

DRAFT DECISION

Multinet Gas

Access arrangement

 2018 to 2022

Attachment 8 – Corporate income tax

July 2017

© Commonwealth of Australia 2017

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

* the Commonwealth Coat of Arms
* the ACCC and AER logos
* any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the:

Director, Corporate Communications
Australian Competition and Consumer Commission
GPO Box 4141, Canberra ACT 2601

or publishing.unit@accc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165

Email: AERInquiry@aer.gov.au

1. Note
2. This attachment forms part of the AER's draft decision on the access arrangement for Multinet Gas for 2018‑22. It should be read with all other parts of the draft decision.
3. The draft decision includes the following documents:
4. Overview

Attachment 1 - Services covered by the access arrangement

Attachment 2 - Capital base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency carryover mechanism

Attachment 10 - Reference tariff setting

Attachment 11 - Reference tariff variation mechanism

Attachment 12 - Non-tariff components

Attachment 13 - Demand

Attachment 14 - Other incentive schemes

1. Contents

[Note 8-2](#_Toc486838195)

[Contents 8-3](#_Toc486838196)

[Shortened forms 8-4](#_Toc486838197)

[8 Corporate income tax 8-5](#_Toc486838198)

[8.1 Draft decision 8-5](#_Toc486838199)

[8.2 Multinet’s proposal 8-6](#_Toc486838200)

[8.3 AER’s assessment approach 8-7](#_Toc486838201)

[8.3.1 Interrelationships 8-8](#_Toc486838202)

[8.4 Reasons for draft decision 8-10](#_Toc486838203)

[8.4.1 Transition to AER preferred straight-line tax depreciation 8-10](#_Toc486838204)

[8.4.2 Opening tax asset base as at 1 January 2018 8-10](#_Toc486838205)

[8.4.3 Standard tax asset lives 8-11](#_Toc486838206)

[8.4.4 Remaining tax asset lives as at 1 January 2018 8-12](#_Toc486838207)

[8.5 Revisions 8-15](#_Toc486838208)

1. Shortened forms

|  |  |
| --- | --- |
| 1. Shortened form
 | 1. Extended form
 |
| 1. AER
 | 1. Australian Energy Regulator
 |
| 1. ATO
 | Australian Tax Office |
| 1. capex
 | 1. capital expenditure
 |
| 1. CAPM
 | 1. capital asset pricing model
 |
| 1. CESS
 | 1. Capital Expenditure Sharing Scheme
 |
| 1. CPI
 | 1. consumer price index
 |
| 1. DRP
 | 1. debt risk premium
 |
| 1. ECM
 | (Opex) Efficiency Carryover Mechanism |
| 1. ERP
 | 1. equity risk premium
 |
| 1. Expenditure Guideline
 | Expenditure Forecast Assessment Guideline |
| 1. gamma
 | Value of Imputation Credits |
| 1. MRP
 | 1. market risk premium
 |
| 1. NGL
 | 1. National Gas Law
 |
| 1. NGO
 | 1. national gas objective
 |
| 1. NGR
 | 1. National Gas Rules
 |
| 1. NPV
 | net present value |
| 1. opex
 | 1. operating expenditure
 |
| 1. PTRM
 | 1. post-tax revenue model
 |
| 1. RBA
 | 1. Reserve Bank of Australia
 |
| 1. RFM
 | 1. roll forward model
 |
| 1. RIN
 | 1. regulatory information notice
 |
| 1. RPP
 | 1. revenue and pricing principles
 |
| 1. SLCAPM
 | 1. Sharpe-Lintner capital asset pricing model
 |
| 1. STTM
 | Short Term Trading Market |
| 1. TAB
 | Tax asset base |
| 1. UAFG
 | Unaccounted for gas |
| 1. WACC
 | 1. weighted average cost of capital
 |
| 1. WPI
 | Wage Price Index |

# Corporate income tax

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

## Draft decision

We accept Multinet’s proposed approach to calculate its forecast corporate income tax allowance. Multinet’s proposed approach is consistent with the AER’s post-tax revenue model (PTRM) for electricity service providers and the approach previously approved in gas access arrangement decisions. However, we do not accept Multinet’s proposed corporate income tax allowance of $101.3 million ($ nominal) for the 2018–22 access arrangement period. Our draft decision on Multinet’s corporate income tax allowance over the 2018–22 access arrangement period is $57.3 million ($ nominal). This represents a reduction of $44.0 million ($ nominal) or 43.5 per cent of Multinet’s proposed forecast corporate income tax allowance.

