



DRAFT DECISION
Amadeus Gas Pipeline
Access Arrangement

2021 to 2026

Attachment 7
Corporate income tax

November 2020

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Note

This attachment forms part of the AER's draft decision on the access arrangement that will apply to APT Pipelines (NT) Pty Ltd (APTNT)'s Amadeus Gas Pipeline for the 2021–2026 access arrangement period. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Services covered by the access arrangement

Attachment 2 – Capital base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency carryover mechanism

Attachment 9 – Reference tariff setting

Attachment 10 – Reference tariff variation mechanism

Attachment 11 – Non-tariff components

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7 Corporate income tax

Our determination of the total revenue for APT Pipelines (NT) (APTNT) includes the estimated cost of corporate income tax for APTNT's 2021–26 access arrangement period.¹ Under the post-tax framework, a corporate income tax amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM). This amount allows APTNT to recover the estimated cost of corporate income tax during the 2021–26 period.

This attachment presents our assessment of APTNT's proposed corporate income tax amount for the 2021–26 access arrangement period. It also presents our assessment of its proposed opening tax asset base (TAB), and the standard and remaining tax asset lives as at 1 July 2021 that it has used to estimate tax depreciation for the purpose of calculating tax expenses.

7.1 Draft decision

We accept APTNT's proposed approach to calculate its forecast cost of corporate income tax. APTNT has used our PTRM for gas pipeline service providers which implemented the findings from our 2018 *Review of the regulatory tax approach* (tax review).²

We determine an estimated cost of corporate income tax of zero for APTNT in the 2021–26 period, consistent with APTNT's proposal. We expect APTNT to incur a forecast tax loss over the 2021–26 access arrangement period.³ For this reason, our draft decision is to set out the cost of corporate income tax at zero for the 2021–26 period. We have determined that \$3.2 million in tax losses as at 30 June 2026 will be carried forward to the 2026–31 access arrangement period where it can be used to offset future tax liabilities. The forecast tax losses arise because APTNT's forecast tax expenses will exceed its revenue for tax assessment purposes over the 2021–26 access arrangement period. This is mostly due to the implementation of our findings from the 2018 *Review of the regulatory tax approach*, where the introduction of immediate expensing of capital expenditure (capex) and diminishing value method of tax depreciation have resulted in an increase of forecast tax depreciation.⁴

¹ National Gas Rules (NGR), r. 76(c).

² AER, *Final report: Review of regulatory tax approach*, December 2018.

³ A forecast tax loss occurs when the forecast assessable income is lower than the forecast tax expense. In this event no tax is payable. Any residual amount of tax loss will be carried forward over to future access arrangement periods to offset future taxable income until the tax loss is fully exhausted.

⁴ The third key finding from the 2018 tax review relates to capping tax lives for gas assets to 20 years. However, APTNT has historically assigned tax asset lives of 20 years or less to its asset classes, hence this change does not affect APTNT's Amadeus Gas Pipeline.

We accept APTNT's proposed standard tax asset lives for all of its existing asset classes as they are broadly consistent with the tax asset lives prescribed by the Australian Tax Office's (ATO) taxation ruling 2020/3 (section 7.4.4).⁵

We also accept APTNT's proposed weighted average method to calculate the remaining tax asset lives as at 1 July 2021. This method is a continuation of the approved approach used in the 2016–21 access arrangement period and applies the approach as set out in our roll forward model (RFM). We accept APTNT's' proposed remaining tax asset life of 11.4 years for the new asset class of 'Leased assets'.

Further, we accept the proposed opening TAB as at 1 July 2021, since we accept APTNT's approach for establishing the opening TAB including its actual and estimated capex over the 2016–21 access arrangement period.

We accept the adjustment to the opening TAB value to account for the reallocation of capitalised leases from existing asset classes to the new asset class of 'Leased assets', consistent with the approach for the capital base (attachment 2).⁶

Our adjustments to the return on capital (attachments 2, 3 and 5) and the regulatory depreciation (attachment 4) building blocks affect revenues, which in turn impacts the tax calculation. The changes affecting revenues are discussed in the Overview.

