



**AltaLink Management Ltd. and  
the City of Medicine Hat**

**Sale and Transfer of a Portion of  
Transmission Line 675L Assets**

**August 9, 2017**

**Alberta Utilities Commission**

Decision 22556-D01-2017

AltaLink Management Ltd. and the City of Medicine Hat  
Sale and Transfer of a Portion of Transmission Line 675L Assets

Proceeding 22556

Applications 22556-A001 to 22556-A003

August 9, 2017

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## **1 Decision summary**

1. In this decision, the Alberta Utilities Commission must decide whether to approve applications by AltaLink Management Ltd., in its capacity as general partner of AltaLink L.P., (AltaLink) and the City of Medicine Hat (the City) (referred to collectively as the applicants) for the sale and transfer by AltaLink to the City of certain transmission assets in the Medicine Hat area. After consideration of the record of the proceeding, and for the reasons outlined in this decision, the Commission approves the applications.

## **2 Introduction and background**

2. On April 11, 2017, the applicants filed applications with the Commission requesting approval of the sale and transfer of a portion of AltaLink's transmission line assets to the City pursuant to sections 14 and 15 of the *Hydro and Electric Energy Act*. The applications were registered as applications 22556-A001 to 22556-A003.

3. On May 3, 2017, the Commission issued a notice of application for Proceeding 22556, with a deadline of May 24, 2017, for submissions to express objections, concerns, or support for the application. The notice was published on the AUC website and notification was emailed to AUC eFiling System users who have chosen to receive notices of application issued by the Commission.

4. No submissions were received by the submission deadline of May 24, 2017.

5. On June 1, 2017, the Commission issued information requests to both AltaLink and the City to clarify details of the application. The City submitted responses on June 9, 2017 and AltaLink submitted responses on June 16, 2017. On July 24, 2017, the City submitted a clarification to correct an error in its information response with respect to the location of existing circuit breaker 41S-97. On July 26, 2017, the City submitted a letter informing the Commission of its intention to re-designate the numbering of the Medicine Hat 41S Substation and MH69S-1 Substation.

### 3 Discussion

6. The applicants applied for Commission approval, pursuant to sections 14, 15 and 19 of the *Hydro and Electric Energy Act*, of the following:

- An amendment to AltaLink's transmission line 675L permit and licence to exclude the portion of transmission line 675L and certain facilities located between the Al Rothbauer 321S Substation and the Medicine Hat 41S Substation.
- A new permit and licence for the transferred portion of transmission line 675L to the City.

7. The applied-for approvals will permit the sale and transfer by AltaLink to the City of an approximate 2.3-kilometre portion of 138-kilovolt (kV) transmission line 675L (formally 674L) assets located between the Al Rothbauer 321S Substation and the existing Medicine Hat 41S Substation (the Line) under the terms specified in the purchase and sale agreement.<sup>1</sup>

8. The applicants explained that the purchase and sale transaction of the Line is taking place within the broader context of the restructuring of the transmission network in the Medicine Hat area. The applicants indicated that the Alberta Electric System Operator determined that the Line would no longer be needed to provide service to customers on the Alberta Interconnected Electric System. The Commission authorized AltaLink to operate the Line in a temporary connection order with the newly constructed portion of transmission line 675L<sup>2</sup> to maintain system reliability in the area until completion of the Al Rothbauer 321S Substation, and to keep the Line in place thereafter "to facilitate a new connection for the City and potential future use."<sup>3</sup> AltaLink currently operates the Line as part of transmission line 675L pursuant to Permit and Licence 21190-D07-2016.<sup>4</sup>

9. The applicants stated that the Line would include all conductor, hardware and insulators on the structures between the Al Rothbauer 321S Substation and the Medicine Hat 41S Substation, as well as the seven northernmost structures themselves, which are dedicated to supporting the independent operation of transmission line 675L. Further, the applicants indicated that the Line would not include the four southernmost structures which also support AltaLink's transmission line 892L (now 880L) in a double-circuit configuration. The applicants stated they have entered into a joint-use agreement in respect of shared facilities relating to the Line, which include the four shared structures and associated lands.<sup>5</sup>

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<sup>1</sup> Exhibit 22556-X0004, AML Medicine Hat Line Transfer - Appendix C Purchase and Sale Agreement.

