



**TransAlta Corporation, as Manager of the
TransAlta Generation Partnership**

**2019-2021 Transmission General Tariff Application and 2016-
2018 Edmonton Region Project Direct Assigned Capital Deferral
Account Compliance Filing**

June 23, 2021

Alberta Utilities Commission

Decision 26436-D01-2021

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TransAlta Generation Partnership

2019-2021 Transmission General Tariff Application and 2016-2018 Edmonton Region Project
Direct Assigned Capital Deferral Account Compliance Filing
Proceeding 26436

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Contents

1	Introduction and decision summary	1
2	Background to the application process.....	4
3	2019-2021 GTA	4
3.1	The issues.....	5
3.1.1	Issue 1: Is TransAlta’s 2021 escalation rate for non-union salary, contractor, and general inflation reasonable?.....	6
3.1.2	Issue 2: Are TransAlta’s payments in lieu of property tax to certain First Nations reasonable?	7
3.1.3	Issue 3: Is it reasonable for TransAlta to continue to adopt AltaLink’s depreciation practices, including AltaLink’s approved depreciation parameters and depreciation rates, and AltaLink’s capitalize and expense salvage methodology?.....	8
3.1.4	Issue 4: Should TransAlta correct its applied-for cost-of-debt rates to match AltaLink’s approved rates for 2019-2021?	9
3.1.5	Issue 5: Should the Commission approve TransAlta’s applied-for capital addition amounts related to rate base projects “Transmission Line Rebuild” and “Line 902L structure 50 replacement project”?	10
4	Order.....	12
	Appendix 1 – Proceeding participants	14
	Appendix 2 – Virtual oral argument – registered appearances	15
	Appendix 3 – Summary of Commission directions.....	16
	Appendix 4 – Directions from Decision 25369-D01-2020 TransAlta has complied with	17

List of tables

Table 1.	TransAlta’s summary of transmission revenues and costs.....	5
Table 2.	2019 – 2021 capital maintenance addition amounts	10

TransAlta Corporation

**2019-2021 Transmission General Tariff Application and
2016-2018 Edmonton Region Project Direct Assigned Capital
Deferral Account Compliance Filing**

**Decision 26436-D01-2021
Proceeding 26436**

1 Introduction and decision summary

1. TransAlta Corporation, in its capacity as Manager of the TransAlta Generation Partnership, is a transmission facility owner (TFO). TFOs provide regulated transmission service in Alberta. They recover the costs of providing transmission service through a transmission tariff, which must be approved by the Alberta Utilities Commission. Once approved, TFOs recover their tariff amounts from the Alberta Electric System Operator.

2. In the current application, TransAlta seeks Commission approval of the amount of the revenue requirement it needs to provide safe and reliable transmission service for 2019, 2020 and 2021. The regulatory process held to determine TransAlta's revenue requirement is a general tariff application (GTA). Revenue requirement is comprised of all reasonable costs forecast to be incurred by TransAlta, including operating costs and the return of and a fair return on its capital investment in the transmission assets that are necessary to provide utility service to customers. All amounts being requested by TransAlta are tested during proceedings such as the current one.

3. In conjunction with its 2019-2021 GTA, TransAlta also applied for approval of its compliance filing to Decision 25369-D01-2020.¹ That decision provided an after-the-fact assessment of the prudence of the costs incurred by TransAlta for its portion of the Edmonton Region 240 kilovolt (kV) Upgrades project (the Edmonton Region Project) and resulted in two directions for TransAlta to comply with to determine the final costs for the Edmonton Region Project. In the current application, TransAlta's compliance with those two directions is determined. The final Edmonton Region Project costs will be established by reconciling and disposing of a direct assigned capital deferral account (DACDA) that will be added to TransAlta's revenue requirement to determine its overall tariff amount.

4. Specifically, in this application, TransAlta requested Commission approval of the following:

- revenue requirements of \$7.63 million for 2019, \$8.41 million for 2020 and \$8.25 million for 2021;
- TFO terms and conditions of service for 2019-2021;
- reserve and deferral accounts and other aspects of the proposed tariff;

¹ Decision 25369-D01-2020: AltaLink Management Ltd. and TransAlta Corporation, Direct Assigned Capital Deferral Account for the Edmonton Region Project, Proceeding 25369, December 10, 2020.

- its proposed reconciliation of its capital deferral account for direct assigned capital projects for 2016-2018;
- its proposed reconciliation of its deferral account for property taxes and payments in lieu of property taxes for 2017 and 2018;
- its proposed reconciliation of its deferral account for tower payments for 2017 and 2018;² and
- its compliance with Commission directions of Decision 25369-D01-2020.³

5. This is the Commission's decision on TransAlta's 2019-2021 GTA and its compliance with Decision 25369-D01-2020 and related deferral accounts true-up.

