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Mr Ken Hedley
Finance Manager
Australian Pipeline Trust
GPO Box 2537
ADELAIDE SA 5001

28 September 2010

Our Ref: JKR/ABL/so/122097

Dear Ken

Australian Pipeline Trust (APT)
Tax Advice on Allgas Tax Asset Base Model

We refer to our engagement letter dated 14 September 2010 in relation to considering the Allgas Tax Asset Base Model.

1 Scope of advice

You have asked us to do the following:

- Perform high level analytical tests to confirm the 1 July 2001 opening tax balance is reasonable based on the 30 November 2002 tax values and subject to exclusions below
- Analyse the tax depreciation methodology in your model from 1 July 2001 onwards to confirm it is consistent with the tax legislative requirements that applied in the relevant years
- Sample check tax depreciation rates used from 1 July 2001 onwards against the Commissioner of Taxation's effective life ruling that applied in the relevant years
- Liaise with management where necessary to obtain further details, e.g. explanation of nature of assets
- Report our findings on an exception basis.

As part of this engagement we agreed not to:

- Consider any differences that may have existed between the 2001 opening book and tax values of assets, e.g. due to different depreciation methods being applied in the years up to 2001
- Perform any review of your modelling / roll back of depreciation, in particular formulas and calculations, other than what is specifically included above
- Consider the reasonableness or appropriateness of your non-tax related assumptions
- Consider any other tax or non-tax issues.

We understand that this advice will be used for the purpose of APT considering the appropriateness of the methodology used to determine the opening tax asset base and subsequent roll forward to 30 June 2011 used in the Allgas regulatory submission.

On your instructions, we have only considered the income tax issues and consequences. Should you require advice in relation to other tax issues, we would be pleased to provide this advice.

2 Background facts and assumptions

We understand that:

- APT is required to submit a regulatory submission for Allgas for the next 5 year reset period, which includes the regulatory tax base of the depreciable assets at 30 June 2011
- On 1 December 2002 Energex elected to form a tax consolidated group that included Allgas, which resulted in a reset of the tax asset base of Allgas' assets. APT acquired Allgas on or around 1 November 2006 and the tax base of the depreciable assets were again adjusted by the tax consolidation provisions on acquisition by APTTo calculate the regulatory tax base APT has constructed a model to roll the value in the Allgas tax asset register as at 30 November 2002 back to an opening tax value at 1 July 2001, which has then been rolled forward to 30 June 2011, including anticipated additions in the year to 30 June 2011
- The rolled back 2001 opening value is an appropriate starting point for tax depreciation as the regulator's view is that entities should be treated on a stand alone basis for regulatory tax purposes, i.e. pre-tax consolidation tax asset values should be used
- All assets on the Allgas tax fixed asset register at 30 November 2002 were being depreciated on a prime cost basis. APT has reached this conclusion on the basis of the 30 November 2002 register itself, a KPMG 2006 report and that all these assets remain prime cost on the current tax fixed asset register. Should this be incorrect then the roll back methodology and roll forward of depreciation calculations would likely be incorrect
- The depreciation rates for Allgas assets acquired before 1 July 2001 has been rolled forward based on the depreciation rates in the tax fixed asset register at the time, i.e. APT has not reviewed these rates and consequently we have not considered the appropriateness of those rates
- APT has generally applied diminishing value depreciation rates for additions since 1 July 2001
- IT systems asset category is comprised primarily of a $6.2m billing software system
- The additions in the model since 1 July 2001 have been calculated based on the actual tax asset additions but with their individual costs adjusted on a pro rata basis so that the total annual costs match the book additions (less book disposals) in the regulatory accounts, excluding overheads. The regulatory accounts calculate the value of additions differently to A-GAAP / A-IFRS and ordinary tax principles. We have not considered the reasonableness of this addition and disposal methodology as it is beyond the scope of our Work.

3 Opinion

We considered the Allgas regulatory tax depreciation model prepared by APT and, based on the agreed scope above and the work performed, nothing came to our attention that indicated the methodology to determine the opening tax asset base and subsequent roll forward to 30 June 2011 for use in the Allgas regulatory submission was not appropriate.

