TransAlta Corporation
TransAlta Place
Suite 1400, 1100 1 St SE
Calgary, Alberta T2G 1B1
T: +1 (403) 267-7110
www.transalta.com

Vincent Light
Legal Counsel, Regulatory
Direct Line: 403-267-7640
Email: vincent_light@transalta.com

September 4, 2024

Alberta Utilities Commission
1400, 600 Third Avenue S.W.
Calgary, AB T2P 0G5

Attention: Alexey Starkov
Re: Consultation on improvements to rates proceedings for transmission utilities

On August 20, 2024, the Alberta Utilities Commission ("**Commission**") issued Bulletin 2024-16: *Consultation on improvements to rates proceedings for transmission utilities* ("**Bulletin**").

The Commission sought feedback from market participants on several items, including a short one-to-two-page outline of what participants intend to discuss. TransAlta's submission is enclosed.

Yours truly,

TRANSALTA CORPORATION

Vincent Light
Legal Counsel, Regulatory

Encl.

TransAlta Outline for Discussion

- Timing and coordination of upcoming general tariff and rate applications to support adequate resourcing, avoid delays and ensure predictable and consistent AUC processes.

TransAlta supports a more predictable tariff submission cycle/timeline. This would promote efficiency in resourcing and reduce administrative burden for the Commission, consumer groups, and utilities alike.

- Process improvements that could improve efficiency and outcomes of negotiated settlement processes (excluding revisions to Rule 018: Rules on Negotiated Settlements, which will be considered in a separate consultation).

TransAlta suggests that Commission approval of requests to *commence* negotiated settlement processes (NSP) that are filed with a general tariff application, be provided with the Commission's notice of application, instead of in a separate ruling. This will ensure that parties are aware of the request as soon as practicable, and are provided the longest amount of time and opportunity to participate in the NSP.

- Extending and standardizing test periods (three years or longer) for all utilities.

As the Commission is aware, TransAlta largely follows the tariff cycle set by AltaLink. Notwithstanding this, TransAlta considers that a three year test period strikes an appropriate balance between regulatory efficiency in avoiding a multiplicity of proceedings, accuracy and risk in respect of forecasts, and certainty in respect of rates.

However, an extension of the test period beyond three years would, all else held equal, decrease forecast accuracy against a two or three year test period. Longer forecast periods are accompanied by higher risk of the possibility of under-collecting relative to actual expenses, given the recent experience with underestimation of inflation and bond yields during the COVID-19 pandemic, especially during the 2022 test period. This should warrant consideration of whether to consider a small adjustment to the generic cost of capital formula if a test period longer than 3 years is mandated.

- Establishing materiality thresholds for capital.

TransAlta suggests that the materiality thresholds established in Bulletin 2020-25 continue to be appropriate, and that capital matters should be reviewed on their own merit on a case-by-case basis. Establishing multiple thresholds for materiality between capital and operations budgets may cause unforeseen impacts arising from different approaches and interpretations with respect to what constitutes a capital expenditure from an O&M expenditure, and will encourage attempts to preferentially characterizing expenses as either on account of capital or O&M.

- Other opportunities for improvement identified by stakeholders attending the consultation.

TransAlta considers that a review of existing materiality thresholds for small utilities is appropriate. The Commission should entertain setting materiality thresholds for utilities with a revenue requirement of less than $50 million (or perhaps lower). The

Commission's current materiality thresholds extend only down to $100 million in total revenue requirement, while revenue requirements for the City of Red Deer, the City of Lethbridge and TransAlta – even on a combined basis - are less than $25 million.[1]

The result is that very little, if any of TransAlta's variances are engaged by the materiality thresholds. As a result, the Commission has had to make rulings disregarding the materiality thresholds shortly after setting them, as happened with TransAlta's proposed non-union escalation rates during TransAlta's 2019-2021 and 2022-2023 tariff applications.[2]

- How should the materiality threshold(s) be applied (i.e., on capital expenditures or capital additions, on a program, sub-program or project level, should there be different thresholds for different categories, should thresholds be applied per year or per test period, etc.)?

TransAlta's practice has been to interpret these thresholds at the USA account level (e.g. for non-union labour escalation), or at the project level (e.g. for AltaLink O&M projects). However, given TransAlta's small size as a transmission operator, we would defer to the larger incumbent transmission operators.

- Should there be a different threshold for re-occurring programs versus new programs?

No, TransAlta prefers a single materiality threshold for simplicity.

- What should the materiality threshold(s) be?

TransAlta suggests that the materiality thresholds for small scale utilities (<$100m) be subdivided as follows:

<table>
<tr><th>Revenue Requirement</th><th>Percentage variance</th><th>$ variance</th><th>Threshold rule</th></tr>
<tr><td>Less than $25 million</td><td>3</td><td>40,000</td><td rowspan="2">Greater of 3% and $ variance</td></tr>
<tr><td>$25 million to $100 million</td><td>3</td><td>75,000</td></tr>
</table>

[1] Red Deer's 2023 revenue requirement is $5,608.5k, Lethbridge's 2023 revenue requirement is $9,835.9k, and TransAlta's was $9,419.0k.
[2] Decision 26436-D01-2021, at paras 12 and 24.