6. In this decision, the Commission provides its findings only on the contentious matters of the proceeding. All requested approvals in TransAlta's application not specifically addressed in the sections that follow are to be considered approved as filed by the Commission, including:

- **TransAlta's TFO terms and conditions of service for 2019-2021:** The terms and conditions of service adopted by TransAlta, approved in Decision 22073-D01-2017,⁴ will continue to be in effect until otherwise directed by the Commission.
- **TransAlta's proposed reconciliation for its reserve and deferral accounts:** TransAlta's reconciliation and disposition of the property tax and tower payment deferral accounts⁵ and the hearing cost reserve account,⁶ including the continuation of these accounts, are reasonable and consistent with the approvals granted by the Commission in previous TransAlta GTAs. Accordingly, TransAlta's proposed reconciliation and disposition of these accounts are approved as filed.
- **2016-2018 Edmonton Region Project DACDA compliance filing:** In Decision 25369-D01-2020, the Commission directed that a 15 per cent disallowance be applied to costs incurred in relation to the 1043L portion of that project.⁷ The Commission finds that TransAlta has complied with this direction by including a reduction totaling approximately \$2.9 million to actual costs incurred on the Edmonton Region Project for the year 2016,⁸ approximately \$78,000 in respect of 2017 actuals⁹ and approximately \$5,000 in respect of 2018 actuals.¹⁰ With these adjustments, the Commission finds that

² Exhibit 26436-X0001, application, paragraph 3.

³ Exhibit 26436-X0001, application, PDF pages 13-14.

⁴ Decision 22073-D01-2017: AltaLink Management Ltd., Application for Approval of Amendments to Alberta Transmission Facility Owner Terms and Conditions of Service, Proceeding 22073, June 26, 2017.

⁵ Exhibit 26436-X0001, application, Table 1.5.3, PDF page 11.

⁶ Exhibit 26436-X0001, application, Table 26.2.9, PDF page 107.

⁷ Decision 25369-D01-2020, paragraph 118.

⁸ Exhibit 26436-X0002, Tab "2016 Details."

⁹ Exhibit 26436-X0002, Tab "2017 Details."

¹⁰ Exhibit 26436-X0002, Tab "2018 Details."

TransAlta has complied with Direction 2 of Decision 25369-D01-2020. The Commission approves TransAlta's 2016-2018 Edmonton Region Project DACDA compliance filing.¹¹

7. With respect to TransAlta's 2019-2021 GTA, this decision contains the Commission's reasons in relation to its findings that some of the costs that TransAlta seeks to recover are not reasonable. As a result of these findings, the Commission directs:

- **2021 escalation rate:** TransAlta will use a 0.8 per cent escalation rate for non-union salary, contractor, and general inflation for 2021.
- **Cost-of-debt rates:** TransAlta will update its cost-of-debt rates to match AltaLink Management Ltd.'s approved debt rates for 2019-2021 as follows: 3.93 per cent for 2019, 3.97 per cent for 2020 and 3.98 per cent for 2021.
- **2019 property tax transcription error:** TransAlta will correct a transcription error contained in the application in the amount of \$1,000.
- **Line 113L/150L rebuild project:** TransAlta will file a post-disposition document on the record of this proceeding within 30 days of the release date of AltaLink's 2022-2023 GTA decision to update the Commission as to the resolution of the TransAlta/AltaLink allocation issue, where approximately \$700,000 in costs related to the line 113L/150L rebuild project may have been erroneously billed to TransAlta's rate base.

8. The Commission has made the following determinations in respect of the following proposed cost items, which were contested:

- **Payments in lieu of property tax:** The Commission is satisfied with TransAlta's submissions related to this issue. With the exception of the transcription error noted above, TransAlta's payments in lieu of property tax are approved as filed.
- **Depreciation expense and salvage methodology:** The Commission is satisfied that TransAlta's proposal to adopt AltaLink's depreciation practices, including the capitalize and expense salvage method is reasonable. In having relied on AltaLink's current approved depreciation parameters and depreciation rates, the Commission approves TransAlta's forecast depreciation expense and the amount and manner in which forecast salvage costs are proposed to be collected through TransAlta's salvage reserve account.
- **Rate base capital additions:** the Commission-approved capital addition amounts related to the Transmission Line Rebuild project are approved on a placeholder basis, pending the resolution of the TransAlta/AltaLink allocation issue involving the line 113L/150L rebuild project mentioned above. The Commission also made comments on the lack of

¹¹ TransAlta's request that these capital addition reductions be treated as interim in consideration of a review and variance application filed by TransAlta in respect of Decision 25369-D01-2020 is moot as Decision 26305-D01-2021: TransAlta Corporation, Decision on Preliminary Question, Application for Review of Decision 25369-D01-2020, Direct Assigned Capital Deferral Account for the Edmonton Region Project, Proceeding 26305, Application 26305-A001, April 22, 2021, denied TransAlta's application to review and vary the Commission's findings in Section 3.2.10 of Decision 25369-D01-2020.

transparency regarding information provided by TransAlta with respect to the line 902L structure 50 replacement project in Section 3.1.5 of this decision.

