Final decision

ElectraNet transmission determination
1 July 2023 to 30 June 2028

Attachment 7 – Corporate income tax

April 2023

AUSTRALIAN
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REGULATOR

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7 Corporate income tax

Our revenue determination includes the estimated cost of corporate income tax for ElectraNet's 2023–28 regulatory control period.[1] Under the post-tax framework, the cost of corporate income tax is calculated as part of the building block assessment using our post-tax revenue model (PTRM).

This attachment sets out our final decision on ElectraNet's revised proposed corporate income tax for the 2023–28 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 ElectraNet's estimated cost of corporate income tax is $5.0 million over the 2023–28 period. This is an increase from ElectraNet's revised proposal which proposed an estimated cost of corporate income tax of zero. The reason for the increase is due to our final decision:

- on a significantly higher regulatory depreciation amount (section 4.1 of attachment 4).
- on a lower imputation credit (gamma) consistent with the new 2022 *Rate of Return Instrument* (attachment 3).

This increase is partially offset by our final decision:

- on a lower rate of return on equity (attachment 3)[2]
- on a higher tax depreciation.[3]

Our final decision is to determine an opening tax asset base (TAB) value as at 1 July 2023 of $2,493.1 million ($ nominal), consistent with ElectraNet's revised proposal.[4] We also accept ElectraNet's revised proposal on the standard tax asset lives for all of its asset classes because they are consistent with our draft decision.

Table 7.1 sets out our final decision on the estimated cost of corporate income tax for ElectraNet over the 2023–28 period.

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1 NER, cl. 6A.5.4(a)(4).

2 All else being equal, a lower rate of return on equity will reduce the cost of corporate income tax because it reduces the return on equity, a component of the taxable income.

3 The higher tax depreciation is driven by higher forecast immediate expensing of capex in our final decision compared to ElectraNet's revised proposal. All else being equal, a higher tax depreciation decreases the cost of corporate income tax as it is a component of the tax expense.

4 There is a slight difference (less than $100) in the opening TAB value between the final decision and ElectraNet's revised proposal.

Table 7.1 AER's final decision on ElectraNet's cost of corporate income tax for the 2023–28 period ($ million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Tax payable	0.0	0.0	0.0	2.3	9.2	11.6
Less: value of imputation credits	0.0	0.0	0.0	1.3	5.3	6.6
Net cost of corporate income tax	**0.0**	**0.0**	**0.0**	**1.0**	**4.0**	**5.0**

Source: AER analysis.

In the draft decision, we made the following changes to ElectraNet's modelling of its cost of corporate income tax:[5]

- We revised the opening TAB as at 1 July 2023 to reflect our amendments to some inputs in the roll forward model (RFM):
  - We removed a residual value from the TAB as at 30 June 2023 to account for assets that have fully depreciated.
  - We updated the final year asset adjustments to reflect our decision on accelerated depreciation.
  - We included additional final year asset adjustments to reflect the roll-in of capitalised leases due to a change in accounting standards.
  - We included estimates for asset disposal values for 2021–22 and 2022–23.
- We accepted ElectraNet's proposed standard tax asset lives for its existing asset classes. We also accepted the proposed two new asset classes for 'Transmission line refit – insulators replacement 2023–28' and 'Right of use assets' for the 2023–28 period. While we accepted the proposed standard tax asset life for 'Transmission line refit – insulators replacement 2023–28', we did not accept the proposed standard tax asset life of 1 year for the 'Right of use assets' asset class. We instead determined a standard tax asset life of 4.8 years for this asset class.

ElectraNet's revised proposal adopted the changes required by the draft decision in full.[6]

7.1.1 Opening tax asset base as at 1 July 2023

Our final decision is to determine an opening TAB value as at 1 July 2023 of $2,493.1 million ($ nominal), consistent with ElectraNet's revised proposal.[7]

In our draft decision, we accepted ElectraNet's proposed method to establish the opening TAB as at 1 July 2023. However, we amended some of the proposed inputs used for the TAB roll forward— specifically, we made some changes to the proposed final year asset

5 AER, *Draft decision: ElectraNet transmission determination 2023 to 2028, Attachment 7 – Corporate income tax*, September 2022, pp. 1-2.

