

# Final Decision

## SA Power Networks Electricity Distribution Determination 2025 to 2030 (1 July 2025 to 30 June 2030)

### Attachment 7 Corporate income tax

April 2025

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Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601  
Email: [aerinquiry@aer.gov.au](mailto:aerinquiry@aer.gov.au)  
Tel: 1300 585 165

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### Amendment record

Version	Date	Pages
1	30 April 2025	7

# 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 SA Power Networks 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 7 – Corporate income tax**

Attachment 10 – Service target performance incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

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## 7 Corporate income tax

Our distribution determination includes the estimated cost of corporate income tax for SA Power Networks' 2025–30 regulatory control period (period).<sup>1</sup> Under the post-tax framework, the cost of corporate income is calculated as part of the building block assessment using our post-tax revenue model (PTRM).

This attachment sets out our final decision on SA Power Networks' revised proposed corporate income tax 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 SA Power Networks' estimated cost of corporate income tax is \$44.4 million (\$ nominal) over the 2025–30 period. This is an increase of \$13.6 million (44.3%) from SA Power Networks' revised proposed cost of corporate income tax of \$30.8 million. The main reasons for this increase are due to our final decision:

- on a lower forecast capex amount (Attachment 5). The lower immediately expensed capex is a main driver in a lower tax depreciation for this final decision.<sup>2</sup>
- on a higher regulatory depreciation amount (section 4.1 of Attachment 4)<sup>3</sup>
- on a higher return on equity amount (section 2.2 of the Overview).<sup>4</sup>

Our final decision is to determine an opening tax asset base (TAB) value as at 1 July 2025 of \$3,593.7 million (\$ nominal), which is consistent with SA Power Networks' revised proposal (section 7.1.1).

We accept the standard tax asset lives for its existing asset classes and the new asset class for 'Stobie poles' for the 2025–30 period, which are consistent with our draft decision (section 7.1.3). However, we updated SA Power Networks' revised proposed forecast immediately expensed capital expenditure (capex) for the 2025–30 period to reflect our final decision on the total forecast capex (section 7.1.2).

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

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<sup>1</sup> National Electricity Rules (NER), cl. 6.4.3(a)(4).

<sup>2</sup> All else being equal, a lower tax depreciation increases the cost of corporate income tax as it is a deduction from revenue for tax purposes.

<sup>3</sup> The higher regulatory depreciation is driven by a lower expected inflation rate applied in our final decision compared to SA Power Networks' 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.

<sup>4</sup> The higher return on equity amount is driven by a higher rate of return on equity determined in our final decision compared to SA Power Networks' 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.

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

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Less Tax payable	29.7	31.9	23.3	12.5	6.0	103.3
Less: value of imputation credits	16.9	18.2	13.3	7.1	3.4	58.9
<b>Net cost of corporate income tax</b>	<b>12.8</b>	<b>13.7</b>	<b>10.0</b>	<b>5.4</b>	<b>2.6</b>	<b>44.4</b>

Source: AER analysis.

In the draft decision, we made the following changes to SA Power Networks' modelling of its cost of corporate income tax:<sup>5</sup>

- We amended the opening TAB as at 1 July 2025 to reflect the following updates in the roll forward model (RFM) and the depreciation tracking module:
  - updated the actual capex and asset disposals for 2020–23, to be consistent with annual reporting Regulatory Information Notices (RINs)
  - updated the immediately expensed capex for 2022–23 to be consistent with the annual reporting RIN for this year.
- We made the following changes on the standard tax asset lives:
  - amended the standard tax asset life for 'In-house software' asset class to 5 years from SA Power Networks' proposed 4 years, to be consistent with the *Income Tax Assessment Act 1997* (ITAA)
  - introduced a new 'Stobie poles' asset class and assigned a standard tax asset life of 45 years for tax depreciation purposes.
- We reduced the proposed forecast immediately expensed capex for the 2025–30 period to reflect our draft decision on the forecast capex.

SA Power Networks' revised proposal adopted the changes required by the draft decision. In addition, it updated the opening TAB value (section 7.1.1) and the forecast immediately expensed capex amount for the 2025–30 period.<sup>6</sup>

### 7.1.1 Opening tax asset base as at 1 July 2025

Our final decision is to determine an opening TAB value as at 1 July 2025 of \$3,593.7 million (\$ nominal) for SA Power Networks, which is consistent with its revised proposal.<sup>7</sup>

In our draft decision, we accepted SA Power Networks' proposed method to establish the opening TAB value as at 1 July 2025. However, we amended some of the proposed inputs used for the TAB roll forward—specifically, we updated the actual capex and asset disposals

<sup>5</sup> AER, *Draft decision: SA Power Networks distribution determination 2025–30 – Attachment 7 – Corporate income tax*, September 2024, pp. 9–14.

<sup>6</sup> SA Power Networks, *2.1 - Roll Forward Model*, December 2024; SA Power Networks, *1.1 - Post Tax Revenue Model*, December 2024.

<sup>7</sup> SA Power Networks, *2.1 - Roll Forward Model*, December 2024.

for 2020–23 and the immediately expensed capex for 2022–23 to be consistent with the annual reporting RINs for the relevant years.<sup>8</sup> We noted that the opening TAB value may be updated as part of the final decision to reflect actual capex for 2023–24 and any revised capex estimate for 2024–25.<sup>9</sup>

SA Power Networks' revised proposal adopted our draft decision changes. 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 and asset disposals for 2024–25.<sup>10</sup>

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<sup>11</sup>
- the estimated immediately expensed capex for 2024–25, 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 final decision on the roll forward of SA Power Networks' TAB over the 2020–25 period.