9. The Commission requires TransAlta to file a compliance filing that reflects the findings, conclusions and directions of the Commission in this decision on or before July 23, 2021. In its compliance filing, TransAlta will include a detailed reconciliation of the revenue requirements for each of the 2019, 2020 and 2021 test years to reflect this decision.

2 Background to the application process

10. The Commission received TransAlta's application on March 31, 2021.

11. The Commission issued a notice of the application on April 1, 2021, with statements of intent to participate due April 9, 2021.¹² Statements of intent to participate were received from the Consumers' Coalition of Alberta (CCA)¹³ and the Office of the Utilities Consumer Advocate (UCA).¹⁴

12. On April 14, 2021, the Commission issued a letter containing the process schedule for this proceeding. In that letter, the Commission confirmed a materiality threshold for testing TransAlta's 2019-2021 GTA, in accordance with Bulletin 2020-25.¹⁵ The Commission determined that for differences between TransAlta's approved, actual and forecast operating and maintenance (O&M) costs and administration and general (A&G) costs at the uniform system of account level, it would apply a materiality threshold of the greater of three per cent of the difference and \$75,000. The consequence of the application of this materiality threshold is that if the differences were less than three per cent and \$75,000, detailed explanations by TransAlta were not required, interveners were instructed not to ask detailed questions in these cost categories, and the Commission's review of these costs was limited.

13. The process schedule for this proceeding included two rounds of information requests (IRs) to TransAlta and virtual oral argument and reply argument held on May 13, 2021.

14. The Commission considers the close of record for the proceeding is May 13, 2021, when oral argument and reply argument concluded.

3 2019-2021 GTA

15. Many aspects of TransAlta's application are inextricably linked to AltaLink's forecasts. As a result, TransAlta adopted in all past GTAs, and proposed to adopt in this 2019-2021 GTA, the following AltaLink parameters:

- Lead lag study and resulting working capital ratios;

¹² Exhibit 26436-X0007.

¹³ Exhibit 26436-X0008.

¹⁴ Exhibit 26436-X0009.

¹⁵ Bulletin 2020-25, Reducing regulatory burden with materiality thresholds for review of cost of service rate applications, July 3, 2020.

- Depreciation study and resulting depreciation rates;
- Cost-of-debt rates;
- Terms and conditions of service; and
- TransAlta’s contracted labour costs, which are based on a percentage of AltaLink’s total O&M costs, in accordance with the Operations and Maintenance Agreement between TransAlta and AltaLink.¹⁶

16. As part of its 2019-2021 GTA, TransAlta provided a summary of transmission revenues and costs for each of the 2019, 2020 and 2021 test years:

Table 1. TransAlta’s summary of transmission revenues and costs

	2019 Actual	2020 Actual	2021 Forecast
Revenues	\$(000)		
Transmission tariffs	7,626	8,412	8,247
Deferral accounts and reserves	-	-	(641)
Total revenues	7,626	8,412	7,606
Costs	\$(000)		
Operating costs	2,746	3,225	2,899
Depreciation	2,155	2,235	2,291
Return on rate base	2,725	2,953	3,058
Income tax expense	-	-	-
Total costs	7,626	8,412	8,247

Source: Exhibit 26436-X0001, application, PDF page 17.

17. In the following sections, the Commission makes findings on certain costs sought by TransAlta to be recovered in its 2019-2021 GTA that were contested by other parties or that the Commission has otherwise determined are required to be specifically addressed.

3.1 The issues

18. The contentious issues to be decided in TransAlta’s 2019-2021 GTA are:

- (a) Is TransAlta’s 2021 escalation rate for non-union salary, contractor and general inflation reasonable?
- (b) Are TransAlta’s payments in lieu of property tax to certain First Nations reasonable?
- (c) Is it reasonable for TransAlta to continue to adopt AltaLink’s depreciation practices, including AltaLink’s approved depreciation parameters and depreciation rates, and AltaLink’s capitalize and expense salvage methodology?
- (d) Should TransAlta correct its applied-for cost-of-debt rates to match AltaLink’s approved rates for 2019-2021?

¹⁶ Exhibit 26436-X0001, application, paragraphs 6-7.

- (e) Should the Commission approve TransAlta's applied-for capital addition amounts related to rate base projects "Transmission line Rebuild" and "Line 902L structure 50 replacement project" as filed?

