

Final Decision

Ausgrid Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029)

Attachment 7 Corporate income tax

April 2024

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List of attachments

This attachment forms part of the AER's final decision on the distribution determination that will apply to Ausgrid for the 2024–29 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 12 – Customer service incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

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7 Corporate income tax

Our distribution determination includes the estimated cost of corporate income tax for Ausgrid’s distribution and transmission (dual function assets)¹ networks for the 2024–29 regulatory control period (period).² Under the post-tax framework, the cost of corporate income is calculated as part of the building block assessment using our post-tax revenue model (PTRM).

This attachment sets out our final decision on Ausgrid’s revised proposed corporate income tax for the 2024–29 period. It presents our assessment of the inputs required in the PTRM for the calculation of the cost of corporate income tax.

7.1 Final decision

Our final decision on Ausgrid’s estimated cost of corporate income tax over the 2024–29 period is \$125.0 million and \$19.0 million (\$ nominal) for its distribution and transmission networks respectively. These amounts are \$31.7 million (34.0%) and \$3.3 million (20.7%) higher than Ausgrid’s revised proposal of \$93.3 million and \$15.7 million for its distribution and transmission networks respectively. The reasons for the increase are due to our final decision:

- on a higher regulatory depreciation amount (section 4.1 of Attachment 4)³
- on a higher return on equity amount (section 2.2 of the Overview)⁴
- on a lower tax depreciation.⁵

Our final decision is to determine opening tax asset base (TAB) values as at 1 July 2024 of \$10,492.2 million and \$1,517.5 million (\$ nominal) for Ausgrid’s distribution and transmission networks respectively, which are consistent with Ausgrid’s revised proposal (section 7.1.1).

We also determine that \$6.4 million and \$9.2 million (\$2023–24) of Ausgrid’s forecast capital expenditure (capex) are to be immediately expensed for tax purposes in the 2024–29 period for its distribution and transmission networks respectively (section 7.1.2).

¹ Ausgrid’s dual function assets are high voltage assets which support the broader NSW/ACT transmission network owned and operated by Transgrid. The AER has decided to continue applying transmission pricing to these assets. See: AER, *Framework and approach: Ausgrid, Endeavour Energy and Essential Energy (New South Wales), Regulatory control period commencing 1 July 2024*, July 2022, p. 54.

² NER, cl. 6.4.3(a)(4).

³ The higher regulatory depreciation is driven by a lower expected inflation rate applied in our final decision compared to Ausgrid’s revised proposal. All else being equal, a higher regulatory depreciation increases the cost of corporate income tax as it is a component of revenue for tax purposes.

⁴ The higher return on equity amount is driven by a higher rate of return on equity in our final decision compared to Ausgrid’s revised proposal. All else being equal, a higher return on equity amount will increase the cost of corporate income tax as it is a component of revenue for tax purposes.

⁵ The lower tax depreciation is driven by the reductions to forecast capex in our final decision compared to Ausgrid’s revised proposal. All else being equal, a lower tax depreciation increases the cost of corporate income tax as it is a component of tax expense.

We accept Ausgrid’s revised proposal on the standard tax asset lives for all of its distribution and transmission asset classes because they are consistent with our draft decision (section 7.1.3).⁶

Table 7.1 and Table 7.2 set out our final decision on the estimated cost of corporate income tax for Ausgrid over the 2024–29 period for its distribution and transmission networks respectively.

Table 7.1 AER’s final decision on Ausgrid’s cost of corporate income tax for the 2024–29 period – distribution (\$ million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	57.3	56.8	58.6	61.9	56.2	290.7
Less: value of imputation credits	32.7	32.4	33.4	35.3	32.0	165.7
Net cost of corporate income tax	24.6	24.4	25.2	26.6	24.2	125.0

Source: AER analysis.

Table 7.2 AER’s final decision on Ausgrid’s cost of corporate income tax for the 2024–29 period – transmission (\$ million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	8.7	9.1	9.4	7.8	9.1	44.1
Less: value of imputation credits	5.0	5.2	5.3	4.5	5.2	25.1
Net cost of corporate income tax	3.7	3.9	4.0	3.4	3.9	19.0

Source: AER analysis.