6 ElectraNet, *2023–28 Revised revenue proposal,* December 2022, p. 47.

7 There is a slight difference (less than $100) in the opening TAB value between the final decision and ElectraNet's revised proposal. This is due to minor input updates to the 2021–22 gross capex values. ElectraNet, *Response to AER Information Request #024*, 16 December 2022.

adjustments and included estimates for asset disposals. We noted that the opening TAB may be updated as part of the final decision to reflect actual capex for 2020–21 and any revised 2021–22 capex estimate.

ElectraNet's revised proposal adopted our draft decision changes.[8] It also updated the opening TAB as at 1 July 2023 to reflect the actual capex and asset disposals for 2021–22 and a revised 2022–23 capex estimate. For the reasons discussed in attachment 2, we accept the actual 2021–22 capex and the updated 2022–23 capex estimates for this final decision. The 2022–23 capex estimate is higher than what we approved in our draft decision, reflecting more recent data.[9] We will update the 2022–23 estimated capex for actuals at the next revenue reset (2028–33).

Table 7.2 sets out our final decision on the roll forward of ElectraNet's TAB values over the 2018–23 period.

Table 7.2 AER's final decision on ElectraNet's TAB roll forward for the 2018–23 period ($ million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23[a]
Opening TAB	1,831.5	1,916.8	1,859.7	1,830.4	1,994.4
Capital expenditure[b]	174.5	40.8	68.7	262.0	622.0
Less: tax depreciation	89.3	97.8	98.0	98.0	111.6
Final year asset adjustment[c]					–11.7
Closing TAB	**1,916.8**	**1,859.7**	**1,830.4**	**1,994.4**	**2,493.1**

Source: AER analysis.
(a) Based on estimated capex.
(b) As commissioned, net of disposals.
(c) Includes the roll-in of capitalised leases and removal of assets as at 30 June 2023 that do not provide prescribed services.

7.1.2 Forecast immediate expensing of capex

For this final decision, we determine that $55.6 million ($2022–23) of ElectraNet's forecast capex is to be immediately expensed for tax purposes in the 2023–28 period.[10] This is higher than the $51.7 million included in ElectraNet's revised proposal.

In our draft decision, we accepted ElectraNet's proposed method to calculate its forecast immediate expensing of capex. This approach involves forecasting a certain proportion of capex as immediately expensed. As our draft decision accepted ElectraNet's overall forecast

8 ElectraNet, *2023–28 Revised revenue proposal,* December 2022, p. 47.

9 On an as-commissioned basis, which is used to roll forward the TAB in the RFM.

10 A higher immediate expensing of capex reduces the forecast corporate income tax amount for the 2023–28 period, all else being equal.

capex, we consequently accepted the proposed capex amount of $51.7 million to be immediately expensed in the 2023–28 period.[11]

ElectraNet's revised proposal did not update our draft decision forecast immediately expensed capex value of $51.7 million for tax purposes to reflect its higher revised proposed forecast capex for the 2023–28 period.

Consistent with the approach adopted in the draft decision, we need to adjust the amount of immediate expensing of capex to reflect the overall estimate of forecast capex. As discussed in attachment 5, our final decision is to determine a total forecast capex of $744.2 million ($2022–23).[12] This amount is $49.7 million higher than the capex forecast amount approved in our draft decision. For this reason, we have calculated a higher immediately expensed capex amount to reflect the higher forecast capex for this final decision. In its response to our information request, ElectraNet agreed with this approach.[13]

We will collect actual data relating to the immediate expensing of capex in our annual reporting regulatory information notices to further inform our decision for this type of expenditure in the next revenue determination for ElectraNet.