<sup>2</sup> Temporary Connection Order 21190-D02-2016, Proceeding 21190, Application 21190-A002, April 14, 2016.

<sup>3</sup> Decommission and Salvage Approval 21190-D08-2016, Proceeding 21190, Application 21190-A004, June 6, 2016. Approval 21190-D08-2016 was rescinded by Approval 22765-D02-2017, issued on July 17, 2017, which granted approval of a time extension until November 30, 2017 to complete the decommission and salvage.

<sup>4</sup> Transmission Line Permit and Licence 21190-D07-2016, Proceeding 21190, Application 21190-A007, June 9, 2016.

<sup>5</sup> Exhibit 22556-X0005, AML Medicine Hat Line Transfer - Appendix D Joint Use Agreement.

10. Under the purchase and sale agreement, AltaLink will sell the Line to the City for \$325,000. The applicants stated that this amount was determined based on an estimate of the replacement cost new of the assets comprising the Line less depreciation which would equate to \$175,000, plus 50 per cent of the City's avoided capital costs of constructing a new line (i.e., 50 per cent of \$300,000). The applicants stated that the expected net book value of the Line as of the December 31, 2017 closing date of the transaction is estimated to be approximately \$155,000.

11. The applicants submitted that this transaction would be within the ordinary course of business and did not require the Commission's approval. The applicants stated that the \$325,000 sale price of the Line would be considered immaterial compared to AltaLink's rate base of approximately seven billion dollars. Further, the applicants stated that AltaLink frequently disposes of salvaged equipment and indicated that if the Line were not to be sold to the City for its use, AltaLink would dismantle, remove and dispose of the Line as scrap.

12. The applicants stated that the purchase by the City would cause no adverse effects on AltaLink's ability to provide reliable, efficient transmission service. The applicants also pointed to the following benefits of the transaction:

- Customers of the Alberta Interconnected Electric System will benefit from a decrease in rates reflecting the removal of the Line's net book value from AltaLink's rate base and the crediting of the surplus (approximately \$170,000) above the net book value to customers.
- AltaLink will avoid incurring salvage costs with respect to the Line.
- The transaction will avoid disruption to City residents during construction and would eliminate the requirement to obtain new land rights and would eliminate potential environmental impacts from the new construction.

13. In its information requests, the Commission asked AltaLink to provide additional details regarding certain of the criteria used by the Commission to assess whether the proposed disposition of its transmission assets is inside or outside the ordinary course of business with reference to the criteria previously articulated in Order U2001-196.<sup>6</sup> In that decision, the Commission's predecessor confirmed that the relevant factors to consider when conducting an assessment of whether a disposition is inside or outside of the ordinary course of business include: anticipated proceeds of disposition; frequency and type of disposition of like assets; quantum and materiality (in relation to the total rate base) of the proceeds of disposition and the net book value.<sup>7</sup> With respect to frequency, AltaLink explained that it had been involved in at least 10 similar transactions in the last 10 years but did not specifically track very small transactions of this nature until recently. Further, AltaLink stated it is currently involved in six similar sale transactions that are in progress and another two that are in preliminary discussions.

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<sup>6</sup> Order U2001-196: In the Matter of the Sale of the Athabasca Maintenance Facility, Application 2001112, File 6417-04, August 3, 2001.

<sup>7</sup> Order U2001-196, page 3.

