



FINAL DECISION
ActewAGL distribution
determination
2015–16 to 2018–19

Attachment 8 – Corporate
income tax

April 2015

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Note

This attachment forms part of the AER's final decision on ActewAGL's revenue proposal 2015–19. It should be read with other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 - Annual revenue requirement

Attachment 2 - Regulatory asset base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency benefit sharing scheme

Attachment 10 - Capital expenditure sharing scheme

Attachment 11 - Service target performance incentive scheme

Attachment 12 - Demand management incentive scheme

Attachment 13 - Classification of services

Attachment 14 - Control mechanism

Attachment 15 - Pass through events

Attachment 16 - Alternative control services

Attachment 17 - Negotiated services framework and criteria

Attachment 18 - Connection policy

Attachment 19 - Pricing methodology

Attachment 20 - Analysis of Financial Viability

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Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	expenditure forecast assessment Guideline for electricity distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model

Shortened form	Extended form
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

8 Corporate income tax

We are required to make a decision on the estimated cost of corporate income tax for ActewAGL in the 2014–19 period.¹ Under the post-tax framework, a corporate income tax allowance is calculated as part of the building block assessment using our post-tax revenue model (PTRM). This amount enables ActewAGL to recover the costs associated with the estimated corporate income tax payable during the 2014–19 period.

This attachment presents our final decision on ActewAGL's revised proposed corporate income tax allowances for the 2014–19 period in respect of its distribution and transmission networks. It also presents our final decision on its revised proposed opening tax asset bases (TABs), and the standard and remaining tax asset lives used to estimate tax depreciation for the purpose of calculating tax expenses.

8.1 Final decision

We do not accept ActewAGL's revised proposed cost of corporate income tax allowances of \$47.6 million and \$8.1 million (\$ nominal) for its distribution and transmission networks respectively. Our final decision on the estimated cost of corporate income tax is \$26.6 million and \$3.9 million (\$ nominal) for ActewAGL's distribution and transmission networks respectively over the 2014–19 period. This represents a reduction of \$20.9 million (or 44.0 per cent) for its distribution network and a reduction of \$4.2 million (or 51.7 per cent) for its transmission network compared to its revised proposal.

These reductions reflect our final decision on the value of imputation credits—gamma—(attachment 4), and changes to building block costs affecting revenues, which also impact the tax calculation. The changes affecting revenues are discussed in attachment 1.

Table 8.1 and Table 8.2 set out our final decision on the estimated cost of corporate income tax allowances for ActewAGL's distribution and transmission networks respectively.

¹ NER, cl. 6.4.3(a)(4).

Table 8.1 AER's final decision on ActewAGL's cost of corporate income tax allowance for the 2014–19 period (\$ million, nominal) – distribution

	2014–15	2015–16	2016–17	2017–18	2018–19	Total
Tax payable	8.0	8.5	8.0	9.8	10.0	44.4
Less: value of imputation credits	3.2	3.4	3.2	3.9	4.0	17.8
Corporate income tax allowance	4.8	5.1	4.8	5.9	6.0	26.6

Source: AER analysis.

Table 8.2 AER final decision on ActewAGL's cost of corporate income tax allowance for the 2014–19 period (\$ million, nominal) – transmission

	2014–15	2015–16	2016–17	2017–18	2018–19	Total
Tax payable	1.1	1.2	1.2	1.5	1.5	6.5
Less: value of imputation credits	0.4	0.5	0.5	0.6	0.6	2.6
Corporate income tax allowance	0.7	0.7	0.7	0.9	0.9	3.9

Source: AER analysis.

8.2 ActewAGL's revised proposal

ActewAGL's revised proposal forecasts costs of corporate income tax of \$47.6 million and \$8.1 million (\$ nominal) for its distribution and transmission networks respectively. ActewAGL's methodology for determining its corporate income tax is unchanged from its initial proposal. We accepted the approach in our draft decision. ActewAGL's revised proposal adopted our draft decision amendment to the standard tax asset life for the 'Equity raising costs' asset class of five years.² ActewAGL has revised its corporate income tax allowances for its distribution and transmission networks using the AER's PTRM and included the following inputs:³

- the revised opening TABs at 1 July 2014, reflecting updates for 2013–14 actual capex
- revised forecast capex
- revised forecast opex.

ActewAGL also used standard tax asset lives consistent with those approved in the draft decision and remaining tax asset lives reflecting updates for 2013–14 actual capex, and a value for gamma of 0.25 consistent with its initial proposal.

² ActewAGL, *Revised regulatory proposal*, January 2015, pp. 414-15.