7.1.3 Standard tax asset lives

For this final decision, we accept ElectraNet's revised proposed standard tax asset lives for all of its asset classes. They are consistent with our draft decision, and we confirm our position that the standard asset lives are broadly consistent with the values prescribed by the Commissioner of taxation in the Australian Taxation Office Ruling 2022/3 and the *Income Tax Assessment Act 1997*.[14]

Our final decision on ElectraNet's standard tax asset lives as at 1 July 2023 is set out in Table 7.3. We are satisfied that the standard tax asset lives are appropriate for application over the 2023–28 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.[15]

Table 7.3 AER's final decision on ElectraNet's standard tax asset lives for the 2023–28 period (years)

Asset class[a]	Standard tax asset life
Commercial buildings	40.0

11 AER, *Draft decision: ElectraNet transmission determination 2023 to 2028, Attachment 7 – Corporate income tax*, September 2022, pp. 10–11.

12 As-incurred gross capex exclusive of half-year WACC adjustment.

13 ElectraNet, *Email response to AER: ElectraNet 2023-28 Final Decision PTRM inputs - Capex*, dated 22 March 2023.

14 ATO, *Taxation Ruling TR2022/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, available at https://www.ato.gov.au/law/view/view.htm?docid=%22TXR%2FTR20223%2FNAT%2FATO%2F00001%22; ITAA 1997, Section 40.105.

15 NER, cl. 6A.6.4.

Asset class[a]	Standard tax asset life
Communications – civil	12.5
Communications – other	12.5
Computers, software, and office machines	3.3
Easement	n/a
Land	n/a
Network switching centres	4.0
Office furniture, movable plant, and misc	12.8
Substation primary plant	40.0
Substation demountable buildings	40.0
Substation establishment	40.0
Substation fences	40.0
Substation secondary systems – electromechanical	12.5
Substation secondary systems – electronic	12.5
Transmission lines – overhead	47.5
Transmission lines – underground	47.5
Accelerated depreciation	n/a
Transmission line refit – insulators replacement 2013–18	27.0
Communications – other (post 2018)	10.0
Transmission line refit – insulators replacement 2018–23	47.5
Synchronous condensers	30.0
Transmission line refit – insulators replacement 2023–28	42.5
Right of use assets	4.8
Equity raising costs[b]	5.0

Source: AER analysis.

(a) All asset classes apply the diminishing value method of tax depreciation for new capex, except for the 'Equity raising costs' asset class which applies the straight-line method.

(b) For this final decision, the forecast capex determined for ElectraNet does not meet a level to trigger any benchmark equity raising costs.

n/a not applicable. We have not assigned a standard tax asset life to the 'Land' and 'Easements' asset classes because these assets are not subject to depreciation. We have also not assigned a standard tax asset life to the 'Accelerated depreciation' asset class as it does not contain forecast capex for the 2023–28 period.

7.2 Assessment approach

For this final decision, with the exception for the value of imputation credits (gamma), we have followed 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.[16]

The gamma input for ElectraNet is 0.57 for this final decision. This is consistent with the 2022 *Rate of Return Instrument*, which requires us to use a gamma value of 0.57.[17] Refer to Attachment 3 for further discussion on this matter.

16 AER, *Draft decision: ElectraNet transmission determination 2023 to 2028, Attachment 7 – Corporate income tax*, September 2022, pp. 3–11.

17 AER, *Rate of Return Instrument*, February 2023, p. 19.

Glossary

Term	Definition
AASB	Australian Accounting Standards Board
AER	Australian Energy Regulator
ATO	Australian Taxation Office
Capex	Capital expenditure
ITAA	Income Tax Assessment Act 1997
NER	National Electricity Rules
Opex	Operating expenditure
PTRM	Post-tax revenue model
RAB	Regulatory asset base
RFM	Roll forward model
SaaS	Software as a Service
TAB	Tax asset base
TNSP	Transmission network service provider