19. In reaching the determinations set out in this decision, the Commission has considered all relevant materials comprising the record of this proceeding, including the evidence, argument and reply argument and supplements, provided by each party. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to that matter.

3.1.1 Issue 1: Is TransAlta's 2021 escalation rate for non-union salary, contractor, and general inflation reasonable?

20. For the reasons set out below, the Commission approves a 0.8 per cent escalation rate for TransAlta's non-union salary, contractor, and general inflation for 2021.

21. TransAlta requested approval of a 1.75 per cent non-union salary, contractor, and general inflation escalation rate for the 2021 test year,¹⁷ which is applied to costs forecast within its O&M and A&G accounts.¹⁸ TransAlta submitted that it did not undertake any studies to assess the reasonableness of the applied-for 2021 escalator.¹⁹ Given the absence of any relevant studies, and the impacts of the COVID-19 pandemic on the Alberta economy, the Commission finds that the applied-for 1.75 per cent escalator is unreasonably high.

22. TransAlta has traditionally adopted AltaLink's approved escalation rates. However, AltaLink's 2019-2021 GTA was settled by way of a negotiated settlement without any express approval of escalation rates, leading TransAlta to investigate escalators approved by the Commission in other rate application decisions. TransAlta noted that the Commission approved an escalation rate of 1.75 per cent as the non-union and contractor escalator in EPCOR Distribution & Transmission Inc.'s 2020-2022 transmission GTA decision²⁰ (the EPCOR decision) and in the City of Lethbridge's 2018-2020 transmission GTA decision²¹ (the Lethbridge decision). Therefore, TransAlta proposed to adopt the same 1.75 per cent escalator for its 2021 forecast.²²

23. The CCA argued that TransAlta relied on decisions that were issued by the Commission in early 2020,²³ when the impacts of the COVID-19 pandemic on the economy were not known or understood.²⁴ The Commission agrees with the CCA's argument. The Commission also notes

¹⁷ Exhibit 26436-X0001, application, paragraph 25, Table 1.4.1.

¹⁸ Exhibit 26436-X0016, TA-AUC-2021APR21-001(b), PDF page 2.

¹⁹ Exhibit 26436-X0016, TA-AUC-2021APR21-001(e), PDF page 3.

²⁰ Decision 24798-D01-2020: EPCOR Distribution & Transmission Inc., 2020-2022 TFO Tariff Application, Proceeding 24798, April 17, 2020.

²¹ Decision 24847-D01-2020: City of Lethbridge, 2018-2020 TFO Tariff Application, Proceeding 24847, April 6, 2020.

²² Exhibit 26436-X0001, application, paragraph 25.

²³ Both the EPCOR decision and the Lethbridge decision were issued in April 2020.

²⁴ Transcript Volume 1, PDF pages 30-31.

that the test period in the Lethbridge decision investigated by TransAlta ends in 2020, while the test year in question is 2021.

24. TransAlta submitted that the total cost of labour escalation for 2021 of approximately \$49,000 does not satisfy the materiality threshold.²⁵ The Commission notes that Bulletin 2020-25 states "... a review of costs or issues below the materiality threshold will be permitted if the cost item or issue is precedent setting...." The Commission is of the view that escalator rates can be precedent setting because, as with the current proceeding, other regulated utilities review and may apply for similar escalators to their forecast costs. In addition, the exceptional nature of the COVID-19 pandemic and its impact on the economy require the Commission to consider this issue in spite of the materiality threshold. Accordingly, the Commission does not accept TransAlta's submission that its applied-for escalation rates should not be reviewed due to the materiality threshold.

25. The CCA observed that the Commission approved a 0.8 per cent non-union salary escalator for 2021 in ATCO Electric Ltd.'s 2020-2022 GTA decision²⁶ (the ATCO Electric decision) and recommended approval of a 2021 escalation rate of 0.8 per cent for TransAlta.²⁷ The Commission also observes that, in light of the COVID-19 pandemic and current economic climate in Alberta,²⁸ contractor, and general inflation rates of 0.8 per cent were approved for 2021 in the ATCO Electric decision²⁹ and an escalator of 0.8 per cent for non-union salary was approved for 2021 in ATCO Pipelines' 2021-2023 general rate application decision.³⁰

26. The Commission similarly finds in the current proceeding that due to the COVID-19 pandemic and current economic climate in Alberta, an escalator of 0.8 per cent for non-union salary, contractor, and general inflation for 2021 is reasonable. The Commission therefore directs TransAlta to update its 2021 escalation rate to 0.8 per cent for TransAlta's non-union salary, contractor, and general inflation in the compliance filing.

3.1.2 Issue 2: Are TransAlta's payments in lieu of property tax to certain First Nations reasonable?

27. For the reasons set out below, the Commission finds that TransAlta's payments in lieu of property tax to four First Nations that do not have a property tax bylaw to be reasonable.