³ ActewAGL, *Revised regulatory proposal*, January 2015, p. 415.

Table 8.3 and Table 8.4 set out ActewAGL's revised proposed corporate income tax allowances for its distribution and transmission networks respectively over the 2014–19 period.

Table 8.3 ActewAGL's revised proposed cost of corporate income tax allowance for the 2014–19 period (\$ million, nominal) – distribution

	2014–15	2015–16	2016–17	2017–18	2018–19	Total
Tax payable	11.5	12.2	11.8	13.8	14.2	63.4
Less: value of imputation credits	2.9	3.1	2.9	3.4	3.5	15.9
Corporate income tax allowance	8.6	9.2	8.8	10.3	10.6	47.6

Source: ActewAGL, *Revised regulatory proposal*, January 2015, Attachment H8.

Table 8.4 ActewAGL's revised proposed cost of corporate income tax allowance for 2014–19 period (\$ million, nominal) – transmission

	2014–15	2015–16	2016–17	2017–18	2018–19	Total
Tax payable	1.8	2.0	2.0	2.4	2.6	10.8
Less: value of imputation credits	0.5	0.5	0.5	0.6	0.6	2.7
Corporate income tax allowance	1.4	1.5	1.5	1.8	1.9	8.1

Source: ActewAGL, *Revised regulatory proposal*, January 2015, Attachment H9.

8.3 AER's assessment approach

We did not change our assessment approach for the cost of corporate income tax from our draft decision. Section 8.3 of our draft decision details that approach.⁴

8.4 Reasons for final decision

We do not accept ActewAGL's revised proposed corporate income tax allowances. We instead determine estimated corporate income tax allowances of \$26.6 million and \$3.9 million for ActewAGL's distribution and transmission networks respectively. These represent reductions of \$20.9 million (or 44.0 per cent) for ActewAGL's distribution network and \$4.2 million (or 51.7 per cent) for ActewAGL's transmission network.

We have accepted the following revised proposed inputs to the distribution and transmission PTRMs for tax purposes:

⁴ AER, *Draft decision - ActewAGL distribution determination attachment 8 - Corporate income tax*, November 2014, pp. 9-11.

- the opening TAB values and the remaining tax asset lives as at 1 July 2014, updated to reflect ActewAGL's actual capex for 2013–14 (sections 8.4.1 and 8.4.3)
- standard tax asset lives consistent with those approved in the draft decision (section 8.4.2).

However, we have adjusted the following proposed inputs to the distribution and transmission PTRMs that impact the estimated corporate income tax allowance:

- the value of gamma (attachment 4)
- other building block components which affect the calculation of the taxable income. These include, forecast opex (attachment 7) and forecast capex (attachment 6).

8.4.1 Opening tax asset base

We accept ActewAGL's revised proposed opening TAB values as at 1 July 2014 of \$608.6 million for its distribution network and \$137.1 million (\$nominal) for its transmission network.

In the draft decision, we accepted ActewAGL's proposed TABs for its distribution and transmission networks and noted the roll forward of ActewAGL's TABs included estimated capex values for 2013–14.⁵ ActewAGL's revised proposal updated the opening TABs for 2013–14 actual capex. As discussed in attachment 2, we have reconciled the 2013–14 actual capex in the revised proposal against ActewAGL's audited annual RIN for 2013–14. We therefore accept the actual capex for 2013–14, and the revised proposed opening TABs for ActewAGL's distribution and transmission networks.

Table 8.5 and Table 8.6 set out our final decision on the roll forward of ActewAGL's TABs over the 2009–14 regulatory control period for its distribution and transmission networks respectively.

Table 8.5 AER's final decision on ActewAGL's TAB roll forward for the 2009–14 regulatory control period (\$ million, nominal) – distribution

	2009–10	2010–11	2011–12	2012–13	2013–14
Opening TAB	412.2	452.7	499.1	532.5	563.0
Capital expenditure ^a	58.0	66.0	55.2	54.2	72.2
Less: tax depreciation	17.5	19.6	21.8	23.7	26.6
Closing TAB	452.7	499.1	532.5	563.0	608.6

Source: AER analysis.

(a) Net of disposals.

⁵ AER, *Draft decision - ActewAGL distribution determination attachment 8 - Corporate income tax*, November 2014, p. 8.

