

Final Decision

Essential Energy 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 Essential 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 16 – Alternative control services

Attachment 18 – Connection policy

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7 Corporate income tax

Our distribution determination includes the estimated cost of corporate income tax for Essential Energy's (Essential) 2024–29 regulatory control period (period).¹ 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 Essential'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 Essential's estimated cost of corporate income tax is \$50.5 million (\$ nominal) over the 2024–29 period. This is an increase of \$18.4 million (57.2%) from Essential's revised proposed cost of corporate income tax of \$32.1 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)²
- on a higher return on equity amount (section 2.2 of the Overview).³

Our final decision is to determine an opening tax asset base (TAB) value as at 1 July 2024 of \$8,278.5 million (\$ nominal), which is \$0.1 million lower than that in Essential's revised proposal due to corrections for minor input errors in the roll forward model (RFM) (section 7.1.1).

We accept the following aspects of Essential's revised proposal, which are consistent with our draft decision:⁴

- there is no forecast capital expenditure (capex) to be immediately expensed for tax purposes in the 2024–29 period. (section 7.1.2)
- the standard tax asset lives for all of its asset classes (section 7.1.3).

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

¹ NER, cl. 6.4.3(a)(4).

² The higher regulatory depreciation is driven by a lower expected inflation rate applied in our final decision compared to Essential'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.

³ The higher return on equity amount is driven by a higher rate of return on equity in our final decision compared to Essential'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.

⁴ Essential Energy, *2024–29 Revised Regulatory Proposal*, 30 November 2023, p. 63.

Table 7.1 AER’s final decision on Essential’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	6.3	14.3	26.8	33.9	36.1	117.4
Less: value of imputation credits	3.6	8.2	15.3	19.3	20.6	66.9
Net cost of corporate income tax	2.7	6.2	11.5	14.6	15.5	50.5

Source: AER analysis.

In the draft decision, we made the following changes to Essential’s modelling of its cost of corporate income tax:⁵

- We revised the opening TAB as at 1 July 2024 to reflect our amendments to some inputs in the RFM and depreciation tracking module:
 - We updated the actual as-incurred capex amounts in 2022–23 and 2023–24 for the ‘Buildings’ asset class, which were net of insurance proceeds from the North Coast Floods for the Lismore depot.
 - We updated the actual as-incurred capital contribution amounts in 2020–21 for the ‘Sub-transmission lines and cables’ and ‘Substations’ asset classes to align with those in the 2020–21 annual regulatory information notice (RIN).
 - We updated equity raising costs to reflect the 2023–24 return on debt update in the PTRM for the 2024–29 period.
- We accepted Essential’s proposed standard tax asset lives for its existing asset classes for the 2024–29 period. However, we made the following changes:
 - 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 disaggregated Essential’s proposed new ‘Distributed energy resources (DER)’ asset class into four separate asset classes to reflect the different categories of assets and provide a better grouping of asset lives.

Essential’s revised proposal adopted the changes required by the draft decision in full. It also made some updates to its TAB roll forward.⁶

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 \$8,278.5 million (\$ nominal) for Essential, which is \$0.1 million lower than its revised proposal.⁷ This is due to minor input corrections made in the RFM and depreciation tracking module which also applied to the regulatory asset base (RAB) (discussed in Attachment 2).

⁵ AER, *Draft decision, Essential Energy’s distribution determination 2024 to 2029, Attachment 7 – Corporate income tax*, September 2023, p. 2.

⁶ Essential Energy, *2024–29 Revised Regulatory Proposal*, 30 November 2023, p. 63.

⁷ Essential Energy, *Revised Regulatory Proposal – 3.04 Post tax revenue model*, November 2023.

In our draft decision, we accepted Essential’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 some adjustments to the actual as-incurred capex amounts in 2022–23 and 2023–24, the actual as-incurred capital contribution amounts in 2020–21 and the equity raising costs input. 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 2023–24.⁸

Essential’s revised proposal adopted our draft decision changes.⁹ 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 estimate for this final decision. The 2023–24 capex estimate is higher 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. We also revise the opening TAB as at 1 July 2024 to reflect the same minor corrections made for the RAB in the RFM and depreciation tracking module.

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

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

	2019–20	2020–21	2021–22	2022–23	2023–24 ^a
Opening TAB	6,782.7	7,085.6	7,291.2	7,541.2	7,904.1
Capital expenditure ^b	547.9	497.4	572.4	702.7	745.4
Less: tax depreciation	244.9	291.8	322.3	339.9	371.0
Closing TAB	7,085.6	7,291.2	7,541.2	7,904.1	8,278.5

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.

7.1.2 Forecast immediate expensing of capex

For this final decision, we confirm our acceptance of Essential’s revised proposal that it has no forecast of immediately expensed capex for the 2024–29 period.

Essential 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. We considered that Essential’s proposal was consistent with its current approach and informed by the actual amount of capex immediately expensed historically.

⁸ AER, *Draft decision, Essential Energy’s distribution determination 2024 to 2029, Attachment 7 – Corporate income tax*, September 2023, p. 10.

⁹ Essential Energy, *2024-29 Revised Regulatory Proposal*, 30 November 2023, p. 63.

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

7.1.3 Standard tax asset lives

Our final decision accepts Essential’s revised proposed standard tax asset lives for all of its asset classes because they are consistent with our draft decision.¹⁰ 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*.¹¹

Table 7.3 sets out our final decision on Essential’s standard tax asset lives as at 1 July 2024. 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.¹²

¹⁰ AER, *Draft decision, Essential Energy’s distribution determination 2024 to 2029, Attachment 7 – Corporate income tax*, September 2023, pp. 12–13.

¹¹ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022; ITAA 1997, s 40.105.

¹² NER, cl. 6.5.3.

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

Asset class	Standard tax asset life
Sub-transmission lines and cables	47.5
Distribution lines and cables	45.0
Substations	40.0
Transformers	40.0
Low voltage lines and cables	45.0
Customer metering and load control	25.0
Communications	10.0
Land	n/a
Easements	n/a
IT systems	4.0
Furniture, fittings, plant and equipment	6.7
Motor vehicles	15.0
Land (non-system)	n/a
Other non-system assets	43.8
Capitalised property leases	8.0
Batteries, inverters and control equipment	10.0
Solar panels	20.0
Generators	20.0
Civil infrastructure installation & other	40.0
Composite poles	45.0
Buildings ^a	40.0
In-house software ^a	5.0
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', 'Easements' and 'Land (non-system)' asset classes because the capex allocated to them are 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 Essential 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.¹³

¹³ AER, *Draft decision: Essential Energy distribution determination 2024 to 2029, 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
RIN	regulatory information notice
RFM	roll forward model
TAB	tax asset base