7.2 APTNT's proposal

APTNT proposed an estimated cost of corporate income tax of zero (\$nominal) for the 2021–26 access arrangement period using our PTRM,⁷ with the following inputs:⁸

- an opening TAB as at 1 July 2021 of \$45.6 million (\$nominal)
- an expected statutory income tax rate of 30 per cent per year
- a value of imputation credits (gamma) of 0.585
- immediately expensed capex amount of \$1.9 million (\$2020–21)
- the same standard tax asset lives for tax depreciation purposes of new assets for its existing asset classes in the 2021–26 access arrangement period as approved for the 2016–21 decision
- the remaining tax asset lives which were calculated using a weighted average remaining life approach as contained in its proposed RFM.

⁵ ATO, *Taxation Ruling TR2020/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2020)*, p. 181.

⁶ AER, *Draft decision – Amadeus Gas Pipeline Access Arrangement 2021–26 – Attachment 2 – Capital base*, November 2020.

⁷ Our published gas PTRM uses the diminishing value (DV) tax depreciation approach for all assets with the exception of in-house software, buildings and equity raising costs.

⁸ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement – Attachment 3 – Gas Transmission PTRM*, July 2020.

APTNT adjusted its opening TAB at 1 July 2021 by reallocating its capitalised lease assets to its standalone new asset class and proposed a remaining tax asset life of 11.4 years.

Table 7.1 sets out APTNT's proposed TAB roll forward over the 2016–21 access arrangement period.

Table 7.1 APTNT's proposed tax asset base roll forward over the 2016–21 access arrangement period (\$million, nominal)

	2016–17	2017–18	2018–19	2019–20 ^a	2020–21 ^a
Opening TAB	34.5	38.7	38.7	38.6	45.0
Capital expenditure ^b	6.7	2.8	2.9	9.7	4.3
Less: tax depreciation	2.4	2.8	3.0	3.2	3.7
Closing TAB	38.7	38.7	38.6	45.0	45.6

Source: APTNT, Amadeus Gas Pipeline 2021–26 Access Arrangement – Attachment 2 – Gas Transmission RFM, July 2020.

(a) Based on estimated capex.

(b) Net of disposals.

7.3 Assessment approach

We make an estimate of taxable income for each regulatory year of the access arrangement period as part of our determination of the total revenue requirement for APTNT's 2021–26 access arrangement period.⁹ Our estimate is the taxable income a benchmark efficient entity would earn for providing reference services if it operated APTNT's business.

In April 2020, we published our first version of the RFMs and PTRMs for gas pipeline service providers under new provisions in the NGR. The gas models have been developed using our published electricity distribution and transmission regulatory models, which incorporates relevant findings from our final report on the tax review.¹⁰ They also incorporate several amendments to account for gas specific requirements. Gas distribution businesses are required to use the gas models for the purposes of their access arrangement proposals.¹¹

⁹ NGR, r. 87A(1).

¹⁰ AER, *Final report: Review of regulatory tax approach*, December 2018, p. 76. The PTRM specifies the manner in which the estimated cost of corporate income tax is to be calculated. The RFM calculates the gas pipeline service provider's tax asset base which is an input to the PTRM for the calculation of the tax building block.

¹¹ NGR, r. 75A.

How the estimated cost of corporate income tax is calculated in the PTRM

Our approach for calculating a gas pipeline service provider's estimated cost of corporate income tax is set out in our PTRM¹² and involves the following steps:¹³

1. We estimate the annual assessable income (taxable revenue) that would be earned by a benchmark efficient entity operating the gas pipeline service provider's business. This is the approved forecast revenues for the gas pipeline service provider that we determined using the building block approach.¹⁴ It includes capital contributions where these are subject to taxation.
2. We then estimate the benchmark tax expenses such as operating expenditure (opex), interest expense, tax depreciation in the following ways:
 - operating expense is set equal to the opex building block¹⁵
 - interest expense is a function of the size of the capital base, the benchmark gearing assumption (60 per cent) and the regulated cost of debt
 - tax depreciation expense is calculated using a separate value for the TAB, and standard and/or remaining tax asset lives for taxation purposes. Previously, APTNT's' access arrangements applied the straight-line (SL) method for calculating tax depreciation for all assets. Consistent with the findings of the tax review, the published gas PTRM applies the SL tax depreciation method for existing assets and the DV tax depreciation method¹⁶ for all assets acquired after 30 June 2021 except for in-house software, buildings and equity raising costs. The expenditure for these assets are to be depreciated using the SL method under Australian tax law. The PTRM also accounts for the value of certain forecast capex to be immediately expensed when estimating the benchmark tax expense. The value of immediately expensed capex is deducted from the net capex being depreciated for tax purposes for the year in which it is forecast to be incurred.¹⁷ The immediately expensed amount is then included in the total tax depreciation amount for the relevant year.