Our draft decision reflects amendments to Multinet’s proposed inputs for forecasting the cost of corporate income tax, including:

* the opening tax asset base (TAB) (section 8.4.2),
* standard tax asset lives (section 8.4.3)
* remaining tax asset lives (section 8.4.4)
* the value of imputation credits (gamma) (attachment 4).

Our adjustments to the rate of return on capital (attachments 2, 3 and 6)[[3]](#footnote-3), return of capital (attachment 5) and forecast opex (attachment 7) building block costs also affect revenues, which in turn impact the tax calculation.[[4]](#footnote-4)

In assessing Multinet’s proposal, we have had regard to the requirements of the NGO and the revenue and pricing principles.[[5]](#footnote-5) Table 8.1 sets out our draft decision on the estimated cost of corporate income tax allowance for Multinet over the 2018–22 access arrangement period.

Table 8.1 AER’s draft decision on corporate income tax allowance for Multinet ($million, nominal) over the 2018–22 access arrangement period

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
| Tax payable | 16.9 | 16.9 | 18.0 | 21.8 | 21.8 | 95.4 |
| Less: value of imputation credits | 6.7 | 6.8 | 7.2 | 8.7 | 8.7 | 38.2 |
| **Net corporate income tax allowance** | 10.1 | 10.1 | 10.8 | 13.1 | 13.1 | 57.3 |

Source: AER analysis.

## Multinet’s proposal

Multinet proposed a corporate income tax allowance of $101.3 million ($ nominal) for the 2018–22 access arrangement period as set out in Table 8.2. It used the AER’s PTRM to calculate the corporate income tax allowance for each year of the 2018–22 access arrangement period.[[6]](#footnote-6) In estimating its corporate income tax allowance, Multinet used the following inputs:

* an opening TAB of $484.6 million ($ nominal) as at 1 January 2018 (as shown in Table 8.3)
* an expected statutory income rate of 30 per cent per year
* a value for the assumed utilisation of imputation credits (gamma) of 0.25
* the standard tax asset lives broadly set equal to capital base standard asset lives
* remaining tax asset lives in existence as at 31 December 2017, set equal to capital base remaining asset lives.

Table 8.2 Multinet's proposed corporate income tax allowance for the 2018–22 access arrangement period ($million, nominal)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
| Tax payable | 23.5 | 22.1 | 29.2 | 30.1 | 30.1 | 135.0 |
| Less: value of imputation credits | 5.9 | 5.5 | 7.3 | 7.5 | 7.5 | 33.8 |
| **Net corporate income tax allowance** | **17.7** | **16.6** | **21.9** | **22.6** | **22.6** | **101.3** |

Source: Multinet, Proposed PTRM, December 2016.

Multinet’s proposed roll forward of its TAB over the 2013–17 access arrangement period is set out in Table 8.3.

Table 8.3 Multinet’s proposed tax asset base roll forward over the 2013–17 access arrangement period ($million, nominal)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2013 | 2014 | 2015 | 2016 | 2017 |
| Opening tax asset base | 371.5 | 386.8 | 397.2 | 415.0 | 449.9 |
| Capex | 61.7 | 57.8 | 65.7 | 85.2 | 88.2 |
| Less: tax depreciation | 46.3 | 47.4 | 47.9 | 50.3 | 53.6 |
| **Closing tax asset base** | **386.8** | **397.2** | **415.0** | **449.9** | **484.6** |

 Source: Multinet Gas - 0.6 - Tax Model - 20161221 - PUBLIC.