14. When requested by the Commission to advise in what circumstances AltaLink would consider the disposition of these type of assets to be outside the ordinary course of business, AltaLink responded that it determines whether a sale of assets is outside the ordinary course of business by considering each sale on a case-by-case basis. AltaLink stated that this would include evaluating the materiality of the sale, the frequency of such sales and any other unique or distinguishing aspect of the sale or the assets being sold.

15. In response to the Commission's information request regarding the timing of removing the Line's net book value from rate base, AltaLink confirmed that the facilities subject to the application would be removed from rate base upon the ultimate approval of the application. AltaLink stated that given the relatively small amounts involved, it proposed to reflect the sale of the subject Line in its accounting records in its 2019-2020 general tariff application. AltaLink submitted that the proposed timing of removal is reasonable given the immateriality of the amounts involved and the timing of the transaction vis-à-vis AltaLink's general tariff application schedule. AltaLink submitted that the net proceeds from the sale of assets would be credited to accumulated depreciation in AltaLink's rate base on the closing date of the transaction.

16. AltaLink also clarified in its response to the Commission's information request that it no longer required an amendment to the existing Permit and Licence 21190-D07-2016 since the existing permit and licence and its attached map would accurately reflect the construction and operation of transmission line 675L after the transfer of the Line to the City.

17. The City stated in its response to the Commission's information request that it is requesting a new permit and licence to transfer ownership, alter and operate the Line and that the Line would be re-designated transmission line MH-15L. The City stated that following the ownership transfer, transmission line MH-15L would be connected to circuit breaker MH138-702 in substation MHS-7 (Brier Park MHS-7 Substation) and to the existing circuit breaker 41S-97 in the MH69S-1 Substation. However, the City subsequently filed a letter with the Commission to clarify that while transmission line MH-15L would be connected to existing circuit breaker 41S-97 as previously stated, that circuit breaker is located in the Medicine Hat 41S Substation and not in the MH69S-1 Substation as previously stated in its information response.

18. Further, in Proceeding 21190, the City informed the Commission about an error in the permit and licence of the MH69S-1 Substation that incorrectly listed the 138/69-kV transformer MH138-T11 and its associated circuit breaker in that substation. The City indicated that the 138/69-kV transformer MH138-T11 and its associated circuit breaker are physically located in the Medicine Hat 41S Substation. Further, the City requested that the permits and licences for the MH69S-1 and Medicine Hat 41S substations be amended to reflect the equipment changes.<sup>8</sup>

19. AltaLink, pursuant to Approval 22765-D04-2017,<sup>9</sup> has approval to discontinue operation and to salvage its equipment at the Medicine Hat 41S Substation.

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<sup>8</sup> Exhibit 21190-X0124, CMH Letter to AUC- AUC Information Request Round 3.

<sup>9</sup> Decommission and Salvage Approval 22765-D04-2017, Proceeding 22765, Application 22765-A003, July 17, 2017.

20. The City stated in its clarification letter that once the AltaLink facilities have been salvaged from the existing Medicine Hat 41S Substation where only the City's facilities would remain, the City proposed to re-designate the substation as MHS-9 South Saskatchewan Substation. The City submitted that upon completion of the salvage of AltaLink's facilities from Medicine Hat 41S Substation, the re-designated MHS-9 South Saskatchewan Substation would include the following major equipment:

- one 138/69-kV, 67/90/112-megavolt ampere transformer (MVA)
- one 138-kV circuit breaker

21. In addition, the City proposed to re-designate MH69S-1 Substation as MHS-1 Power Plant Switchyard as a way to simplify the substation number to bring it in-line with the designations used for other City of Medicine Hat substations.<sup>10</sup> The City submitted that the MHS-1 Power Plant Switchyard would include the following major equipment:

- two 69/13.8-kV, 45/60/75-MVA transformers
- two 69/13.8-kV, 30/40/50-MVA transformers
- two 69/13.8-kV, 33/44-MVA transformers
- twelve 69-kV circuit breakers

#### 4 Commission findings

22. Section 101(2)(d) of the *Public Utilities Act* prevents a designated owner of a public utility, such as AltaLink, from disposing of assets outside the ordinary course of business without first obtaining Commission approval. Any disposition without such prior approval is void.