There may be other revenue adjustments, but the assessment of whether they should give rise to a corporate tax amount occurs on a case by case basis.

¹² AER, *Distribution PTRM*, April 2020.

¹³ The PTRM must specify the manner in which the estimated cost of corporate income tax is to be calculated: NGR, r. 75B(2)(e).

¹⁴ The total revenue for tax purposes is the sum of the building blocks including return on capital, return of capital, operating expenditure and cost of corporate taxation, and any capital contributions. It may also include other revenue adjustments, but the assessment of whether they should give rise to a cost of corporate tax will occur on a case by case basis.

¹⁵ Our assessment approach for the opex building block is discussed in Attachment 6 of the draft decision.

¹⁶ For more explanation of how we calculate depreciation using the DV method, please see: AER, *Distribution PTRM handbook*, April 2019, pp. 22–23.

¹⁷ That is, the net capex to be added to the TAB for tax depreciation purposes is the amount of gross capex, less disposals, less the immediately deductible capex.

3. We estimate the annual taxable income that would be earned by a benchmark efficient entity operating the gas pipeline service provider's business by subtracting the benchmark estimates of tax expenses (step 2) from the approved forecast revenues for the service provider (step 1).
4. We apply the statutory income tax rate to the estimated annual taxable income (after adjustment for any tax loss carried forward) to arrive at a notional amount of tax payable.
5. We deduct the expected value for the utilisation of imputation credits (gamma) by investors from the notional amount of tax payable. The tax payable net of the expected value of imputation credits represents the corporate income tax amount and is included as a separate building block in determining the gas pipeline service provider's total revenue requirement.

How we assess the tax inputs to the PTRM

The estimated cost of corporate income tax is an output of the PTRM. We therefore assess the gas pipeline service provider's proposed cost of corporate income tax by analysing the proposed inputs to the PTRM for calculating that cost. While our assessment approach for most of the tax inputs remain largely the same as the determination for the current (2016–21) access arrangement period, our gas PTRM requires two new sets of inputs for the calculation of tax depreciation—the forecast immediate expensing of certain capex and the assets to be exempted from the DV method of tax depreciation.

Our assessment approach for each of the tax inputs required in the PTRM, including the two new inputs are discussed in turn below:

- **opening TAB as at the commencement of the 2021–26 access arrangement period:** We consider that the roll forward of the opening TAB should be based on the approved opening TAB as at 1 July 2016 and APTNT's actual capex incurred during the 2016–21 access arrangement period, and the final year (2015–16) of the previous access arrangement period.¹⁸ We do not adjust the TAB value for immediate expensing of past capex in the roll forward process. This is consistent with our 2016–21 access arrangement that the benchmark efficient entity at the time will not immediately expense any capex during that period.

The roll forward of the opening TAB for the 2016–21 period is calculated in APTNT's RFM. The tax review final report set out that the required changes to the tax depreciation approach would apply to new assets only. As such, the approach for determining the opening TAB value remains the same as the previous determination for the purposes of this draft decision. We have published the new gas RFM to implement the findings of the tax review.¹⁹ We expect that this RFM will

¹⁸ The tax depreciation is therefore recalculated based on actual capex. The same tax depreciation approach of using actual capex applies to the roll forward of the TAB at the next reset.

¹⁹ See <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/gas-financial-models-roll-forward-and-revenue-2020>.

continue to be used for the purposes of the TAB roll forward for 2021–26 at the next reset.

This opening TAB value is used to estimate forecast tax depreciation for the 2021–26 access arrangement period, including new assets to be added to the TAB over this period. We will continue to apply the SL method of tax depreciation for the opening TAB value.²⁰ However, for all assets forecast to be added to the TAB in the 2021–26 access arrangement period (with some exceptions discussed further below), we will apply the DV method of tax depreciation.