4 Findings

The final model we considered had an opening regulatory tax written down value (Tax Asset Base) at 1 July 2001 of $46,839,653 and a closing Tax Asset Base at 30 June 2011 of $112,951,508. These Tax Asset Base values are after APT adjusted for the following findings:

- The model used a tax depreciation rate for buildings of 1%, however, the tax depreciation rate that generally applies to buildings and similar capital improvements is 2.5% prime cost of broadly the original construction cost (not the purchase cost if building is acquired after construction)

  APT changed the depreciation rate for buildings to 2.5% diminishing value rather than prime cost due to a formula error. This formula error results in the Tax Asset Base at 30 June 2011 being understated by approximately $228,000. APT has decided not to fix this formula error in the model due to time constraints and the amount being immaterial

- The formula in column Q of the 'Tax WDV 30.06.10' sheet referred to '2001' rather than '2002' resulting in incorrect depreciation rates being applied to additions for the 2002 tax year. APT has now corrected this formula, however, the effect of this is offset by the following finding

- The prime cost depreciation rates for the 2002 tax year for certain asset classes should be changed from 2% to 5% on the 'PCTaxCalc' sheet:

	Original	Revised
HP Steel Mains	2.00%	5.00%
Mains	2.00%	5.00%
Pressure Control	2.00%	5.00%
Regulators	2.00%	5.00%
Services	2.00%	5.00%
Steel Mains	2.00%	5.00%

- The effective life of 'TRS & DRS – Valves and Regulators' in the table in the 'Standard tax lives of assets' section of the draft document entitled 'Establishing the Tax Asset Base' should be changed from 50 years to 40 years.

5 Basis of Work

Our Work is provided to you on the basis of all of the following:

(a) Our Work is based on the Information. In certain circumstances, our Work may also be based on information that is publicly available. The following statements relating to our treatment of Information also apply where we have based our Work on publicly available information

(b) All Information is provided to us in a timely manner

(c) We have not audited or verified any Information that you provided to us, (although we may ask for clarification) unless you engaged us to do so

(d) An assumption that all of the Information is true, correct, complete and not misleading. If the Information is untrue, incorrect, incomplete or misleading our Work may be incorrect or inappropriate for you

(e) If the Information contains a misstatement, omission or the Information has changed since we received it, then our Work may be wrong

(f) An assumption that the transactions and events will occur as contemplated by the Information

(g) Our Work is limited to the specific question, actually presented by you including the type of tax and taxing jurisdiction specifically identified by you

(h) Our Work is based on the law, regulations, accounting standards and other authorities in effect at the date of this letter. If there are any significant changes in or to these (for which we shall have no responsibility to advise you) such changes may result in our Work being rendered out of date and necessitate on your request a reconsideration of the Work

(i) Our Work is not binding on the Australian Taxation Office (ATO) or any other local or foreign revenue authority or any court or tribunal and should not be considered a representation, warranty or guarantee that the ATO or any other revenue authority or the courts or tribunals will agree with our Work

(j) Any draft of our Work (Draft Work) we provide to you is given to you on the basis that you may not rely on it. You may have access to our Draft Work solely to confirm that the Information on which we have relied in producing the Draft Work is accurate and complete, that there are no matters contained in the Draft Work that are inconsistent with your understanding of the transaction or circumstances and that you have brought to our attention all facts and matters that are relevant to the Services

(k) While the Services may contain advice and recommendations, you are responsible for making any decisions in relation to our advice or recommendations and for the implementation, including any results or consequences. Unless you specifically engage us to do so, you are responsible for managing all aspects of your business, making all decisions and operating all accounting, internal control or management information systems

(l) Our Work is provided from a tax perspective only. We do not advise on current employment law, contract law or other legal issues. You should obtain legal advice in relation to these matters.

If you have any questions, please contact either me on 8407 7158 or Simon Olesen on 8407 7075.