28. TransAlta's TFO assets are located on the lands of 13 First Nations. As of 2020, nine of the First Nations have their own property tax bylaw, which requires TransAlta to make annual payments of property taxes to each of these nine First Nations. The remaining four First Nations do not have a property tax bylaw. Accordingly, TransAlta makes "payments in lieu of taxes" pursuant to bylaw agreements, which utilize the mill rates of surrounding communities to determine the amount of the payments. Specifically, TransAlta proposed to pay approximately

²⁵ Transcript Volume 1, PDF page 12.

²⁶ Decision 24964-D02-2021: ATCO Electric Ltd., 2020-2022 Transmission GTA, Proceeding 24964, March 19, 2021.

²⁷ Transcript Volume 1, PDF page 31.

²⁸ Decision 24964-D02-2021, paragraph 116 and Decision 25663-D01-2021: ATCO Pipelines, 2021-2023 General Rate Application, Proceeding 25663, March 1, 2021, paragraph 130.

²⁹ Decision 24964-D02-2021, paragraph 116.

³⁰ Decision 25663-D01-2021, paragraph 130.

\$469,400 in payments in lieu of property tax over the test period.³¹ These amounts are based on the Alberta Municipal Affairs linear property assessment and the mill rates of neighbouring or adjacent counties.³² The Commission approved this methodology in previous TransAlta GTAs³³ and continues to be of the view that it is reasonable.

29. The CCA argued that TransAlta's payments in lieu of property taxes to the four First Nations that do not have a property tax bylaw should be denied because TransAlta did not demonstrate how these costs contribute to the safe and reliable operation of the transmission system.³⁴

30. TransAlta emphasized that these payments are in *lieu* of property taxes, and had these payment agreements not been in place, the appropriate First Nations would levy property taxes and establish bylaws, as the Ermineskin Cree Nation did in 2020.³⁵

31. Similar to municipal and local taxes, the Commission finds the payments in lieu of property taxes to the four First Nations to be legitimate costs and that TransAlta is entitled to recover these costs under cost-of-service regulation. In addition, the Commission finds that these payments provide fair and equitable treatment to all 13 First Nations where TransAlta's TFO assets are located. For these reasons, the Commission denies the CCA's request.

32. TransAlta noted a transcription error in the property tax amount for 2019, which resulted in a \$1,000 difference from actuals paid.³⁶ Given that the Commission requires a compliance filing application to this decision to be filed by TransAlta, the Commission directs TransAlta to correct this amount in the compliance filing.

3.1.3 Issue 3: Is it reasonable for TransAlta to continue to adopt AltaLink's depreciation practices, including AltaLink's approved depreciation parameters and depreciation rates, and AltaLink's capitalize and expense salvage methodology?

33. For the reasons set out below, the Commission approves TransAlta's request to adopt AltaLink's depreciation practices, depreciation parameters, and depreciation rates, including the capitalize and expense salvage methodology, effective January 1, 2019.

34. Historically, the Commission has approved TransAlta's approach of adopting AltaLink's depreciation practices, including the depreciation parameters and depreciation rates tested and approved by the Commission within an AltaLink general tariff application. The Commission has

³¹ The tax amount was calculated using the table provided in Exhibit 26436-X0022, PDF page 4.

³² Exhibit 26436-X0001, application, paragraphs 78-79.

³³ For instance, see Decision 23905-D01-2019: TransAlta Corporation, as Manager of the TransAlta Generation Partnership, 2017-2018 Transmission General Tariff Application, Proceeding 23905, March 12, 2019, paragraphs 64-66 and Decision 22651-D01-2017: TransAlta Corporation, as Manager of the TransAlta Generation Partnership, 2015-2016 Transmission General Tariff Application, Proceeding 22651, November 14, 2017, paragraphs 40-41.

³⁴ Transcript Volume 1, PDF page 38.

³⁵ Transcript Volume 1, PDF page 15.

³⁶ Exhibit 26436-X0022, PDF page 4.

considered this to be more efficient and less costly than requiring TransAlta maintain actuarial data sufficient to conduct its own depreciation-related studies.

35. In the current proceeding, the CCA argued that TransAlta should not adopt AltaLink's capitalize and expense salvage methodology given that AltaLink will continue to maintain certain salvage cost information that could be available to TransAlta.³⁷ The CCA submitted that TransAlta has not adequately supported its salvage costs³⁸ on an actual basis because the salvaging activities are carried out by AltaLink and subsequently invoiced³⁹ to and recorded by TransAlta on a percentage share.

36. The Commission does not share the CCA's concern that TransAlta's salvage costs are being recorded on the basis of an invoice from AltaLink. The Commission is not persuaded that TransAlta's salvage costs are any less supported because they are invoiced, given that parties have the ability to examine and test such costs in applications such as the current one.

