

Final Decision

Energex Electricity

Distribution Determination

2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 7

Corporate income tax

April 2025

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1	30 April 2025	8

List of attachments

This attachment forms part of the Australian Energy Regulator's (AER's) final decision on the distribution determination that will apply to Energex for the 2025–30 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. Where an attachment has not been prepared, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 13 – Classification of services

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7 Corporate income tax

Our distribution determination includes the estimated cost of corporate income tax for Energex's 2025–30 regulatory control period (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 Energex's revised proposed corporate income tax amount for the 2025–30 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 Energex's estimated cost of corporate income tax amount is \$147.9 million (\$ nominal) over the 2025–30 period. This is an increase of \$36.7 million (or 32.9%) from Energex's revised proposed cost of corporate income tax of \$111.3 million. The reasons for this increase are due to our final decision:

- on a higher regulatory depreciation amount (section 4.1 of Attachment 4)²
- on a higher return on equity amount (section 2.2 of the Overview).³

Our final decision is to determine an opening tax asset base (TAB) value as at 1 July 2025 of \$8,707.1 million (\$ nominal), which is consistent with Energex's revised proposal (section 7.1.1).

We also determine that \$719.5 million (\$2024–25) of Energex's forecast capital expenditure (capex) is to be immediately expensed for tax purposes in the 2025–30 period (section 7.1.2).

We accept Energex's revised proposal on the standard tax asset lives for its existing asset classes and the new asset class for capitalised leases for the 2025–30 period because they are consistent with our draft decision (section 7.1.3).⁴

Table 7.1 sets out our final decision on the estimated cost of corporate income tax for Energex over the 2025–30 period.

¹ National Electricity Rules (NER), cl. 6.4.3(a)(4).

² The higher regulatory depreciation is driven by a lower expected inflation rate applied in our final decision compared to Energex's revised proposal. All else being equal, a higher regulatory depreciation increases the cost of corporate income tax as it is a component of revenue for tax purposes.

³ The higher return on equity amount is driven by a higher rate of return on equity determined in our final decision compared to Energex's revised proposal. All else being equal, a higher return on equity amount increases the cost of corporate income tax as it is a component of revenue for tax purposes.

⁴ AER, *Draft decision: Energex distribution determination 2025–2030 – Attachment 7 – Corporate income tax*, September 2024, pp. 11–15.

Table 7.1 AER's final decision on Energex's cost of corporate income tax for the 2025–30 period (\$ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Tax payable	49.3	56.3	67.7	85.0	85.8	344.1
Less: value of imputation credits	28.1	32.1	38.6	48.4	48.9	196.1
Net cost of corporate income tax	21.2	24.2	29.1	36.5	36.9	147.9

Source: AER analysis.

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

- We amended the opening TAB as at 1 July 2025 to reflect the following input changes we made in the roll forward model (RFM) and the depreciation tracking module:
 - updated the 2020–23 capex amounts for the 'IT systems' and 'In-house software' asset classes to reflect the corrected Consumer Price Index (CPI) adjusted forecast capex for these asset classes
 - updated the capital contributions for 2020–23 and the immediately expensed capex for 2022–23 to be consistent with the annual reporting Regulatory Information Notices (RINs)
 - amended the asset disposals for the 'motor vehicles' asset class in 2023–25 to reflect the estimated gross proceeds from sale.
- We reduced the proposed forecast immediately expensed capex for the 2025–30 period to reflect our draft decision on forecast capex.

Energex's revised proposal adopted the changes required by the draft decision. In addition, Energex updated the opening TAB value (section 7.1.1) and the forecast immediately expensed capex for the 2025–30 period (section 7.1.2) to reflect more up-to-date capex estimates in 2024–25.⁶

7.1.1 Opening tax asset base as at 1 July 2025

Our final decision is to accept Energex's revised proposal opening TAB value as at 1 July 2025 of \$8,707.1 million (\$ nominal).⁷

In our draft decision, we accepted Energex's proposed method to establish the opening TAB as at 1 July 2025. However, we amended some of the proposed inputs used for the TAB roll forward. Specifically, we adjusted some capex inputs to reflect the corrected CPI adjusted values and to be consistent with the values in the annual reporting RINs for the relevant years. We also amended motor vehicles disposals to reflect the estimated gross proceeds

⁵ AER, *Draft decision: Energex distribution determination 2025–2030 – Attachment 7 – Corporate income tax*, September 2024, pp. 9–13.

