately as integrated activities, and then split into construction and salvage activities based on the percentage or ratio of salvage-only activities and associated costs from the salvage cost matrix to construction-only activities and associated costs from the salvage cost matrix.

74. AltaLink is directed to file, in its compliance filing to this decision, its expected timeline for this full salvage allocation study, including when it expects to file the new study report and when it would implement any resulting changes to allocation percentages.

4.2 Wildfire Mitigation Plan

75. AltaLink first proposed to separate wildfire mitigation activities from CRU activities through implementation of a Wildfire Mitigation Plan (WMP) in its 2019-2021 GTA.[56] The WMP is intended to reduce the risk of AltaLink's assets igniting a wildfire by gathering data on the condition of AltaLink assets and their surroundings, developing wildfire modelling and

[54] Transcript, Volume 4, page 696.
[55] Exhibit 28174-X0049, Appendix 18, PDF page 22.
[56] Proceeding 23848, Exhibit 23848-X0169, Appendix 22, AltaLink Wildfire Mitigation Plan.

identifying appropriate wildfire mitigation activities. These mitigation activities can include equipment maintenance, equipment replacement, right-of-way (ROW) upgrades and line rebuilds.

76. The WMP was originally proposed to provide additional risk mitigation in HRFAs[57] and comprised four individual program categories: Wildfire Situational Awareness (program A1); Targeted Component and Structure Replacements (program A2); Line Rebuilds (program A3); and Transmission Line ROW Upgrades (program A4). In the current application, AltaLink proposed to expand the scope of the WMP to include mitigation efforts in areas outside of HRFAs and by introducing a fifth program, the Top Ignition Causing Lines Upgrades (program A5).

77. The majority of the proposed WMP expansion was put forward to the Commission in AltaLink's amended GTA, following the nearly two-month suspension of Proceeding 28174. The suspension was initiated to allow AltaLink to respond to increased wildfire activity in the 2023 wildfire season, and to update the WMP in its 2024-2025 GTA. AltaLink's updated application increased the 2024 and 2025 WMP forecast capital expenditures by $22.5 million and $23.9 million, respectively,[58] a request approximately 2.5 times higher than the originally applied-for WMP funding for 2024 and 2025. The increased forecast consisted of changes to the following WMP programs: Wildfire Situational Awareness, Targeted Component and Structure Replacements, and the introduction of the Top Ignition Causing Lines Upgrades Program. The Wildfire Situational Awareness and ROW upgrades programs were settled in the NSA.[59] The Commission's findings on the WMP programs excluded from the settlement agreement will be addressed in this decision.

78. AltaLink's proposed WMP spending in the upcoming test period is summarized in the following table:

Table 2. WMP forecast capital expenditures

Wildfire Mitigation Plan	2024 Forecast	2025 Forecast
	($ million)	
NSA for programs A1 Wildfire Situational Awareness & A4 Transmission Line ROW Upgrade in HRFA*	14.3	
A2 Targeted Component and Structure Replacements	15.5	8.5
A3 Line Rebuilds in HRFAs	4.7	2.3
A5 Top Ignition Causing Lines Upgrades	10.4	19.9
Total	**37.8**	**37.9**

*This is the amount for 2024 and 2025 agreed upon by AltaLink and interveners through the NSA process, which includes a $0.65 million reduction in both 2024 and 2025. All other amounts are those applied for by AltaLink and provided in Exhibit 28174-X0054.01, Appendix 22 (Wildfire Mitigation), Table 8-1, PDF page 45.

79. As detailed above, the WMP for consideration in this decision consists of three unsettled programs. The Targeted Component and Structure Replacements Program is an existing program

57 HRFAs are defined by Forsite as "High risk areas where the greatest impacts are more likely to occur from wildfires originating from AltaLink's transmission lines." Forsite notes "the wildfire spread modeling did not assess or incorporate the actual probability of a fire starting from a given section of line, but modelled fire from ignition points all along the transmission lines, assuming equal probability of ignition." Exhibit 28174-X0060, Appendix 22, Attachment 6 (Forsite Ignition Point Risk Memo April 2020), PDF page 5.

58 Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF page 45, Table 8-1.

59 Exhibit 28174-X0443, Negotiated Settlement Agreement Application, PDF pages 10-11.

that identifies maintenance notifications that AltaLink deems to be potential causes of ignition events caused by AltaLink's assets. This program is intended to resolve notifications both inside and outside of HRFAs within 12 months of receiving the notification. The Line Rebuilds in HRFAs program is also an existing program that focuses on rebuilding transmission lines that were built according to older design standards that are considered to pose a higher fire risk, in part due to a change in fire ignition prevention requirements. Under this program, the lines are to be rebuilt according to current AltaLink design standards, thus reducing ignition risk. Finally, the Top Ignition Causing Lines Upgrades Program is a new program that entails upgrading lines that have historically caused the most sparks and fires. In this program, AltaLink has proposed to address the seven most at-risk transmission lines.

4.2.1 AltaLink's assessment of wildfire risk

80. The WMP comprises expenditures that AltaLink has proposed to reduce the risk that its assets will cause a wildfire. However, as described in the following paragraphs, the Commission has concerns regarding the risk assessment conducted by AltaLink to identify and prioritize work to be completed under the WMP. For the reasons set out below, the Commission finds that AltaLink has not adequately demonstrated that the risk of its assets causing a wildfire is sufficient to justify the proposed increase in WMP expenditures.

81. AltaLink stated that its risk methodology for the WMP "identified and prioritizes required investments that reflect: (i) facilities which have a high likelihood of initiating sparks that cause wildfire, (ii) in locations on AltaLink's system where an ignited wildfire has the potential to become a catastrophic wildfire."[60] AltaLink further clarified that it considers both probability and consequence in its assessment of wildfire risk, through assessment of the following:

(i) Probability of an ignition event[61] (i.e., an AltaLink asset creates a spark).

(ii) Probability that an ignition event causes a fire.

(iii) Probability that a fire spreads and impacts the environment, infrastructure and communities (defined as "values at risk").

(iv) Consequence of that impact to values at risk (i.e., total impact of the potential wildfire).[62]

82. AltaLink qualitatively assessed the probability of its assets causing an ignition event ((i) above) by using its operating history and knowledge to identify specific asset deficiencies, conditions or legacy designs known to have a high likelihood of initiating sparks.[63] AltaLink relied on its consultant Forsite to model and quantitatively calculate the remaining probability ((ii) and (iii) above) and consequence values ((iv) above).

83. While AltaLink acknowledged the different probabilities that impact the likelihood of an AltaLink-owned asset starting a wildfire, the Commission considers there to be gaps in the risk

60 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 24, paragraph 104.
61 An ignition event is characterized by the creation of a spark. Whether or not this spark grows or spreads to other sources of fuel does not impact whether or not an ignition event has occurred.
62 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 30, paragraph 133.
63 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 24, paragraph 103.

assessment methodologies. As discussed in the sections below, the Commission finds that AltaLink's evidence placed considerable emphasis on the potential consequences of a catastrophic wildfire but provided limited evidence as to the quantitative assessment of the probability of that wildfire occurring. Forsite's model provided only a relative risk score and did not separate out probability from consequence, and AltaLink provided only a qualitative assessment of the probability that its assets will cause an ignition event. These gaps significantly affected AltaLink's ability to demonstrate that the proposed WMP is targeting a level of spend that is proportionate to the risk faced by AltaLink, is targeting the highest overall wildfire risk issues, and that the proposed WMP activities will be executed in an effective and cost-minimizing manner.

84. However, the Commission also acknowledges that wildfire risk is present in Alberta and that there is some risk of AltaLink assets igniting a wildfire. The Commission therefore finds there is merit in AltaLink continuing some WMP activities during the upcoming test period. As a result, despite the concerns discussed below, the Commission approves an expenditure of $11.76 million in total for programs A2 and A3 over 2024-2025, which is equal to what was approved in Proceeding 26509 for the previous test period. The Commission emphasizes that any future requests for WMP funding at any level must be supported by the evidence and analysis identified in the Commission's directions to AltaLink in this decision.

4.2.1.1 Wildfire consequences

85. Throughout this proceeding, AltaLink emphasized the potentially significant consequences that may arise should an AltaLink-owned asset ignite a wildfire. In emphasizing the potential consequence, AltaLink did not clearly define the probability that its assets will cause an ignition event, and therefore did not provide a thorough risk analysis, according to its own definition that wildfire risk is calculated as the product of likelihood drivers (probability) and fire impact (consequence).[64] AltaLink referenced the severity of the 2023 wildfires across Alberta as partial support for the need to expand and accelerate the WMP program. The Commission acknowledges that the 2023 wildfire year was more severe across Alberta than expected based on historical data. However, historical wildfire data on the record of this proceeding highlights the variability of year-to-year wildfire activity.[65] The Commission is not convinced based on the evidence that 2023, as a singular year, represents a trend of increased wildfire risk that, on its own, justifies a substantial increase in WMP spending. Furthermore, AltaLink's discussion of 2023 as a complex fire year included all wildfires in Alberta but failed to distinguish between those caused by transmission lines, particularly AltaLink-owned assets, and other causes. When evaluating AltaLink's proposed WMP and considering the 2023 wildfire year in Alberta, the Commission has viewed it through the lens of AltaLink's contribution to that wildfire year.

4.2.1.2 Forsite model

86. AltaLink hired Forsite to model AltaLink's wildfire risk and provided this analysis in further support of the need to expand and accelerate the WMP. In particular, AltaLink hired Forsite to model the probability that an ignition event caused by AltaLink assets causes a fire, the probability that the fire spreads and impacts values at risk, and the consequence of that fire spread. In Forsite's model, a series of ignition points were modelled and given a relative risk

[64] Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF page 4, paragraph 21.
[65] Exhibit 28174-X0304, AML-AUC-2023OCT04-083(a) PDF pages 303-305, Table 1.

ranking across AltaLink's service territory. Each ignition point was ranked between one and 32,947, with one representing the highest risk. Forsite then divided up the points into five classes and grouped each class by colour. Red ignition points represent the highest risk ignition points, and orange ignition points represent the next highest level, with decreasing risk down to the dark green class of ignition points.[66] Forsite did not, however, assess the likelihood that an AltaLink asset will cause an ignition event. Rather, it assumed an ignition event caused by AltaLink assets occurs every 250 metres along its transmission line.[67] This assumption allowed the Forsite model to demonstrate potential fire spread outcomes and how they would impact different societal values, including human life, communities and infrastructure.[68] The model results are provided relative to one another, rather than as absolute risk levels, meaning that ignition points are given a range of possible impacts and then ranked from highest risk to lowest risk. The modelling results produced by Forsite included relative ignition risk for individual ignition points along AltaLink's transmission lines. The individual ignition point risk was also used by Forsite to identify HRFAs.

87. The Commission has concerns that the outcome of Forsite's model provides only a relative risk ranking that does not separate probability from consequence.[69] Under a relative risk framework where two or more potential ignition points are considered, there will always be a most significant risk level and a least significant risk level, because the levels are ranked in comparison to one another, although none may demonstrate significant (or any) risk on an absolute level. Given that AltaLink's assets, which serve approximately 226,000 square kilometres (km) and include 13,300 km of transmission lines,[70] have historically ignited an average of eight fires per year that spread to a fuel source, and that none of these fires were classified as greater than Class II,[71] the Commission considers that the nature of the Forsite risk ranking has the potential to create a false sense of urgency to mitigate a consequence of an event that may have a low probability of occurring. In future GTAs, AltaLink is directed to provide each of the probabilities of the type identified in paragraph 81 above ((i), (ii) and (iii)) separately, in order to demonstrate the overall probability of a wildfire incident occurring. Therefore, AltaLink is directed to ensure that the results of any model, such as the Forsite model provided in this proceeding, are broken down by (ii) the probability that that an ignition event caused by AltaLink assets causes a fire; (iii) the probability that a fire spreads and impacts values at risk; and (iv) the consequence of that impact to values at risk.

