

# Final Decision

## Endeavour Energy Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029)

### Attachment 7 Corporate income tax

April 2024

© Commonwealth of Australia 2024

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 3.0 AU licence.

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601  
Tel: 1300 585 165

AER reference: AER212494

#### **Amendment record**

<b>Version</b>	<b>Date</b>	<b>Pages</b>
1	30 April 2024	10

## List of attachments

This attachment forms part of the AER's final decision on the distribution determination that will apply to Endeavour Energy 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 7 – Corporate income tax

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment 20 – Metering services

## Contents

<b>List of attachments</b> .....	<b>iii</b>
<b>7 Corporate income tax</b> .....	<b>1</b>
7.1 Final decision.....	1
7.2 Assessment approach .....	5
<b>Shortened forms</b> .....	<b>6</b>

## 7 Corporate income tax

Our distribution determination includes the estimated cost of corporate income tax for Endeavour Energy’s (Endeavour) 2024–29 regulatory control period (period).<sup>1</sup> 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 Endeavour’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 Endeavour’s estimated cost of corporate income tax is \$120.2 million (\$ nominal) over the 2024–29 period. This is an increase of \$13.5 million (12.6%) from Endeavour’s revised proposed cost of corporate income tax of \$106.8 million. The main reasons for this increase are due to our final decision:

- on a higher regulatory depreciation amount (section 4.1 of Attachment 4)<sup>2</sup>
- on a higher return on equity amount (section 2.2 of the Overview).<sup>3</sup>

Our final decision is to determine an opening tax asset base (TAB) value as at 1 July 2024 of \$6,851.7 million (\$ nominal), which is consistent with Endeavour’s revised proposal (section 7.1.1).

We accept the following aspects of Endeavour’s revised proposal, which are consistent with our draft decision:<sup>4</sup>

- \$2.6 million (\$2023–24) of Endeavour’s forecast capital expenditure (capex) will be immediately expensed for tax purposes in the 2024–29 period (section 7.1.2)
- the standard tax asset lives for its existing asset classes and the new asset classes for capitalised leases for the 2024–29 period (section 7.1.3).

Table 7.1 sets out our final decision on the estimated cost of corporate income tax for Endeavour over the 2024–29 period.

---

<sup>1</sup> NER, cl. 6.4.3(a)(4).

<sup>2</sup> The higher regulatory depreciation is driven by a lower expected inflation rate applied in our final decision compared to Endeavour’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.

<sup>3</sup> The higher return on equity amount is driven by a higher rate of return on equity determined in our final decision compared to Endeavour’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.

<sup>4</sup> Endeavour Energy, *0.07 Main SCS Post-Tax Revenue Model*, November 2023.

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

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	69.8	55.2	54.3	52.1	48.1	279.6
Less: value of imputation credits	39.8	31.5	31.0	29.7	27.4	159.4
<b>Net cost of corporate income tax</b>	<b>30.0</b>	<b>23.7</b>	<b>23.4</b>	<b>22.4</b>	<b>20.7</b>	<b>120.2</b>

Source: AER analysis.

In the draft decision, we made one change to Endeavour’s modelling of its cost of corporate income tax.<sup>5</sup> We revised the opening TAB as at 1 July 2024 to reflect our amendment to the equity raising costs input in the roll forward model (RFM) and depreciation module.

Endeavour’s revised proposal adopted the change required by the draft decision. It also made some updates to its TAB roll forward.<sup>6</sup>

### 7.1.1 Opening tax asset base as at 1 July 2024

Our final decision is to determine an opening TAB value as at 1 July 2024 of \$6,851.7 million (\$ nominal) for Endeavour, which is consistent with its revised proposal.<sup>7</sup>

In our draft decision, we accepted Endeavour’s proposed method to establish the opening TAB value as at 1 July 2024. However, we reduced Endeavour’s proposed opening TAB value by \$0.02 million—specifically, we updated the input for equity raising costs to reflect the 2023–24 return on debt update in the PTRM for the 2019–24 period. We noted that the opening TAB value may be updated as part of the final decision to reflect actual capex for 2022–23 and any revised capex estimate for 2023–24.<sup>8</sup>

Endeavour’s revised proposal adopted our draft decision change for the equity raising costs input. It also made the following input updates in its revised proposed RFM (as discussed in Attachment 2):<sup>9</sup>

- updated the 2022–23 estimated capex and asset disposals with actual values. These updates reduced the opening TAB value by about \$28.7 million (\$ nominal), all else being equal

<sup>5</sup> AER, *Draft decision: Endeavour Energy distribution determination 2024–29 – Attachment 7 – Corporate income tax*, September 2023, p. 2.

<sup>6</sup> Endeavour Energy, *0.07 Main SCS Post-Tax Revenue Model*, November 2023; Endeavour Energy, *0.08 Main SCS Roll Forward Model*, November 2023.

<sup>7</sup> Endeavour Energy, *0.01 Revised Regulatory Proposal*, November 2023, p. 29.

<sup>8</sup> AER, *Draft decision: Endeavour Energy distribution determination 2024–29 – Attachment 7 – Corporate income tax*, September 2023, pp. 9–10.

<sup>9</sup> Endeavour Energy, *0.08 Main SCS Roll Forward Model*, November 2023.