## AER’s assessment approach

Our approach to calculate Multinet’s cost of corporate income tax begins with an estimate of taxable income that would be earned by a benchmark efficient company operating Multinet’s pipeline. As part of this calculation, tax expenses such as interest and depreciation need to be estimated. Interest tax expense should be estimated using a benchmark 60 per cent gearing, rather than Multinet’s actual gearing. Tax depreciation is calculated using a separate TAB. All tax expenses (including other expenses such as operating expenditure) are offset against the service provider’s forecast revenue to estimate the taxable income. The statutory income tax rate of 30 per cent is then applied to the estimated taxable income to arrive at a notional amount of tax payable. We then apply a discount to that notional amount of tax payable to account for the value of imputation credits (gamma). The value of imputation credits attachment (attachment 4) details our draft decision on gamma. The discounted nominal amount of tax payable is then included as a separate building block in determining Multinet’s total revenue.[[7]](#footnote-7)

The corporate income tax allowance is an output of the AER’s PTRM, which has been adopted by Multinet. We have therefore assessed Multinet’s proposed corporate income tax allowance by analysing its proposed inputs to the PTRM for calculating the tax allowance. These inputs include:

* the opening TAB as at 1 January 2018
* the standard tax asset life for each asset class
* the remaining tax asset life for each asset class as at 1 January 2018
* the corporate income tax rate
* the value of imputation credits (gamma).

In assessing Multinet’s proposal, we have had regard to the NGO and the revenue and pricing principles.[[8]](#footnote-8)

The rules also require that any forecast must be arrived at on a reasonable basis and must represent the best forecast or estimate possible in the circumstances.[[9]](#footnote-9)

We consider that the roll forward of the opening TAB to 1 January 2018 should be based on the approved opening TAB as at 1 January 2013 and Multinet’s actual capex in the 2013–17 access arrangement period. We consider that the calculation of the tax depreciation should be based on the actual capex over the 2013–17 access arrangement period. The value of the actual capex used for rolling forward the TAB is subject to our assessment of these values as discussed in attachment 6.

We assess Multinet’s proposed standard tax asset lives, where appropriate, by comparing them against the values approved: in the 2013–17 access arrangement and for similar asset classes for other service providers, as well as those prescribed by the Commissioner for taxation in tax ruling 2016/1.[[10]](#footnote-10)

For the 2018–22 access arrangement period, Multinet has proposed to transition to our standard straight-line tax depreciation approach. Multinet's corporate income tax allowance for the 2013–17 access arrangement period was calculated based on a combination of straight-line depreciation for some tax asset classes and diminishing value depreciation for other tax asset classes. This is consistent with the method established by the previous regulator, the Essential Services Commission (ESC). Adoption of our standard approach requires the establishment of remaining tax asset lives at 1 January 2018. We have recently approved a method in our determination for Ausgrid and the Victorian electricity distribution network service providers to establish remaining tax asset lives for existing assets.[[11]](#footnote-11) This involves 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. We will assess Multinet's proposed remaining tax asset lives against the outcomes of this approved method.

### Interrelationships

The corporate income tax building block feeds directly into the annual revenue requirement. This tax allowance is determined by four factors:

* pre-tax revenues
* tax expenses (including tax depreciation)
* the corporate tax rate
* the value of imputation credits (gamma)—the expected proportion of company tax that is returned to investors through the utilisation of imputation credits—which offsets against the corporate income tax allowance. This is discussed further at attachment 4.

Of these four factors, the corporate tax rate is set externally by the Government. The higher the tax rate the higher the required tax allowance.

The pre-tax revenues depend on all the building block components. Any factor that affects revenue will therefore affect pre-tax revenues. Higher pre-tax revenues can increase the corporate income tax allowance.[[12]](#footnote-12) Depending on the source of the revenue increase, the tax increase may be equal to or less than proportional to the company tax rate.[[13]](#footnote-13)

The tax expenses depend on various building block components and their size. Some components give rise to tax expenses, such as opex, interest payments and tax depreciation of assets. However, others do not, such as increases in return on equity. Higher tax expenses offset revenues as deductions in the tax calculation and therefore reduce the tax allowance (all else being equal). Tax expenses include:

* Interest on debt – Interest is a tax offset. The size of which depends on the ratio of debt to equity and therefore the proportion of the capital base funded through debt. It also depends on the allowed return on debt and the size of the capital base.
* General expenses – In the main these expenses will match the opex allowance.
* Tax depreciation – A separate TAB is maintained for the service provider reflecting tax rules. This TAB is affected by many of the same factors as the capital base, such as capex, although unlike the capital base value it is maintained at its historical cost with no indexation. The TAB is also affected by the depreciation rate and/or asset lives assigned for tax depreciation purposes.

