FINAL DECISION
AusNet Services
Gas access arrangement
2018 to 2022

Attachment 8 – Corporate income tax

November 2017

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Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
capex	Capital expenditure
NGL	National Gas Law
NGR	National Gas Rules
PTRM	Post tax revenue model
RFM	Roll forward model
SCADA	Supervisory control and data acquisition
TAB	Tax asset base

8 Corporate income tax

When determining the total revenue for AusNet, we include an estimate of AusNet's cost of corporate income tax.[1] AusNet 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 AusNet's revised proposed cost of corporate income tax.[3] Our final decision approves an estimated cost of corporate income tax of $47.1 million ($ nominal) for AusNet over the 2018–22 access arrangement period. This amount represents an increase of $1.0 million ($ nominal) or 2.2 per cent from the $46.1 million ($ nominal) in AusNet's revised proposal. This decision reflects our amendments to AusNet's revised proposed inputs for forecasting the cost of corporate income tax, namely, the 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 AusNet'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 AusNet's estimate cost of corporate tax allowance for the 2018–22 access arrangement period ($million, nominal)

	2018	2019	2020	2021	2022	Total
Tax payable	16.6	11.2	14.1	18.2	18.5	78.5
Less: value of imputation credits	6.7	4.5	5.6	7.3	7.4	31.4
Net corporate income tax allowance	**10.0**	**6.7**	**8.4**	**10.9**	**11.1**	**47.1**

Source: AER analysis.

We approve AusNet's revised proposed opening tax asset base (TAB) value of $706.8 million ($ nominal) as at 1 January 2018 for this final decision.

In the draft decision, we identified a required change to AusNet's proposed roll forward of the TAB over the 2013–17 access arrangement period. We amended the opening

1 NGR, r. 76(c).

2 AusNet, *Access arrangement information 2018-2022*, December 2016, p. 256.

3 NGR, r. 87A.

TAB value at 1 January 2013 to correctly account for asset disposals in 2012 of $1.0 million ($ nominal). AusNet accepted this amendment in its response to our information request and adopted this in its revised proposal.[4]

We also noted in the draft decision that the proposed capex for 2016 and 2017 were estimates and that AusNet would provide the actual capital expenditure (capex) for 2016 in its revised proposal, and that it may revise the 2017 capex estimate based on more up to date information. AusNet's revised proposal provided these updates to the 2016 and 2017 capex. As discussed in the overview to this final decision, we accept AusNet'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.

Table 8.2 sets out our final decision on the roll forward of AusNet's TAB value for the 2013–17 access arrangement period.

Table 8.2 AER's final decision on AusNet's tax asset base roll forward for the 2013–17 access arrangement period ($ million, nominal)

	2013	2014	2015	2016	2017
Opening tax asset base	503.3	541.9	605.5	644.4	670.9
Capex	93.8	119.1	95.7	84.4	95.7
Less: tax depreciation	55.3	55.5	56.8	57.8	59.8
Closing tax asset base	541.9	605.5	644.4	670.9	706.8

Source: AER analysis.

For this final decision and as set out in set out in Table 8.3:

- We confirm our draft decision on AusNet's standard tax asset lives for the 2018–22 access arrangement period.
- We confirm our draft decision on the approach for setting the remaining tax asset lives. In the draft decision, we accepted AusNet’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 AusNet’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

[4] AusNet, *Email response to IR006*, 8 March 2017; AusNet, *Revised Access Arrangement Information - Roll forward model*, August 2017.

decision updates AusNet's revised proposed remaining tax asset lives reflecting the amendments made to the opening capital base as discussed in attachment 2.[5]

Table 8.3 AER's final decision on AusNet'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
Transmission pipelines	50	17.0
Distribution pipelines	50	27.7
Service pipes	50	32.4
Cathodic protection	50	21.4
Supply regulators/valve stations	40	28.4
Meters	15	9.3
SCADA and remote control	10	6.5
Buildings	35	17.7
Other - IT	4	2.5
Other - non IT	4	3.0
Equity raising costs	5	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.

5 The amendments to the opening capital base affect the capital base remaining 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 RFM for use in calculating the remaining tax asset lives as at 1 January 2018.