In the draft decision, we made the following changes to Ausgrid’s modelling of its cost of corporate income tax:⁷

- We revised the opening TABs as at 1 July 2024 to reflect our amendments to inputs related to capitalised leases, asset disposals and dual function asset reclassifications in the roll forward models (RFMs) and depreciation tracking modules:
 - We removed expenditures related to capitalised leases for 2019–20 distribution capex and 2021–22 distribution and transmission capex to reflect our approach to address mid-period changes in accounting standards.⁸ In turn, we amended the final year asset adjustments associated with the capitalised lease costs rolled into the distribution and transmission TABs as at 30 June 2024.

⁶ Ausgrid, *Att. 4.3 - PTRM for distribution*, November 2023; Ausgrid, *Att. 4.5 - PTRM for transmission*, November 2023.

⁷ AER, *Draft decision, Attachment 7 – Corporate income tax – Ausgrid 2024–29 Distribution revenue proposal*, September 2023, pp. 2–3 and 11–13.

⁸ Our draft decision approach was to only begin treating forecast costs related to leases as capex from the start of the 2024–29 period.

- We updated the asset disposal values for 2022–23 and the final year asset adjustment reallocation of a negative residual closing TAB amount associated with these disposals to reflect our draft decision distribution and transmission closing TABs as at 30 June 2024.⁹ This TAB reallocation reflected our acceptance of Ausgrid’s proposed ‘Property sales strategy to help with affordability’ program.
- We accepted Ausgrid’s proposal to reflect changes to various assets that meet the definition of a dual function asset in accordance with the National Electricity Rules (NER). In doing so, we made minor updates to the final year asset adjustment TAB reallocation amount for Ausgrid’s distribution and transmission networks.¹⁰
- We accepted Ausgrid’s proposed standard tax asset lives for its existing distribution and transmission asset classes for the 2024–29 period. However, we introduced a new asset class for ‘Composite poles’ and assigned a standard tax asset life of 45 years that is consistent with the Australian Taxation Office (ATO) Taxation Ruling 2022/1.
- We accepted Ausgrid’s proposal to apply an approach for determining the forecast of its immediately expensed capex for the 2024–29 period reflecting the expenditure associated with asset decommissioning over that period, which are deducted immediately for tax purposes consistent with its current tax policy. However, we updated the value of immediately expensed capex for the 2024–29 period to reflect our draft decision on forecast capex for its distribution and transmission networks respectively.

Ausgrid’s revised proposal adopted the changes required by the draft decision in full. It also made some updates to its TAB roll forward and forecast of immediately expensed capex for the 2024–29 period.¹¹

7.1.1 Opening tax asset base as at 1 July 2024

Our final decision is to determine opening TAB values as at 1 July 2024 of \$10,492.2 million and \$1,517.5 million (\$ nominal) for Ausgrid’s distribution and transmission networks respectively, which are consistent with its revised proposal.¹²

In our draft decision, we accepted Ausgrid’s proposed method to establish the opening TAB as at 1 July 2024. However, we amended some of the proposed inputs used for the TAB roll forward—specifically, we made adjustments to the actual as-incurred 2019–20 distribution capex and 2021–22 distribution and transmission capex, actual asset disposal amounts in 2022–23 and final year asset adjustments for various asset classes. These were associated with capitalised leases, asset disposals and dual function asset reclassifications. We noted

⁹ The negative TAB was reallocated from the existing ‘Land (non-system)’ asset class to a new ‘Land (non-system) depreciation’ asset class for reverse tax depreciation purposes. This is a TAB reallocation and does not affect the total value of the opening TAB as at 1 July 2024.

¹⁰ NER, cl. 6.24.2. This is a TAB reallocation and does not affect Ausgrid’s total combined distribution and transmission draft decision opening TAB value as at 1 July 2024.

¹¹ Ausgrid, *Att. 4.1 – 2024-29 Proposed revenue*, November 2023, pp. 16–17.