- updated the actual capex inputs for 2020–21 and 2021–22. The net impact of these updates is a reduction to the opening TAB value by about \$17.5 million (\$ nominal), all else being equal
- revised the amount of capitalised leases being rolled into the TAB to \$47.9 million (\$ nominal) from the \$34.1 million approved in our draft decision.

Consistent with the reasons discussed in Attachment 2:

- We accept the updated capex inputs for 2020–21, 2021–22 and 2022–23. We also accept the 2023–24 capex estimate, which is the same amount as that approved in our draft decision. We will update the 2023–24 estimated capex for actuals at the next distribution determination for the 2029–34 period.
- We accept the revised proposed higher capitalised lease amount to be rolled into the TAB for this final decision. We note that this increase has been offset by a reduction in Endeavour’s 2022–23 actual capex.

Table 7.2 sets out our final decision on the roll forward of Endeavour’s TAB over the 2019–24 period.

**Table 7.2 AER’s final decision on Endeavour’s TAB roll forward for the 2019–24 period (\$ million, nominal)**

	2019–20	2020–21	2021–22	2022–23	2023–24 <sup>a</sup>
Opening TAB	5,878.1	6,067.8	6,259.8	6,395.8	6,632.1
Capital expenditure <sup>b</sup>	424.0	459.1	400.3	520.6	501.5
Less: tax depreciation	234.2	267.1	264.3	284.3	329.8
Final year asset adjustment <sup>c</sup>	–	–	–	–	47.9
<b>Closing TAB</b>	<b>6,067.8</b>	<b>6,259.8</b>	<b>6,395.8</b>	<b>6,632.1</b>	<b>6,851.7</b>

Source: AER analysis.

- (a) Based on estimated capex. We expect to update the TAB roll forward with actual capex at the next distribution determination.
- (b) Net of asset disposals.
- (c) Reflects capitalised lease costs for existing leases as at 30 June 2024.

### 7.1.2 Forecast immediate expensing of capex

For this final decision, we accept Endeavour’s revised proposal that \$2.6 million (\$2023–24) of its forecast capex will be immediately expensed for tax purposes in the 2024–29 period. This is consistent with the amount approved in our draft decision.<sup>10</sup>

In our draft decision, we accepted Endeavour’s proposed actuals informed approach for determining the forecast of immediately expensed capex for the 2024–29 period. We noted that the average proportion of actual capex being immediately expensed over the period

<sup>10</sup> There is a small difference of \$3,006 between the amount in Endeavour’s revised proposal PTRM and our draft decision PTRM. For this final decision, we have updated the forecast immediate expensing of capex inputs in the PTRM to be consistent with the amount approved in the draft decision.

2019–20 to 2021–22 was about 0.1%. Consequently, we accepted Endeavour’s proposed \$2.6 million (\$2023–24) forecast of immediately expensed capex, which was based on 0.1% of the total forecast capex approved in our draft decision.<sup>11</sup>

Endeavour did not make any further changes to the forecast of immediately expensed capex for the 2024–29 period in its revised proposal because it has adopted the total forecast capex approved in our draft decision.

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 on this type of expenditure in the next distribution determination for Endeavour.

### 7.1.3 Standard tax asset lives

Our final decision accepts Endeavour’s revised proposed standard tax asset lives for all of its asset classes because they are consistent with our draft decision.<sup>12</sup> We confirm our position that the standard asset lives are broadly consistent with the values prescribed by the Commissioner of Taxation in the Australian Taxation Office Ruling 2022/1 and the *Income Tax Assessment Act 1997*.<sup>13</sup>

Table 7.3 sets out our final decision on Endeavour’s standard tax asset lives. 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.<sup>14</sup>

---

<sup>11</sup> AER, *Draft decision: Endeavour Energy distribution determination 2024–29 – Attachment 7 – Corporate income tax*, September 2023, p. 10.

<sup>12</sup> AER, *Draft decision: PTRM – Endeavour Energy – 2024–29 Distribution Determination*, September 2023.

<sup>13</sup> ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022; ITAA 1997, s 40.105.

<sup>14</sup> NER, cl. 6.5.3.



**Table 7.3 AER’s final decision on Endeavour’s standard tax asset lives for the 2024–29 period (years)**

Asset class	Standard tax asset life
Land & easements	n/a
Sub-transmission lines and cables	46.8
Distribution lines and cables	47.9
Substations	40.0
Transformers	40.0
Low voltage lines and cables	47.8
Customer metering and load control	25.0
Communication	10.0
Emergency spares (Major plant, excludes inventory)	40.0
Information & communication technology	4.9
Furniture, fittings, plant and equipment	7.2
Motor vehicles	12.1
Short term leases	5.0
Long term leases	10.0
Buildings (System) <sup>a</sup>	40.0
Buildings (Non system) <sup>a</sup>	40.0
In-house software <sup>a</sup>	5.0
Equity raising costs <sup>a</sup>	5.0 <sup>b</sup>

Source: AER analysis.

n/a not applicable. We have not assigned a standard tax asset life to the ‘Land & easements’ asset class because the capex allocated to this asset class is not subject to depreciation.

- (a) 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.
- (b) For this final decision, the forecast capex determined for Endeavour 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.<sup>15</sup>

<sup>15</sup> AER, *Draft decision: Endeavour Energy distribution determination 2024–29 – Attachment 7 – Corporate income tax*, September 2023, pp. 3–9.

## 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

---