



## **ATCO Electric Ltd.**

### **Stage 2 Review and Variance of 2018-2019 General Tariff Application Compliance**

**October 6, 2021**

**Alberta Utilities Commission**

Decision 26519-D01-2021

ATCO Electric Ltd.

Stage 2 Review and Variance of 2018-2019 General Tariff Application Compliance

Proceeding 26519

October 6, 2021

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## **1 Decision summary**

1. In this decision, the Alberta Utilities Commission considers whether the ATCO Transmission Utilities<sup>1</sup> adjusted their accounting for the allowance for funds used during construction (AFUDC) in the calculation of their regulatory income tax expense in accordance with the Commission's directions in Decision 25938-D01-2021.<sup>2</sup> In Decision 25938-D01-2021 the Commission reviewed and varied its direction in paragraph 171 of Decision 24805-D02-2020<sup>3</sup> to require ATCO Electric Ltd. (ATCO Electric or AET (ATCO Electric Transmission)) to include the equity portion of AFUDC as part of the total utility earnings before tax, but not the debt portion, among other things (amended direction).

2. The amended direction affects the calculation of ATCO Electric's regulatory income tax expense in its 2017 to 2022 revenue requirements. The Commission approved ATCO Electric's regulatory income tax expense in its 2017 transmission deferral account application and its 2018 and 2019 revenue requirements on the basis that these amounts were subject to change depending on the Commission's findings in the current decision.<sup>4</sup> After the release of Decision 25938-D01-2021, and to be consistent with the amended direction, ATCO Electric revised the calculation of its regulatory income tax expense in its applied-for 2020 to 2022 revenue requirements. ATCO Pipelines also revised the same calculation for its applied-for 2021 to 2023 revenue requirements.

3. For the reasons set out in this decision, the Commission confirms that the ATCO Transmission Utilities have complied with the amended direction. As a result, the Commission has ordered ATCO Electric to recover the difference between the amounts for regulatory income tax expense included for recovery in ATCO Electric's 2017 transmission deferral account and its 2018 and 2019 revenue requirements, and the amounts determined for these years in compliance with the amended direction.

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<sup>1</sup> Consisting of ATCO Electric Ltd., Transmission, and ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd.

<sup>2</sup> Decision 25938-D01-2021: ATCO Electric Ltd., Decision on Preliminary Question, Application for Review of Decision 24805-D02-2020, 2018-2019 General Tariff Application Compliance Filing, Proceeding 25938, Application 25938-A001, April 7, 2021.

<sup>3</sup> Decision 24805-D02-2020: ATCO Electric Ltd., 2018-2019 General Tariff Application Compliance Filing, Proceeding 24805, August 12, 2020.

<sup>4</sup> Decision 26247-D01-2021: ATCO Electric Ltd., 2015-2017 Transmission Deferral Accounts and Annual Filing for Adjustment Balances Compliance Filing, Proceeding 26247, April 5, 2021, paragraph 17; Decision 26264-D01-2021: ATCO Electric Ltd., 2018-2019 General Tariff Application Second Compliance Filing, Proceeding 26264, June 29, 2021, paragraph 45.

## 2 The Commission's review process and background

4. The Commission's authority to review its own decisions is discretionary and is found in Section 10 of the *Alberta Utilities Commission Act*. Rule 016: *Review of Commission Decisions* sets out the process for considering an application for review.

5. The review process has two stages. In the first stage, a review panel decides if there are grounds to review the original decision (the preliminary question). If the review panel decides to review the decision, it moves to the second stage where it decides whether to confirm, vary or rescind the original decision.

