Final Decision

Evoenergy Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 7
Corporate income tax

April 2024

AUSTRALIAN ENERGY REGULATOR

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This attachment forms part of the AER's final decision on the distribution determination that will apply to Evoenergy 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 8 – Efficiency benefit sharing scheme

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7 Corporate income tax

Our distribution determination includes the estimated cost of corporate income tax for Evoenergy'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 Evoenergy'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 Evoenergy's estimated cost of corporate income tax over the 2024–29 period is $9.8 million and $3.8 million ($ nominal) for its distribution and transmission networks respectively. These amounts are $1.3 million (15.0%) and $0.2 million (7.1%) higher than Evoenergy's revised proposal of $8.5 million and $3.5 million for its distribution and transmission networks respectively. The reasons for the increases 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 an opening tax asset base (TAB) value as at 1 July 2024 of $884.4 million ($ nominal) for Evoenergy's distribution network, consistent with its revised proposal and $159.3 million ($ nominal) for Evoenergy's transmission network, which is $0.1 million lower than that in its revised proposal due to corrections for minor input errors in the roll forward model (RFM) and depreciation tracking module (section 7.1.1).

For this final decision, we determine that $81.4 million ($2023–24) of Evoenergy's forecast capital expenditure (capex) will be immediately expensed for tax purposes in the 2024–29 period for its distribution network (section 7.1.2). This is $0.7 million lower than the

1 Evoenergy'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.

AER, *Framework and approach Evoenergy (ACT), Regulatory control period commencing*, July 2022, p. 49.

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 Evoenergy'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 determined in our final decision compared to Evoenergy's revised proposal. All else being equal, a higher return on equity amount increases 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 both forecast capex and immediately expensed capex in our final decision compared to Evoenergy'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.

$82.0 million included in Evoenergy's revised proposal. For Evoenergy's transmission network, we confirm our acceptance in the draft decision that it has no forecast capex to be immediately expensed for tax purposes in the 2024–29 period (section 7.1.2).

We also accept Evoenergy's revised proposal on the standard tax asset lives for its existing distribution and transmission asset classes because they are consistent with our draft decision.[6] We are introducing a new asset class of 'Composite poles' for Evoenergy's distribution network and assign a standard tax asset life that is consistent with the Australian Taxation Office (ATO) Taxation Ruling 2022/1 (section 7.1.3).

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

Table 7.1 AER's final decision on Evoenergy'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	5.1	6.2	4.5	6.0	0.9	22.7
Less: value of imputation credits	2.9	3.5	2.6	3.4	0.5	12.9
Net cost of corporate income tax	**2.2**	**2.7**	**1.9**	**2.6**	**0.4**	**9.8**

Source: AER analysis.

Table 7.2 AER's final decision on Evoenergy'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	1.5	2.0	1.9	2.0	1.4	8.7
Less: value of imputation credits	0.9	1.1	1.1	1.1	0.8	5.0
Net cost of corporate income tax	**0.7**	**0.8**	**0.8**	**0.8**	**0.6**	**3.8**

Source: AER analysis.

In the draft decision, we made the following changes to Evoenergy's modelling of its costs of corporate income tax:[7]

- We revised the opening TABs as at 1 July 2024 to reflect the same minor adjustments made for the regulatory asset bases in the RFMs and depreciation tracking modules.
- We linked the tax depreciation amounts in the RFMs over the 2019–24 period to correctly use the tax depreciation amounts from the depreciation tracking modules for both distribution and transmission networks.

6 Evoenergy, *Distribution PTRM,* November 2023; Evoenergy, *Transmission PTRM,* November 2023.

7 AER, *Draft decision Attachment 7 – Corporate income tax – Evoenergy 2024–29 Distribution revenue determination*, September 2023, pp. 2–3 and 10–12.

- We accepted Evoenergy's proposal to apply an approach for determining its forecast of immediately expensed capex for the 2024–29 period reflecting the expenditure associated with distribution overhead lines, 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 network.

Evoenergy's revised proposal adopted the changes required by the draft decision in full. It also made some updates to its TAB roll forward.[8]

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 $884.4 million ($ nominal) for Evoenergy's distribution network, consistent with its revised proposal and $159.3 million ($ nominal) for Evoenergy's transmission network, which is $0.1 million lower than that in its revised proposal.[9] The slightly reduced TAB value for Evoenergy's transmission network is due to minor input corrections made in the RFM and depreciation tracking module.

In our draft decision, we accepted Evoenergy's proposed method to establish the opening TAB as at 1 July 2024. However, we amended some of the proposed inputs related to capex, disposals and capital contributions to be consistent with the annual reporting regulatory information notices (RIN). We corrected the tax depreciation amounts in the RFM to use those calculated in the depreciation tracking module. We noted 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.[10]

Evoenergy's revised proposal adopted our draft decision changes.[11] It also updated the opening TAB as at 1 July 2024 to reflect the actual capex and asset disposals 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 estimates are lower for the distribution network and higher for the transmission network than those 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.

Subsequent to the draft decision, we identified an error with the 2020–21 actual immediately expensed capex in the RFM and depreciation tracking module for Evoenergy's transmission network. In its response to our information request, Evoenergy agreed with this amendment.[12] Our correction of this error resulted in the slight reduction of $0.1 million to Evoenergy's opening TAB value as at 1 July 2024 for its transmission network.

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8 Evoenergy, *Revised regulatory proposal*, November 2023, pp. 38–39.

9 Evoenergy, *Distribution RFM,* November 2023; Evoenergy, *Transmission RFM,* November 2023.

10 AER, *Draft decision Attachment 7 – Corporate income tax – Evoenergy 2024–29 Distribution revenue determination*, September 2023, pp. 10–11.