A ten per cent increase in the corporate income tax allowance would cause revenues to increase by about 0.9 per cent. Our draft decision gamma of 0.4 compared to the proposed gamma of 0.25 decreases the corporate income tax allowance by 24.4 per cent and total revenues by about 2.1 per cent.[[14]](#footnote-14)

## Reasons for draft decision

Our draft decision on Multinet’s corporate income tax allowance is $57.3 million ($ nominal), which is a reduction of $43.0 million ($nominal) or 43.5 per cent of Multinet’s proposal.

We accept Multinet’s proposed approach for calculating the corporate income tax allowance. However, we adjusted several inputs in Multinet’s proposed PTRM for calculating the corporate income tax allowance. These relate to:

* changes to the opening TAB as at 1 January 2018 (section 8.4.2)
* changes to the standard tax asset lives (8.4.3)
* changes to the remaining tax asset lives as at 1 January 2018 (section 8.4.4)
* changing the value of gamma to 0.4 from 0.25 (attachment 4)
* changes to other building block components, such as the rate of return on capital (attachments 2, 3 and 6)[[15]](#footnote-15), return of capital (attachment 5) and forecast opex (attachment 7) that affect revenues, which in turn impacts the tax calculation.[[16]](#footnote-16)

### Transition to AER preferred straight-line tax depreciation

We accept Multinet's proposal to transition to our preferred straight-line tax depreciation approach to calculate the corporate income tax allowance for the 2018–22 access arrangement period.

Multinet's corporate income tax allowance for the 2013–17 access arrangement period was calculated based on straight-line depreciation for some tax asset classes and diminishing value depreciation for other tax asset classes. This method was established by the previous regulator, the ESC, and adopted by the AER for the 2013–17 access arrangement period. Multinet's proposed PTRM uses our preferred straight-line depreciation approach to calculating tax depreciation as set out in our PTRM template. We consider this approach is consistent with the NGO and the revenue and pricing principles.[[17]](#footnote-17) Therefore, we accept Multinet's proposal to transition to the straight-line tax depreciation approach for the 2018–22 access arrangement period.

### Opening tax asset base as at 1 January 2018

We accept Multinet's approach to determine the opening TAB. This is because Multinet’s proposed approach is consistent with the approach previously approved for the 2013–17 access arrangement. However, we do not approve Multinet’s proposed opening TAB of $484.6 million ($nominal) as at 1 January 2018. We determine an opening TAB value of $484.3 million ($nominal) as at 1 January 2018. This is mainly because of our amendments to the actual net capex inputs in the proposed tax model.

We assessed the inputs Multinet used to roll forward the TAB over the 2013–17 access arrangement period. This includes the opening TAB as at 1 January 2013, and actual capex for 2012 and the 2013–17 access arrangement period.

We accept Multinet’s proposed opening TAB as at 1 January 2013 of $371.5 million ($nominal) because it is the approved opening TAB in the 2013–17 access arrangement.[[18]](#footnote-18) However, we have modified the actual capex inputs for 2013–17 to be net of asset disposals and adjusted for movements in capitalised provisions, as discussed in attachment 2. In its response to our information request, Multinet accepted these changes.[[19]](#footnote-19) With these changes we are satisfied the actual capex for 2012 and the 2013–17 period reflects the requirements of the NGR.[[20]](#footnote-20) Our detailed assessment of this conforming capex is set out in attachment 6.

Table 8.4 sets out our draft decision on the roll forward of Multinet’s TAB values.

Table 8.4 AER’s draft decision on Multinet's tax asset base roll forward for the 2013–17 access arrangement period ($million, nominal)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2013 | 2014 | 2015 | 2016 | 2017 |
| Opening tax asset base | 371.5 | 386.3 | 396.8 | 414.7 | 449.6 |
| Capex | 61.2 | 57.7 | 65.7 | 85.2 | 88.2 |
| Less: tax depreciation | 46.3 | 47.3 | 47.8 | 50.3 | 53.6 |
| Closing tax asset base | 386.3 | 396.8 | 414.7 | 449.6 | 484.3 |

Source: AER analysis.