¹² Ausgrid, *Att. 4.2 – RFM for distribution*, November 2023; Ausgrid, *Att. 4.4 – RFM for transmission*, November 2023.

that the opening TAB may be updated as part of the final decision to reflect actual capex for 2022–23 and any revised capex estimate for 2023–24.¹³

Ausgrid’s revised proposal adopted our draft decision changes.¹⁴ It also updated the opening TAB as at 1 July 2024 to reflect actual capex for 2022–23 and a revised 2023–24 capex estimate. For the reasons discussed in Attachment 2, we accept the actual 2022–23 capex and the updated 2023–24 capex estimates for this final decision. The 2023–24 capex estimate is higher for distribution and lower for transmission than what we approved in our draft decision, reflecting more recent data. We will update the 2023–24 estimated capex for actuals at the next distribution determination for 2029–34.

In addition, Ausgrid made a minor modelling update to the final year asset adjustment TAB reallocation amounts for various distribution and transmission asset classes associated with assets being reclassified as dual function assets to reflect its revised proposed opening TAB values as at 1 July 2024.¹⁵ This is because the reallocation amounts for the affected asset classes are calculated as an apportion of its respective opening TAB values. We note Ausgrid’s revised proposal applies the same reallocation approach approved in our draft decision.¹⁶ Therefore, our final decision accepts Ausgrid’s revised proposal TAB reallocation amounts.

Table 7.3 and Table 7.4 set out our final decision on the roll forward of Ausgrid’s TAB values over the 2019–24 period for its distribution and transmission networks respectively.

Table 7.3 AER’s final decision on Ausgrid’s TAB roll forward for the 2019–24 period – distribution (\$ million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24 ^a
Opening TAB	9,981.2	10,232.1	10,271.6	10,094.4	10,317.9
Capital expenditure ^b	607.0	437.6	251.3	668.6	802.1
Less: tax depreciation	356.2	398.1	428.5	445.1	479.4
Final year asset adjustment ^c	–	–	–	–	–148.4
Closing TAB	10,232.1	10,271.6	10,094.4	10,317.9	10,492.2

Source: AER analysis.

- (a) Based on estimated capex. We expect to update the TAB roll forward with actual capex at the next determination.
- (b) Net of disposals.

¹³ AER, *Draft decision Attachment 7 – Corporate income tax – Ausgrid 2024–29 Distribution revenue proposal*, September 2023, p. 12.

¹⁴ Ausgrid, *Att. 4.1 – 2024-29 Proposed revenue*, November 2023, pp. 16–17.

¹⁵ Ausgrid’s revised proposal also amended our draft decision tax remaining asset lives associated with these dual function asset reallocation amounts to reflect the remaining tax asset lives as at 2023–24. Our draft decision was incorrectly referencing the tax remaining asset lives as at 2018–19. Our final decision accepts Ausgrid’s revised proposal amendments.

¹⁶ The TAB reallocation is consistent with the regulatory asset base treatment to reflect changes in assets that meet the definition of a dual function asset in accordance with the NER.

- (c) Reflects capitalised lease costs for existing leases and dual function asset re-classification adjustments as at 30 June 2024.

Table 7.4 AER’s final decision on Ausgrid’s TAB roll forward for the 2019–24 period – transmission (\$ million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24 ^a
Opening TAB	1,340.9	1,355.0	1,350.4	1,334.2	1,360.6
Capital expenditure ^b	61.6	47.8	38.4	83.4	75.7
Less: tax depreciation	47.5	52.5	54.5	57.0	67.6
Final year asset adjustment ^c	–	–	–	–	148.7
Closing TAB	1,355.0	1,350.4	1,334.2	1,360.6	1,517.5

Source: AER analysis.

- (a) Based on estimated capex. We expect to update the TAB roll forward with actual capex at the next determination.
- (b) Net of disposals.
- (c) Reflects dual function asset re-classification adjustments as at 30 June 2024.