11 Evoenergy, *Revised regulatory proposal*, November 2023, p. 39.

12 Evoenergy, *Response to Information Request #051 – Revised proposal RFM & Depreciation tracking module*, 28 March 2024.

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

Table 7.3 AER's final decision on Evoenergy'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	747.1	771.3	779.7	793.5	829.5
Capital expenditure[b]	71.5	60.7	70.3	96.4	110.5
Less: tax depreciation	47.3	52.3	56.5	60.5	55.6
Closing TAB	**771.3**	**779.7**	**793.5**	**829.5**	**884.4**

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.

Table 7.4 AER's final decision on Evoenergy'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	158.2	159.9	159.8	161.4	156.8
Capital expenditure[b]	9.4	8.5	10.9	5.4	12.9
Less: tax depreciation	7.7	8.6	9.3	10.0	10.3
Closing TAB	**159.9**	**159.8**	**161.4**	**156.8**	**159.3**

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.

7.1.2 Forecast immediate expensing of capex

For this final decision, we determine that $81.4 million ($2023–24) of Evoenergy's forecast capex is to be immediately expensed for tax purposes in the 2024–29 period for its distribution network, which is slightly lower than the revised proposal of $82.0 million.[13]

In our draft decision, we accepted Evoenergy's proposed method to calculate its forecast immediate expensing of capex. This approach is based on the expenditure associated with distribution overhead lines over the 2024–29 period, consistent with Evoenergy's current tax policy. However, we amended the value of immediately expensed capex to reflect our draft decision forecast capex for Evoenergy's distribution network.[14]

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

14 AER, *Draft decision Attachment 7 – Corporate income tax – Evoenergy 2024–29 Distribution revenue determination*, September 2023, pp. 11–12.

Evoenergy's revised proposal increased its forecast for immediately expensed capex over the 2024–29 period to align with its higher forecast capex.

As discussed in Attachment 5, our final decision accepts Evoenergy's revised proposed forecast capex subject to some minor modelling updates. As such, we determine a total forecast capex of $447.4 million ($2023–24),[15] which is $2.6 million lower than Evoenergy's revised proposed forecast capex. 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. We have therefore calculated a lower immediately expensed capex amount of $81.4 million ($2023–24) to reflect the forecast capex for this final decision.

For its transmission network, we confirm our acceptance of Evoenergy's revised proposal that it has no forecast of immediately expensed capex for the 2024–29 period. Evoenergy did not propose any forecast capex to be immediately expensed for tax purposes in the 2024–29 period in its initial proposal. In the draft decision, we accepted this aspect of the proposal. The difference between distribution and transmission reflects the different assets used by each network type.

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

7.1.3 Standard tax asset lives

Our final decision accepts Evoenergy's revised proposed standard tax asset lives for its existing asset classes because they are consistent with our draft decision.[16] 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*.[17]

For our final decision and discussed in Attachment 4, we decided to introduce a new asset class for 'Composite poles' in respect of Evoenergy's distribution network to provide a depreciation schedule that better reflects the nature and economic life of this type of asset. Following our review of Evoenergy's revised proposed forecast capex (discussed in Attachment 5), with respect to poles capex that use composite material, we consider this should be allocated to a new asset class of 'Composite poles' for depreciation instead of the existing 'Distribution overhead lines' asset class as proposed by Evoenergy. For tax depreciation purposes, we have assigned a standard tax asset life of 45 years for this new asset class, which is consistent with that prescribed by the Commissioner of Taxation in ATO Taxation Ruling 2022/1 for this asset type.[18]

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15 Net capex exclusive of half-year WACC adjustment.

16 AER, *Draft decision – Attachment 7 – Corporate Income Tax – Evoenergy – 2024–29 Distribution revenue proposal*, September 2023, pp. 13–15.

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

18 ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022.

Table 7.5 and Table 7.6 set out our final decision on the standard tax asset lives for Evoenergy's distribution and transmission networks respectively. We are satisfied that the standard tax asset lives are appropriate for application over the 2024–2029 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.[19]

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

Asset class	Standard tax asset life
Zone substation	40.0
Distribution substations	40.0
Distribution overhead lines	45.0
Distribution underground lines	50.0
IT & communication systems (Networks)	10.0
Motor vehicles	8.0
Other non-system assets (Networks)	5.8
IT systems (Corporate)	4.1
Telecommunications (Corporate)	6.7
Other non-system assets (Corporate)	5.7
Land	n/a
Buildings	40.0
Composite poles	45.0
Equity raising costs[a]	5.0[b]

Source: AER analysis.
n/a not applicable. We have not assigned a standard tax asset life to the 'Land' asset class because the assets allocated to it are not subject to depreciation.
(a) Equity raising costs is the only asset class 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 Evoenergy does not meet a level to trigger any benchmark equity raising costs.

19 NER, cl. 6.5.3.

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

Asset class	Standard tax asset life
Sub-transmission overhead	47.5
Sub-transmission underground	47.5
Zone substation	40.0
IT & communication systems (Networks)	10.0
Motor vehicles	8.0
Other non-system assets (Networks)	5.8
IT systems (Corporate)	4.1
Telecommunications (Corporate)	6.7
Other non-system assets (Corporate)	5.7
Land	n/a
Buildings	40.0
Equity raising costs[a]	5.0[b]

Source: AER analysis.
n/a not applicable. We have not assigned a standard tax asset life to the 'Land' asset class because the assets allocated to it are not subject to depreciation.
(a) Equity raising costs is the only asset class 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 Evoenergy 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.[20]

[20] AER, *Draft decision – Attachment 7 – Corporate Income Tax – Evoenergy – 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	*Income Tax Assessment Act 1997*
NER	National Electricity Rules
PTRM	post-tax revenue model
RIN	regulatory information notice
RFM	roll forward model
TAB	tax asset base