6. In Decision 25938-D01-2021 (Stage 1 review), the review panel found that there were grounds to review Decision 24805-D02-2020 and issued the amended direction as follows:

~~In its consolidated filing, ATCO Electric is directed to adjust its AFUDC in the "Utility earnings before tax" in Schedule 7-3 of its MFR [minimum filing requirement] schedules to comply with the Commission's findings with respect to AFUDC in this decision.~~  
**adopt the method outlined in Table 6 of Attachment 1 of ATCO Electric's reply submissions (Exhibit 25938-X0007 in Proceeding 25938) in accounting for AFUDC in the calculation of the income tax expense component of the 2018-2019 Transmission GTA, and to amend any and all revenue requirement schedules that are affected by the adoption of this method.** [emphasis added]

7. This second stage review and variance application was initiated to allow the Commission to fully examine how ATCO Electric's adjustments to income tax expense affect the revenue requirement calculations and any other corresponding adjustments to ATCO Electric's MFR schedules.

## 3 Issues

8. To comply with the amended direction, the accounting of AFUDC in the calculation of income tax expense, for regulatory purposes, requires the ATCO Transmission Utilities to include the equity portion of AFUDC as part of the total utility earnings before tax, but not the debt portion. The accounting then requires a deduction for the equity portion, which results in no net deduction for the equity component of AFUDC being reflected in the regulatory income tax expense. The accounting also requires a deduction for the debt component, which reduces revenue requirement.

9. The Stage 1 review decision and this decision affect the calculation of income tax expense in the following ATCO Electric applications:

- (i) ATCO Electric's 2015-2017 transmission deferral accounts and annual filing for adjustment balances compliance filing.<sup>5</sup> In Decision 26247-D01-2021, the Commission settled ATCO Electric's 2017 deferral account balances subject to placeholder treatment of its income tax expense pending the outcome of this proceeding.<sup>6</sup>

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<sup>5</sup> Decision 26264-D01-2021, paragraph 45.

<sup>6</sup> Decision 26247-D01-2021, paragraph 17.

- (ii) ATCO Electric's 2018-2019 general tariff application (GTA) second compliance filing.<sup>7</sup> In Decision 26247-D01-2021, the Commission settled ATCO Electric's 2018 and 2019 revenue requirements subject to its income tax expense changing in accordance with the Commission's findings in this proceeding.
- (iii) ATCO Electric's 2020-2022 GTA compliance filing.<sup>8</sup> In its application, ATCO Electric revised its compliance filing to remove the debt portion of AFUDC in the utility earnings before tax calculation to be consistent with the amended direction.

10. The Stage 1 review decision and the current decision also affect ATCO Pipelines' 2021 to 2023 general rate application (GRA). On April 13, 2021, ATCO Pipelines revised its compliance application in Proceeding 26443,<sup>9</sup> proposing an adjustment to its treatment of AFUDC for calculating its regulatory income tax expense to comply with the amended direction. ATCO Pipelines submitted that the impacts to its 2021, 2022 and 2023 revenue requirements were reductions of \$380,000, \$257,000 and \$148,000, respectively.<sup>10</sup> In a May 17, 2021, letter, the Commission determined that the potential impacts to the revenue requirement calculations and any other corresponding adjustments would be more efficiently determined along with ATCO Electric's treatment of AFUDC in this Proceeding 26519. Any subsequent adjustments to ATCO Pipelines' placeholder amount were to be settled as part of ATCO Pipelines' next GRA.<sup>11</sup>

11. In the following sections, the Commission makes findings on these issues.

### 3.1 Issue 1: Has ATCO Electric updated the placeholder amount, approved in Decision 26247-D01-2021, disposing of its 2015-2017 transmission deferral accounts application to comply with the amended direction?

12. In Decision 26247-D01-2021, the Commission determined that ATCO Electric had complied with Direction 14 from Decision 24375-D01-2020.<sup>12</sup> ATCO Electric calculated and included the refund for the difference in 2017 AFUDC tax inputs between the forecast and actual costs. ATCO Electric also proposed a second calculation based on the alternate method it advanced in Proceeding 25938. The results of ATCO Electric's two methods are shown in the table below.