### Standard tax asset lives

We approve the majority of Multinet’s proposed standard tax asset lives assigned to each of its asset classes for the 2018–22 access arrangement period. We do not accept Multinet's approach of setting the standard tax asset lives equal to capital base standard asset lives. This is because the capital base standard asset lives are based on the economic or technical service lives and may differ from the standard lives assigned for tax depreciation purposes. However, in this case we have reviewed the proposed standard tax asset lives and consider they are broadly consistent with the standard tax asset lives prescribed in the ATO's tax ruling 2016/1.[[21]](#footnote-21)

Our draft decision is to change the standard tax asset life for the 'Supply regs/valve stations' asset class to 40 years from 50 years and change the standard tax asset life for the 'SCADA' asset class to 10 years from 15 years. We consider these changes provide for the standard tax asset lives prescribed in the tax ruling 2016/1 that is consistent with the type of assets allocated to these asset classes. In its response to our information request, Multinet accepted these changes.[[22]](#footnote-22) We have also assigned a standard tax asset life of 5 years for the 'Equity Raising Costs' class. This is because the Australian Taxation Office (ATO) requires equity raising costs to be amortised over a five-year period on a straight-line basis.[[23]](#footnote-23)

Our draft decision on Multinet’s standard tax asset lives for each of its asset classes for the 2018–22 access arrangement period is set out in Table 8.5.

### Remaining tax asset lives as at 1 January 2018

Our 2013–17 access arrangement for Multinet did not contain remaining tax asset lives for depreciating its opening TAB as at 1 January 2013.[[24]](#footnote-24) Instead, it adopted the same tax depreciation methodology as used by the ESC for the 2008–12 access arrangement period to calculate tax depreciation over the 2013–17 access arrangement period. As discussed in section 8.4.1, we accept Multinet’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. This requires us to determine remaining tax asset lives for depreciating the opening TAB as at 1 January 2018.

We do not accept Multinet’s proposed method of setting the remaining tax asset lives equal to the capital base remaining lives as at 1 January 2018. Our preferred method involves 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, which we approved in our recent determinations for Ausgrid and the Victorian electricity distributors.[[25]](#footnote-25) We outlined our preferred method—which we consider provides reasonable estimates of remaining tax asset lives—in an information request and Multinet agreed with this approach in its response.[[26]](#footnote-26)

Our approach for calculating the remaining tax asset lives as at 1 January 2018 requires the remaining capital base asset life as at the same date. The change to the year-by-year tracking approach means that the capital base remaining lives are no longer recorded in the PTRM.[[27]](#footnote-27) However, capital base remaining lives are still estimated in the RFM for use in calculating the remaining tax asset lives as at 1 January 2018.[[28]](#footnote-28)

We have updated the proposed remaining tax asset lives to reflect our adjustments to Multinet's actual capex in its proposed RFM, as discussed in attachment 2. This is because the actual capex values are inputs for calculating the average remaining tax asset lives. We note we will also update the proposed remaining tax asset lives for the final decision for any changes to estimated capex.[[29]](#footnote-29)

We accept Multinet's tax treatment of assets associated with its mains replacement program. Multinet proposed accelerated depreciation — in the capital base — for those assets to be replaced over the 2018–22 access arrangement period and future periods. Conversely, it had not applied similar accelerated depreciation in its TAB for these assets and had instead assigned them remaining tax asset lives of 'n/a'. Multinet advised that this was because these assets are already fully depreciated for tax purposes.[[30]](#footnote-30)

Our draft decision on Multinet’s remaining tax asset lives for each of its asset classes for the 2018–22 access arrangement period is set out in Table 8.5.