⁶ Energex, *2025–30 Revised Regulatory Proposal – 8.01 Roll forward model*, November 2024; Energex, *2025–30 Revised Regulatory Proposal – 8.02 – RFM Depreciation module*, November 2024.

⁷ Energex, *2025–30 Revised Regulatory Proposal – 8.03 Post-tax revenue model*, November 2024.

from sale. We noted that the opening TAB may be updated as part of the final decision to reflect actual capex for 2023–24 and any revised capex estimate for 2024–25.⁸

Energex's revised proposal adopted our draft decision changes.⁹ In addition, it updated the opening TAB as at 1 July 2025 to reflect the actual capex, asset disposals and immediately expensed capex for 2023–24 and a revised estimated capex, asset disposals and immediately expensed capex for 2024–25.¹⁰

We accept the following revised proposed inputs for TAB roll forward purposes for this final decision:

- the updated capex and asset disposals inputs for 2023–24 and the revised estimated capex and asset disposals for 2024–25, consistent with the reasons discussed in Attachment 2
- the updated immediately expensed capex for 2023–24 as the updated value is consistent with the annual reporting RIN for this year
- the revised estimated immediately expensed capex for 2024–25, which reflects more up-to-date data
- the final year asset adjustment for capitalised leases, which is consistent with our draft decision.

We will update the estimated capex, asset disposals and immediately expensed capex for 2024–25 with actual values at the next distribution determination for the 2030–35 period.

Table 7.2 sets out our draft decision on the roll forward of Energex's TAB over the 2020–25 period.

⁸ AER, *Draft decision: Energex distribution determination 2025–2030 – Attachment 7 – Corporate income tax*, September 2024, p. 11.

⁹ Energex, *2025–30 Revised Regulatory Proposal*, November 2024, p. 90.

¹⁰ Energex, *2025–30 Revised Regulatory Proposal*, November 2024, p. 90.

Table 7.2 AER's final decision on Energex's TAB roll forward for the 2020–25 period (\$ million, nominal)

	2020–21	2021–22	2022–23	2023–24	2024–25 ^a
Opening TAB	8,286.4	8,293.1	8,284.3	8,293.5	8,398.1
Capital expenditure ^b	411.5	421.4	486.5	640.4	822.8
Less: tax depreciation	404.7	430.3	477.3	535.8	558.5
Final year asset adjustment ^c					44.7
Closing TAB	8,293.1	8,284.3	8,293.5	8,398.1	8,707.1

Source: AER analysis.

- (a) Based on estimated capex. We expect to update the TAB roll forward with actual capex at the next determination.
- (b) Net of disposals.
- (c) Capitalised leases as at 30 June 2025.

7.1.2 Forecast immediately expensed capex

For this final decision, we accept Energex's revised proposal of \$719.5 million (\$2024–25) for forecast capex that is to be immediately expensed for tax purposes in the 2025–30 period.

In our draft decision, we accepted Energex's proposed actuals informed approach for determining the forecast of immediately expensed capex for the 2025–30 period. Energex's proposed forecast immediately expensed capex was broadly consistent with the average proportion of capex being immediately expensed over the period 2020–21 to 2022–23 as reported in the annual reporting RINs. However, due to our reduction in the proposed forecast capex, we substituted a lower forecast immediately expensed capex at the draft decision.¹¹

In its revised proposal, Energex updated the forecast immediately expensed capex to \$719.5 million (\$2024–25). This is higher than the \$689.7 million approved in our draft decision. This updated amount reflects its higher revised proposal forecast capex for the 2025–30 period compared to our draft decision.¹²

Consistent with the approach adopted in the draft decision, we need to adjust the amount of immediately expensed capex to reflect our final decision on forecast capex. As discussed in Attachment 5, our final decision is to accept Energex's total gross forecast capex of \$3,184.3 million. As such, the calculated forecast capex to be immediately expensed is unchanged from Energex's revised proposal.

We will continue to collect actual data relating to the immediate expensing of capex in our annual reporting RINs to inform our decision on this type of expenditure in the next distribution determination for 2030–35 for Energex.