**Table 1. 2017 direct assigned AFUDC tax inputs<sup>13</sup>**

	AUC-directed method	AET proposed method in Proceeding 25938
	(\$ million)	
AFUDC tax impact	(3.48)	(2.57)
Deducting deferral impact	0.49	0.36
Total refund	(2.99)	(2.21)

<sup>7</sup> Proceeding 26264, ATCO Electric Ltd., 2018-2019 general tariff application second compliance filing.

<sup>8</sup> Proceeding 26477, AET 2020-2022 general tariff application compliance filing.

<sup>9</sup> Proceeding 26443, ATCO Pipelines' 2021-2023 general rate application compliance filing.

<sup>10</sup> Proceeding 26443, Exhibit 26443-X0012, 26443-X0003.01 Attachment B.

<sup>11</sup> Proceeding 26443, Exhibit 26443-X0040, Ruling on placeholder treatment for the AFUDC.

<sup>12</sup> Decision 24375-D01-2020: ATCO Electric Ltd., Disposal of 2015-2017 Transmission Deferral Accounts and Annual Filing for Adjustment Balances, Proceeding 24375, November 30, 2020.

<sup>13</sup> Proceeding 26247, Exhibit 26247-X0001.01, application, PDF page 50

13. The Commission was still considering ATCO Electric's review and variance application in Proceeding 25938 at the time Decision 26247-D01-2021 was issued. As a result, the Commission approved, on a placeholder basis, a refund of \$2.99 million for the difference between the 2017 forecast and 2017 actual AFUDC tax inputs used for the purposes of calculating ATCO Electric's 2017 income tax expense.<sup>14</sup>

14. In response to the amended direction, ATCO Electric provided an amended 2017 AFUDC refund amount of \$2.19 million in the current Stage 2 review and variance application, as shown in the table below.

**Table 2. Summary of revenue requirement impact for the addback of the AFUDC equity component to utility earnings before tax**

	AUC-directed method	AET proposed method in Proceeding 25938	Amended 2017 AFUDC refund
	(\$ million)		
AFUDC tax impact	(3.48)	(2.57)	(2.55)
Deducting deferral impact	0.49	0.36	0.36
Total refund	(2.99)	(2.21)	(2.19)

15. In Note 2 of Appendix 1 to its application,<sup>15</sup> ATCO Electric explained that it had amended the total refund amount proposed in Proceeding 25938, because it had not adjusted the AFUDC amounts for holdbacks. Note 2 is reproduced below:

Note 2 - The Approved AFUDC total of \$15.3 million is from Exhibit 22860-X0006.02, Schedule 9-2. The 2017 Inputs for the Approved AFUDC Opening WIP [work in progress] and Net Additions were from Schedule 10-4. In error, the forecast balances were not adjusted for holdbacks.

16. The Commission accepts ATCO Electric's explanation that it had not adjusted the AFUDC inputs to account for the removal of holdbacks. Based on the Commission's review, the calculation of the amended refund amount set out in Appendix 1 is consistent with the amended direction. The Commission therefore approves the refund of \$2.19 million on a final basis. On a go-forward basis, ATCO Electric is directed to provide supporting documentation reconciling the Opening WIP and Net Additions, from Schedule 10-4 of the MFR schedules, to the balances that are adjusted for holdbacks and used in the calculation of AFUDC.

17. As a result of the Commission's approval of the amended 2017 AFUDC refund, the Commission has ordered ATCO Electric to settle the placeholder adjustment of \$800,000<sup>16</sup> through a one-time billing to the Alberta Electric System Operator by October 30, 2021.

### **3.2 Issue 2: Has ATCO Electric amended the calculation of its regulatory income tax expense, for its 2018 and 2019 GTA, to comply with the amended direction?**

18. In Direction 9 of Decision 24805-D02-2020, ATCO Electric was directed to remove both the equity and debt portions of AFUDC, from the utility earnings before tax in its calculation of income tax expense. In Proceeding 26264, ATCO Electric's 2018-2019 GTA second compliance

<sup>14</sup> Decision 26247-D01-2021, paragraph 17.