- **standard tax asset life for each asset class:** Our assessment of a gas pipeline service provider's proposed standard tax asset lives is generally guided by the effective life for depreciating assets determined by the Commissioner for Taxation. The ATO sets a statutory life cap of 20 years on certain classes of gas transmission and distribution assets.²¹ We consider that the standard tax asset lives for Amadeus' asset classes should be consistent with the ATO taxation ruling 2020/3 regarding the effective life of depreciating assets where possible.²²

As discussed above, the PTRM applies the DV tax depreciation method for all new assets except for in-house software, buildings and capital works, and equity raising costs. It provides designated asset classes for these assets to be depreciated using the SL method for tax purposes.²³ The tax effective lives for in-house software, buildings and capital works, and equity raising costs are not covered under the ATO taxation ruling 2020/3. Therefore, our assessment of the standard tax asset lives for these asset classes are guided by the *Income Tax Assessment Act 1997* (ITAA). Specifically, we consider that the standard tax asset life should be:

- 40 years for buildings and capital works – This is consistent with the number of years required to completely depreciate a capital works asset such as buildings for tax purposes when applying sections 43.15, 43.140 and 43.210 of the ITAA
- 5 years for in-house software – This is consistent with section 40.95(7) of the ITAA
- 5 years for equity raising costs – This is consistent with section 40.880 of the ITAA.

²⁰ The tax review final report stated that the required changes to the tax depreciation approach would apply to new assets only. Therefore, the SL approach to tax depreciation that applied for Amadeus' 2016–21 access arrangement remains appropriate for use in the roll forward of the TAB to 1 July 2021.

²¹ ATO, *Taxation Ruling TR2020/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2020)*, p. 181. For transmission assets: compressor station assets, gas pipeline LNG station assets, pipelines–transmission, spur or lateral, regulators and underground gas storage asset. For distribution assets: low pressure gas storage holders, pipelines (high, medium and low pressure trunks, primary or secondary mains or services) and regulators.

²² ATO, *Taxation Ruling TR2020/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2020)*, p. 181.

²³ Our assessment approach on new assets to be exempted from the DV method is discussed in detail below.

- **income tax rate:** The statutory income tax rate is 30 per cent per year for the businesses of the size we regulate, which was adopted in APTNT’s proposal.
- **value of gamma:** The gamma input for APTNT is 0.585 for this draft decision. This is consistent with the 2018 *Rate of return instrument*, which requires us to use a gamma value of 0.585, and was adopted in APTNT’s proposal.²⁴ Refer to section 4.2 of the Overview for this draft decision for further discussion on this matter.
- **size and treatment of any tax losses as at 1 July 2021:** Where a business has tax losses under our benchmark approach, we require the provision of this value to determine the appropriate estimated taxable income for an access arrangement period. If there is an amount of tax losses accumulated, the forecast taxable income for the period will be reduced by this amount. APTNT does not have any accumulated tax losses as at the start of the 2021–26 period.²⁵
- **forecast immediate expensing of capex:** The PTRM requires a forecast for immediately deductible capex to be provided for each regulatory year of the 2021–26 access arrangement period. Our assessment of forecast immediate expensing of capex is guided by the gas pipeline service provider’s actual immediate expensing of capex from the previous access arrangement period.²⁶ We will collect actual data relating to this expenditure in our annual reporting Regulatory Information Notices (RINs) to further inform our decision on the amount of forecast immediate expensing of capex in future access arrangements. Benchmarking may also be considered going forward.²⁷
- **diminishing value multiplier:** The PTRM applies the following formula to calculate the tax depreciation under the DV method:²⁸

$$D_t = \left(\text{Nominal net capex}_i - \sum_{n=0}^{t-1} D_n \right) \times \text{DV multiplier} \div \text{standard tax asset life}$$

where:

D_t is the tax depreciation in year t

$D_0 = 0$

$t = 1, 2, 3, \dots$

$i = \text{year } 0$

²⁴ AER, *Rate of return instrument*, December 2018, p. 19.

²⁵ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement – Attachment 3 – Gas Transmission PTRM*, July 2020.

²⁶ In the tax review final report, we labelled our approach to determining the amount of capex that is to be immediately expensed as an ‘actuals informed approach’. AER, *Final report, Review of regulatory tax approach*, December 2018, p. 66.

²⁷ AER, *Final report, Review of regulatory tax approach*, December 2018, pp. 66–67.

²⁸ This formula shows how the tax depreciation for capex in a particular year is calculated under the DV method in the PTRM.

The PTRM provides an input section for the 'DV multiplier' in the above formula to be recorded for each year of the access arrangement period. This is labelled as the 'diminishing value multiplier' in the PTRM. Currently, the DV multiplier is set at 200 per cent by the ATO. Our assessment approach for the standard tax asset life inputs is discussed above. The assessment approach for capex is discussed in Attachment 5.