Table 8.5 AER's draft decision on Multinet’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 and distribution | 50.0 | 34.0 |
| Pipeworks mains (New)a | n/a | n/a |
| LP Mains - residual (New)a | n/a | n/a |
| Services | 50.0 | 31.1 |
| Pipeworks services (New)a | n/a | n/a |
| LP services - residual (New) a | n/a | n/a |
| Cathodic protection | 50.0 | 45.1 |
| Supply regs/valve stations | 40.0 | 19.7 |
| Meters to 2017 | 15.0 | 7.0 |
| Meters from 2018 (New) | 15.0 | 15.0 |
| Landb | n/a | n/a |
| IT | 4.0 | 2.9 |
| SCADA | 10.0 | 9.7 |
| Other | 10.0 | 6.0 |
| Buildings | 35.0 | 33.2 |
| Equity raising costs | 5.0 | n/a |

Source: AER analysis.

n/a Not applicable.

(a) These asset classes relate to the retirement of existing pipes and services mains as part of Multinet's mains replacement program. These asset classes will not have any capex allocated to them in the 2018–22 access arrangement period or future periods and so their standard tax lives have been set to 'n/a'. Additionally, Multinet advised on 21 February 2017 that these assets have already been fully depreciated for tax purposes and for this reason their remaining tax asset lives have also been set to 'n/a'.

(b) Multinet has not forecast any capex allocated to the 'Land' asset class. For completeness, we consider that a standard tax asset life of ‘n/a’ should be assigned to this asset class for tax modelling purposes in the PTRM reflecting the non-depreciating nature of land capex.

## Revisions

We require the following revisions to make the access arrangement proposal acceptable:

|  |  |
| --- | --- |
|  |  |
| **Revision 8.1** | Make all necessary amendments to reflect this draft decision on the proposed corporate income tax allowance for the 2018–22 access arrangement period, as set out in Table 8.1. |
| **Revision 8.2** | Make all necessary amendments to reflect this draft decision on the opening tax asset base as at 1 January 2018, as set out in Table 8.4. |
| **Revision 8.3** | Make all necessary amendments to reflect this draft decision on the standard tax asset lives and remaining tax asset lives for the 2018–22 access arrangement period, as set out in Table 8.5. |