Yours sincerely,

John Rawson

John Rawson
Director, Deloitte Touche Tohmatsu Ltd

Annexure A – Basis for finding on 2002 tax rates

The basis for the finding that the prime cost depreciation rates for the 2002 tax year for certain asset classes should be changed from 2% to 5% on the 'PCTaxCalc' sheet, is as follows

- Broadly, tax depreciation rates are based on the effective life of an asset and a taxpayer can either rely on the Commissioner of Taxation's (Commissioner) determination of an effective life or self assess an effective life by considering a number of factors
- In Taxation Ruling IT 2685 the Commissioner determined the effective life of 'gas pipes – natural gas', 'gas tank and piping' and 'natural gas pipelines' to be 20 years. This ruling was withdrawn with effect from 1 January 2001
- Taxation Ruling TR 2000/18 was amended by the Commissioner with effect from 1 July 2002 to specify an effective life of 50 years for gas distribution pipelines (other than PVC) and an effective life of 40 years for regulators and similar assets
- However, the tax legislation was amended with effect from 1 July 2002 to specify a statutory cap for 'gas distribution' assets of 20 years, which overrides the Commissioner's determination of 40 years
- No Commissioner's determination of effective life was active for gas pipelines (and related assets) for the period 1 July 2001 to 30 June 2002, being the first year of the Allgas tax depreciation model
- There were no relevant legislative transitional provisions that applied for the 2002 tax year
- Therefore, gas pipelines (and related assets) had an effective life of 20 years for the years up to 1 January 2001 per IT 2685 and from 1 July 2002 due to the statutory cap
- In our opinion it is reasonable to apply an effective life of 20 years to the asset categories in the above table for the 2002 tax year on the basis that either:
    - the last published Commissioner's effective life was 20 years, or
    - Allgas could have self-assessed an effective life of 20 years on the basis that the Commissioner had previously determined that was the effective life of such assets
- From 1 July 2001 the prime cost depreciation rates for assets has been calculated by dividing 1 by the effective life of the asset, so an asset with an effective life of 20 years has a 5% prime cost deprecation rate.

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Simon Olesen

Account Director, Tax Services

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Location: Adelaide

Background

Simon is an Account Director in the Tax Services division of Deloitte in Adelaide and has over 10 years experience in providing expert taxation and business advice to medium and large private and public enterprises, including 2.5 years as a Tax Manager for an ASX Top 100 company.

Skills and expertise

Simon assists large corporate groups manage their income tax affairs and provides advice on commercial and technical issues, including transactions and long term tax planning and structuring. Simon has extensive M&A experience, having conducted tax advisory and due diligence assignments for a number of large corporate and Private Equity clients.

In addition to his corporate tax experience, Simon has expertise in fringe benefits tax and salary packaging.

Industry Specialisations

- Agriculture (particularly wine and forestry)
- Manufacturing (particularly defence and automotive)
- Education
- Trusts and Managed Investment Schemes

Professional and academic qualifications

Member of the Institute of Chartered Accountants in Australia

Fellow of the Taxation Institute of Australia

Bachelor of Laws (Honours)

Bachelor of Commerce

Major clients served

- Agricultural Land Trust
- Australian Vintage Limited
- Babcock
- CQMS Holdings
- Elders Limited
- Lockheed Martin Australia Electronic Systems
- Mitolo Group
- Pacific Marine Batteries
- Viterra Australia (formerly ABB Grain)
- ZF Lemforder Australia

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John Rawson

Partner, Tax Services

Direct: 08 8407 7158
Email: jorawson@deloitte.com.au
Location: Adelaide

Background

John is the lead Partner in the Tax Services practice and has over 20 years experience with Deloitte in three state of Australia.

Skills and expertise

As partner, John's role is to assist clients to manage their taxation obligations. This ranges from ensuring compliance functions are effective through to long term tax planning and structuring.

John sees his role as being to provide the best tax and business advice to clients through utilising local, national and indeed international resources of Deloitte.

Industry Specialisation

- Wine Industry
- Defence Industry
- Retail Industry
- Automotive Industry

Professional and academic qualifications

Member of the Institute of Chartered Accountants in Australia

Fellow of the Taxation Institute of Australia

Professional experience

John has provided tax and business advice to a large number of private and public companies. This includes due diligence reviews as part of private equity transactions, mergers & acquisitions, including tax effective structuring, and capital raisings for private companies. John has also had extensive experience assisting clients that are under Tax Office audit.

Major clients served

- Australian Vintage Limited
- Harris Scarfe Australia Pty Ltd
- Bridgestone Australia Ltd
- National Pharmacies
- Rib Loc Group Ltd
- Tenneco Automotive
- Adtrans Group Ltd
- Internode Systems Pty Ltd