23. The Commission must consequently determine whether the disposition of the Line is inside, or outside, the ordinary course of AltaLink's business. The term "ordinary course of business" has existed in law for many years and, as noted by the Supreme Court of Canada in *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, 2006 SCC 4 (*Stores Block*), public utilities have been required to obtain the approval of the Commission's predecessors before selling any property as far back as 1915.<sup>11</sup>

24. As noted above, in Order U2001-196, the board outlined the criteria to be used in determining whether the disposition of an asset should be treated as being outside of the ordinary course of business as follows:

... The Board confirms that it must first determine whether the disposition of an asset is outside the ordinary course of business for a utility. The proceeds of disposition, NBV [net book value], frequency and type of sale would be among the factors considered by the Board in that determination. The quantum, and materiality (in relation to the total rate base) of the proceeds of disposition and the NBV would all be considered.<sup>12</sup>

<sup>10</sup> Exhibit 22556-X0021, Letter clarifying City of Medicine Hat substation numbering.

<sup>11</sup> *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, 2006 SCC 4.

<sup>12</sup> Order U2001-196, pages 3-4.

25. In Decision 2013-417,<sup>13</sup> the Commission confirmed that the factors identified in Order U2001-196, namely, proceeds of disposition, net book value, frequency and type of sale, quantum and materiality of the proceeds of disposition and the net book value in relation to total rate base, remained the criteria to be applied in determining whether a disposition is inside or outside of the ordinary course of business of a particular utility:

321. The Commission considers that the criteria articulated in Order U2001-196 are sufficient for the utility to determine whether a disposition is inside or outside the ordinary course of business for the purpose of determining if an application for approval of the disposition must be filed.<sup>14</sup>

26. The criteria used in determining whether a disposition is inside or outside the ordinary course of business were also considered and affirmed in a number of recent Commission decisions.<sup>15</sup>

27. Should the Commission decide that a disposition is outside of the ordinary course of business, it ordinarily applies a “no harm” test that examines the transaction in the context of both potential financial effects and service level effects to customers<sup>16</sup> in considering whether to approve the disposition.

28. With respect to the materiality of the proceeds of disposition, AltaLink submitted that the \$325,000 sale price is not material compared to AltaLink’s rate base of approximately seven billion dollars. The Commission agrees with AltaLink that the proceeds of the disposition of the Line are not material in relation to AltaLink’s total rate base. The Commission also accepts that the expected net book value of \$155,000 is not material in relation to AltaLink’s rate base.

29. With respect to the frequency and type of disposition, AltaLink submitted it frequently disposes of salvaged equipment and had been involved in at least 10 similar transactions in the last 10 years. The Commission accepts that the subject disposition is of a type and frequency that would typically lend itself to being considered in the ordinary course of AltaLink’s business.

30. In weighing the above factors, the Commission finds that the proposed disposition to the City is within the ordinary course of business of AltaLink and, accordingly, that an approval for the disposition of the Line to the City is not required pursuant to Section 101(2)(d) of the *Public Utilities Act*. The Commission also recognizes the benefits associated with the transaction to the applicants and customers of the Alberta Interconnected Electric System.

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<sup>13</sup> Decision 2013-417: Utility Asset Disposition, Proceeding 20, Application 1566373-1, November 26, 2013.

<sup>14</sup> Decision 2013-417, paragraph 321.

<sup>15</sup> For example, see: Decision 3206-D01-2015: EPCOR Distribution & Transmission Inc. - Disposition of Substation Property, Proceeding 3206, Application 1610546-1, February 25, 2015; Decision 20271-D01-2015: FortisAlberta Inc. - Disposition of Land in High River Proceeding 20271, August 31, 2015; Decision 20329-D01-2015: ATCO Electric Ltd. - Disposition of Land and Buildings Located in Grande Prairie and Lloydminster, Proceeding 20329, September 16, 2015; Decision 21405-D01-2016: EPCOR Distribution & Transmission Inc. - Disposition of Substation Property, Proceeding 21405, May 11, 2016.