- **new assets to be exempted from the diminishing value method:** The PTRM applies the DV method for tax depreciation purposes to all new depreciable assets except for certain assets. It provides for the PTRM asset classes 47 to 50 to be depreciated using the SL method for tax purposes rather than the DV method. These asset classes are to contain new assets associated with in-house software, buildings and equity raising costs.

We consider that the benchmark equity raising costs should not be depreciated using the DV method. Section 40.880 of the ITAA and the ATO's taxation ruling 2011/6²⁹ require that businesses claim deductions on equity raising costs in equal proportions over a five-year period. Therefore, in the PTRM, we apply the SL method for calculating the tax depreciation for equity raising costs, consistent with the ITAA and ATO's requirements.³⁰ Further, the gas pipeline service provider may propose capex associated with buildings and in-house software to be exempted from the DV method of tax depreciation in the PTRM if the proposal satisfies the following requirements:

- **buildings:** We consider that capex for buildings may be exempted from the DV method in the PTRM, consistent with sections 43.15, 43.140 and 43.210 of the ITAA. However, such capex must be consistent with the definition of a capital work under section 43.20 of the ITAA and in ATO taxation ruling 97/25.³¹ This includes new buildings and structural improvements to existing buildings.³² However, capex on separate assets within a building such as air-conditioning units, transformers and converters are not consistent with the definition of a capital work, and therefore are required to be depreciated using the DV method in the PTRM. Amadeus did not propose this type of capex for the 2021–26 access arrangement period.
- **in-house software:** We consider that capex for in-house software may be exempted from the DV method in the PTRM, consistent with section 40.72 of the ITAA. However, such capex must be consistent with the definition of in-house software under section 995.1 of the ITAA and in ATO taxation ruling 2016/3.³³ This includes computer software, or the right to use computer software that the gas pipeline service provider acquires, develops or has

²⁹ ATO, *Taxation Ruling 2011/6*, July 2016.

³⁰ The benchmark amount for equity raising costs is determined within the PTRM.

³¹ ATO, *Taxation Ruling 97/25*, July 2017.

³² ITAA, section 43.20.

³³ ATO, *Taxation Ruling 2016/3*, October 2018.

someone else develop for the gas pipeline service provider's business use.³⁴ However, capex associated with other IT assets such as computer hardware is not consistent with the definition of in-house software, and therefore is required to be depreciated using the DV method in the PTRM. APTNT did not propose this type of capex for the 2021–26 access arrangement period.

In assessing APTNT's proposal, we have had regard to the National Gas Objective (NGO) and the revenue and pricing principles.³⁵ The NGR also require that any forecast must be arrived at on a reasonable basis and must represent the best forecast or estimate possible in the circumstances.³⁶

7.3.1 Interrelationships

The cost of corporate income tax building block feeds directly into the total revenue requirement. This amount is determined by five factors:

- pre-tax revenues
- tax expenses (including tax depreciation)
- the corporate tax rate
- any tax losses carried forward
- gamma—the expected proportion of company tax that is returned to investors through the utilisation of imputation credits—which is offset against the corporate income tax payable.

Of these five factors, the corporate tax rate is set externally by the Government. The higher the tax rate, the higher the required cost of corporate tax.

The pre-tax revenues depend on all the building block components. Any factor that affects revenue will therefore affect pre-tax revenues. Higher pre-tax revenues can increase the tax payable.³⁷ Depending on the source of the revenue increase, the tax increase may be equal to or less than proportional to the company tax rate.³⁸

The tax expenses (or deductions) depend on various building block components and their size. Some components give rise to tax expenses, such as opex, interest payments and tax depreciation of assets. However, others do not, such as increases in return on equity. Higher tax expenses offset revenues as deductions in the tax

³⁴ ITAA, section 995.1.

³⁵ National Gas Law (NGL), s. 28; NGR, r. 100(1). The NGO is set out in NGL, s. 23. The revenue and pricing principles are set out in NGL, s. 24.

³⁶ NGR, r. 74(2).

³⁷ In fact, there is an iterative relationship between tax and revenues. That is, revenues lead to tax, being applied, which increases revenues and leads to slightly more tax and so on. The PTRM is therefore set up to run an iterative process until the revenue and corporate tax amounts become stable.