¹¹ AER, *Draft decision: Energex distribution determination 2025–2030 – Attachment 7 – Corporate income tax*, September 2024, pp. 11–12.

¹² Energex, *2025–30 Revised Regulatory Proposal – 8.03 Post tax revenue model*, November 2024.

7.1.3 Standard tax asset lives

Our final decision accepts Energex’s revised proposed standard tax asset lives for all its existing asset classes because they are consistent with our draft decision.¹³ 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 (ATO) Ruling 2022/1 and the *Income Tax Assessment Act 1997* (ITAA).¹⁴

We also accept the revised proposed new asset class for composite poles for the reasons discussed in section 4.1.1 of Attachment 4. However, we have applied a standard tax asset life of 45 years for tax depreciation instead of the 80 years Energex proposed, which is consistent with that prescribed by the Commissioner of Taxation in ATO Taxation Ruling 2022/1 for this asset type.¹⁵ We have also applied this standard tax asset life for similar assets in our recent decisions for other distributors.¹⁶

Table 7.3 sets out our final decision on Energex’s standard tax asset lives. We are satisfied that the standard tax asset lives are appropriate for application over the 2025–30 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.¹⁷

Table 7.3 AER’s final decision on Energex’s standard tax asset lives (years)

Asset class	Standard tax asset life
OH sub-transmission lines	45.0
UG sub-transmission cables	50.0
OH distribution lines	45.0
UG distribution cables	50.0
Distribution equipment	45.0
Substation bays	40.0
Substation establishment	40.0
Distribution substation switchgear	40.0

¹³ Energex, *2025–30 Revised Regulatory Proposal – 8.03 Post tax revenue model*, November 2024.

¹⁴ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022; ITAA 1997, s 40.105.

¹⁵ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022, p. 9.

¹⁶ AER, *Final decision: Essential Energy distribution determination 2024–29 – Attachment 7 – Corporate income tax*, April 2024, pp. 2, 5; AER, *Final decision: Ausgrid distribution determination 2024–29 – Attachment 7 – Corporate income tax*, April 2024, pp. 3, 7; AER, *Final decision: Evoenergy distribution determination 2024–29 – Attachment 7 – Corporate income tax*, April 2024, pp. 5–6; AER, *Final decision: TasNetworks distribution determination 2024–29 – Attachment 7 – Corporate income tax*, April 2024, pp. 2, 5.

¹⁷ NER, cl. 6.5.3.

Asset class	Standard tax asset life
Zone transformers	40.0
Distribution transformers	45.0
Low voltage services	40.0
Load control & network metering devices	25.0
Communications - pilot wires	10.0
Streetlighting (residual rate 2 assets)	n/a
Systems buildings	40.0
Systems easements	n/a
System land	n/a
Control centre - SCADA	10.0
IT systems	3.8
Office equipment & furniture	13.1
Motor vehicles	12.9
Plant & equipment	5.2
Buildings	40.0
Land	n/a
Legacy ICT	n/a
Initial leases (10yr life)	10.0
Lease extensions (5yr life)	5.0
Composite poles	45.0
Buildings - capital works ^a	40.0
In-house software ^a	5.0
Equity raising costs ^a	5.0 ^b

Source: AER analysis.

n/a not applicable. We have not assigned a standard tax asset life to 'System easements', 'System land' and 'Land' asset classes because the capex allocated to them is not subject to depreciation. We also have not assigned a standard tax asset life to the 'Streetlighting (residual rate 2 assets)' and 'Legacy ICT' asset classes as there is no forecast capex allocated to these asset classes.

(a) These are the only asset classes used for the straight-line method of tax depreciation for new capex. All new capex for other asset classes used the diminishing value method of tax depreciation.

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

7.2 Assessment approach

We did not change 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.¹⁸

¹⁸ AER, *Draft decision: Energex distribution determination 2025–2030 – Attachment 7 – Corporate income tax*, September 2024, pp. 3–9.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
ATO	Australian Taxation Office
capex	capital expenditure
CPI	Consumer Price Index
ITAA	<i>Income Tax Assessment Act 1997</i>
NER	National Electricity Rules
period	regulatory control period
PTRM	post-tax revenue model
RFM	roll forward model
RIN	regulatory information notice
TAB	tax asset base