37. With respect to the CCA's objection to TransAlta's proposed adoption of AltaLink's capitalize and expense salvage method, the Commission denies the CCA's request for TransAlta to conduct its own net salvage studies with information from AltaLink. Under the assumption that all necessary information is available from AltaLink, granting the CCA's request would require TransAlta to conduct and submit a traditional net salvage study for testing by parties and the Commission. In the Commission's view, the benefits of TransAlta adopting AltaLink's tested and approved depreciation methods, including the capitalize and expense salvage method, depreciation parameters and rates are considerable from both a cost and efficiency perspective.

38. The Commission notes that there are minor differences between AltaLink's and TransAlta's implementation of the capitalize and expense salvage method. For example, TransAlta's proposed net salvage reserve account is insufficient to accommodate the salvage costs forecast over the test period. For this reason, TransAlta intends to recover the forecast salvage reserve shortfall equally over the test period rather than to link the recovery of forecast salvage costs to a funds from operations (FFO) to debt ratio as will be the case for AltaLink. TransAlta explained that it does not have the same credit metrics as AltaLink and using an FFO to debt method to determine the amount of salvage costs to recover through revenue requirement is not practical. The Commission accepts that this difference is unavoidable and does not cause an unreasonable divergence from the form and intent of the capitalize and expense method.^{40 41}

3.1.4 Issue 4: Should TransAlta correct its applied-for cost-of-debt rates to match AltaLink's approved rates for 2019-2021?

39. For the reasons set out below and given that TransAlta is required to file a compliance filing application to this decision, the Commission directs TransAlta to update its cost-of-debt rates to match AltaLink's approved rates as follows: 3.93 per cent for 2019, 3.97 per cent for 2020 and 3.98 per cent for 2021.

³⁷ Transcript Volume 1, PDF page 34.

³⁸ Transcript Volume 1, PDF pages 37-38.

³⁹ Transcript Volume 1, PDF page 16.

⁴⁰ Exhibit 26436-X0016, TA-AUC-2021APR21-003, PDF pages 5-7.

⁴¹ Transcript Volume 1, PDF pages 16-17.

40. Similar to prior GTAs, TransAlta proposed to use the same cost-of-debt rates approved for AltaLink.⁴² TransAlta applied for a debt rate of 4.00 per cent for each of 2019, 2020, and 2021, and indicated that it had obtained these rates from AltaLink’s cost-of-debt rates for the 2019-2021 test period. The Commission noted that AltaLink’s approved cost-of-debt rates for the 2019-2021 test period differed from the rates TransAlta applied for in this application.

41. In an IR response to the Commission, TransAlta submitted that the applied-for cost-of-debt rates were based on the 2018 debt rate approved in the TransAlta 2017-2018 GTA compliance filing, and that the net revenue requirement impact over the test period of updating its debt rates to match AltaLink’s approved rates was approximately \$44,000.⁴³

42. The Commission finds that this discrepancy must be updated in the compliance filing. The Commission continues to be of the view that the use of AltaLink’s cost-of-debt rates as a proxy for TransAlta should reasonably match the cost of debt that TransAlta would have been able to access had it not sold the bulk of its original transmission assets and business to AltaLink in the test period.

3.1.5 Issue 5: Should the Commission approve TransAlta’s applied-for capital addition amounts related to rate base projects “Transmission Line Rebuild” and “Line 902L structure 50 replacement project”?

43. TransAlta requested approval of actual aggregate capital addition amounts of \$6.609 million for 2019, and \$2.078 million for 2020, as well as forecast capital additions totaling \$3.397 million for 2021. These capital addition amounts are all related to transmission capital maintenance projects and are summarized in the table below:

Table 2. 2019 – 2021 capital maintenance addition amounts

	2019 Actual	2020 Actual	2021 Forecast
	(\$000)		
Line 902L structure 50 replacement project	4,475	–	287
225L Line Complete Rebuild Project	1,041	–	–
Substation / telecom equipment / structure and line component replacement	627	864	1,529
Transmission line rebuild	466	804	–
Fire / line clearance risk mitigation	–	410	1,105
Lattice steel tower replacement	–	–	476
Total	6,609	2,078	3,397

Source: Exhibit 26436-X0032, TA-AUC-2021MAY11-003(c), PDF page 3.

44. The Commission approves TransAlta’s applied-for capital addition amounts for the test period as summarized in Table 2 with the exception of capital addition amounts related to the Transmission Line Rebuild project, which are approved as placeholders of approximately \$466,000 for 2019, and \$804,000 for 2020.

⁴² Exhibit 26436-X0001, application, paragraph 157.