³⁸ For example, although increased opex adds to revenue requirement, these expenses are also offset against the revenues as deductions in determining tax, so there is no net impact in this case. A higher return on equity, in contrast, gives rise to no offsetting tax expenses and therefore increases the corporate tax amount in proportion to the company tax rate.

calculation and therefore reduce the cost of corporate income tax (all things being equal). Tax expenses include:

- interest on debt – Interest is a tax offset. The size of this offset depends on the ratio of debt to equity and therefore the proportion of the capital base funded through debt. It also depends on the allowed return on debt and the size of the capital base.
- general expenses – These expenses generally will match the opex forecast including any revenue adjustments, but the assessment of whether they should be treated as a tax expense occurs on a case by case basis.
- tax depreciation – A separate TAB is maintained for the service provider reflecting tax rules. This TAB is affected by many of the same factors as the capital base, such as capex, although unlike the capital base value it is maintained at its historical cost with no indexation. The TAB is also affected by the depreciation rate/method and asset lives assigned for tax depreciation purposes.

A business that has tax expenses which are greater than its taxable revenue in a period would not be subject to pay tax and generate a tax loss. A tax loss from the previous period(s) can be carried forward to offset against tax payable in the current period.

7.4 Reasons for draft decision

We determine a cost of corporate income tax of zero for APTNT over the 2021–26 access arrangement period. This is consistent with APTNT’s proposal. APTNT has no forecast tax loss at the beginning of the 2021–26 access arrangement period. However, as a result of applying our tax review findings, we forecast a tax loss of \$0.8 million (\$nominal) in 2021–22, increasing to \$3.2 million by the end of 2025–26. This is primarily due to the impact of immediate expensing of capex proposed by APTNT and the implementation of the DV method of tax depreciation.

We accept the proposed opening TAB as at 1 July 2021, since we accept APTNT’s approach for establishing the opening TAB including its actual and estimated capex over the 2016–21 access arrangement period.

We also accept APTNT’s proposed reallocation of \$3.9 million of capitalised leases in the opening TAB from the existing ‘Pipelines’ and ‘Buildings’ asset classes to its proposed new asset class of ‘Leased assets’.

Further, we accept APTNT’s forecast immediately expensed capex of \$1.9 million (\$2020–21) based on our draft decision on forecast capex (Attachment 5).

We accept APTNT’s proposed standard tax asset lives for all of its existing asset classes. We also accept APTNT’s proposal to calculate forecast tax depreciation of its existing assets using the weighted average remaining life method. This method is a continuation of the approved approach used in the 2016–21 access arrangement period and applies the approach as set out in our RFM. We accept APTNT’s proposed remaining tax asset life of 11.4 years for the new asset class of ‘Leased assets’.

Discussed in other attachments and the Overview, our draft decision on APTNT's proposed return on capital (Attachments 2, 3 and 5) and the regulatory depreciation (attachment 4) building blocks affect total revenues, and therefore also impact the forecast corporate income tax amount.³⁹

7.4.1 Implementation of the tax review

We published the new gas PTRM in April 2019. Specifically, the PTRM includes the following two components which affect the calculation of tax depreciation:

- **immediate expensing of capex** – we allow for certain capex to be immediately expensed when estimating the benchmark tax expense
- **diminishing value depreciation method** – we apply the DV method for tax depreciation purposes to all new depreciable assets except for capex associated with in-house software, equity raising costs and buildings.⁴⁰

APTNT has used our PTRM which implemented the changes identified from the final report of the tax review to estimate the corporate income tax for its proposal.⁴¹ Our assessment of the tax inputs submitted by APTNT are discussed below.

Forecast immediate expensing of capex

APTNT proposed forecast capex of \$1.9 million (\$2020–21, or 16.8 per cent of total capex)⁴² that will be immediately expensed for tax purposes in the 2021–26 access arrangement period.⁴³

The proposed immediate expensing capex are associated with three of APTNT's proposed capex programs for the 2021–26 period. We accept this immediate expensing amount as we accept the forecast capex for these three programs.

We are satisfied that APTNT's proposed approach for determining the forecast immediate expensing of its capex over the 2021–26 access arrangement period is reasonable.

We will 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 access arrangement for APTNT's Amadeus Gas Pipeline.

³⁹ NGR, r. 87A.

⁴⁰ The buildings asset class may be classified as system or non-system assets in the PTRM.

⁴¹ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement – Attachment 3 – Gas Transmission PTRM*, July 2020.

⁴² Compared with the proposed gross capex of \$11.1 million (\$2020–21).

⁴³ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement – Attachment 3 – Gas Transmission PTRM*, July 2020.

