FINAL DECISION
Australian Gas Networks Victoria and Albury gas access arrangement 2018 to 2022

Attachment 8 – Corporate income tax

November 2017

AUSTRALIAN ENERGY REGULATOR

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Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
AGN	Australian Gas Networks
capex	capital expenditure
NGL	National Gas Law
NGR	National Gas Rules
RFM	Roll forward model
RIN	Regulatory Information Notice
TAB	Tax asset base

8 Corporate income tax

When determining the total revenue for AGN, we include an estimate of AGN's cost of corporate income tax.[1] AGN has adopted the post-tax framework to derive its revenue requirement for the 2018–22 access arrangement period.[2] Under the post-tax framework, a separate corporate income tax allowance is calculated as part of the building blocks assessment.

8.1 Final decision

We do not approve AGN's revised proposed cost of corporate income tax.[3] Our final decision approves an estimated cost of corporate income tax of $59.9 million ($ nominal) for AGN over the 2018–22 access arrangement period. This amount represents an increase of $2.6 million ($ nominal) or 4.6 per cent from the $57.3 million ($ nominal) in AGN's revised proposal. The reduction reflects our amendments to AGN's revised proposed inputs for forecasting the cost of corporate income tax, including:

- the opening tax asset base (TAB) at 1 January 2018
- remaining tax asset lives.

Our adjustments to the return on capital and regulatory depreciation building block costs affect revenues, which in turn impacts the tax calculation.

Our final decision on AGN's estimated cost of corporate tax allowance for the 2018–22 access arrangement period is set out in Table 8-1.

Table 8-1 AER's final decision on AGN's estimate cost of corporate tax allowance for the 2018–22 access arrangement period ($million, nominal)

	2018	2019	2020	2021	2022	Total
Tax payable	21.1	21.7	22.1	16.8	18.1	99.9
Less: value of imputation credits	8.5	8.7	8.9	6.7	7.2	40.0
Net corporate income tax allowance	**12.7**	**13.0**	**13.3**	**10.1**	**10.9**	**59.9**

Source: AER analysis.

We approve an opening TAB value of $709.5 million ($ nominal) as at 1 January 2018 for this final decision. This is $0.4 million (0.1 per cent) lower than the $709.9 million in AGN's revised proposal. This reduction reflects our amendments to the 2016 gross

1 NGR, r. 76(c).

2 AGN, *Final Plan - Access Arrangement Information for our Victorian and Albury natural gas distribution networks 2018-2022,* December 2016 , pp. 143–148.

3 NGR, r. 87A.

capital expenditure (capex) and customer contributions values in the Albury network RFM to be consistent with values from the annual reporting accounts for that year.[4]

In the draft decision, we identified some changes to AGN's proposed roll forward of the TAB over the 2013–17 access arrangement period, including:

- Updates to the 2013 opening TAB for actual 2012 capex.[5]
- Amendments to the 2013–17 capex to be net of asset disposals.
- Setting the opening TAB value for the 'Computer equipment Albury' asset class at zero to avoid a negative opening TAB value.[6]

AGN accepted these amendments to the 2013–17 TAB roll forward and adopted these in its revised proposal.[7]

We also noted in the draft decision that the proposed capex for 2016 and 2017 were estimates and that AGN would provide the actual capex for 2016 in its revised proposal, and that it may revise the 2017 capex estimate based on more up to date information. AGN's revised proposal provided these updates to the 2016 and 2017 capex. As discussed in the overview to this final decision, we accept AGN's capex updates in its revised proposal as conforming capex during the 2013–17 access arrangement period. Therefore, we consider that actual conforming capex has been properly accounted for in the revised proposed TAB roll forward, consistent with the requirements of the NGR.[8]

Table 8-2 sets out our final decision on the roll forward of AGN's TAB value for the 2013–17 access arrangement period.

Table 8-2 AER's final decision on AGN's tax asset base roll forward for the 2013–17 access arrangement period ($ million, nominal)

	2013	2014	2015	2016	2017
Opening tax asset base	398.5	455.7	523.8	604.2	647.5
Capex	104.5	114.6	128.5	93.3	114.2
Less: tax depreciation	47.3	46.6	48.1	49.9	52.3
Closing tax asset base	455.7	523.8	604.2	647.5	709.5

Source: AER analysis.

4 AGN, *Email response to IR#20*, received on 15 September 2017
5 AGN, *Email response (Part B) to IR009*, received on 7 March 2017
6 We do not consider negative asset values to be incorrect, as they can occur at times for various reasons. However, when establishing the tax asset value for new asset categories we consider they should begin as positive or zero values.
7 AGN, *Revised final plan - response to the draft decision,* 14 August 2017, pp. 1-3
8 As discussed in the capital base attachment 2, we updated 2016 gross capex and customer contributions values in the Albury network RFM to be consistent with values from the annual reporting accounts for that year.

For this final decision and as set out in set out in Table 8-3:

- We confirm our draft decision on AGN's standard tax asset lives for the 2018–22 access arrangement period. In the draft decision, we identified changes to standard tax asset lives for the 'Other assets' and 'Equity raising costs' asset classes. AGN's revised proposal adopted these changes.[9]
- We confirm our draft decision on the approach for setting the remaining tax asset lives. In the draft decision, we accepted AGN's proposal to transition to our standard straight-line depreciation approach to calculate the corporate income tax allowance for the 2018–22 access arrangement period, which required determining remaining tax asset lives for depreciating the opening TAB as at 1 January 2018. We accepted AGN's proposed method of using the standard tax asset life for the asset class multiplied by the ratio of the capital base remaining asset life to the capital base standard asset life. However, as noted in the draft decision, this final decision updates AGN's revised proposed remaining tax asset lives reflecting the amendments made to the opening capital base as discussed in attachment 2.[10]

Table 8-3 AER's final decision on AGN's standard tax asset lives and remaining tax asset lives as at 1 January 2018 for the 2018–22 access arrangement period (years)

Tax asset class	Standard tax asset life	Remaining tax asset life as at 1 January 2018
Mains & services	50.0	35.8
Meters	15.0	8.8
Buildings	35.0	8.5
SCADA	10.0	7.6
Computer equipment	4.0	4.0
Other assets	15.0	9.2
Mains & services Albury	50.0	30.3
Meters Albury	15.0	7.3
Buildings Albury	35.0	n/a
SCADA Albury	10.0	7.8
Computer equipment Albury	4.0	n/a
Other assets Albury	15.0	13.3

9 AGN, *Revised proposal - PTRM*, 14 August 2017

10 The amendments to the opening capital base affect the capital base remaining asset lives which then affect the tax remaining lives. The change to the year-by-year tracking approach for regulatory depreciation means that the capital base remaining lives are no longer recorded in the PTRM but they are still estimated in the RFMs for use in calculating the remaining tax asset lives as at 1 January 2018.

Tax asset class	Standard tax asset life	Remaining tax asset life as at 1 January 2018
Low pressure mains and associated services (accelerated depreciation)	n/a	5.0
Equity raising costs	5.0	n/a

Source: AER analysis.

n/a Not applicable.

8.2 Assessment approach

Our approach to the corporate income tax allowance is set out in section 8.3 of our draft decision. We have not changed that approach in this final decision.