<sup>15</sup> Exhibit 26519-X0002, Schedule 1.1 – Amended worksheet.

<sup>16</sup> (\$2.19) million amended 2017 AFUDC refund – (\$2.99) AUC-directed method refund = \$0.8 million.

filing, ATCO Electric complied with the Commission's direction, which resulted in revenue requirement reductions of \$4.5 million and \$4.2 million in 2018 and 2019, respectively.

19. In the current proceeding, in response to the amended direction, ATCO Electric filed a revised set of MFR schedules that added the equity portion of AFUDC to the utility earnings before tax, and deducted both the equity and the debt portions of AFUDC in the calculation of its income tax expense. These schedules were provided in Appendix 2 of its application.<sup>17</sup> The Commission has reviewed Appendix 2 and confirms that the treatment of AFUDC in the calculation of tax expense is consistent with the amended direction.

20. In Decision 26264-D01-2021, the Commission approved a revenue requirement that differs from the revenue requirements calculated in Appendix 2 of this proceeding.<sup>18</sup> The Commission expected that further adjustments required to the amounts approved in that decision would be addressed as part of this proceeding.<sup>19</sup>

21. The effect of adding the equity portion of AFUDC to the utility's income before tax are revenue requirement increases of \$2.4 million in 2018, and \$2.2 million in 2019, as shown in Table 3 below.

**Table 3. Revenue requirement impact for the addback of the AFUDC equity component to utility earnings before tax**

Tax input	Appendix 2	Reference	2018	2019
			(\$ million)	
Total AFUDC	Schedule 9-2, line 33	A	12.0	11.6
AFUDC Debt Component	Schedule 9-2, lines 45 & 61	B	5.7	5.5
AFUDC inclusion in utility earnings before tax	Schedule 7-3, lines 33 & 65	C = A - B	6.4	6.2
Current tax rate (federal + provincial)	Schedule 7-2, line 4 + line 12	D	27%	26.5%
Current tax expense		E = C x D	1.7	1.6
Effect on revenue requirement		F = E / (1-D)	2.4	2.2

Source: Exhibit 26519-X0001, application.

22. The Commission has sufficient information to approve ATCO Electric's 2018 and 2019 revenue requirements on a final basis. The Commission has determined that ATCO Electric's final approved revenue requirement should be \$678.8 million in 2018 and \$681.6 million in 2019, as calculated in Table 4 below:

<sup>17</sup> Exhibit 26519-X0003, Appendix 2.

<sup>18</sup> Decision 26264-D01-2021, paragraph 46.

<sup>19</sup> Decision 26264-D01-2021, paragraph 45.



**Table 4. Adjustments required to the revenue requirement approved by the Commission in Decision 26264-D01-2021**

	Revenue requirement approved in Decision 26264-D01-2021 <sup>20</sup>	Revenue requirement impact for the addback of the AFUDC equity component <sup>21</sup>	Final adjusted revenue requirement
(\$ million)			
2018 revenue requirement	676.4	2.4	678.8
2019 revenue requirement	679.4	2.2	681.6

23. The Commission notes that the amounts included in Table 4 above do not include the refund amounts of \$3.1 million in 2018, and \$0.6 million in 2019, arising from directions 2, 4, 5 and 6 – IT Common Matters II – operating and maintenance prior year adjustments and weighted average cost of capital in Decision 24805-D01-2020, which were also approved in Decision 26264-D01-2021.<sup>22</sup>

24. In Decision 26264-D01-2021, ATCO Electric was directed to file, as a post-disposition filing, its revised MFR schedules within 30 days of the Commission issuing the decision.<sup>23</sup> As part of that post-disposition filing, the Commission directs ATCO Electric to reflect the Commission’s determinations on the revenue requirement impact for the addback of the AFUDC equity component.