1. NGR, r. 76(c). [↑](#footnote-ref-1)
2. Multinet, *2018-2022* Access arrangement information, December 2016, pp. 147. [↑](#footnote-ref-2)
3. The forecast capex amount is a key input for calculating the return of and return on capital building blocks. Attachment 6 sets out our draft decision on Multinet's forecast capex. [↑](#footnote-ref-3)
4. The changes affecting revenues are discussed in the overview. [↑](#footnote-ref-4)
5. NGL, s 28; NGR r. 100(1). The NGO is set out in NGL, s. 23. The revenue and pricing principles are set out in NGL, s. 24. [↑](#footnote-ref-5)
6. Multinet, Proposed PTRM, December 2016 [↑](#footnote-ref-6)
7. NGR, r. 76(c). [↑](#footnote-ref-7)
8. NGL, s. 28; NGR, r. 100(1). The NGO is set out in NGL, s. 23. The revenue and pricing principles are set out in NGL, s. 24. [↑](#footnote-ref-8)
9. NGR, r. 74(2). [↑](#footnote-ref-9)
10. Australian Taxation Office, Taxation Ruling Income tax: effective life of depreciating assets (applicable from 1 July 2016): <https://www.ato.gov.au/law/view/view.htm?docid=%22TXR%2FTR20161%2FNAT%2FATO%2F00001%22> accessed 9 March 2017. [↑](#footnote-ref-10)
11. AER, Draft decision, Ausgrid distribution determination 2015–16 to 2018–19, Attachment 8: Corporate income tax, November 2014, pp. 17 to 19. AER, Preliminary decision, CitiPower distribution determination 2016 to 2020, Attachment 8: Corporate income tax, October 2015, pp. 13–14. [↑](#footnote-ref-11)
12. In fact, there is an iterative relationship between tax and revenues. That is, revenues lead to tax, being applied, which increases revenues and leads to slightly more tax and so on. The revenue model should therefore be set up to run an iterative process until the revenue and tax allowances become stable. [↑](#footnote-ref-12)
13. For example, although increased opex adds to revenue requirement, these expenses are also offset against the revenues as deductions in determining tax, so there is no net impact in this case. A higher return on equity, in contrast, gives rise to no offsetting tax expenses and therefore increases the tax allowance in proportion to the company tax rate. [↑](#footnote-ref-13)
14. We have analysed the sensitivity of the corporate income tax allowance relative to total revenue, and compared the effects of the two gamma values based on input data from Multinet's proposed PTRM. [↑](#footnote-ref-14)
15. The forecast capex amount is a key input for calculating the return of and return on capital building blocks. Attachment 6 sets out our draft decision on Multinet's forecast capex. [↑](#footnote-ref-15)
16. NGR, r. 87A. [↑](#footnote-ref-16)
17. NGL, s. 28; NGR, r. 100(1). The NGO is set out in NGL, s. 23. The revenue and pricing principles are set out in NGL, s. 24. [↑](#footnote-ref-17)
18. Actual capex for 2012 was available and used in the 2013—17 access arrangement decision following amendments which were made arising from a Tribunal appeal process and so there is no need to adjust the tax roll forward for the difference between forecast and actual 2012 capex. [↑](#footnote-ref-18)
19. Multinet, Response to information request - IR#07 - General modelling issues, 21 February 2017. [↑](#footnote-ref-19)
20. NGR, r. 79. We note that the capex determined in this draft decision for 2016 and 2017 are estimates. Therefore the ‘approved’ capex in this draft decision for 2016 and 2017 are placeholder amounts. We expect Multinet will provide actual capex for 2016 and the 2017 capex estimates may be revised based on more up to date information in its revised proposal. We will assess whether the actual capex for 2016 are conforming capex in our final decision. We will undertake the assessment of whether the 2017 amounts are conforming capex as part of the next access arrangement. [↑](#footnote-ref-20)
21. Australian Taxation Office, Taxation Ruling Income tax: effective life of depreciating assets (applicable from 1 July 2016): <https://www.ato.gov.au/law/view/view.htm?docid=%22TXR%2FTR20161%2FNAT%2FATO%2F00001%22> accessed 9 March 2017. [↑](#footnote-ref-21)
22. Multinet, Response to information request - IR#07 - General modelling issues, 21 February 2017. [↑](#footnote-ref-22)
23. ATO, Guide to depreciating assets 2001-02: Business related costs—section 40-880 deductions, ATO reference; NONAT7170, p. 25. [↑](#footnote-ref-23)
24. AER, Access arrangement draft decision, Multinet Gas (DB No.1) Pty Ltd, Multinet Gas (DB No.2) Pty Ltd 2013–17 Part 2 Attachments, Attachment 8 Corporate income tax, September 2012, pp. 185–194. [↑](#footnote-ref-24)
25. AER, Draft decision, Ausgrid distribution determination 2015–16 to 2018–19, Attachment 8: Corporate income tax, November 2014, pp. 17 to 19. AER, Preliminary decision, CitiPower distribution determination 2016 to 2020, Attachment 8: Corporate income tax, October 2015, pp. 13 to 14. [↑](#footnote-ref-25)
26. Multinet, Response to information request - IR#07 - General modelling issues, 21 February 2017. [↑](#footnote-ref-26)
27. Instead, as set out section 5.4.1 of attachment 5, the capital base depreciation amounts are calculated in a separate model and directly entered into the PTRM. [↑](#footnote-ref-27)
28. Having established the remaining tax asset lives as at 1 January 2018 for this access arrangement review, we consider that when rolling forward these remaining tax asset lives to 1 January 2023 at the next review our preferred weighted average method should be used. This method is described in our draft decision access arrangement for Australian Gas Networks (South Australia) for the 2016–21 period. AER, Draft Decision, Australian Gas Networks (South Australia) Access Arrangement 2016 to 2021, Attachment 8 – Corporate income tax, November 2015, pp. 8–9. [↑](#footnote-ref-28)
29. At the time of this draft decision, the roll forward of Multinet's TAB includes estimated capex values for 2016 and 2017. We will update the 2016 estimated capex values with the actual values for the final decision, and may further update the estimate of 2017 capex. The capex values are used to calculate the weighted average remaining tax asset lives. Therefore, for the final decision we will recalculate Multinet’s remaining tax asset lives as at 1 January 2018 using the method approved in this draft decision. [↑](#footnote-ref-29)
30. Multinet, Response to IR#07, 21 February 2017. [↑](#footnote-ref-30)