



FINAL DECISION
Roma to Brisbane Gas Pipeline
Access Arrangement
2017 to 2022

Attachment 8 – Corporate
income tax

November 2017

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165

Email: AERInquiry@aer.gov.au

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Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CPI	consumer price index
DRP	debt risk premium
ECM	(Opex) Efficiency Carryover Mechanism
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	Value of Imputation Credits
MRP	market risk premium
NGL	National Gas Law
NGO	national gas objective
NGR	National Gas Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STTM	Short Term Trading Market
TAB	Tax asset base
UAFG	Unaccounted for gas
WACC	weighted average cost of capital
WPI	Wage Price Index

8 Corporate income tax

When determining the total revenue for APTPPL, we include an estimate of APTPPL's cost of corporate income tax.¹ APTPPL has adopted the post-tax framework to derive its revenue requirement for the 2017–22 access arrangement period.² 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 APTPPL's revised proposed cost of corporate income tax.³ Our final decision approves an estimated cost of corporate income tax of \$3.1 million (\$ nominal) for APTPPL over the 2017–22 access arrangement period. This amount represents a decrease of \$5.2 million (\$ nominal) or 63.2 per cent from the \$8.3 million (\$ nominal) in APTPPL's revised proposal. The reduction reflects our amendments to APTPPL's proposed inputs for forecasting the cost of corporate income tax, namely our adjustments to the return on capital (attachment 3) and regulatory depreciation (attachment 5) building block costs. These affect revenues, which in turn impacts the tax calculation.

Our final decision on APTPPL's estimated cost of corporate tax allowance for the 2017–22 access arrangement period is set out in Table 8-1.

Table 8-1 AER's final decision on APTPPL's estimated cost of corporate tax allowance for the 2017–22 access arrangement period (\$million, nominal)

	2017–18	2018–19	2019–20	2020–21	2021–22	Total
Tax payable	1.8	1.7	1.6	0.0	0.0	5.1
Less: value of imputation credits	0.7	0.7	0.6	0.0	0.0	2.0
Net corporate income tax allowance	1.1	1.0	1.0	0.0	0.0	3.1

Source: AER analysis.

We approve APTPPL's revised proposed opening TAB value of \$133.2 million (\$nominal) as at 1 July 2017 for this final decision.

In the draft decision, we identified several changes to APTPPL's proposed roll forward of the TAB over the 2012–17 access arrangement period:

¹ NGR, r. 76(c).

² APTPPL, *RBP access arrangement revision submission 2017–22*, September 2016, p.192.

³ NGR, r. 87A.

- the tax depreciation amounts should be based on the actual capex, consistent with the AER's RFM and the ATO's guide for depreciating assets
- various input changes reflecting our assessment for the capital base roll forward, which relevantly affects the TAB.

APTPPL's revised proposal adopted these changes to rolling forward its TAB.⁴

Our draft decision also identified changes to APTPPL's proposed conforming capex for the 2012–17 access arrangement period. We noted that the proposed capex for 2016–17 was an estimate and that APTPPL may provide a revised 2016–17 capex estimate based on more up to date information in its revised proposal. As discussed in attachment 6, we accept APTPPL's revised proposed actual capex as conforming capex during the 2012–17 access arrangement period. Therefore, we consider APTPPL's revised proposed TAB roll forward is consistent with the requirements of the NGR.⁵

Table 8-2 sets out our final decision on the roll forward of APTPPL's TAB value.

Table 8-2 AER's final decision on APTPPL's tax asset base roll forward for the 2012–17 access arrangement period (\$ million, nominal)

	2012–13	2013–14	2014–15	2015–16	2016–17
Opening tax asset base	134.2	126.8	124.3	133.8	128.9
Capex	5.8	10.5	23.0	9.9	18.2
Tax depreciation	-13.2	-13.0	-13.4	-14.8	-13.9
Closing tax asset base	126.8	124.3	133.8	128.9	133.2

Source: AER analysis.

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

- We confirm our draft decision on APTPPL's standard tax asset lives for the 2017–22 access arrangement period. These standard tax asset lives are consistent with the provisions of the Income Tax Assessment Act 1997, the standard tax asset lives prescribed in Tax ruling 2016/1 and the approved standard tax asset lives in the 2012–17 access arrangement.⁶

⁴ APTPPL, *RBP Access Arrangement Revised Proposal Submission*, August 2017, pp.62–63.

⁵ Our update to APTPPL's actual conforming capex in 2013–14 for the value of capital contribution in that year for the capital base does not affect the TAB. This is because for tax purposes capital contributions are treated as capital expenditure. Therefore, APTPPL's roll forward model correctly accounted for the treatment of capital contributions in the TAB.

⁶ *ITAA 1997*, s. 40.102(5); Australian Taxation Office, *Taxation Ruling (TR 2016/1) Income Tax: effective life of depreciating assets (applicable from 1 July 2016)*.

- We confirm our draft decision to accept APTPPL's proposed weighted average method to calculate the remaining tax asset lives as at 1 July 2017. As a consequence of approving APTPPL's revised proposed TAB, we approve APTPPL's revised proposed remaining tax asset lives.

Table 8-3 AER's final decision on APTPPL's standard tax asset lives and remaining tax asset lives as at 1 July 2017 for the 2017–22 access arrangement period (years)

Tax asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2017
Original pipeline (DN250)	20	18.8
Pipelines	20	9.9
Compressors	20	15.0
Regulators and meters	20	14.6
Easements	n/a	n/a
Communications	20	0.0
Other	20	1.8
Capitalised AA costs	5	4.9
Group IT	5	3.7
SIB capex	5	3.3
Redundant compressors	n/a	2.2

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 that approach in this final decision.