⁴³ Exhibit 26436-X0016, TA-AUC-2021APR21-005, PDF page 9.

45. The Commission sets out below its reasons for approving capital addition amounts related to the Transmission Line Rebuild project on a placeholder basis, and with respect to the line 902L structure 50 replacement project.

Transmission Line Rebuild: line 113L/150L rebuild project

46. As part of its response to TA-AUC-2021MAY11-006(b), TransAlta filed new information that it had recently identified costs of approximately \$700,000 for the line 113L/150L rebuild project that may have been erroneously billed to TransAlta's rate base. TransAlta explained that, while it considered these costs to be legitimately related to the Transmission Line Rebuild project, the reallocation of this amount would not negatively impact ratepayers overall, but could require a reduction to TransAlta's revenue and rate base for the test period and a corresponding increase to AltaLink's revenue and rate base.⁴⁴ In light of this TransAlta/AltaLink allocation issue, the Commission finds that TransAlta's proposed 2019-2021 period capital additions for the Transmission Line Rebuild project will be approved on a placeholder basis only.⁴⁵

47. The Commission notes that no prudence issues were raised in this proceeding in respect of TransAlta's Transmission Line Rebuild project expenditures. For this reason, the Commission anticipates that these costs may be finalized once the TransAlta/AltaLink allocation issue described in TA-AUC-2021MAY11-006(b) has been resolved.

48. While TransAlta's response to TA-AUC-2021MAY11-006(b) indicates that a resolution of the TransAlta/AltaLink allocation issue could be resolved "before the end of the year"⁴⁶ following the conclusion of commercial negotiations, the Commission is concerned that a delay as long as suggested in this statement could impede the efficiency of future regulatory processes. In light of this concern, the Commission directs TransAlta to advise AltaLink of its concern that this allocation be resolved quickly, reflecting the Commission's current understanding that the issue appears to be of a very straightforward nature. TransAlta is further directed to report to the Commission advising as to the resolution of this issue as a post-disposition document on the record of this proceeding within 30 days of the release date of AltaLink's 2022-2023 GTA decision.

Line 902L structure 50 replacement project

49. The Commission has determined that, despite the high cost and the rapid escalation of costs for the structure 50 replacement project, the costs set out in the application reflect that AltaLink did not have a long lead time to procure materials for and execute this project, and therefore did not anticipate the escalation of costs when it prepared its initial estimates. For the reasons that follow, the Commission is satisfied that in the exigent circumstances that arose for

⁴⁴ Exhibit 26436-X0032, TA-AUC-2021MAY11-006(b), PDF page 9.

⁴⁵ Although not specifically identified by TransAlta in the reference to the 113L/150L rebuild project in its response to TA-AUC-2021MAY11-006(b), the Commission understands the 113L/150L rebuild project to be a component of the "Transmission Line Rebuild" line item in Table 2.

⁴⁶ In a discussion at transcript volume 1, PDF pages 24 and 25, Mr. Light on behalf of TransAlta clarified that "before the end of the year" was a pessimistic forecast and suggested that TransAlta could potentially provide an update in either its compliance filing or as part of a future TransAlta tariff application.

this urgent capital replacement, TransAlta's portion of the costs, which total approximately \$4.762 million over the 2019 to 2021 period⁴⁷ is reasonable and approved, as filed.

50. TransAlta characterized the 902L structure 50 replacement as an "urgent repair" resulting from the structural failure of a 43 year old double circuit 240kV steel lattice transmission tower foundation that was noticed during an annual maintenance patrol. TransAlta explained that structure 50 was situated directly in the water at Lake Wabamun. The tower's foundation was dangerously weakened due to stress created by ice loading from the freeze thaw cycles over its life. The structure had to be removed and the two adjacent towers replaced with larger steel structures. TransAlta indicated that the foundation of the replacement towers had to be designed for an additional stick-up distance to gain the needed clearance over the water. In addition, because the location of the replacement towers was within the wet area of the lake, they were susceptible and required additional designs to address ice-loading that are not typically applied to foundations. Further, due to the potential for differential loadings at the legs of the steel lattice towers, stiffeners were required, including a connection between each leg. TransAlta further indicated a construction team had to be mobilized for this specific project, which meant that any economy of scale benefits that would otherwise be realized if several towers with similar designs needed repair or replacement at the same time could not be leveraged in this case. TransAlta's evidence was that the added material and the complexity associated with the installation resulted in the increase in cost for the project.

51. The Commission is also of the view that the urgent nature of the project would have required the expedited procurement of needed project services, such that the actual increase from initially forecast amounts for contracted services may have reflected that only a limited number of firms could participate in project tenders.