### 3.3 Issue 3: Do ATCO Electric’s 2020-2022 GTA compliance filing schedules comply with the amended direction?

25. ATCO Electric revised its 2020-2022 GTA schedules in Appendix 3 of its application, in response to the Commission’s amended direction. The revenue requirement effect is summarized in the table below:

**Table 5. Revenue requirement effect on the removal of the AFUDC debt component from utility earnings before tax**

Tax input adjustment	Appendix 3	Reference	2020	2021	2022
Remove debt portion of AFUDC	Schedule 7-3	A	(4.5)	(5.8)	(5.3)
Current tax rate (federal + provincial)	Schedule 7-2	B	24%	23%	23%
Current tax expense		C = A x B	(1.1)	(1.3)	(1.2)
Effect on revenue requirement		D = C÷(1-B)	(1.4)	(1.7)	(1.6)

Source: Exhibit 26519-X0001, application.

26. As noted in its application, ATCO Electric reflected these adjustments in its 2020-2022 GTA compliance filing (Proceeding 26477).<sup>24</sup> The Commission reviewed and approved these adjustments in Decision 26477-D01-2021.<sup>25</sup> No further direction is required.

<sup>20</sup> Decision 26264-D01-2021, Table 8 - Adjustments required to comply with Commission directions issued in Decision 24805-D01-2020 and final adjusted revenue requirement, paragraph 46.

<sup>21</sup> Exhibit 26519-X0001, application, paragraph 6.

<sup>22</sup> Decision 26264-D01-2021, paragraph 12.

<sup>23</sup> Decision 26264-D01-2021, paragraph 47.

<sup>24</sup> Exhibit 26519-X0001, application, paragraphs 8-9.

<sup>25</sup> Decision 26477-D01-2021, paragraph 15.

### 3.4 Issue 4: Do the placeholder amounts from ATCO Pipelines' compliance filing comply with the amended direction?

27. On April 13, 2021, ATCO Pipelines revised its compliance application in Proceeding 26443, which reduced its 2021, 2022 and 2023 revenue requirements by \$380,000, \$257,000 and \$148,000, respectively.<sup>26</sup> In Decision 26443-D01-2021,<sup>27</sup> the Commission approved these adjustments on a placeholder basis.

28. The Commission has reviewed ATCO Pipelines' utility revenue requirement schedules<sup>28</sup> and confirms that ATCO Pipelines' treatment of AFUDC, for the purposes of calculating its income tax expense, is consistent with the amended direction. No further adjustments are required.

## 4 Other matters

### 4.1 Should the treatment of the AFUDC deduction in the calculation of income tax expense be a temporary or a permanent difference?

29. In its technical session agenda and virtual meeting registration details letter on June 11, 2021, the Commission identified differences between how ATCO Electric and ATCO Pipelines accounted for and explained the taxable component of AFUDC in the materials filed on the records of ATCO Electric's proceedings 25938 and 26519, and ATCO Pipelines' Proceeding 26443. One of these differences was that ATCO Electric appeared to show that the deduction to taxable income for the equity portion of AFUDC is a temporary difference, which should reverse itself over the life of an asset,<sup>29</sup> while ATCO Pipelines indicated the deduction to taxable income for the equity component to AFUDC is a permanent difference that does not reverse itself.<sup>30</sup>

30. In the Commission's July 8, 2021, letter,<sup>31</sup> the Commission took note of ATCO Electric's treatment of the equity portion of AFUDC as a temporary rather than a permanent tax difference, despite acknowledgment by ATCO Electric that the equity portion of AFUDC is a permanent difference. The Commission confirms that it will consider, in ATCO Electric's next GTA, whether the collection of future income tax should continue. The Commission's consideration will also include whether ATCO Electric should be permitted to continue to treat the equity portion of AFUDC as a temporary rather than a permanent tax difference in the calculation of its tax expense. ATCO Electric is therefore directed to provide relevant evidence on this issue in its next GTA.