88. Bema, on behalf of the CCA, also raised concerns regarding the fuel parameters used in Forsite's model. They questioned whether AltaLink incorporated the most up-to-date agricultural information into its risk modelling.[72] Bema argued that factors such as irrigation, crop type and time of season will influence the flammability of fuel types, and that AltaLink should develop a method to incorporate actual agricultural use into the fuel parameters used by Forsite. In its rebuttal evidence, Forsite confirmed that it used the same agricultural data that the Government of Alberta uses in its modelling because it is the best available information.[73] The Commission is

66 Exhibit 28174-X0061, Appendix 22 Attachment 7, PDF pages 1-2.
67 Exhibit 28174-X0060, Appendix 22 Attachment 6, PDF page 13.
68 Exhibit 28174-X0060, Appendix 22 Attachment 6, PDF page 17, Table 2.
69 Exhibit 28174-X0060, Appendix 22 Attachment 6, PDF pages 18-20.
70 Exhibit 28174-X0006.01, application, PDF page 32, paragraph 37.
71 Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF pages 10 and 123, paragraph 56 and Figure 3-2.
72 Exhibit 28174-X0435.03, CCA evidence of Bema – Part 2, PDF page 80, paragraph 225.
73 Exhibit 28174-X0478, AML rebuttal evidence of R. Spyksma and B. Armitage, PDF page 8, paragraph 31.

satisfied that Forsite used the best available fuel data, consistent with data used by the Alberta government, in its modelling, and therefore rejects the CCA's recommendations; first, that AltaLink be required to update its wildfire risk model fuel parameters, and second, that approval of AltaLink expenditures in line rebuilds in HRFAs be contingent upon updated modelling.[74]

4.2.1.3 Wildfire risk outside of HRFAs

89. Both interveners and the Commission raised concerns about the lack of clarity regarding how wildfire risk at individual ignition points outside of HRFAs compared to the wildfire risk within HRFAs. In particular, Bema and Midgard, on behalf of the CCA and the UCA, respectively, filed evidence highlighting that AltaLink's claim of increased risk outside of HRFAs has led it to include further work within the scope of the WMP.[75]

90. In its rebuttal evidence, Forsite stated that ignition points outside of HRFAs would have a lower impact than ignition points inside of HRFAs due to important values being farther away.[76] However, during oral questioning, Forsite stated that the potential consequences of high-risk ignition points outside of HRFAs were also expected to be significant.[77]

91. It is not clear to the Commission how the probability of a fire igniting and spreading, or the consequence of that potential fire, vary between HRFAs and individual ignition points outside of HRFAs. The Commission understands that the ignition point risk modelling from Forsite used to identify work to be completed outside of HRFAs is also used in the development of HRFA maps. However, the Commission finds that AltaLink has not adequately explained why some work was prioritized solely based on individual ignition point risk, while other work was prioritized because of its location within HRFAs. AltaLink has not provided sufficient support to persuade the Commission that expenditures intended to mitigate wildfire risk outside of HRFAs warrant inclusion in the WMP.

4.2.1.4 Probability of AltaLink assets causing ignition events

92. As discussed above, Forsite did not model the probability that an AltaLink asset causes an ignition event. AltaLink completed this assessment itself, based on what it described as its operating history and knowledge.[78] Unlike Forsite, AltaLink did not use a model to assess the probability that one of its assets causes an ignition. Rather, AltaLink assessed this risk qualitatively based on its operating experience and identified asset or design vulnerabilities.

93. For the Targeted Component and Structure Replacement Program, AltaLink used identified maintenance deficiencies to identify assets it believes have a higher probability of causing an ignition event. AltaLink broadly categorized the deficiencies based on equipment type.[79] As an example, "Crossarms" is one category that includes deficiencies ranging from bird contact to cracked cross-arms. "Conductor/Overhead/Hardware" is another category. AltaLink provided only a total deficiency count per category and did not break these categories down further to identify the specific deficiencies that have been addressed historically or are planned to

74 Exhibit 28174-X0435.03, CCA evidence of Bema – Part 2, PDF page 80, paragraphs 225-226.
75 Exhibit 28174-X0435.03, CCA evidence of Bema – Part 2, PDF page 123, paragraph 328; Exhibit 28174-X0437, Midgard evidence on behalf of the UCA, PDF page 23.
76 Exhibit 28174-X0478, AML rebuttal evidence of R. Spyksma and B. Armitage, PDF page 5, paragraph 15.
77 Transcript, Volume 1, pages 90-80.
78 Exhibit 28174-X0482.01, AML rebuttal evidence of R. Spyksma and B. Armitage, PDF page 24, paragraph 103.
79 Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF pages 80-81, Table A-1

be addressed in the upcoming test period. AltaLink's reporting on its notifications is discussed in more detail in Section 4.2.3 below.

94. For the line rebuilds in the HRFAs program, AltaLink identified design vulnerabilities on older lines and concluded that these assets will have a higher probability of causing ignition events. Along with other factors, AltaLink identified lines with segments older than 55 years, with reduced insulation levels, or with insulators with a history of failure.[80]

95. For the Top Ignition Causing Lines Upgrades Program, AltaLink used past history of ignition events caused by AltaLink assets along with maintenance notifications and prevalence of legacy design standards to identify lines it believes will have a higher probability of causing ignition events in the future.[81]

96. AltaLink argued that its qualitative assessment is sufficient to capture the probability of its assets causing an ignition event, and that "a discrete probability value, on a percentage or any other scale, is not required to address a known public safety risk."[82] It further stated that it has "qualitatively assessed the likelihood of an asset ignition to be very high, effectively 100% in the near term"[83] and it sees no advantage in modelling additional probabilities, given the overall risk of catastrophic consequence.[84] AltaLink confirmed this again in the hearing, adding that while it is not known precisely when an asset will fail, AltaLink expects 100 per cent of identified deficiencies will fail and cause an ignition event.[85]

97. Both the CCA and the UCA raised concerns regarding AltaLink's risk assessment methodology and strongly supported the integration of quantified probabilities of AltaLink assets causing ignition events into AltaLink's risk modelling.[86] The CCA's expert consultant (Bema) highlighted that there may be a significant imbalance between the high costs of mitigation and the low probabilities of a catastrophic wildfire event. The UCA's expert, Midgard Consulting, noted that the benefit of assigning probabilities and consequence enables a risk management approach that is able to be continuously improved, as opposed to subjective and inconsistent risk measures that are not conducive to tracking progress over time for specific risks.[87]

98. The Commission finds that quantitative probability values are required to assess whether AltaLink's forecast incremental increases in WMP expenditures are reasonable. A better understanding of the probability that an AltaLink-owned asset will cause an ignition event, that then spreads and has a consequential impact to values at risk would ensure that the level of spend proposed is proportionate to the wildfire risk being managed. The Commission notes that AltaLink assets caused an average of eight ignition events of Class I or higher per year,[88] which

80 Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF pages 93-94.
81 Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF page 124.
82 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 29, paragraph 131.
83 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 30, paragraph 135.
84 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF pages 29-31, paragraphs 128-142.
85 Transcript, Volume 1, pages 109-110, lines 9-24 and 1-14.
86 Exhibit 28174-X0435.03, CCA evidence of Bema – Part 2, PDF pages 15-16, paragraph 43.
87 Exhibit 28174-X0437, UCA evidence of Midgard, PDF page 13.
88 Defined by AltaLink: the classes an ignition originating from an AltaLink asset are Class 0: (near-misses) no fire spread; Class I: fire spreads to another fuel source but did not require suppression efforts by a third party; Class II: fire requiring suppression efforts by a third party, no impact to human life, and the cost of fire response is <$200k; and Class III: fire results in a material impact to property/communities, or impact to human

suggests that the probability of AltaLink's assets causing a wildfire may be very low. Without probabilistic analysis, AltaLink may be targeting expenditures on assets that have a low probability of failure and deficiencies that have low probability of causing an ignition event and ultimately a wildfire, of any consequence. Without AltaLink incorporating quantitative probabilities into its assessment of risk, the Commission finds AltaLink's risk management approach to be insufficient to support the reasonableness of its proposed increased WMP expenditures.

99. AltaLink also stated that "to judge the likelihood of an asset ignition to be anything less than very high would infer that it is acceptable to have a known deficiency potentially causing a serious risk to public safety."[89] The Commission disagrees with this assessment. As noted above, AltaLink's assets have historically caused very few wildfire events. While AltaLink stated that an ignition risk is effectively 100 per cent for an identified deficiency, it is clear that most ignition events caused by AltaLink assets do not lead to a Class I or higher wildfire event, let alone a Class III wildfire event, as shown in AltaLink's information response.[90] AltaLink's claim that there is high likelihood of a wildfire event occurring appears to contradict the historical facts, and AltaLink has not provided any quantitative probability analysis to support its assertion. AltaLink relies on historical asset deficiency and failure rates to predict the likelihood of its assets causing an ignition event but has not used historical data related to the frequency of its assets causing ignition events and the resulting classes of fires to determine or inform the probability of future fires being ignited by AltaLink assets or spreading. The Commission finds this to be inconsistent and without a rational basis.

100. Of the average eight Class I or greater events that AltaLink experienced each year, only 3.3 of these events on average resulted in damages. Those damages amounted to an average total annual cost of $667,000 per year, with no evidence of material public safety consequences.[91] AltaLink argued that this was not representative of the actual risk it faced, but agreed that damages from 2018 onwards had been relatively small and that no single event had exceeded $200,000 in damages or response costs.[92] AltaLink's historical data suggests that the damages and consequences of wildfires triggered by ignition events caused by AltaLink's assets have been minimal both in terms of cost and impact to values at risk. On this basis, the Commission is not persuaded that the proposed increase in WMP expenditures aligns with an increasing risk that AltaLink's assets will cause wildfires.

101. Given that Forsite provided only relative risk assessments without consideration of the probability of AltaLink's assets causing an ignition event, and that AltaLink provided no quantification of discrete probabilities of transmission asset ignitions, the Commission finds that AltaLink has not demonstrated the actual probability of an AltaLink asset igniting a wildfire that results in significant wildfire spread (that is, the overall wildfire risk). The Commission finds that increasing expenditures in the WMP must be supported by a quantitative assessment of the probability that a maintenance or design deficiency identified on an AltaLink-owned asset results in an ignition event that then spreads to cause significant damage within the upcoming test period. The Commission does not accept, based on the evidence in this proceeding, that every

life. The cost of fire response or damage is >$200k. See Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF page 24, paragraph 133, Table 4-1.

89 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 30, paragraph 136.

90 Exhibit 28174-X0304, AML-AUC-2023OCT04-083(a), PDF pages 303-304.

91 Transcript, Volume 1, pages 63-64.

92 Transcript, Volume 2, page 377, lines 21-25.

identified maintenance or design deficiency will result in an asset failure and that each such asset failure will in turn result in an ignition event; nor does it accept that each such ignition event would result in a wildfire of a class that requires suppression, causes significant damage or results in potential harm to human life.

102. For these reasons, the Commission directs AltaLink to further substantiate its WMP business cases by incorporating quantitative probability analysis for asset failures associated with ignition events. For each project within each WMP program, AltaLink must provide a quantitative assessment of the percentage probability that each category of deficiency being mitigated will result in an ignition event in the upcoming test period. This probability should be calculated either by asset class or by deficiency type and should consider factors such as the age of the asset, historical failure rates and the current condition of the asset. AltaLink should also provide a description, including underlying assumptions and calculations, of how the quantitative probability was determined. This should be presented along with a breakdown of the results of any fire spread modelling of the type provided by Forsite in the current proceeding which, as directed above, will provide the probability that the ignition event caused by AltaLink's assets causes a wildfire that spreads to values at risk, and the total potential values at risk impacted by that wildfire spread (the consequences). Providing the Commission with this breakdown of the risk AltaLink faces from wildfires is essential to demonstrate how AltaLink determines the proposed WMP investment level, and the reasonableness of any requested future WMP spend. AltaLink is directed to provide, as part of its compliance filing to this decision, a proposal for how it will provide the quantitative probability information described above for the proposed WMP expenditures in its next GTA.