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

	2020–21	2021–22	2022–23	2023–24	2024–25 <sup>a</sup>
Opening TAB	3,391.8	3,402.1	3,412.7	3,435.7	3,453.3
Capital expenditure <sup>b</sup>	389.1	397.6	459.1	491.0	518.0
Less: tax depreciation	378.8	387.1	436.1	473.4	377.6
<b>Closing TAB</b>	<b>3,402.1</b>	<b>3,412.7</b>	<b>3,435.7</b>	<b>3,453.3</b>	<b>3,593.7</b>

Source: AER analysis.

(a) Based on estimated capex. We expect to update the TAB roll forward with actual capex at the next distribution determination.

<sup>8</sup> AER, *Draft decision: SA Power Networks Energy distribution determination 2025–30 – Attachment 7 – Corporate income tax*, September 2024, p. 10.

<sup>9</sup> AER, *Draft decision: SA Power Networks Energy distribution determination 2025–30 – Attachment 7 – Corporate income tax*, September 2024, p. 10.

<sup>10</sup> SA Power Networks, *2.1 - Roll Forward Model*, December 2024; SA Power Networks, *4.1 - RAB Depreciation Model*, December 2024.

<sup>11</sup> We have also made a minor amendment for an erroneous input for immediately expensed capex in the depreciation tracking module. However, this amendment does not affect the opening TAB value. SA Power Networks, *Response to AER information request #045*, dated 20 January 2025, p. 3.

(b) Net of asset disposals.

### 7.1.2 Forecast immediately expensed capex

For this final decision, we determine that \$1,058.6 million (\$2024–25) of its forecast capex are to be immediately expensed for tax purposes in the 2025–30 period. This is \$47.0 million (4.2%) lower than SA Power Networks’ revised proposal of \$1,105.6 million.

In our draft decision, we accepted SA Power Networks’ proposed actuals informed approach for determining the forecast of immediately expensed capex. SA Power Networks’ 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.<sup>12</sup>

In its revised proposal, SA Power Networks updated the forecast of immediately expensed capex to \$1,105.6 million (\$2024–25). This is higher than the amount of \$986.8 million we approved in the draft decision. This updated amount reflects its higher revised proposed forecast capex for the 2025–30 period compared to our draft decision and a revised 2023–24 overhead rates.<sup>13</sup>

Consistent with the approach adopted in the draft decision, we need to adjust the amount of immediately expensed capex to reflect the overall estimate of forecast capex. As discussed in Attachment 5, our final decision is to determine a total gross forecast capex of \$2,257.2 million (\$2024–25). This amount is \$80.5 million lower than SA Power Networks’ revised proposed capex forecast. For this reason, we have calculated a lower immediately expensed capex amount for SA Power Networks to reflect the forecast capex for this final decision.

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 SA Power Networks.

### 7.1.3 Standard tax asset lives

Our final decision accepts SA Power Networks’ revised proposed standard tax asset lives for all of its asset classes because they are consistent with our draft decision.<sup>14</sup> 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 2022/1 and the ITAA.<sup>15</sup>

Table 7.3 sets out our final decision on SA Power Networks’ 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

<sup>12</sup> AER, *Draft decision: SA Power Networks distribution determination 2025–30 – Attachment 7 – Corporate income tax*, September 2024, p. 11.

<sup>13</sup> SA Power Networks, *2025–30 Revised Regulatory Proposal Overview*, December 2024, p. 25.

<sup>14</sup> SA Power Networks, *1.1 - Post Tax Revenue Model*, December 2024.

<sup>15</sup> Australian Tax Office, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022; ITAA 1997, s 40.105.



depreciation amount that would be consistent with the tax expenses used to estimate the annual taxable income for a benchmark efficient service provider.<sup>16</sup>

**Table 7.3 AER's final decision on SA Power Networks' standard tax asset lives for the 2025–30 period (years)**

Asset class	Standard tax asset life
Sub-transmission lines	47.5
Distribution lines	47.5
Substations	40.0
Distribution transformers	40.0
Low voltage services	47.5
Communications	10.0
Contributions	n/a
Land	n/a
Substation land	n/a
Easements	n/a
Buildings	40.0
Heavy vehicles - 15 year	15.0
Heavy vehicles - 10 year	15.0
Light vehicles	6.7
IT Assets	4.0
Plant & tools/ office furniture	10.0
Sub-transmission and distribution lines - short life	25.0
Substations and transformers - short life	20.0
Electronic network assets	15.0
Stobie poles	45.0
Buildings - capital works <sup>a</sup>	40.0
In-house software <sup>a</sup>	5.0
Equity raising costs <sup>a</sup>	5.0 <sup>b</sup>

Source: AER analysis.

n/a not applicable. We have not assigned a standard tax asset to the 'Land', 'Substation land' and 'Easements' asset classes because the capex allocated to them are not subject to depreciation. We also

<sup>16</sup> NER, cl. 6.5.3.

have not assigned a standard tax asset life to the 'Contributions' asset class as there is no forecast capex allocated to this asset class.

- (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 SA Power Networks 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.<sup>17</sup>

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<sup>17</sup> AER, *Draft decision: SA Power Networks distribution determination 2025–30 – Attachment 7 – Corporate income tax*, September 2024, pp. 3–9.

# Shortened forms

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