Assets exempt from the diminishing value method

The new gas PTRM continues to apply the SL tax depreciation method to the opening TAB at 1 July 2021, but applies the DV method as the new regulatory benchmark for tax depreciation to all new capex.⁴⁴ However, as discussed above, there are some exceptions to this approach under the tax law such as assets relating to in-house software, buildings and equity raising costs. In the PTRM, the benchmark equity raising costs is determined within the model and depreciated using the SL tax depreciation method as default.

APTNT has not proposed any forecast capex that are to be depreciated using the SL method for tax depreciation purposes. As a result, all of APTNT's assets are subject to the DV method of tax depreciation. We accept APTNT's proposal and have not allocated any forecast capex to be depreciated under the SL method for tax depreciation.

Gas asset life caps

Our new regulatory tax approach applies a 20 year cap on the tax asset lives for certain new gas assets. This is consistent with ATO's tax ruling which sets a statutory life cap of 20 years on certain classes of gas transmission and distribution assets.⁴⁵

We note that APTNT has historically capped its standard tax asset lives for its gas pipeline assets at 20 years. APTNT has proposed to continue this in the 2021–26 access arrangement period, reflecting our new regulatory tax approach. We therefore accept APTNT's capped standard tax asset lives for its gas pipeline assets.

7.4.2 Opening tax asset base as at 1 July 2021

We accept APTNT's proposed opening TAB of \$45.6 million (\$nominal) as at 1 July 2021, since we accept APTNT's proposed method to establish the opening TAB as at 1 July 2021. This is because APTNT's proposed approach is based on our RFM and consistent with that previously approved for the 2016–21 access arrangement.

We have reviewed the inputs to the TAB roll forward, we found that they were correct and reconcile with relevant data sources, such as historical data RINs and the 2016–21 decision models. We note that the opening TAB as at 1 July 2021 may be updated to reflect actual capex for 2019–20 and any revised 2020–21 capex estimates as part of the final decision.

We also accept the adjustments to the opening TAB values for the asset classes of 'Pipelines' and 'Buildings' and the new asset class of 'Leased assets'. This is to reflect

⁴⁴ AER, *Final report, Review of regulatory tax approach*, December 2018, p. 76.

⁴⁵ ATO, *Taxation Ruling TR2020/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2020)*, p. 181. For transmission assets—compressor station assets, Gas pipeline LNG station assets, pipelines—transmission, spur or lateral, regulators and underground gas storage asset. For distribution assets low pressure gas storage holders, pipelines (high, medium and low pressure trunks, primary or secondary mains or services) and regulators.

a reallocation of capitalised leases as a result of Amadeus' application of Australian Accounting Standards AASB16.⁴⁶ We have adjusted the RFM to reflect these changes as part of final year adjustments at the end of the 2016–21 access arrangement period. As with the capital base, APTNT's proposal has adjusted the opening TAB as at 1 July 2021 in the PTRM to reflect the reallocation. However, this reallocation should also be made as part of a final year adjustment in the RFM so that the closing TAB value is consistent at the asset class level with the PTRM opening TAB value. We note that this additional reallocation does not affect the total opening TAB at the beginning of the 2021–26 access arrangement period.

Table 7.2 sets out our draft decision on the roll forward of Amadeus' TAB values over the 2016–21 period.

Table 7.2 AER's draft decision on APTNT's TAB roll forward for the 2016–21 access arrangement period (\$million, nominal)

	2016–17	2017–18	2018–19	2019–20 ^a	2020–21 ^b
Opening TAB	34.5	38.7	38.7	38.6	45.0
Capital expenditure ^b	6.7	2.8	2.9	9.7	4.3
Less: tax depreciation	2.4	2.8	3.0	3.2	3.7
Closing TAB	38.7	38.7	38.6	45.0	45.6

Source: AER analysis.

- (a) Based on estimated capex. We expect to update the TAB roll forward for actual capex in the final decision.
- (b) Based on estimated capex. We expect to update the TAB roll forward with a revised capex estimate in the final decision.
- (c) Net of disposals.

7.4.3 Remaining tax asset lives

We accept APTNT's proposed weighted average method to calculate the remaining tax asset lives as at 1 July 2021. The proposed method is a continuation of the approved approach used in the 2016–21 access arrangement period and applies the approach as set out in our RFM.