4.2.2 Prioritization of WMP expenditures

103. In addition to its concerns regarding AltaLink's assessment of wildfire risk, the Commission has concerns regarding how AltaLink prioritizes expenditures within the WMP. This concern was shared by interveners, such as Midgard, which submitted that the use of different risk assessment methodologies for the different programs within the WMP made it difficult to assess whether AltaLink had prioritized work appropriately.[93] In its written evidence, the CCA expressed that both relative and absolute risk could be used to prioritize the risk reduction work of the WMP, but remained concerned that AltaLink was not ranking and addressing an asset based on the risk it poses.[94] In response, AltaLink stated that it does not and should not prioritize across WMP programs, as each program is addressing a different risk driver,[95] and it has quantitatively assessed the likelihood of an asset ignition to be effectively 100 per cent.[96] AltaLink submitted that Forsite's modelling employs a risk ranking[97] that enables AltaLink to prioritize its operational risk response.[98] In rebuttal evidence, AltaLink further explained its position on prioritization, stating that the work that is required to be completed to address known risks and deficiencies cannot be prioritized through the absolute quantification of

93 Exhibit 28174-X0437, UCA evidence of Midgard, PDF page 13.
94 Exhibit 28174-X0435.03, CCA evidence of Bema– Part 2, PDF pages 28-30, paragraphs 76-81.
95 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 50, paragraph 235.
96 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 30, paragraph 135.
97 In this model, red ignition points represent the highest risk ignition points, orange ignition points represent the next highest level, with decreasing risk down to the dark green class of risk ignition points. Exhibit 28174-X0061, Appendix 22 Attachment 7, PDF page 2, paragraph 9.
98 Exhibit 28174-X0061, Appendix 22 Attachment 7, PDF page 2, paragraph 9.

risk.[99] In other words, AltaLink views the risk of any wildfire ignition it considers preventable as requiring equal priority.

104. The Commission is concerned that AltaLink has not prioritized expenditures across the WMP. AltaLink's evidence was unclear on whether the work done within HRFAs is prioritized based on locations with the highest ignition point risk, or whether all points within an HRFA are treated the same.[100] AltaLink's evidence also lacked clarity around how ignition points within HRFAs are addressed, and whether the highest risk ignition points (categorized as red in Forsite's reporting) are given priority.

105. Due to the lack of prioritization of work and associated expenditures based on overall wildfire risk across AltaLink's WMP, the Commission is not persuaded of the cost-effectiveness of this work at reducing the risk that an AltaLink-owned asset will cause a wildfire. AltaLink has not demonstrated that its proposed additional WMP spend would target deficiencies that have the highest probability of causing a wildfire. AltaLink is directed to provide the risk ranking for all proposed projects to clearly demonstrate how work will be prioritized. The risk ranking should provide the probability of AltaLink's assets causing an ignition event (as described in Section 4.2.1.4) and the probability and consequence currently modelled by Forsite (as described in Section 4.2.1.2).

106. The Commission further notes that historically, the work completed under the WMP was completed under the CRU program;[101] however, AltaLink requested that a subset of the work to be completed under CRU be expedited to mitigate the risk of a potentially catastrophic wildfire. Based on the evidence provided in that proceeding, the Commission approved the establishment of the WMP.[102]

107. Bema and Midgard, on behalf of the CCA and the UCA, respectively, filed evidence that questioned the comparability of prioritized work done between the WMP and CRU, as it relates to risk management and cost assessment. Bema specifically questioned the elevated risk that assets are automatically assigned when included in the WMP.[103] Adding to this, Midgard detailed its concern with AltaLink's inconsistent risk assessment between the WMP and CRU programs, and the impact of this inconsistent approach for risk management.[104]

108. The Commission recognizes that development of a unified risk assessment methodology between the WMP and CRU programs would be a significant undertaking. However, the Commission also sees both the WMP and CRU as sharing a similar purpose, which is to reduce the probability of asset failures, and to mitigate the consequences of those failures. The Commission encourages AltaLink to work towards more quantitative probability and consequence risk analyses and greater consistency of approach and implementation of these analyses across and within the WMP and CRU programs. This would better support AltaLink's requested CRU and WMP capital programs, and allow the assessment of the WMP program on a

99 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 20, paragraph 83.
100 Exhibit 28174-X0006.01, application, PDF page 296, paragraph 1028.
101 Decision 23848-D01-2020, PDF pages 30-31, paragraph 121.
102 Decision 23848-D01-2020, PDF page 44, paragraph 185.
103 Exhibit 28174-X0435.03, CCA evidence of Bema– Part 2, PDF pages 81-82, paragraphs 230-233.
104 Exhibit 28174-X0437, UCA evidence of Midgard, PDF page 18.

similar risk basis as the CRU programs to ensure the highest risks (probabilities and consequences) are being mitigated through prioritization of capital spending.

4.2.3 Targeted Component and Structure Replacements

109. The Targeted Component and Structure Replacements Program is an existing program that centres around maintenance notifications that AltaLink has identified as potential causes of ignition events. In previous test periods, AltaLink targeted addressing notifications within 12 to 18 months of receipt.[105] For the upcoming test period, AltaLink proposed two changes to the program: expanding to address notifications outside of HRFAs, and accelerating the resolution of notifications to within 12 months. AltaLink included the introduction of notifications outside of HRFAs to this program in its initial application, but the acceleration of notification resolution to within 12 months was added at the time of the August 31 refiling.

110. The Commission has concerns with the limited information provided by AltaLink regarding the severity and fire risk of notifications. In Decision 26509-D01-2022 (Corrigenda), the Commission directed AltaLink to provide more detailed information on notifications:

> 417. With respect to future reporting of component and structure replacements in HRFAs, the Commission finds that the status of AltaLink's progress towards addressing notifications is required to determine where there is support for related future capital investments. Accordingly, the Commission directs AltaLink to provide a breakdown of its notifications, in a more granular level of detail, that were resolved in a prior test period or are forecast to be resolved in the next test period as a result of ongoing inspections and line patrols. In addition, the Commission would find it helpful if AltaLink's business case included the total line length (km), total line length in HRFAs (km), the percentage of its line lengths located in each HRFA, the number of component and structure replacements, and the total fire-related notifications by component and structure. Similarly, AltaLink should provide evidence outlining the type, cause and why the deficiency addressed on each component and structure by line number and HRFA has to be replaced, as opposed to relying on a generic statement that "Insulator x 1 or Mechanical Hardware x 1" has to be replaced. The Commission finds that this generic statement does not explain what a deficiency is, and instead just indicates what component or structure AltaLink is replacing. [footnote omitted]

111. In the current proceeding, AltaLink grouped notifications by category and provided a high-level description of these categories. In doing so, AltaLink did not provide a description of each notification that was addressed or will be addressed, as required by Direction 29 of Decision 26509-D01-2022 (Corrigenda).[106] Furthermore, AltaLink has not provided a clear method for prioritizing notifications, and instead implied that all notifications have a similar risk of igniting a wildfire. Not only has AltaLink not complied with the Commission direction, but it has effectively provided the Commission with less information than it received in Proceeding 26509. As noted by the Commission, the additional information AltaLink was directed to provide is "required to determine where there is support for related future capital investments." Its absence reinforces the Commission's finding that AltaLink has not adequately demonstrated a need for accelerated capital expenditures within this program.

[105] Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF page 70, paragraph 36.
[106] Decision 26509-D01-2022 (Corrigenda), PDF page 88, paragraphs 417.

112. Furthermore, the Commission is concerned by AltaLink's confounding assertion that notifications are uncorrelated to ignition events caused by AltaLink assets,[107] while also stating that all notifications will inevitably lead to an AltaLink asset causing an ignition event.[108] In its evidence, the CCA suggested that accelerating the pace at which AltaLink addresses notifications has the potential to significantly reduce the lifespan of assets.[109] This concern highlights the importance of having detailed and useful notification information available when developing the WMP. Clarification on this point is needed going forward.

113. AltaLink continues to be required to comply with the direction from Decision 26509-D01-2022 (Corrigenda). As noted in that decision, the Commission found the spreadsheet provided in Exhibit 26509-X0261[110] helpful, but still insufficient.[111] In its next GTA, AltaLink is directed to provide a breakdown of notifications and deficiencies in the same format as provided in Exhibit 26509-X0261, but with additional detail regarding the type of deficiency. Rather than simply stating "insulator x 1" or "crossarm x 3" AltaLink should provide further information as to the type of insulator or crossarm deficiency. This could include deficiency types such as cracked insulators, contaminated insulators, crossarms with legacy design standards, damaged crossarms or other deficiency categories identified by AltaLink. The Commission also directs AltaLink to expand the table to include the probability and consequence data discussed in Section 4.2.1. For each deficiency identified in the table, AltaLink is to provide: (i) the probability of asset failure; (ii) the probability that the asset failure will ignite a wildfire; (iii) the probability that an ignited wildfire will spread; and (iv) the potential values at risk associated with that wildfire spread. AltaLink is also directed to clearly indicate why repair or maintenance is not a viable alternative for these deficiencies as part of its business case.

114. As a result of this lack of detail on notifications, combined with insufficient data on the effectiveness of the Targeted Component and Structure Replacement Program, the Commission finds that AltaLink has not demonstrated that it is addressing notifications in an efficient and effective manner. Given that AltaLink provided a breakdown of notifications with less detail than what was provided in Proceeding 26509, Exhibit 26509-X0261, the Commission considered whether it should reduce the approved expenditure for this program below the level approved in Decision 26509-D01-2022 (Corrigenda). Ultimately, the Commission determined that irrespective of AltaLink's failure to comply with Commission directions, there is a continued risk of AltaLink's assets igniting a wildfire in Alberta. The Commission therefore approves the continuation of the Targeted Component and Structure Replacement Program in the upcoming test period; however, it will be capped at an amount equal to the previous test period total approved capital expenditures for this program ($8.4 million).

4.2.4 Line rebuilds in HRFAs

115. The Line Rebuilds in HRFAs program is an existing WMP program that targets transmission lines built with legacy design standards within HRFAs. AltaLink has identified certain older design standards (referred to as "legacy designs") that are considered to pose a higher ignition risk, in part because they do not have the same insulation levels as current design

[107] Transcript, Volume 2, page 321, lines 13-14.
[108] Transcript, Volume 1, pages 109-110, lines 9-24 and 1-14.
[109] Exhibit 28174-X0435.03, CCA evidence of Bema – Part 2, PDF page 123, paragraph 330.
[110] Proceeding 26509, AltaLink 2022-2023 GTA, Exhibit 26509-X0261, AML-AUC-2021AUG20-051 Attachment 1.
[111] Decision 26509-D01-2022 (Corrigenda), PDF page 84, paragraphs 416-417.

standards. AltaLink proposes to rebuild these lines to current design standards in order to lower their ignition risk. AltaLink put forward business cases for line rebuilds of transmission lines 616L, 164L, 412L and 185L. The business case for the rebuild of transmission lines 616L and 164L was approved in Decision 26509-D01-2022 (Corrigenda);[112] however, the business case for transmission lines 412L and 185L was denied in that decision due to a lack of detail provided to justify the expenditures.

116. In its current application, AltaLink provided a detailed business case for the 412L and 185L transmission line rebuilds and indicated that it would commence landowner consultation following the 616L and 164L facilities application.[113] At the time of its GTA, AltaLink was completing planning, permitting and consultation to prepare for the 616L and 164L rebuild.[114] On May 7, 2024, the Commission approved AltaLink's 616L and 164L facilities application.[115]

117. As discussed earlier in this decision, the Commission finds AltaLink's risk assessment methodology to be insufficient to support AltaLink's proposed level of expenditure. In particular, for the Line Rebuilds in HRFAs program, the Commission notes that the deficiencies associated with legacy designs have existed for decades with few historical ignition events caused by AltaLink assets associated with these lines.[116] Absent evidence quantifying the probability that these deficiencies will cause an ignition event, the Commission finds that the request to increase expenditures above what was approved in AltaLink's prior GTA is not supported by evidence in the current proceeding.