7.1.2 Forecast immediate expensing of capex

For this final decision, we determine that \$6.4 million and \$9.2 million (\$2023–24) of Ausgrid’s forecast capex are to be immediately expensed for tax purposes in the 2024–29 period for its distribution and transmission networks respectively. For distribution this is lower than the revised proposal of \$6.8 million and for transmission¹⁷ this is higher than the revised proposal of \$0.01 million.¹⁸

In our draft decision, we accepted Ausgrid’s proposed method to calculate its forecast of immediately expensed capex. This approach is based on the expenditure associated with asset decommissioning over the 2024–29 period, which are deducted immediately for tax purposes. However, we amended the value of immediately expensed capex to reflect our draft decision forecast capex for Ausgrid’s distribution and transmission networks.¹⁹

Ausgrid’s revised proposal updated our draft decision forecast of immediately expensed capex values for its distribution and transmission networks respectively for tax purposes. This revision reflected its higher revised proposed forecast capex for the 2024–29 period.

Consistent with the approach adopted in the draft decision, we need to adjust the amount of immediately expensed capex to reflect the overall estimate of forecast capex. As discussed in Attachment 5, our final decision is to determine a total gross forecast capex of

¹⁷ For transmission, Ausgrid’s revised proposed immediately expensed capex of \$0.01 million in the PTRM was an input error. Ausgrid confirmed in its response to our information request that the correct immediately expensed capex amount should be \$9.2 million as per its capex model resubmission. See: Ausgrid, *Att. 5.3 – Capex model – FY25-29 – 30 November 2023 (re-submission)*, 6 December 2023; Ausgrid, *Response to information request IR057*, 12 December 2023.

¹⁸ All else being equal, a lower immediate expensing of capex will increase the forecast cost of corporate income tax and vice versa.

¹⁹ AER, *Draft decision, Attachment 7 – Corporate income tax – Ausgrid 2024–29 Distribution revenue proposal*, September 2023, p. 13.

\$2,739.0 million and \$226.3 million (\$2023–24) for Ausgrid’s distribution and transmission networks respectively. These amounts are \$308.6 million and \$156.2 million lower than Ausgrid’s revised proposed capex forecast amounts for its distribution and transmission networks respectively. For this reason, we have calculated a lower and a higher immediately expensed capex amounts for Ausgrid’s distribution and transmission networks respectively to reflect the forecast capex for this final decision.²⁰

We will continue to collect actual data relating to the immediate expensing of capex in our annual reporting regulatory information notices to inform our decision for this type of expenditure in the next distribution determination for Ausgrid.

7.1.3 Standard tax asset lives

Our final decision accepts Ausgrid’s revised proposed standard tax asset lives for all of its asset classes because they are consistent with our draft decision.²¹ We confirm our position that the standard asset lives are broadly consistent with the values prescribed by the Commissioner of Taxation in the ATO Ruling 2022/1 and the *Income Tax Assessment Act 1997*.²²

Table 7.5 and Table 7.6 set out our final decision on the standard tax asset lives for Ausgrid’s distribution and transmission networks respectively. We are satisfied that the standard tax asset lives are appropriate for application over the 2024–29 period. We are also satisfied that the standard tax asset lives provide an estimate of the tax depreciation amount that would be consistent with the tax expenses used to estimate the annual taxable income for a benchmark efficient service provider.²³

Table 7.5 AER’s final decision on Ausgrid’s standard tax asset lives over the 2024–29 period – distribution (years)

Asset class	Standard tax asset life
Sub-transmission lines and cables	47.5
Cable tunnel (dx)	40.0
Distribution lines and cables	48.7
Substations	40.0
Transformers	42.0
Low voltage lines and cables	45.8
Customer metering and load control	25.0

²⁰ For transmission, despite the reduction in forecast capex, our final decision calculated a higher immediately expensed capex amount primarily due to correcting for an input error in Ausgrid’s revised proposal PTRM.

²¹ AER, *Draft decision, Attachment 7 – Corporate income tax – Ausgrid 2024–29 Distribution revenue proposal*, September 2023, p. 14–15.

²² ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022; ITAA 1997, s 40.105.

²³ NER, cl. 6.5.3.