### 4.2 Rule 005: Annual Reporting Requirements of Financial and Operational Results

31. In Decision 26264-D01-2021, the Commission stated:

48. In accordance with Section 4.3.2 of Rule 005, the Commission directs AET to submit a revised Rule 005 report, within 30 days of the Commission issuing its decision in Proceeding 26519, or as directed by the Commission in that decision. Consistent with

<sup>26</sup> Proceeding 26443, Exhibit 26443-X0012.

<sup>27</sup> Decision 26443-D01-2021: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., 2021-2023 General Rate Application Compliance Filing, Proceeding 26443, June 24, 2021.

<sup>28</sup> Exhibit 26519-X0012; Proceeding 26443, Exhibit 26443-X0003.01 Attachment B – Schedule 4-5.1.

<sup>29</sup> Exhibit 26519-X0003, Appendix 2, Sch 7-3 worksheet.

<sup>30</sup> Exhibit 26519-X0013, AP-AUC-2021APR21-013(d).

<sup>31</sup> Exhibit 26519-X0024, AUC letter - Ruling and further process.

its previously filed 2018 and 2019 Rule 005 submissions, ATCO Electric is required to file the revised Rule 005 report comparing actual results with its approved forecast for 2018 and 2019.

The Commission reminds ATCO Electric that it is required to file a revised Rule 005 report within 30 days of this decision in accordance with the above direction.

## 5 Order

32. It is hereby ordered that:

- (1) ATCO Electric Ltd. shall settle \$800,000 through a one-time billing to the Alberta Electric System Operator by October 30, 2021.
- (2) ATCO Electric Ltd.'s approved 2018 revenue requirement is \$678,800,000.
- (3) ATCO Electric Ltd.'s approved 2019 revenue requirement is \$681,600,000.

Dated on October 6, 2021.

### Alberta Utilities Commission

*(original signed by)*

Kristi Sebalj  
Panel Chair

*(original signed by)*

Douglas A. Larder, QC  
Vice-Chair

*(original signed by)*

Vincent Kostas  
Acting Commission Member

**Appendix 1 – Proceeding participants**

<b>Name of organization (abbreviation) Company name of counsel or representative</b>
ATCO Electric Ltd. (ATCO Electric) Bennett Jones LLP
Consumers' Coalition of Alberta (CCA)

Alberta Utilities Commission
Commission panel K. Sebalj, Panel Chair D.A. Larder, QC, Vice-Chair V. Kostaskey, Acting Commission Member
Commission staff P. Khan (Commission counsel) C. Strasser C. Robertshaw

## Appendix 2 – 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 accepts ATCO Electric’s explanation that it had not adjusted the AFUDC inputs to account for the removal of holdbacks. Based on the Commission’s review, the calculation of the amended refund amount set out in Appendix 1 is consistent with the amended direction. The Commission therefore approves the refund of \$2.19 million on a final basis. On a go-forward basis, ATCO Electric is directed to provide supporting documentation reconciling the Opening WIP and Net Additions, from Schedule 10-4 of the MFR schedules, to the balances that are adjusted for holdbacks and used in the calculation of AFUDC. .... paragraph 16
2. In Decision 26264-D01-2021, ATCO Electric was directed to file, as a post-disposition filing, its revised MFR schedules within 30 days of the Commission issuing the decision. As part of that post-disposition filing, the Commission directs ATCO Electric to reflect the Commission’s determinations on the revenue requirement impact for the addback of the AFUDC equity component. .... paragraph 24
3. In the Commission’s July 8, 2021, letter, the Commission took note of ATCO Electric’s treatment of the equity portion of AFUDC as a temporary rather than a permanent tax difference, despite acknowledgment by ATCO Electric that the equity portion of AFUDC is a permanent difference. The Commission confirms that it will consider, in ATCO Electric’s next GTA, whether the collection of future income tax should continue. The Commission’s consideration will also include whether ATCO Electric should be permitted to continue to treat the equity portion of AFUDC as a temporary rather than a permanent tax difference in the calculation of its tax expense. ATCO Electric is therefore directed to provide relevant evidence on this issue in its next GTA. .... paragraph 30