Table 8.6 AER's final decision on ActewAGL's TAB roll forward for the 2009–14 regulatory control period (\$ million, nominal) – transmission

	2009–10	2010–11	2011–12	2012–13	2013–14
Opening TAB	59.4	69.5	81.0	97.4	118.7
Capital expenditure ^a	12.6	14.4	19.8	25.2	23.2
Less: tax depreciation	2.5	2.9	3.4	3.9	4.8
Closing TAB	69.5	81.0	97.4	118.7	137.1

Source: AER analysis.

(a) Net of disposals.

8.4.2 Standard tax asset lives

Consistent with our draft decision, we accept ActewAGL's proposed standard tax asset lives because they are:

- broadly consistent with the values prescribed by the Commissioner for taxation in tax ruling 2014/4⁶
- the same as those approved standard tax asset lives for the 2009–14 regulatory control period.

In the draft decision, we made one amendment to the proposed standard tax asset life. We changed the standard tax asset life for the 'Equity raising costs' asset class to 5 years from ActewAGL's proposed 44.5 years for tax depreciation purposes. This was because the Australian Taxation Office (ATO) requires equity raising costs to be amortised over a five-year period on a straight-line basis.⁷ ActewAGL's revised proposal adopted our draft decision on the standard tax asset life for the 'Equity raising costs' asset class.

We are satisfied the standard tax asset lives in ActewAGL's revised proposal are likely to provide an appropriate estimate of the tax depreciation amount for a benchmark efficient service provider as required by the NER.⁸

Table 8.7 and Table 8.8 present our final decision on the standard tax asset lives for ActewAGL's distribution and transmission networks respectively.

⁶ ATO, Taxation Ruling Income tax: effective life of depreciating assets (applicable from 1 July 2014), August 2014, <http://law.ato.gov.au/atolaw/view.htm?docid=%22TXR%2FTR20144%2FNAT%2FATO%2F00001%22>, accessed on 17 February 2015.

⁷ AER, *Draft decision - ActewAGL distribution determination attachment 8 - Corporate income tax*, November 2014, pp. 13-14.

⁸ NER, cl. 6.5.3.

8.4.3 Remaining tax asset lives

We accept ActewAGL's revised proposed remaining tax asset lives as at 1 July 2014, which reflect the updates made in the TAB roll forward for 2013–14 actual capex as discussed in section 8.4.1.

In the draft decision, we noted that the remaining tax asset lives would be updated for the final decision because ActewAGL's revised proposal would include revisions for 2013–14 actual capex. This is because the 2013–14 capex values are used to calculate the remaining tax asset lives.

ActewAGL's revised proposal updated the calculation of its remaining tax asset lives for actual 2013–14 capex. We are satisfied that the updates to the 2013–14 actual capex have been reflected in the revised proposed remaining tax asset lives.

For the same reasons as discussed in attachment 5, we have concerns with ActewAGL's proposed approach to calculate the remaining tax asset lives as it tends to systematically underestimate the remaining tax asset life. Given our concerns we will review this matter further if this approach is proposed again at the next determination.

Table 8.7 and Table 8.8 present our final decision on the remaining tax asset lives for ActewAGL's distribution and transmission networks respectively.

Table 8.7 AER's final decision on ActewAGL's standard and remaining tax asset lives (years) – distribution

Asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2014
Opening distribution assets	44.6	18.6
Sub-transmission overhead	47.5	n/a
Sub-transmission underground	47.5	n/a
Zone substation	40.0	37.8
Distribution substations	40.0	38.0
Distribution overhead lines	45.0	42.9
Distribution underground lines	50.0	47.9
IT & communication systems (networks)	10.0	9.4
Motor vehicles	8.0	7.2
Other non-system assets (networks)	5.8	3.7
IT systems (corporate)	4.1	3.2
Telecommunications (corporate)	6.7	3.6
Other non-system assets (corporate)	5.7	2.9
Land	n/a	n/a

Asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2014
Buildings	100.0	97.0
Equity raising costs	5.0	40.5

Source: AER analysis.

n/a: not applicable.

Table 8.8 AER's final decision on ActewAGL's standard and remaining tax asset lives (years) – transmission

Asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2014
Opening distribution assets	44.6	18.6
Sub-transmission overhead	47.5	45.1
Sub-transmission underground	47.5	n/a
Zone substations	40.0	38.7
IT & communications systems (networks)	10.0	9.4
Motor vehicles	8.0	7.2
Other non-system assets (networks)	5.8	3.7
IT systems (corporate)	4.1	3.2
Telecommunications (corporate)	6.7	3.7
Other non-system assets (corporate)	5.7	2.9
Land	n/a	n/a
Buildings	100.0	97.0
Equity raising costs	5.0	40.5

Source: AER analysis.

n/a: not applicable.