4.2.5 Top Ignition Causing Lines Upgrades

118. In its revised application, AltaLink introduced a new Top Ignition Causing Lines Upgrades Program in the WMP. AltaLink identified the transmission lines that have seen the highest number of Class 0 – Class III fires, and proposed rebuilding the first seven of these lines, as these represented 33 per cent of ignition events caused by AltaLink assets. The lines identified in this program have a high proportion of legacy design components.[117] AltaLink identified that 88 per cent of historical ignition events caused by AltaLink assets were caused by failures of legacy design standard cross-arms and insulators.[118] In rebuttal evidence, AltaLink argued that investing in the replacement of legacy design components on these lines represented a prudent spend, based on these historical trends.

119. The CCA noted that the wildfire risk from the lines identified in the Top Ignition Causing Lines Upgrades Program is relatively low with seven Class I fires, and five Class II fires between the years 2018 and 2023.[119]

120. In its application, AltaLink argued that the previously approved risk modelling methodology was insufficient to address the wildfire risk from legacy designs within the Top Ignition Causing Lines Upgrades Program. By addressing highest ignition point risks on

[112] Decision 26509-D01-2022 (Corrigenda), PDF page 85, paragraph 421.
[113] Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF page 97, paragraph 36.
[114] Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF page 99, paragraph 57.
[115] Decision 28864-D01-2024: AltaLink Management Ltd., 164L and 616L Transmission Line Rebuild, Proceeding 28864, Applications 28864-A001 and 28864-A002, May 7, 2024.
[116] Exhibit 28174-X0319, AML-AUC-2023OCT04-083 Attachment (AltaLink Ignition Event Table).
[117] Exhibit 28174-X0054.01, Appendix 22 – Wildfire Mitigation Plan, PDF page 123-124.
[118] Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 58, paragraphs 271-274.
[119] Exhibit 28174-X0435.03, CCA evidence of Bema – Part 2, PDF page 160, paragraph 420.

AltaLink's line, legacy definition over visual inspection, AltaLink contended that it can better address the associated wildfire risk of the lines specified in this program. However, as noted by the CCA, the wildfire risk associated with this program is relatively low, with only seven Class I and five Class II fires reported within the last five years.[120] The UCA argued that the risk posed by these lines can be addressed and funded through the CRU program, as the evidence of a mitigation benefit in addressing these lines is inadequate.[121]

121. The Commission has a number of concerns with the Top Ignition Causing Lines Upgrades Program. Given the relatively low number of historical fires ignited by AltaLink assets,[122] 33 per cent of these events amounts to less than three events per year, including Class 0 events. The Commission therefore agrees with the interveners that AltaLink's risk assessment methodology in the Top Ignition Causing Lines Upgrades Program is insufficient to support the proposed capital spend in this category.

122. Further, the Commission notes that line rebuilds are included within the scope of both the CRU and the WMP. In both cases, legacy design standards are a factor used to identify the line for rebuild. The CRU includes line rebuilds in areas outside of HRFAs, and the existing WMP line rebuild program targets line rebuilds within HRFAs. Given the lack of clarity in the evidence on wildfire risk outside of HRFAs, the Commission considers that the approval of another line rebuild program within the WMP is neither reasonable nor justified. Consequently, the Commission denies the $30.3 million of forecast capital expenditures proposed for this program in the 2024 to 2025 test period.

4.3 Wildfire-related third-party damages deferral accounts

123. In its application, AltaLink requested a deferral account to cover amounts for which AltaLink is liable to third parties for wildfire damages ignited by AltaLink's transmission assets that are in excess of any amounts covered by its third-party liability insurance of $400 million (the third-party damages deferral account). Should the Commission not approve the third-party damages deferral account, AltaLink proposed that as an alternative, the Commission could direct AltaLink to go to the insurance market and determine whether it can procure a higher amount of third-party liability insurance, potentially up to $1.2 billion, which could result in $34 million in premiums annually.[123] Since there is no assurance that this level of third-party liability coverage would be available, AltaLink requested the approval of a deferral account for the increased insurance premiums associated with this increased coverage (the insurance premiums deferral account).

124. In past decisions, the Commission has stated that deferral account applications are considered on a case-by-case basis.[124] While, historically, the Commission and its predecessor have declined to establish a definitive policy regarding the use of deferral accounts,[125] the Commission has articulated factors that it considers in its evaluation of a requested deferral

[120] Exhibit 28174-X0435.03, CCA evidence of Bema – Part 2, PDF page 164, paragraph 435.
[121] Exhibit 28174-X0437, UCA evidence of Midgard, PDF page 23.
[122] Exhibit 28174-X0435.03, CCA evidence of Bema – Part 1, PDF page 18, paragraph 50.
[123] Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF page 41, paragraph 195.
[124] Decision 2010-189: ATCO Utilities, Pension Common Matters, Proceeding 226, Application 1605254, April 30, 2010, PDF page 21, paragraphs 71-72.
[125] Decision 2010-189, PDF page 21, paragraphs 71-72.

account.[126] In each requested deferral account, the Commission determines whether to evaluate these factors based on the need for the deferral account. Ultimately, however, these factors are not exhaustive, nor does meeting these factors necessarily mean that a deferral account will be granted. The Commission has emphasized its discretion to assess each applied-for deferral account on its individual merits.

125. For the reasons outlined below, the Commission denies the establishment of the third-party damages deferral account and the insurance premiums deferral account. In making this determination, the Commission first considered whether AltaLink had provided sufficient evidence to demonstrate the need for either deferral account before evaluating AltaLink's proposal against the factors referenced above. The Commission's discretionary assessment of the merits of the applied-for deferral accounts was determinative in both cases. Specifically, the Commission has determined that the evidence filed by AltaLink in support of its request for each of the deferral accounts did not persuade the Commission of the need for either the third-party damages deferral account or the insurance premiums deferral account. The Commission therefore considers that it is not necessary to evaluate the factors discussed above for either the third-party damages deferral account or the insurance premiums deferral account.

4.3.1 Should the Commission approve the third-party damages deferral account?

126. AltaLink's proposed third-party damages deferral account would apply only to third-party liability costs related to injuries and damages caused by a wildfire ignited by AltaLink assets. Damages to AltaLink's own property caused by a wildfire ignited by AltaLink assets would not be eligible for recovery pursuant to this proposed account.[127] Further, AltaLink's proposal is that it would only be eligible to recover costs through the third-party damages deferral account if an annual audit demonstrated it had substantially complied with the Commission-approved WMP. Throughout the proceeding, AltaLink indicated that credit rating agencies are observing the ongoing number and size of wildfires, and there is a growing concern in capital markets with third-party damage claim recovery risk for electric utilities. AltaLink explained that the deferral account is needed to reduce the risk of a credit downgrade from credit rating agencies due to the possibility that AltaLink's transmission assets could cause a catastrophic wildfire. AltaLink argued that if it was downgraded by a credit rating agency, then it might not be able to obtain the necessary financing to provide utility service.[128] AltaLink indicated that the deferral account is intended to protect customers' interests by preventing a credit downgrade. The deferral account would not be pre-funded. Under AltaLink's proposal, the deferral account would be 100 per cent funded by debt raised by AltaLink, which would then be repaid by customers over 40 years.[129]

127. The following sections set out the Commission's consideration of the proposed third-party damages deferral account.

[126] These factors are: (i) materiality of the forecast amount; (ii) uncertainty regarding accuracy and ability to forecast the amount; (iii) factors affecting the forecasts are beyond the utility's control; and (iv) whether or not the utility is typically at risk for the forecast amount. In addition, the Commission will consider a symmetry factor, on the basis that symmetry should exist between costs and benefit for both the company and its customers.

[127] Exhibit 28714-X0304, AML-AUC-2023OCT04-079(c), PDF page 283.

[128] Exhibit 28714-X0304, AML-AUC-2023OCT04-079(g), PDF page 285.

[129] Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF page 41, paragraph 193.

4.3.1.1 Existing protection from the risk of liability for wildfire-related third-party damages

128. AltaLink currently has multiple layers of protection to address the risk of liability for wildfire-related third-party damages. The first layer includes wildfire risk management programs such as the CRU and the WMP that are in place to reduce the likelihood of AltaLink's assets causing an ignition event resulting in third-party damage or threatening public safety. Although the Commission has concerns about whether AltaLink's expenditures on the WMP are appropriately sized and prioritized based on the probability and consequence of a wildfire ignited by AltaLink assets, these investments reduce the probability, and thus, the potential risk of third-party damages of its assets igniting a wildfire.

129. The Commission has reviewed the total counts of fires or ignition events that were caused by AltaLink assets from 2019 to 2023.[130] Based on wildfire metric data provided,[131] AltaLink confirmed that it believes its current probability that its assets will cause an ignition event is approximately eight[132] wildfire ignition events per year, and an average of 3.3[133] of those annual events would require suppression efforts by a third party and may have an impact on adjacent property. Each of the 15 Class II wildfires caused by AltaLink assets over the last 4.5 years resulted in total costs of fire response or damages that did not exceed $200,000,[134] translating to a cost caused by these events of at most $667,000[135] per year. There have been no Class III wildfires caused by AltaLink's assets since it began classifying fire events in 2019.[136] Further, in testimony, AltaLink stated there have been no ignitions at structure locations where fire-related deficiencies were previously addressed through the CRU and WMP and, of the 42 locations on AltaLink's system that did experience ignition events caused by AltaLink assets in 2021 and 2022, none of them were the subject of previous mitigation measures.[137]

130. Notwithstanding the Commission's concerns with AltaLink's proposed incremental WMP expenditures and refinements to its modelling and prioritization as discussed above, AltaLink is employing preventive measures and incurring Commission-approved capital expenditures to reduce the probability of AltaLink assets causing an ignition event connected to its transmission facilities, and these measures will continue to reduce the risk of a wildfire within this test period. The Commission is satisfied that, historically, there has been a low incidence of AltaLink's assets causing ignition events and that these events have, to date, resulted in minimal damages.

131. AltaLink's second layer of protection is Section 90 of the *Electric Utilities Act*, which provides that an Independent System Operator (ISO) person will only be liable for direct loss or damages associated with an ISO act where there is wilful misconduct, negligence, breach of

[130] Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF pages 24-25, Table 4-1.
[131] Exhibit 28174-X0054.01, Appendix 22 - Wildfire Mitigation Plan, PDF pages 24-25, Table 4-1 and PDF pages 30-34, Table 4-3.
[132] This amounts to 36 events divided by 4.5 years based on Class I-III events as per the response to AML-AUC-2023OCT04-077(c)(i) in Exhibit 28174-X0304, PDF page 274.
[133] This amounts to 15 events divided by 4.5 years as per the response to AML-AUC-2023OCT04-077(c)(ii) in Exhibit 28174-X0304, PDF page 274.
[134] Exhibit 28174-X0304, AML-AUC-2023OCT04-077(c)(ii), PDF page 274.
[135] This amounts to 15 events * $200,000 divided by 4.5 years as per the response to AML-AUC-2023OCT04-077(c)(iii), in Exhibit 28174-X0304, PDF page 274.
[136] Exhibit 28174-X0304, AML-AUC-2023OCT04-077(c)(iv), PDF page 274.
[137] Transcript, Volume 4, page 605, lines 20-25, and page 606, lines 1-8.

contract, or bad faith on the part of an individual.[138] The owner of a transmission facility, such as AltaLink, falls into the definition of an ISO person,[139] and ISO acts include any act or omission carried out or purportedly carried out by an ISO person in exercising its powers and carrying out its duties, responsibilities and functions under the *Electric Utilities Act* and other specified legislation.[140]

132. Several parties submitted that, as Section 90 has not been fully considered by a court, uncertainty exists concerning the scope of its application. While the Commission acknowledges this, it also notes that Section 92 of the *Electric Utilities Act*, which has been judicially considered, provides liability protection for balancing pool persons that is almost identical to the protection for ISO persons in Section 90. In *Signalta Resources Limited v Alberta Balancing Pool*,[141] the court determined that, due to the application of Section 92:

> [74] In the result, to succeed in an action against the Balancing Pool, a plaintiff must first establish liability for breach of contract, negligence, or wilful misconduct based on the requirements of the common law. It is only then that the extent of recoverable damages under s. 92 becomes relevant. Put another way, s. 92 does not create any cause of action, either expressly or by implication. It merely proscribes the actors within the Balancing Pool who can be sued, and then limits the type of damages that can be recovered against the Balancing Pool if liability is established.[142]

133. The Commission is of the view that this guidance is also applicable to Section 90.

134. AltaLink's third and fourth layers of protection are its existing commercial third-party liability insurance[143] and an established self-insurance reserve (SIR) account.[144] AltaLink currently carries $400 million of third-party liability coverage to protect against a major catastrophic loss.[145] Should a wildfire event occur that results in a $400 million claim in third-party damages, then it is expected that AltaLink's insurance providers would cover those costs. In addition to this coverage, AltaLink's SIR account provides coverage for injuries and damages not covered by AltaLink's commercial insurance. The costs for insurance are recovered as an O&M expense in USA 924, and through the SIR account in USA 925. Recovery of a claim through the SIR account requires the following eligibility criteria to be met: (i) in excess of

138 Section 90(2) provides that "[n]o action lies against an Independent System Operator person, and an Independent System Operator person is not liable, for an Independent System Operator act." Section 90(3) creates an exclusion from the liability protection in Section 90(2) where there is wilful misconduct, negligence, breach of contract, or bad faith on the part of an individual. Section 90(4) limits any liability that results due to the operation of Section 90(3) to direct losses or damages, which are defined in Section 90(1)(a) as not including "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 whatsoever arising out of or in any way connected with an Independent System Operator act."

139 *Electric Utilities Act*, Section 90(1)(c), and *Liability Protection Regulation*, Section 3(c). As are members of a joint venture with the owner, partners of the owner, affiliates of the owner, and each director, officer and employee of an owner: sections 3(e) to (g).

140 *Electric Utilities Act*, Section 90(1)(b).

141 2022 ABQB 190, aff'g 2021 ABQB 618, aff'd 2022 ABCA 398.

142 The court further explained that, while the *Electric Utilities Act* does not define the term "wilful misconduct," it is logical to infer that the Legislature intended the term to include any intentional tort that might be committed by the Balancing Pool, and that, theoretically this could include, for example, defamation, deceit, or misfeasance in public office: paragraph 60.

143 Exhibit 28174-X0320, AML-AUC-2023OCT04-084 Attachment.

144 Exhibit 28174-X0010, Appendix 3 (Insurance), PDF pages 29-30.

145 Exhibit 28174-X0010, Appendix 3 (Insurance), PDF page 4, paragraph 20.

$100,000; (ii) must be categorized as an insured loss[146] or an uninsured/uninsurable loss;[147] (iii) an event must be sudden and accidental; and (iv) out of AltaLink's control, and not reasonably foreseeable or preventable.

135. Further, the Commission has reviewed the eligible events that AltaLink has charged to the SIR account since 2013.[148] To date, there have been no third-party liability claims for wildfire damages. This indicates that AltaLink has not ignited any catastrophic wildfires that have caused third-party damages in excess of the $400 million in liability insurance coverage[149] such that the layer of protection provided by its liability insurance was insufficient.

136. AltaLink stated that as it currently stands, it uses this established mechanism to seek recovery of wildfire-related third-party damages.[150] However, AltaLink maintains that its SIR account is not sufficient to prevent a credit downgrade, as it does not provide credit rating agencies with the level of certainty that they require. The asserted uncertainty first lies with whether third-party liabilities from catastrophic wildfires fit into the eligibility criteria of the SIR account.[151] AltaLink claims that they do, but that uncertainty exists because AltaLink has never caused a catastrophic wildfire, and the SIR is untested for a quantum in excess of AltaLink's existing third-party insurance coverage. Second, AltaLink submitted that the SIR account is retrospective, with claims occurring after an event, such as a wildfire, occurs, and that this leads to uncertainty around cost recovery that is prompting credit rating agencies to react.[152]

137. The Commission is not persuaded that a deferral account provides more certainty than the SIR account to credit rating agencies, or that a deferral account would prevent a credit downgrade. AltaLink's own evidence indicates that credit rating agencies may downgrade credit ratings shortly after a wildfire event occurs. AltaLink referenced Hawaiian Electric Co., which was downgraded due to the "mere allegation of liability" and prior to the investigation being undertaken to determine the cause of the wildfire in 2023.[153] AltaLink's view is that with an "objective standard," such as AltaLink demonstrating on-going compliance with the WMP, credit rating agencies would be less likely to issue a downgrade.[154] This view was not

146 As per AltaLink's SIR policy filed in Exhibit 28174-X0010, an insured loss is a loss that is covered by insurance where charges include the deductible portion of an insured loss, any portion of the claim that exceeds the limit of insurance and any portion of the claim not paid by the insurance company.

147 As per AltaLink's SIR policy filed in Exhibit 28174-X0010, "An uninsured loss is one where insurance coverage could have been obtained, but ultimately was not purchased either because the risk exposure was judged as minimal, or the cost of the insurance was assessed to be prohibitively high." An uninsurable loss is defined as "… one where insurance coverage was not available in the commercial insurance market because of very high-risk exposure."

148 Exhibit 28174-X0351.01, AML-CCA-2023OCT10-002(g), PDF page 10.

149 AltaLink provided a table showing a list of actual claims charged to the SIR account from 2013 to 2022, including floods, grassfires and windstorms. AltaLink's insurance coverage has not been used for purposes of third-party damages from a catastrophic wildfire previously.

150 Transcript, Volume 4, page 639, lines 17-25, and page 640, lines 1-18.

151 Transcript, Volume 1, page 135, lines 21-25, page 136, lines 1-19, and page 137, lines 14-18, and Transcript, Volume 2, page 336, lines 2-25 and page 337, lines 5-12.

152 Transcript, Volume 2, page 336, lines 2-17, and page 337, lines 5-12.

153 Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 66, paragraph 318, and Transcript, Volume 1, page 145, lines 17-23.

154 Transcript, Volume 1, page 145, lines 4-25 and page 146, lines 1-4, and Transcript, Volume 4, page 647, lines 20-24.

substantiated with any evidence from credit rating agencies;[155] however, AltaLink posited that such compliance could be demonstrated very quickly after an event, and well in advance of third-party liability proceedings and other forms.[156]

138. Irrespective of demonstrating on-going compliance with the WMP, which is discussed in the next section and is not endorsed by the Commission, AltaLink would still need to apply to and participate in a proper deferral account proceeding before the Commission, in order to establish the prudence of and to recover any third-party damages in excess of its insurance. While it is unclear from the record of this proceeding, the Commission considers that credit agencies may still act shortly after a catastrophic wildfire event to downgrade a utility’s credit rating, and well before any third-party damage deferral account applications are filed and processed with the Commission. First, third parties and AltaLink would need to go through the process of determining and settling liability, then claims would need to be filed and settled with AltaLink’s insurance providers. This would need to be determined before any claims are made through the SIR account or through the deferral account, which would take additional time to be processed with the Commission. Given that this could take an extended period of time, it is possible that credit rating agencies may take action well ahead of any third-party damages deferral account applications being filed by AltaLink and processed with the Commission. Given this, the Commission considers that it is unclear how much protection against credit downgrades the third-party damages deferral account would offer.

139. Based on the historical information provided regarding total counts of fires or ignition events caused by AltaLink assets and the related third-party damages, at this time, the Commission is not persuaded that AltaLink requires additional mechanisms to provide protection from the risk of liability for wildfire-related third-party damages. If a catastrophic event that exceeds the current multiple layers of protection to address AltaLink’s liability for wildfire-related third-party damages does occur, the Commission considers that such an event would be so extraordinary that it would require individual consideration by the Commission in any event.

140. For the above reasons, the Commission is not persuaded that it is in the public interest to approve the third-party damages deferral account and denies AltaLink’s request.

4.3.1.2 Objective standard and annual audit

141. Notwithstanding the above determination, even if the Commission had determined that it is in the public interest to approve the third-party damages deferral account, it would deny AltaLink’s requests (i) that the Commission apply an objective standard assessing whether AltaLink was reasonable and prudent in terms of its operating and capital activities intended to prevent AltaLink assets from causing an ignition event; and (ii) that the Commission conduct an annual audit to determine whether AltaLink has substantially complied with the WMP.

142. In accordance with Section 39 of the *Electric Utilities Act*, AltaLink, has a statutory obligation to operate and maintain a safe and reliable transmission system. The Commission sees no reason why wildfire risk management should be treated differently than any other risk that AltaLink is required to manage, and as a result AltaLink has a statutory obligation to reduce the

[155] AltaLink cited statements and publications from credit ratings agencies, such as the S&P Global publication “A Storm is Brewing,” but credit rating agencies or witnesses with related expertise did not participate in this proceeding.

[156] Transcript, Volume 4, page 647, line 25, and page 648, lines 1-7.

risk that its assets cause wildfires that threaten public safety. While, the Commission has general supervisory powers, its primary role is to approve a revenue requirement and ensure rates are just and reasonable, and not to mange the day-to-day operations of AltaLink. AltaLink is accountable for meeting its statutory obligation to provide safe and reliable service.

143. For these reasons, had the Commission determined that establishing a third-party damages deferral account was reasonable, which it has not, premising the creation of such an account on an ex ante audit of AltaLink's activities would be problematic both for the Commission and for AltaLink. Ultimately, it would also provide little certainty that AltaLink's response to the wildfire event was reasonable and prudent in all of the circumstances, all of which would require an ex post assessment of the event in question and the recoverability of associated costs booked to the proposed account.

4.3.2 Should the Commission approve the insurance premiums deferral account?

144. The forecast cost of AltaLink's $400 million of third-party liability insurance coverage was settled in the NSA at $2.7 million in 2024 and $2.9 million in 2025.[157] The proposed insurance premiums deferral account would be designed to ensure that the actual costs of any additional insurance liability premiums, once procured by AltaLink, are ultimately recovered from customers.[158] AltaLink proposed that if it were to successfully obtain an additional $800 million of liability insurance, it would true up the difference between its forecast insurance premium cost of $34 million with the actual insurance premium cost obtained in the insurance market, in a deferral account reconciliation application.[159]

145. As indicated in Decision 26509-D01-2022 (Corrigenda),[160] AltaLink identified that the cost of third-party liability insurance has been increasing at a rate greater than that of AltaLink's property and other coverages, which is in part due to the current hard insurance market.[161] In that decision, the Commission raised concerns with the increasing costs of third-party liability insurance and set out its expectation that AltaLink provide a risk-benefit analysis and an evaluation of all relevant alternatives for the Commission's consideration to justify any potential future increases in insurance premiums. Given that liability insurance may no longer be available or practical to obtain in the future as a result of a continuing hard insurance market, the Commission also required AltaLink to explain when, and on what basis, it would move away from commercial third-party liability insurance, and how it planned to accommodate such a transition.

146. In the application, AltaLink maintained its third-party liability limit of $400 million for the 2024-2025 test period, including wildfire coverage, and indicated that it would not move away from purchasing liability insurance unless all liability insurers declined to sell insurance to AltaLink, or premiums became closely aligned with the policy limits. AltaLink also stated that it would only transition to (i) higher deductibles; or (ii) reduced liability limits if instructed to do so by either the Commission or AltaLink's insurers.[162] A risk-benefit analysis was not provided.

[157] Exhibit 28174-X0010, Appendix 3 (Insurance), PDF page 2, Table 1-1.
[158] Exhibit 28174-X0482.01, AML rebuttal evidence, PDF page 73, paragraph 353.
[159] Exhibit 28174-X0512, AML undertaking 003.
[160] Decision 26509-D01-2022 (Corrigenda), PDF pages 37-38, paragraph 130.
[161] A hard insurance market is defined by a combination of limited supply of insurance and a steep increase in insurance premiums, due largely to many recent catastrophic events.
[162] Exhibit 28174-X0010, Appendix 3 (Insurance), PDF pages 5-6, paragraphs 23-27.