We will update the remaining tax asset lives for the final decision for any changes to the estimated capex values in the RFM because they are used as inputs for calculating the remaining tax asset lives.⁴⁷

⁴⁶ APTNT, *Amadeus Gas Pipeline 2021–26 Access Arrangement Revision Proposal, Overview*, July 2020, p. 41.

⁴⁷ At the time of this draft decision, the roll forward of APTNT's TAB includes estimated capex values for 2019–20 and 2020–21. We will update the 2019–20 capex with actuals, and may update the 2020–21 estimates for the final decision. The capex values are used to calculate the weighted average remaining tax asset lives in the RFM. Therefore, for the final decision we will recalculate APTNT's remaining tax asset lives as at 1 July 2021 using the method approved in this draft decision.

We accept APTNT’s proposed remaining asset life of 11.4 years for the proposed new asset class of ‘Leased asset’ because this life coincides with the remaining duration of the leases that make up the asset class. This is consistent with the ATO’s guidance on determining the effective life of an asset.⁴⁸

Table 7.3 sets out our draft decision on the remaining tax asset lives at 1 July 2021 for APTNT. We are satisfied that the remaining tax asset lives are appropriate for application over the 2021–26 access arrangement period. We are also satisfied that the remaining 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.⁴⁹

7.4.4 Standard tax asset lives

We accept APTNT’s proposed standard tax asset lives assigned to its existing asset classes for the 2021–26 access arrangement period because they are:

- broadly consistent with the tax asset lives prescribed by the Commissioner for Taxation in ATO taxation ruling 2020/3⁵⁰
- the same as the approved standard tax asset lives for the 2016–21 access arrangement period
- consistent with the statutory cap on the effective life of 20 years for gas pipeline assets under the ITAA.⁵¹

Our draft decision on APTNT’s standard tax asset lives for each of its asset classes is set out in Table 7.3. We are satisfied that the standard tax asset lives are appropriate for application over the 2021–26 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.⁵²

Table 7.3 AER’s draft decision on APTNT’s standard and remaining tax asset lives as at 1 July 2021 (years)

Asset class	Standard tax asset life ^a	Remaining tax asset life as at 1 July 2021 ^b
Pipelines	20.0	13.6
Compressors	20.0	0.0
Meter station	20.0	16.2

⁴⁸ ATO, *Taxation Ruling TR2020/3– Income tax: effective life of depreciating assets*, p. 9; ITAA 1997, Section 40.105.

⁴⁹ NGR, r. 87A(1).

⁵⁰ ATO, *Taxation Ruling TR2020/3 – Income tax: effective life of depreciating assets* (applicable from 1 July 2020).

⁵¹ APTNT has historically capped its standard tax asset lives of its pipeline assets to 20 years.

⁵² NGR, r. 87A(1).

Asset class	Standard tax asset life ^a	Remaining tax asset life as at 1 July 2021 ^b
SCADA	15.0	12.8
O&M facilities	10.0	6.9
Buildings	40.0	39.0
Corporate assets (IT software)	n/a	n/a
Land and easement	n/a	n/a
Leased assets	n/a	11.4

Source: AER analysis.

(a) All new assets use the diminishing value method of tax depreciation.

(b) Used for straight-line method of tax depreciation.

n/a Not applicable. We have not assigned a standard tax asset life and remaining tax asset life to the 'Land and easement' asset class because the assets allocated to it are non-depreciating assets. We have not assigned a standard tax asset life to the 'Corporate assets (IT software)' and 'Leased assets' asset class because they have no new capex allocated to them for the 2021–26 access arrangement period. We have not assigned a remaining tax asset life to the 'Corporate assets (IT software)' asset class because it has no opening TAB value as at 1 July 2021.

7.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 7.4:

Table 7.4 APTNT's corporate income tax revisions

Revision 7.1	Make all necessary amendments to reflect this draft decision on the proposed estimated cost of corporate income tax for the 2021–26 access arrangement period.
Revision 7.2	Make all necessary amendments to reflect this draft decision on the opening tax asset base as at 1 July 2021, as set out in Table 7.2.

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
AGP	Amadeus Gas Pipeline
APTNT	APT Petroleum Pipelines Northern Territory
ATO	Australian Tax Office
capex	Capital expenditure
DV	Diminishing value
gamma	Value of Imputation Credits
ITAA	Income Tax Assessment Act 1997
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
opex	Operating expenditure
PTRM	Post-tax revenue model
RFM	Roll forward model
RIN	Regulatory Information Notice
SL	Straight-line
TAB	Tax asset base