52. The Commission required a second round of IRs to TransAlta because certain key information was either not apparent or not available to the Commission for its review of the costs associated with this project on the basis of evidence filed by TransAlta. The Commission considers that this information could have been provided earlier and in a more transparent manner by TransAlta, which would have made the regulatory process more efficient and effective.

53. Notwithstanding the difficulty in completing the record on this issue, the Commission is satisfied that TransAlta has adequately explained the drivers of the increase from the initial project forecast and finds that the quantum of the variance from the initial forecast is reasonable given the urgent circumstances described above.

4 Order

54. It is hereby ordered that:

- (1) TransAlta Corporation, as manager of the TransAlta Generation Partnership, is directed to file a compliance filing in accordance with the findings and directions in this decision, no later than July 23, 2021.

⁴⁷ Exhibit 26436-X0016, TA-AUC-2021APR21-007(a)(i), PDF page 12.

Dated on June 23, 2021.

Alberta Utilities Commission

(original signed by)

Kristi Sebalj
Panel Chair

(original signed by)

Neil Jamieson
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
TransAlta Corporation (TransAlta)
Consumers' Coalition of Alberta (CCA)
Office of the Utilities' Consumer Advocate (UCA)

Alberta Utilities Commission
Commission panel
K. Sebalj, Panel Chair
N. Jamieson, Commission Member
Commission staff
N. Sawkiw (Commission counsel)
F. Alonso
J. Halls
S. Karim
L. Mullen

Appendix 2 – Virtual oral argument – registered appearances

Name of organization (abbreviation) Name of counsel or representative
TransAlta Corporation (TransAlta) Vincent Light
Consumers' Coalition of Alberta (CCA) James Wachowich, QC

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. The Commission similarly finds in the current proceeding that due to the COVID-19 pandemic and current economic climate in Alberta, an escalator of 0.8 per cent for non-union salary, contractor, and general inflation for 2021 is reasonable. The Commission therefore directs TransAlta to update its 2021 escalation rate to 0.8 per cent for TransAlta’s non-union salary, contractor, and general inflation in the compliance filing. paragraph 26
2. TransAlta noted a transcription error in the property tax amount for 2019, which resulted in a \$1,000 difference from actuals paid. Given that the Commission requires a compliance filing application to this decision to be filed by TransAlta, the Commission directs TransAlta to correct this amount in the compliance filing. paragraph 32
3. For the reasons set out below and given that TransAlta is required to file a compliance filing application to this decision, the Commission directs TransAlta to update its cost-of-debt rates to match AltaLink’s approved rates as follows: 3.93 per cent for 2019, 3.97 per cent for 2020 and 3.98 per cent for 2021. paragraph 39
4. While TransAlta’s response to TA-AUC-2021MAY11-006(b) indicates that a resolution of the TransAlta/AltaLink allocation issue could be resolved “before the end of the year” following the conclusion of commercial negotiations, the Commission is concerned that a delay as long as suggested in this statement could impede the efficiency of future regulatory processes. In light of this concern, the Commission directs TransAlta to advise AltaLink of its concern that this allocation be resolved quickly, reflecting the Commission’s current understanding that the issue appears to be of a very straightforward nature. TransAlta is further directed to report to the Commission advising as to the resolution of this issue as a post-disposition document on the record of this proceeding within 30 days of the release date of AltaLink’s 2022-2023 GTA decision. paragraph 48
5. It is hereby ordered that TransAlta Corporation, as manager of the TransAlta Generation Partnership, is directed to file a compliance filing in accordance with the findings and directions in this decision, no later than July 23, 2021. paragraph 54

Appendix 4 – Directions from Decision 25369-D01-2020 TransAlta has complied with

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 Decision 25369-D01-2020, the wording in the main body of Decision 25369-D01-2020 shall prevail.

1. TransAlta and AltaLink are directed to provide a compliance filing to this decision and in conjunction with the decision in Proceeding 24681 (if so directed) on or before January 29, 2021. paragraph 4
2. As a result, the Commission is unable to find that all of the funds expended on the construction of 1043L-Reserve (including AFUDC attributable to TransAlta) were prudently incurred. The Commission further finds and directs that it would be just and reasonable to reduce by 15 per cent the amount of expenditures eligible for recovery by the applicants. The Commission also finds and directs that it would be just and reasonable for the recoverable amount of legal and related costs incurred by the utilities associated with negotiating and concluding the Cooperation Agreement (as opposed to the costs of the agreement itself) to likewise be reduced by 15 per cent per cent. The basis for doing so is the same, namely, that absent sufficient evidence that the manner in which the applicants conducted their project consultations with Enoch between July 2010 and May 2012 was prudent or reasonable, it is reasonable to conclude that the process of arriving at a Cooperation Agreement was more expensive than it needed to be. The Commission leaves it to the applicants in both cases to determine amongst themselves the appropriate division of the disallowance of funds expended. paragraph 118