147. The onus is on AltaLink to provide sufficient evidence to support its application. Given the absence of a risk-benefit analysis, the Commission finds that the information provided to support the establishment of the insurance premiums deferral account to be insufficient. For this reason, the Commission is not persuaded that it is in the public interest to approve the insurance premiums deferral account and denies AltaLink's request.

148. The Commission requires AltaLink to evaluate its current limit of $400 million, taking into consideration the wildfire-related third-party damages that it has incurred to date, and conduct a supportable analysis of whether insurance coverage should be higher, lower or stay at the same level as its current coverage. Therefore, AltaLink is directed to provide a cost-benefit study with detailed justification to support the need for the requested level of insurance coverages in its next GTA, regardless of whether this coverage is higher, lower or the same as its current coverage.

5 PiikaniLink and KainaiLink 2024-2025 GTAs

149. The breakdown of PiikaniLink and KainaiLink's 2024-2025 revenue requirements is provided below. Neither PiikaniLink nor KainaiLink are proposing capital expenditures, new deferral accounts or changes to their treatment of depreciation expenses in the 2024-2025 test period. The Commission finds that the revenue requirements applied for were calculated in compliance with past Commission directions and approves them as filed.

Table 3. PiikaniLink 2024 and 2025 revenue requirement

	2024 Forecast	2025 Forecast
	($000)	
Operating & Maintenance	194.3	194.3
Annual Structure Payments	99.7	99.7
Payments in Lieu of Property Tax	233.6	232.9
General and Administrative	189.6	189.6
Depreciation	1,409.0	1,454.8
Return on Rate Base	2,607.8	2,538.8
Income Tax Expense	0.0	0.0
Total Revenue Requirement	**4,733.9**	**4,710.1**

Table 4. KainaiLink 2024 and 2025 revenue requirement

	2024 Forecast	2025 Forecast
	($000)	
Operating & Maintenance	98.8	98.9
Annual Structure Payments	94.5	94.5
Payments in Lieu of Property Tax	84.5	86.5
General and Administrative	189.6	189.6
Depreciation	795.5	827.4
Return on Rate Base	1,772.2	1,735.1
Income Tax Expense	0.0	0.0
Total Revenue Requirement	**3,035.2**	**3,031.9**

150. As the revenue requirements for PiikaniLink Limited Partnership and KainaiLink Limited Partnership were approved as filed, they are not required to file a compliance filing.

6 Order

151. It is hereby ordered that:

(1) AltaLink Management Ltd. must file its 2024-2025 transmission general tariff application compliance filing by August 12, 2024, to reflect the findings, conclusions and directions in this decision, as well as any findings or directions resulting from AltaLink's application for approval of 2023 spring wildfire and snow events in Proceeding 28750.[163]

Dated on June 19, 2024.

Alberta Utilities Commission

(original signed by)

Kristi Sebalj
Vice-Chair

(original signed by)

Cairns Price
Commission Member

(original signed by)

Dennis Frehlich
Acting Commission Member

[163] Proceeding 28750, AltaLink application for approval of 2023 spring wildfire and snow events.

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
AltaLink Management Ltd. (AltaLink or AML) Borden Ladner Gervais LLP
Consumers' Coalition of Alberta (CCA) Wachowich & Company
Office of the Utilities Consumer Advocate (UCA) Brownlee LLP
Alberta Direct Connect Consumers Association (ADC)
Alberta Federation of REAs Ltd. (AFREA) Shores Jardine LLP
Industrial Power Consumers Association of Alberta (IPCAA)
TransAlta Corporation

Alberta Utilities Commission Commission panel K. Sebalj, Vice-Chair C. Price, Commission Member D. Frehlich, Acting Commission Member Commission staff S. Ramdin (Associate General counsel) A. Marshall (Commission counsel) N. Morter P. Baker S. Sharma C. Meulenbroek E. Davis

Appendix 2 – Oral hearing – registered appearances

Name of organization (abbreviation) Name of counsel or representative	Witnesses
AltaLink Management Ltd. J. Liteplo B. Willms E. Denstedt	M. Flannigan P. Lee M. Bartel E. Mitchell R. Drotar R. Spyksma B. Armitage
Office of the Utilities Consumer Advocate (UCA) K. Rutherford C. Auch	H. Mahmudov M. Walsh M. Matusiak
Consumers' Coalition of Alberta (CCA) J. Wachowich	D. Levson C. Baynes D. Madsen
TransAlta Corporation V. Light	

Alberta Utilities Commission Commission panel K. Sebalj, Vice-Chair C. Price, Commission Member D. Frehlich, Acting Commission Member Commission staff S. Ramdin (Associate General counsel) A. Marshall (Commission counsel) N. Morter P. Baker S. Sharma C. Meulenbroek E. Davis

Appendix 3 – Summary of Commission directions

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. Given the reasons set out above, along with the findings in Section 4.1.2 regarding the use of the allocation methodology, the Commission is satisfied that AltaLink's 2024-2025 salvage forecast is reasonable. In its compliance filing to this decision, AltaLink is directed to update its 2024-2025 salvage forecast to reflect the WMP expenditures approved in this decision. .... paragraph 72

2. In Section 4.1.2, the Commission found that AltaLink's allocation methodology used to record actual salvage expenses and forecast salvage expenses is reasonable. However, the Commission also noted that the current allocation percentages are based on the 2013-2014 salvage allocation study. While AltaLink completed a review in 2022 of its salvage allocation percentages to confirm the ongoing reasonableness, this review consisted of a relatively small sample size of 98 projects. Further, it has been more than a decade since the last full study. The Commission therefore finds that it would benefit all parties for AltaLink to complete a comprehensive allocation study to ensure all salvage allocation percentages are accurate. The CCA stated it supported this type of study to help ensure the accuracy of actual salvage expenses if an allocation method continues to be used. The Commission directs AltaLink to complete a full salvage allocation study to be filed by way of a report to the Commission. The study should, at a minimum:

    - Include field-verified time studies where personnel are onsite at sample projects to track time and costs related to three categories of activities: integrated (construction and salvage) activities; construction-only activities; and salvage-only activities, with a view to gathering information that would further assist in assessing the reasonableness of AltaLink's standard salvage allocation percentages. Such information should include the time and costs related to the elements identified in the salvage cost matrix from the 2013-2014 salvage study.
    - The sample should include multiple projects in each asset category, and the overall sample size should be statistically representative of the total number of projects. AltaLink must also provide the statistical assessment to the Commission in the study report.
    - Where the projects sampled include both replacement and salvage activity that is being completed concurrently, any integrated (construction and salvage) activities should be clearly identified separately as integrated activities, and then split into construction and salvage activities based on the percentage or ratio of salvage-only activities and associated costs from the salvage cost matrix to construction-only activities and associated costs from the salvage cost matrix.

    .... paragraph 73

3. AltaLink is directed to file, in its compliance filing to this decision, its expected timeline for this full salvage allocation study, including when it expects to file the new study report and when it would implement any resulting changes to allocation percentages. .... paragraph 74

4. The Commission has concerns that the outcome of Forsite's model provides only a relative risk ranking that does not separate probability from consequence. Under a relative risk framework where two or more potential ignition points are considered, there will always be a most significant risk level and a least significant risk level, because the levels are ranked in comparison to one another, although none may demonstrate significant (or any) risk on an absolute level. Given that AltaLink's assets, which serve approximately 226,000 square kilometres (km) and include 13,300 km of transmission lines, have historically ignited an average of eight fires per year that spread to a fuel source, and that none of these fires were classified as greater than Class II, the Commission considers that the nature of the Forsite risk ranking has the potential to create a false sense of urgency to mitigate a consequence of an event that may have a low probability of occurring. In future GTAs, AltaLink is directed to provide each of the probabilities of the type identified in paragraph 81 above ((i), (ii) and (iii)) separately, in order to demonstrate the overall probability of a wildfire incident occurring. Therefore, AltaLink is directed to ensure that the results of any model, such as the Forsite model provided in this proceeding, are broken down by (ii) the probability that that an ignition event caused by AltaLink assets causes a fire; (iii) the probability that a fire spreads and impacts values at risk; and (iv) the consequence of that impact to values at risk................ .... paragraph 87

5. For these reasons, the Commission directs AltaLink to further substantiate its WMP business cases by incorporating quantitative probability analysis for asset failures associated with ignition events. For each project within each WMP program, AltaLink must provide a quantitative assessment of the percentage probability that each category of deficiency being mitigated will result in an ignition event in the upcoming test period. This probability should be calculated either by asset class or by deficiency type and should consider factors such as the age of the asset, historical failure rates and the current condition of the asset. AltaLink should also provide a description, including underlying assumptions and calculations, of how the quantitative probability was determined. This should be presented along with a breakdown of the results of any fire spread modelling of the type provided by Forsite in the current proceeding which, as directed above, will provide the probability that the ignition event caused by AltaLink's assets causes a wildfire that spreads to values at risk, and the total potential values at risk impacted by that wildfire spread (the consequences). Providing the Commission with this breakdown of the risk AltaLink faces from wildfires is essential to demonstrate how AltaLink determines the proposed WMP investment level, and the reasonableness of any requested future WMP spend. AltaLink is directed to provide, as part of its compliance filing to this decision, a proposal for how it will provide the quantitative probability information described above for the proposed WMP expenditures in its next GTA. .... paragraph 102

6. Due to the lack of prioritization of work and associated expenditures based on overall wildfire risk across AltaLink's WMP, the Commission is not persuaded of the cost-effectiveness of this work at reducing the risk that an AltaLink-owned asset will cause a wildfire. AltaLink has not demonstrated that its proposed additional WMP spend would target deficiencies that have the highest probability of causing a wildfire. AltaLink is directed to provide the risk ranking for all proposed projects to clearly demonstrate how work will be prioritized. The risk ranking should provide the probability of AltaLink's assets causing an ignition event (as described in Section 4.2.1.4) and the probability and consequence currently modelled by Forsite (as described in Section 4.2.1.2). .... paragraph 105

7. AltaLink continues to be required to comply with the direction from Decision 26509-D01-2022 (Corrigenda). As noted in that decision, the Commission found the spreadsheet provided in Exhibit 26509-X0261 helpful, but still insufficient. In its next GTA, AltaLink is directed to provide a breakdown of notifications and deficiencies in the same format as provided in Exhibit 26509-X0261, but with additional detail regarding the type of deficiency. Rather than simply stating “insulator x 1” or “crossarm x 3” AltaLink should provide further information as to the type of insulator or crossarm deficiency. This could include deficiency types such as cracked insulators, contaminated insulators, crossarms with legacy design standards, damaged crossarms or other deficiency categories identified by AltaLink. The Commission also directs AltaLink to expand the table to include the probability and consequence data discussed in Section 4.2.1. For each deficiency identified in the table, AltaLink is to provide: (i) the probability of asset failure; (ii) the probability that the asset failure will ignite a wildfire; (iii) the probability that an ignited wildfire will spread; and (iv) the potential values at risk associated with that wildfire spread. AltaLink is also directed to clearly indicate why repair or maintenance is not a viable alternative for these deficiencies as part of its business case. .... paragraph 113

8. The Commission requires AltaLink to evaluate its current limit of $400 million, taking into consideration the wildfire-related third-party damages that it has incurred to date, and conduct a supportable analysis of whether insurance coverage should be higher, lower or stay at the same level as its current coverage. Therefore, AltaLink is directed to provide a cost-benefit study with detailed justification to support the need for the requested level of insurance coverages in its next GTA, regardless of whether this coverage is higher, lower or the same as its current coverage....................... paragraph 148

Appendix 4 – NSA

(return to text)

Appendix 4 - NSA

(consists of 17 pages)

SETTLEMENT AGREEMENT
ALTALINK MANAGEMENT LTD., IN ITS CAPACITY AS GENERAL PARTNER OF ALTALINK, L.P.
2024-2025 GENERAL TARIFF APPLICATION

THIS NEGOTIATED SETTLEMENT AGREEMENT for the Negotiated Settlement of AltaLink's 2024-2025 Transmission Facility Owner General Tariff Application (the "**2024-2025 GTA**" or "**Application**") is made and entered into as of December 19, 2023.