<sup>16</sup> See Decision 20528-D01-2015, Section 4.2. See also Decision 2000-41: TransAlta Utilities Corporation, Sale of Distribution Assets, Application 2000051, File 6404-3, July 5, 2000, pages 7-8.

31. The Commission has also considered the timing for removal of the Line from AltaLink's rate base. As established by the Commission and the courts in previous decisions, AltaLink has an obligation to remove assets from rate base when they are no longer used or required to be used in the provision of utility service.<sup>17</sup> Accordingly, AltaLink should proceed with removing the assets from rate base at its earliest opportunity following the disposition. However, the Commission also acknowledges that a negotiated settlement regarding AltaLink's 2017-2018 general tariff application is currently before the Commission in Proceeding 21341.

32. In the event that the applicants do not proceed with the transaction, the Commission directs AltaLink to refile its application to apply for Commission approval to decommission and salvage the Line pursuant to Section 21 of the *Hydro and Electric Energy Act*.

33. The Commission grants the City's request to amend the permits and licences for the MH69S-1 and Medicine Hat 41S substations to reflect the equipment changes.

34. The Commission is satisfied that there are no outstanding technical or environmental concerns associated with the sale and transfer of the Line, nor are there any outstanding public or industry concerns from directly and adversely affected parties.

35. Given the considerations discussed above, the Commission finds the applications, and the subsequent relief requested in the clarifications provided by the City, to be in the public interest pursuant to Section 17 of the *Alberta Utilities Commission Act*.

## 5 Decision

36. Pursuant to sections 14, 15 and 19 of the *Hydro and Electric Energy Act*, the Commission approves Application 22556-A001 and grants the City the approval set out in Appendix 1 – Transmission Line Permit and Licence 22556-D02-2017 – August 9, 2017, to construct and operate transmission line MH-15L. AltaLink is directed to reflect the removal of the subject assets in any compliance filing to its 2017-2018 general tariff application or, if no compliance filing is required, AltaLink shall reflect the removal of the subject assets in its next tariff application.

37. Pursuant to sections 14, 15 and 19 of the *Hydro and Electric Energy Act*, the Commission approves Application 22556-A002 and grants the City the approval set out in Appendix 2 – Substation Permit and Licence 22556-D03-2017 – August 9, 2017, to alter and operate the Medicine Hat 41S Substation to be re-designated as the MHS-9 South Saskatchewan Substation.

38. Pursuant to sections 14, 15 and 19 of the *Hydro and Electric Energy Act*, the Commission approves Application 22556-A003 and grants the City the approval set out in Appendix 3 – Substation Permit and Licence 22556-D04-2017 – August 9, 2017, to alter and operate the MH69S-1 Substation to be re-designated as the MHS-1 Power Plant Switchyard.

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<sup>17</sup> See, e.g., *ATCO Gas and Pipelines Ltd. v. Alberta (Utilities Commission)*, 2014 ABCA 28 and *Calgary (City) v. Alberta (Utilities Commission)*, 2010 ABCA 158 as cited in Decision 20528-D01-2015: ATCO Gas and Pipelines Ltd., CU Inc. and Canadian Utilities Limited - Disposition of the Calgary Service Centre Assets, Proceeding 20528, September 23, 2015 and *FortisAlberta Inc. v. Alberta (Utilities Commission)*, 2015 ABCA 295, leave to appeal refused, SCC File No. 36728.

39. No amendment is required to the permit and licence for transmission line 675L.

40. The appendices will be distributed separately.

Dated on August 9, 2017.

**Alberta Utilities Commission**

*(original signed by)*

Henry van Egteren  
Commission Member