



**FINAL DECISION
APA VTS Australia
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
APA	APA VTS Australia (Operations) Pty Ltd and APA VTS Australia (NSW) Pty Ltd
ATO	Australian Taxation Office
NGL	National Gas Law
NGR	National Gas Rules
RFM	Roll forward model
TAB	Tax asset base

8 Corporate income tax

When determining the total revenue for APA, we include an estimate of APA's cost of corporate income tax. APA has adopted the post-tax framework to derive its revenue requirement for the 2018–22 access arrangement period.¹ 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 APA's revised proposed cost of corporate income tax.² Our final decision approves an estimated cost of corporate income tax of \$8.0 million (\$ nominal) for APA over the 2018–22 access arrangement period. This amount represents a decrease of \$6.6 million (\$ nominal) or 45.2 per cent from the \$14.5 million (\$ nominal) in APA's revised proposal. The reduction reflects our amendments to APA'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.³

Our final decision on APA'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 APA's cost of corporate income tax allowance for the 2018–22 access arrangement period (\$million, nominal)

	2018	2019	2020	2021	2022	Total
Tax payable	2.7	3.4	3.7	2.8	0.7	13.3
Less: value of imputation credits	1.1	1.4	1.5	1.1	0.3	5.3
Net corporate income tax allowance	1.6	2.0	2.2	1.7	0.4	8.0

Source: AER analysis.

We approve an opening TAB value of \$506.5 million (\$ nominal) as at 1 January 2018 for this final decision. This is \$26.1 million or 4.9 per cent lower than APA's revised proposal.

¹ APA VTS, *VTS Revision Proposal submission* - 20170103 - Public, p. 213.

² NGR, r. 87A.

³ The changes affecting revenues are discussed in the overview.

In the draft decision, we identified several changes to APA's proposed roll forward of the TAB over the 2013–18 access arrangement period:

- the tax depreciation amounts should be based on the actual as-commissioned capex, consistent with the AER's standard roll forward model (RFM), the ATO's guide for depreciating assets and the approach in the 2013–17 access arrangement decision
- various input changes reflecting our assessment for the capital base roll forward, which relevantly affects the TAB.

APA's revised proposal did not adopt these draft decision amendments. In particular, APA's revised proposal used actual as-incurred capex and forecast tax depreciation for the TAB roll forward, consistent with its initial proposal. We note APA's revised proposal did not provide a response for not adopting our draft decision. Therefore, we confirm the draft decision and have made the necessary revisions to the access arrangement to reflect this final decision.⁴

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

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

	2013	2014	2015	2016	2017
Opening tax asset base	228.9	221.3	242.5	403.2	395.0
Capex	1.3	39.2	180.9	21.6	143.0
Tax depreciation	-8.9	-18.0	-20.2	-29.8	-31.5
Closing tax asset base	221.3	242.5	403.2	395.0	506.5

Source: AER analysis.

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

- We confirm our draft decision on APA's standard tax asset lives assigned to each of its asset classes for the 2018–22 access arrangement period. These standard tax asset lives are consistent with the provisions of the *Income Tax Assessment Act 1997*, the standard tax asset lives prescribed in Tax ruling 2016/1 and the approved standard tax asset lives in the 2013–17 access arrangement.
- We confirm our draft decision to accept APA's proposed weighted average method to calculate the remaining tax asset lives as at 1 January 2018. However, as noted

⁴ The details of our reasons are set out in section 8.4.1 of attachment 8 of our draft decision. In this final decision, we have used the approved actual (conforming) as-commissioned capex for 2013–16 and the approved estimated (conforming) as-commissioned capex for 2017 for the TAB roll forward. Any difference between the actual and the estimated 2017 capex will be adjusted in the next access arrangement review.

in the draft decision, this final decision updates APA's revised proposed remaining tax asset lives for changes we made to the roll forward of the TAB for the 2013–17 access arrangement period and other inputs that affect the calculation of remaining tax asset lives in APA's revised proposed RFM. This includes our final decision amendments for our conforming capex assessment to account for APA's revision of actual capex in 2016 and estimated capex in 2017.

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

Tax asset class	Standard tax asset life	Remaining tax asset life as at 1 January 2018
Pipelines	20.0	16.9
Compressors	20.0	14.3
City gates and field regulators	20.0	14.0
Odorant plants	20.0	13.5
Gas quality	20.0	18.5
Other	7.5	5.9
General buildings	60.0	47.4
General land	n/a	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.