AMONG:

ALTALINK MANAGEMENT LTD., in its capacity as general partner of AltaLink, L.P., ("**AltaLink**")

and

CONSUMERS' COALITION OF ALBERTA (the "CCA"),

and

OFFICE OF THE UTILITIES CONSUMER ADVOCATE (the "UCA"),

and

ALBERTA DIRECT CONNECT CONSUMERS ASSOCIATION ("ADC"),

and

INDUSTRIAL POWER CONSUMERS ASSOCIATION OF ALBERTA ("IPCAA")

and

ALBERTA FEDERATION OF REA'S LTD. ("AFREA")

each, a "**Party**" and collectively, the "**Parties**"

WHEREAS:

(a) AltaLink submitted its Application to the Alberta Utilities Commission (the "**AUC**" or "**Commission**") on April 28, 2023 for approval of its forecast revenue requirement for the 2024 and 2025 Test Years (collectively, the "**Test Period**"), which is the subject of AUC Proceeding

No. 28174;

(b) by letter dated April 28, 2023 AltaLink requested permission to initiate a negotiated settlement process on all aspects of its Application;

(c) on May 25, 2023, the AUC issued a process schedule that included a negotiated settlement process;

(d) on September 27, 2023, the AUC issued a revised, final process schedule that included filing dates for procedural steps relevant to the negotiated settlement process;

(e) on November 24, 2023, the AUC confirmed that the negotiated settlement process could proceed on all matters of the Application, with the exception of:

i. AltaLink's proposed wildfire deferral account; and
ii. AltaLink's request to recover the $11 million in returns incurred over the 2022-2023 Test Period applicable to prudent 2019-2021 actual salvage expenditures.

(f) AltaLink, ADC, CCA, IPCAA, AFREA and UCA (ADC, CCA, IPCAA, AFREA and UCA collectively, the "**Interveners**") entered into a negotiated settlement process during the period from December 1 to December 8, 2023;

(g) the Parties reached a negotiated settlement on all components of AltaLink's 2024-2025 GTA, with the exception of:

i. AltaLink's 2024-2025 forecast salvage expenditures;
ii. AltaLink's 2019-2023 actual salvage expenditures; and
iii. AltaLink's Wildfire Mitigation Plan business cases Appendix 22-A2, Appendix 22-A3 and Appendix 22-A5;

(the excluded matters identified in (e) and (g) collectively referred to as the "**Excluded Matters**");

(h) the term of the settlement is the Test Period.

IN CONSIDERATION of the mutual promises made in this Settlement Agreement and for other good and valuable consideration, the receipt and sufficiency of which is hereby expressly acknowledged by each of the Parties, and subject to the conditions set out in this Settlement Agreement, the Parties agree as follows:

1. Scope of this Settlement Agreement

(a) This Settlement Agreement settles all aspects of and relief requested in the Application except for the Excluded Matters.

(b) Unless otherwise agreed by the Parties in writing, if the Commission declines to approve this Settlement Agreement in its entirety, the Settlement Agreement will be of no force and effect, in accordance with Section 135 of the *Electric Utilities Act*.

2. Matters Excluded from Negotiated Settlement

(a) AltaLink and the Interveners agree that the following matters are specifically excluded from this Settlement Agreement:

i. AltaLink's 2024-2025 forecast salvage expenditures;

ii. AltaLink's 2019-2023 actual salvage expenditures; and

iii. AltaLink's Wildfire Mitigation Plan business cases Appendix 22-A2 Targeted Component and Structure Replacements in HRFA, Appendix 22-A3 Line Rebuilds, and Appendix 22-A5 Top Ignition Causing Lines Upgrades.

3. Revised Revenue Requirements

(a) The revised revenue requirements agreed to in this Settlement Agreement (the "**Revised Revenue Requirements**") are set out in the revised Schedule 3-1 attached as Appendix "A" to this Settlement Agreement. Revised Minimum Filing Requirement ("**MFR**") schedules reflecting the specific adjustments and modifications agreed to in this Settlement Agreement are included in Appendix "A" (collectively, the "**Revised MFR Schedules**"). A Summary of Changes to AltaLink's Revenue Requirement is attached as Appendix B.

(b) Except for the Excluded Matters, the Parties agree that the AUC should approve the Application, with the specific adjustments and modifications identified in this Settlement Agreement and in Appendix "A". The Parties agree to support AltaLink's application to the AUC for approval of this Settlement Agreement.

4. Specific Reductions

(a) AltaLink's forecast total Operating and Maintenance ("**O&M**") and Administrative and General ("**A&G**") (collectively, "**OMA&G**") costs will be reduced by $2.5 million in 2024 and $4.5 million in 2025. The 2024 reduction will be reflected in AltaLink's forecast, in part, through an increase to AltaLink's forecast vacancy rate for OMA&G FTEs in 2024 from 2% to 3%. The remaining 2024 reduction and the 2025 reduction are not tied to any specific USA account or accounts, but are holistic reductions that AltaLink may apply to any operating expense, USA account or accounts as it sees fit. For presentation purposes only, AltaLink has spread these adjustments across all OMA&G USA accounts on a pro rata basis, as reflected in the MFR Schedules included in Appendix "A". Following the issuance of the Commission's decision(s) approving this Settlement Agreement and addressing the Excluded Matters, AltaLink will, in its compliance filing for the 2024-2025 GTA, identify the specific USA account or accounts to which the holistic reductions will apply.

(b) AltaLink's forecast total Capital Replacement and Upgrades ("CRU") capital expenditures will be reduced by $12.5 million in 2024 and $12.5 million in 2025. These total reductions will be reflected in AltaLink's forecast as follows:

i. Specific reductions in the following CRU program or subprogram capital expenditure forecasts:

a. A $0.9 million reduction in 2024 and a $0.9 million reduction in 2025 ($1.8 million in total) in Appendix 13-A07 Substation Components program.

b. A $0.75 million reduction in 2024 and a $0.75 million reduction in 2025 ($1.5 million in total) in Appendix 13-A12 Substation Major, HV Breakers subprogram.

c. A $0.75 million reduction in 2024 and a $0.75 million reduction in 2025 ($1.5 million in total) to the total forecast capital expenditures reflected in Appendix 13-A15 P&C Equipment and Appendix 13-A16 P&C Major programs. These reductions are not tied to any specific project or subprogram within these two programs, but are holistic reductions that AltaLink may apply across these programs as it sees fit. AltaLink shall retain discretion to manage the forecast reductions from projects and subprograms within these two programs based on its assessment of the impact on the safety and reliability of its assets. For presentation purposes only, AltaLink has spread this reduction across the Appendix 13-A15 P&C Equipment and Appendix 13-A16 P&C Major programs on a pro rata basis, as reflected in the MFR Schedules included in Appendix "A". Following the issuance of the Commission's decision(s) approving this Settlement Agreement and addressing the Excluded Matters, AltaLink will, in its compliance filing for the 2024-2025 GTA, identify the specific projects or subprograms within these two programs to which the holistic reductions will apply.

ii. A $10.1 million reduction in 2024 and a $10.1 million reduction in 2025 ($20.2 million in total) to total forecast CRU program capital expenditures. These reductions are not tied to any specific CRU program, subprogram or project, but are holistic reductions that AltaLink may apply as it sees fit. AltaLink shall retain discretion to manage the forecast reductions from CRU programs, subprograms and projects based on its assessment of the impact on the safety and reliability of its assets. For presentation purposes only, AltaLink has spread this reduction across all CRU categories (other than the specific programs or subprograms identified in clause 4(b)(i) above) on a pro rata basis, as reflected in the MFR Schedules included in Appendix "A". Following the issuance of the Commission's decision(s) approving this Settlement Agreement and addressing the Excluded Matters, AltaLink will, in its compliance filing for the 2024-2025 GTA, identify the specific CRU programs, subprograms or projects to which the holistic reductions will apply.

(c) AltaLink's total forecast Information Technology ("**IT**") and Security capital expenditures will be reduced by $6.25 million in 2024 and $6.25 million in 2025. These total reductions will be reflected in AltaLink's forecast as follows:

i. Specific reductions in the following IT and Security program forecast capital expenditures:
   a. A $3.0 million reduction in 2025 ($3.0 million in total) in Appendix 13-B1-04 CIP-014 and CIP-Medium Impact Site Physical Security, which reduction applies only to those CIP-002 medium impact sites which are not critical facilities as defined by CIP-014.
   b. A $0.8 million reduction in 2024 and a $0.25 million reduction in 2025 ($1.05 million in total) in Appendix 13-B2-07 Project Portfolio Information Management System.
   c. A $0.5 million reduction in 2024 and a $0.5 million reduction in 2025 ($1.0 million in total) in Appendix 13-B4-01 Alberta Reliability Standards Compliance Management.

ii. A $4.95 million reduction in 2024 and a $2.5 million reduction in 2025 ($7.45 million in total) to total forecast IT and Security capital expenditures. These reductions are not tied to any specific IT or Security program or project, but are holistic reductions that AltaLink may apply as it sees fit. AltaLink shall retain discretion to manage the forecast reductions from IT and Security programs and projects based on its assessment of the impact on the security, safety and reliability of its assets. For presentation purposes only, AltaLink has spread this reduction across IT and Security categories (other than the specific programs identified in clause 4(c)(i) above) on a pro rata basis, as reflected in the MFR Schedules included in Appendix "A". Following the issuance of the Commission's decision(s) approving this Settlement Agreement and addressing the Excluded Matters, AltaLink will, in its compliance filing for the 2024-2025 GTA, identify the specific programs or projects within IT and Security to which the holistic reductions will apply.

AltaLink's 2026 actual opening rate base will reflect total IT and Security capital expenditures for the Test Period that are no greater than AltaLink's total forecast IT and Security capital expenditures of $72.1 million for the Test Period shown on line 137 (2024: $36.9 million) and line 175 (2025: $35.2 million) of MFR Schedule 10-4 in Exhibit 28174-X0007.01 less $12.5 million.

(d) AltaLink's forecast Wildfire Management Plan capital expenditures in the capital programs described in Appendix 22-A1 Wildfire Situational Awareness and Appendix 22-A4 Transmission Line ROW Upgrades in HRFA programs will be reduced by a total of $0.65 million in 2024 and $0.65 million in 2025. These reductions are not tied to any specific project or subprogram within these two programs, but are holistic reductions that AltaLink may apply across these programs as it sees fit. AltaLink shall retain discretion to manage the forecast reductions from projects or subprograms within these two programs based on its assessment of the impact on the safety and reliability of its assets. For presentation purposes only, AltaLink has spread the reductions across Appendix 22-A1 Wildfire Situational Awareness and Appendix 22-A4 Transmission Line ROW Upgrade in HRFA on a pro rata basis, as reflected in the MFR Schedules included in Appendix "A". Following the issuance of the Commission's decision(s) approving this Settlement Agreement and addressing the Excluded Matters, AltaLink will, in its compliance filing for the 2024-2025 GTA, identify the specific projects or subprograms within these two programs to which the holistic reductions will apply.

(e) AltaLink has assessed and confirms that the reductions in revenue requirement identified in this Settlement Agreement, according to the facts currently known by AltaLink and to the best of AltaLink's knowledge, will not compromise the provision of safe and reliable transmission service during the Test Period.

5. OMG&A Cost Savings Sharing Mechanism

(a) The Parties have agreed to a 50/50 sharing of any total actual OMA&G cost savings achieved by AltaLink in each Test Year that are greater than the total agreed-upon OMA&G cost reductions of \$2.5 million in 2024 and \$4.5 million in 2025 (the "**Cost Savings Sharing Mechanism**").

