FINAL DECISION
Multinet Gas
Access arrangement
2018 to 2022

Attachment 8 – Corporate income tax

November 2017

AUSTRALIAN ENERGY REGULATOR

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Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
capex	capital expenditure
NGL	National Gas Law
NGR	National Gas Rules
PTRM	Post tax revenue model
SCADA	Supervisory control and data acquisition
TAB	Tax asset base

8 Corporate income tax

When determining the total revenue for Multinet, we include an estimate of Multinet's cost of corporate income tax. Multinet has adopted the post-tax framework to derive its revenue requirement for the 2018–22 access arrangement period.[1] Under the post-tax framework, a separate corporate income tax allowance is calculated as part of the building blocks assessment.

8.1 Final decision

We do not approve Multinet's revised proposed cost of corporate income tax.[2] Our final decision approves an estimated cost of corporate income tax of $60.8 million ($ nominal) for Multinet over the 2018–22 access arrangement period. This amount represents a decrease of $0.3 million ($ nominal) or 0.5 per cent from the $61.1 million ($ nominal) in Multinet's revised proposal. The reduction reflects our amendments to Multinet's revised proposed inputs for forecasting the cost of corporate income tax, including:

- the opening tax asset base (TAB) at 1 January 2018
- remaining tax asset lives.

Our adjustments to the return on capital, regulatory depreciation and forecast capital expenditure (capex) building block costs affect revenues, which in turn impacts the tax calculation.

Our final decision on Multinet's estimated cost of corporate tax allowance for the 2018–22 access arrangement period is set out in Table 8-1.

Table 8-1 AER's final decision on Multinet's estimate cost of corporate tax allowance for the 2018–22 access arrangement period ($million, nominal)

	2018	2019	2020	2021	2022	Total
Tax payable	18.5	18.6	19.2	22.4	22.6	101.3
Less: value of imputation credits	7.4	7.4	7.7	9.0	9.0	40.5
Net corporate income tax allowance	**11.1**	**11.1**	**11.5**	**13.5**	**13.5**	**60.8**

Source: AER analysis.

We approve an opening TAB value of $485.4 million ($ nominal) as at 1 January 2018 for this final decision. This is $0.6 million (0.1 per cent) lower than the $486.0 million in

1 Multinet, *2018-2022 Access arrangement information*, December 2016, pp. 147.

2 NGR, r. 87A.

Multinet's revised proposed tax model.[3] This reduction reflects our amendments to Multinet's revised proposed inputs for 2013–17 capex and tax depreciation:

- We re-allocated $0.8 million of 2016 capex from the 'Land & Buildings' tax category to the 'Other Assets' tax category.[4]
- We adopted the capex values from the draft decision TAB roll forward for years 2013–15.[5]
- We adjusted the 2016 capex for the 'Mains & Services' tax category for movements in capitalised provisions.[6]
- We amended a sum formula in the tax model for the 'Repairs' tax category in relation to the opening asset value, consistent with a change made in the draft decision.[7]

In the draft decision, we identified some changes to Multinet's proposed roll forward of the TAB over the 2013–17 access arrangement period. We modified the actual capex inputs to be net of asset disposals and adjusted for movements in capitalised provisions. Multinet accepted these amendments to the 2013–17 capex in its response to our information request and adopted these in its revised proposal.[8]

We also noted in the draft decision that the proposed capex for 2016 and 2017 were estimates and that Multinet would provide the actual capex for 2016 in its revised proposal, and that it may revise the 2017 capex estimate based on more up to date information. Multinet's revised proposal provided these updates to the 2016 and 2017 capex. As discussed in attachment 6, we accept Multinet's capex updates in its revised proposal as conforming capex during the 2013–17 access arrangement period. Therefore, we consider that actual conforming capex has been properly accounted for in the revised proposed TAB roll forward, consistent with the requirements of the NGR.

Table 8-2 sets out our final decision on the roll forward of Multinet's TAB value for the 2013–17 access arrangement period.

3 Multinet submitted its revised proposed tax model in response to IR#29 on 1 September 2017.

4 Multinet, *Email response to IR#32*. received on 22 September 2017

5 Although Multinet's revised proposal document accepted our draft decision on the net corporate tax allowance, its revised proposal tax model did not reflect these changes for capex in years 2013–15.

6 Multinet, *Email response to IR#32,* received on 22 September 2017

7 The formula in the revised proposed PTRM incorrectly double-counted the 'Other Assets' tax category in the Group 1 tax grouping.

8 Multinet, *Email response to information request - IR#07 - General modelling issues*, 21 February 2017; Multinet, *Revised access arrangement information (PUBLIC),* 14 August 2017, p. 28.

Table 8-2 AER's final decision on Multinet's tax asset base roll forward for the 2013–17 access arrangement period ($ million, nominal)

	2013	2014	2015	2016	2017
Opening tax asset base	371.5	386.3	396.8	414.7	447.5
Capex	61.2	57.7	65.7	82.8	91.7
Less: tax depreciation	46.3	47.3	47.8	50.0	53.8
Closing tax asset base	**386.3**	**396.8**	**414.7**	**447.5**	**485.4**

Source: AER analysis.

For this final decision and as set out in set out in Table 8-3:

- We confirm our draft decision on Multinet's standard tax asset lives for the 2018-22 access arrangement period. In the draft decision, we identified changes to standard tax asset lives for the 'Supply regs/valve stations', 'SCADA' and 'Equity raising costs' asset classes. Multinet's revised proposal adopted these changes.[9]
- We confirm our draft decision on the approach for setting the remaining tax asset lives. In the draft decision, we accepted Multinet’s proposal to transition to our standard straight-line depreciation approach to calculate the corporate income tax allowance for the 2018–22 access arrangement period, which required determining remaining tax asset lives for depreciating the opening TAB as at 1 January 2018. We did not accept Multinet’s proposed method of setting the remaining tax asset lives equal to the capital base remaining lives as at 1 January 2018. We instead applied an alternative method which involves using the standard tax asset life for the asset class multiplied by the ratio of the capital base remaining asset life to the capital base standard asset life. Multinet's revised proposal adopted our draft decision on this issue.[10] However, as noted in the draft decision, this final decision updates Multinet's revised proposed remaining tax asset lives reflecting the amendments made to the opening capital base as discussed in attachment 2.[11]

9 Multinet, *Revised access arrangement information (PUBLIC),* 14 August 2017, p. 28.

10 Multinet, *Revised access arrangement information (PUBLIC),* 14 August 2017, p. 28.

11 The amendments to the opening capital base affect the capital base remaining lives which then affect the tax remaining lives. The change to the year-by-year tracking approach for regulatory depreciation means that the capital base remaining lives are no longer recorded in the PTRM but they are still estimated in the RFM for use in calculating the remaining tax asset lives as at 1 January 2018.

Table 8-3 AER's final decision on Multinet's standard tax asset lives and remaining tax asset lives as at 1 January 2018 for the 2018–22 access arrangement period (years)

Tax asset class	Standard tax asset life	Remaining tax asset life as at 1 January 2018
Transmission and distribution	50.0	33.7
Services	50.0	31.4
Cathodic protection	50.0	44.2
Supply regs/valve stations	40.0	17.6
Meters to 2017	15.0	6.7
Meters from 2018 (New)	15.0	15.0
IT	4.0	3.0
SCADA	10.0	8.5
Other	10.0	9.6
Buildings	35.0	32.2
Equity raising costs	5.0	n/a

Source: AER analysis.

n/a Not applicable.

8.2 Assessment approach

Our approach to the corporate income tax allowance is set out in section 8.3 of our draft decision. We have not changed this approach in our final decision.