Asset class	Standard tax asset life
Customer metering (digital)	n/a
Communications (digital) - dx	10.0
Total communications	7.4
System IT (dx)	7.0
Ancillary substation equipment (dx)	15.0
Land and easements	n/a
Furniture, fittings, plant and equipment	10.6
Land (non-system)	n/a
Other non system assets	10.5
IT systems	4.0
Motor vehicles	20.0
Land (non-system) depreciation ^a	n/a
Enterprise resource platform	5.0
Distribution leases (network)	7.0
Distribution leases (non-network)	7.0
Composite poles	45.0
Buildings (system) ^b	40.0
Buildings (non-system) ^b	40.0
In-house software ^b	5.0
Equity raising costs ^b	5.0 ^c

Source: AER analysis.

n/a not applicable. We have not assigned a standard tax asset life to the 'Land and easements' and 'Land (non-system)' asset classes because the capex allocated to them are not subject to depreciation. We have also not assigned a standard tax asset life to the 'Customer metering (digital)' asset class as it has no forecast capex for the 2024–29 period.

- (a) We have not assigned a standard tax asset life to the new 'Land (non-system) depreciation' asset class, consistent with our draft decision, as this is used for reverse depreciation purposes of disposed assets. There is no forecast capex allocated to this asset class.
- (b) These are the only asset classes used for the straight-line method of tax depreciation for new capex. All new capex for other asset classes used the diminishing value method of tax depreciation.
- (c) For this final decision, the forecast capex determined for Ausgrid does not meet a level to trigger any benchmark equity raising costs.

Table 7.6 AER's final decision on Ausgrid's standard tax asset lives over the 2024–29 period – transmission (years)

Asset class	Standard tax asset life
Transmission & zone land & easements	n/a
Transmission buildings 132/66kV	40.0
Zone buildings 132/66kV	40.0
Transmission transformers 132/66kV	40.0
Zone transformers 132/66kV	45.0
Transmission substation equip 132/66kV	40.0
Zone substation equip 132/66kV	40.0
Ancillary substation equipment (tx)	15.0
132kV tower lines	47.6
132kV concrete & steel pole lines	47.6
132kV wood pole lines	47.6
132kV feeders underground	47.0
Cable tunnel (tx)	47.6
Network control & com systems	37.2
Communications (digital) – tx	10.0
System IT (tx)	7.0
IT systems	4.0
Furniture, fittings, plant and equipment	10.6
Motor vehicles	20.0
Land (non-system)	n/a
Other non system assets	10.5
Transmission leases (network)	50.0
Land (non-system) depreciation ^a	n/a
Enterprise resource platform	5.0
Transmission leases (non-network)	7.0
Composite poles	45.0
Buildings (system) ^b	40.0
Buildings (non-system) ^b	40.0

Asset class	Standard tax asset life
In-house software ^b	5.0
Equity raising costs ^b	5.0 ^c

Source: AER analysis.

n/a not applicable. We have not assigned a standard tax asset life to the 'Transmission & zone land & easements' and 'Land (non-system)' asset classes because the capex allocated to them are not subject to depreciation.

- (a) We have not assigned a standard tax asset life to the new 'Land (non-system) depreciation' asset class, consistent with our draft decision, as this is used for reverse depreciation purposes of disposed assets. There is no forecast capex allocated to this asset class.
- (b) These are the only asset classes used for the straight-line method of tax depreciation for new capex. All new capex for other asset classes used the diminishing value method of tax depreciation.
- (c) For this final decision, the forecast capex determined for Ausgrid does not meet a level to trigger any benchmark equity raising costs.

7.2 Assessment approach

We did not change our assessment approach for the cost of corporate income tax from our draft decision. Attachment 7 (section 7.3) of our draft decision details that approach.²⁴

²⁴ AER, *Draft decision – Attachment 7 – Corporate Income Tax – Ausgrid – 2024–29 Distribution revenue proposal*, September 2023, pp. 4–10.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
ATO	Australian Taxation Office
capex	capital expenditure
ITAA	<i>Income Tax Assessment Act 1997</i>
NER	National Electricity Rules
PTRM	post-tax revenue model
RFM	roll forward model
TAB	tax asset base