(b) The amount, if any, to be shared by AltaLink under the Cost Savings Sharing Mechanism will be determined using the following formula:

$$Q = 0.5 * (((\$103.4\text{ million} - \$2.5\text{ million}) - OMA\&G_{2024}) + ((\$106.5\text{ million} - \$4.5\text{ million}) - OMA\&G_{2025}))$$

Where:

Q is the amount that, if positive, will accrue to customers under the Cost Savings Sharing Mechanism;

The amount of \$103.4 million is AltaLink's forecast total OMA&G costs for the 2024 Test Year, excluding deferral and reserve account balances, the calculation of which is set out in Appendix "C";

The amount of \$106.5 million is AltaLink's forecast total OMA&G costs for the 2025 Test Year, excluding deferral and reserve account balances, the calculation of which is set out in Appendix "C";

The amount of \$2.5 million is the agreed-upon total OMA&G cost reduction for the 2024 Test Year set out in clause 4(a) of this Settlement Agreement;

The amount of \$4.5 million is the agreed-upon total OMA&G cost reduction for the 2025 Test Year set out in clause 4(a) of this Settlement Agreement;

$OMA\&G_{2024}$ is AltaLink's actual total OMA&G costs for the Test Year, as reported on Schedule 3 in AltaLink's Rule 005 filing for the 2024 Test Year; and

$OMA\&G_{2025}$ is AltaLink's actual total OMA&G costs for the 2025 Test Year, as reported on Schedule 3 in AltaLink's Rule 005 filing for the 2025 Test Year.

(c) AltaLink will, by not later than July of 2026, calculate Q and file the calculated value of Q with the Commission for acknowledgement, including the amounts for $OMA\&G_{2024}$ and $OMA\&G_{2025}$ used in the calculation.

(d) If Q is zero or a negative amount, then no cost savings sharing will occur. If Q is a positive amount, then the amount will be reflected as an offset to AltaLink's revenue requirement and rates charged to the AESO during 2026.

6. Errors and Omissions

(a) In addition to the adjustments and modifications identified herein, the Test Period revenue requirement will reflect AltaLink's correction of an error described in AltaLink's response to AltaLink-AUC-2023OCT04-001 filed on the record of Proceeding 28174.

7. Future Non-Monetary Commitments

(a) AltaLink will provide a description of its engineering design templates in its next GTA which relate to the programs described in Appendix 13-A01 Transmission Urgent Repair, Appendix 13-A02 Line Components, and Appendix 13-A05 Rebuild Wood Poles Lines.

(b) AltaLink will develop a contamination map of its service area depicting zones of contamination and insulation values based on IEC values based on IEC 60815-1-2-3, and will assess the associated potential implications for future transmission capital maintenance and operations and maintenance costs in its next GTA. Forecast costs for 13-A2 Line Components, General Components subprogram will be increased by \$0.3 million in the 2025 Test Year to fund the development of the contamination map. The \$0.3 million increase is reflected in Schedule 10-4A, line 7 included in Appendix "A".

(c) AltaLink will provide clarification regarding Porcelain and Glass Suspension Insulation and Composite or Braced Post designs in its Insulation Standard, and report in its next GTA.

(d) AltaLink will determine if the 5 km section of line identified in Appendix 13-A05 Rebuild Wood Poles Lines – 54L subprogram that was rebuilt in 1996 is compatible with current system, location and clearance requirements, and address the matter in its facility application for the subprogram.

(e) AltaLink will identify specific UHF radio site upgrades and satellite upgrades to be undertaken under Appendix 13-A10 Telecommunication Equipment, if any, in its next GTA.

(f) AltaLink will provide a quantified risk assessment for one project in one of its line rebuild, substation refurbishment, or telecom major upgrades programs in its next GTA. The materiality for the program must be at least $5 million and for the project must be at least $3 million.

(g) AltaLink will provide changes (increases or decreases) in operating costs for new capital initiatives where appropriate in its next GTA. AltaLink will also identify where there are no material incremental operating costs for the new capital initiatives.

8. Prudence

(a) The Parties agree that nothing in this Settlement Agreement, including the reductions to the 2024-2025 GTA revenue requirement, is an admission by AltaLink that those revenue requirement amounts are imprudent nor is it an admission by the Interveners that those revenue requirement amounts are prudent. The Parties further agree that no Party may rely on anything in this Settlement Agreement as evidence in any future proceeding that any revenue requirement amounts are either prudent or imprudent.

9. Cost of the CCA

(a) Within 30 days following the receipt of an invoice from the CCA, net of any funds received as Advance Funds, AltaLink will pay the CCA, on a refundable basis, the reasonable costs and expenses incurred by the CCA in connection with retaining consultants and counsel in relation to the 2024-2025 GTA and the related negotiated settlement process to and including the point of the Settlement Agreement and approval of the same. In the event of any difference between the costs paid to the CCA consultants by AltaLink and the cost claim approved by the Commission, the CCA or its counsel or consultants, as the case may be, will refund to AltaLink within 30 days of the date of the Commission's decision approving the CCA's cost claim.

(b) AltaLink will, in any event, pay to the CCA the amount of costs and expenses incurred by the CCA in connection with this Settlement Agreement and the related negotiated settlement process within 30 days of the date of the Commission's decision approving the CCA's cost claim.

10. Confidentiality, Privilege and Without Prejudice

(a) The negotiated settlement reflected in this Settlement Agreement is a compromise and was reached in part as a result of the desire of the Parties to avoid the significant resources associated with a fully litigated process. This Settlement Agreement is for the purpose of AltaLink's 2024-2025 GTA only, unless expressly stated otherwise, and it is without prejudice to the positions that any of the

Parties may take in any subsequent negotiations and regulatory proceedings.

(b) All discussions among the Parties during the negotiated settlement process are privileged and confidential, and no matter discussed and no information provided during the negotiated settlement process may be disclosed to any person or to the AUC without the express written consent of all Parties.

11. Representations and Warranties

(a) Each Party represents that it has not withheld relevant information.

(b) The Parties agree that proper notice of the negotiated settlement process was provided to all interested parties.

(c) AltaLink represents that all information it provided to the Interveners during the negotiated settlement process was true and accurate, to the best of AltaLink's knowledge.

(d) AltaLink represents, after due inquiry:

i. The 2024-2025 GTA, supporting material, responses to information requests and all information filed with the Commission contains all material information and facts relied upon by AltaLink to support its revenue requirements for the Test Period.

ii. To the knowledge of AltaLink, the information provided by it in all of its filings with the Commission and submissions to Parties during the negotiation of this Settlement Agreement does not omit any statement of material fact necessary to make the information provided accurate and true.

iii. To the knowledge of AltaLink, with the exception of the following, from the time the 2024-2025 GTA was filed up to and including the date of this Settlement Agreement, no events have occurred materially impacting AltaLink's revenue requirements, revenues or accounting methods for the Test Period:

a. The 2023 spring wildfire and snowfall/flood events under which AltaLink incurred capital expenditures that will be the subject of a separate application to the Commission for approval to recover those expenditures;

b. The Commission's final approved ROE for 2024 of 9.28% in Decision 28585-D01-2023. As a result, AltaLink will implement effective January 1, 2024 the capitalization of salvage methodology approved by the Commission in Decision 23848-D01-2020, and will reflect that methodology in its 2024-2025 GTA compliance filing, estimated to result in reductions to AltaLink's forecast revenue requirement, driven by no longer pre-collecting salvage, of approximately $11.5 million in 2024 and $19.5 million in 2025 (total $31 million in the Test Period); and

c. The error identified in clause 6(a), to be corrected in AltaLink's 2024-2025 GTA compliance filing.

(e) In the event that AltaLink discovers any material errors in calculations and/or facts related to the revenue requirement set forth in the 2024-2025 GTA, AltaLink will disclose them in its next GTA.

(f) AltaLink will disclose in its next GTA any changes in accounting policy or practice during the Test Period that result in material changes to AltaLink's applied-for revenue requirement for the Test Period.

(g) The Parties further agree:

i. The division of this Settlement Agreement into headings and paragraphs is for convenience and reference only and should not affect the interpretation or construction of this Settlement Agreement.

ii. This Settlement Agreement and attached Appendices constitute the entire understanding and agreement between the Parties and there are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, among the Parties in connection with the subject matter of this Settlement Agreement except as specifically set out in this Settlement Agreement.

iii. Any alteration or amendment of this Settlement Agreement must be in writing and signed by the Parties. The Settlement Agreement will be binding upon and inure to the benefit of the Parties and each of their respective successors and permitted assigns. A Party may not assign their rights and/or obligations under the Settlement Agreement without the consent of all other Parties, provided such consent is not unreasonably withheld. The Settlement Agreement may be executed in any number of counterparts.

iv. The Settlement Agreement is to be interpreted pursuant to the laws of the Province of Alberta.

v. If any provision of the Settlement Agreement is found to be invalid by a court of law, the Settlement Agreement will be read and interpreted as if the provision were omitted.

vi. The failure of any Party to exercise any right, power or option given to it under the Settlement Agreement or to insist upon the strict compliance with any of the terms or conditions in the Settlement Agreement will not constitute a waiver of any provision with respect to any other or subsequent breach.

vii. Unless otherwise stated, any dollar amounts, prices or amounts stated in the Settlement

Agreement are in the lawful currency of Canada.

viii. Unless otherwise stated, all accounting matters or terms in the Settlement Agreement will be interpreted and construed in accordance with International Financial Reporting Standards.

ix. References to any statute, legislation or regulation include all subsequent additions, amendments, re-enactments or replacements enacted from time to time during the period covered by the Settlement Agreement.

(h) This Settlement Agreement may be executed in any number of counterparts (including by facsimile or other electronic means) with the same effect as if all signing Parties had signed the same document. All counterparts shall be construed together and constitute the same agreement.

[Signature page follows]

IN WITNESS WHEREOF, the Parties have duly executed this Settlement Agreement as of the date set out above.

ALTALINK MANAGEMENT LTD., in its capacity as general partner of ALTALINK, L.P.

Per: ______________________
Name: Paul Lee
Title: VP, Projects

CONSUMERS' COALITION OF ALBERTA

Per: ______________________
Name:
Title:

OFFICE OF THE UTILITIES CONSUMER ADVOCATE

Per: ______________________
Name:
Title:

INDUSTRIAL POWER CONSUMERS ASSOCIATION OF ALBERTA

Per: ______________________
Name:
Title:

ALBERTA DIRECT CONNECT CONSUMERS ASSOCIATION

Per: ______________________
Name:
Title:

ALBERTA FEDERATION OF REA'S LTD.

Per: ______________________
Name:
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CONSUMERS' COALITION OF ALBERTA

Per: ______________________
Name:
Title:

OFFICE OF THE UTILITIES CONSUMER ADVOCATE

Per: C. W. Hunt
Name: Chris Hunt
Title: Executive Director & Advocate

INDUSTRIAL POWER CONSUMERS ASSOCIATION OF ALBERTA

Per: ______________________
Name:
Title:

ALBERTA DIRECT CONNECT CONSUMERS ASSOCIATION

Per: ______________________
Name: Megan Gill
Title: Executive Director, ADC

ALBERTA FEDERATION OF REA'S LTD.

Per: ______________________
Name:
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OFFICE OF THE UTILITIES CONSUMER ADVOCATE

Per: C. W. Hunt
Name: Chris Hunt
Title: Executive Director & Advocate

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Name: Paul Lee

Title: VP, Projects

CONSUMERS' COALITION OF ALBERTA

Per: ______________________

Name: Larry Phillips

Title: President CCA

GTA 28174 AML NSP/NSA

OFFICE OF THE UTILITIES CONSUMER ADVOCATE

Per: ______________________

Name:

Title:

INDUSTRIAL POWER CONSUMERS ASSOCIATION OF ALBERTA

Per: ______________________

Name:

Title:

ALBERTA DIRECT CONNECT CONSUMERS ASSOCIATION

Per: ______________________

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Per: ______________________

Name:

Title: