



FINAL DECISION
TransGrid transmission
determination
2015–16 to 2017–18

Attachment 8 – Corporate
income tax

April 2015

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Note

This attachment forms part of the AER's final decision on TransGrid's revenue proposal 2015–18. It should be read with other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 – maximum allowed revenue

Attachment 2 – regulatory asset 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 benefit sharing scheme

Attachment 10 – capital expenditure sharing scheme

Attachment 11 – service target performance incentive scheme

Attachment 12 – pricing methodology

Attachment 13 – pass through events

Attachment 14 – negotiated services

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Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	annual service revenue requirement
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
MAR	maximum allowed revenue
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider

Shortened form	Extended form
NTSC	negotiated transmission service criteria
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
TNSP	transmission network service provider
TUoS	transmission use of system
WACC	weighted average cost of capital

8 Corporate income tax

The AER is required to make a decision on the estimated cost of corporate income tax for TransGrid's 2014–18 period.¹ Under the post-tax framework, a corporate income tax allowance is calculated as part of the building block assessment using the post-tax revenue model (PTRM).

This attachment sets out our final decision on TransGrid's revised proposed corporate income tax allowance. It also presents our final decision on the revised proposed opening tax asset base (TAB), and the standard and remaining tax asset lives used to estimate tax depreciation for the purpose of calculating tax expenses.

8.1 Final decision

We accept TransGrid's proposed approach to estimating its cost of corporate income tax. We determine TransGrid's corporate income tax allowance to be \$101.5 million (\$ nominal) for the 2014–18 period. This represents a reduction of \$105.8 million (or 51.0 per cent) from TransGrid's revised proposal.

Our final decision differs from TransGrid's revised proposal due to our determination on TransGrid's proposed value of imputation credits (gamma) as discussed in attachment 4. Our determinations on other building block components including forecast capex (attachment 6) and forecast opex (attachment 7) affect revenues, which also impact the tax calculation.

Table 8-1 sets out our final decision on the estimated cost of corporate income tax allowance for TransGrid.

Table 8-1 AER's final decision on TransGrid's cost of corporate income tax allowance for the 2014–18 period (\$ million, nominal)

	2014–15	2015–16	2016–17	2017–18	Total
Tax payable	28.6	31.3	54.4	54.9	169.2
Less: value of imputation credits	11.4	12.5	21.8	22.0	67.7
Net corporate income tax allowance	17.1	18.8	32.6	33.0	101.5

Source: AER analysis.

¹ NER, cl. 6A.5.4(a)(4).

8.2 TransGrid's revised proposal

TransGrid's methodology for determining its corporate income tax is unchanged from its initial proposal. We accepted the approach in our draft decision. TransGrid has revised its corporate income tax allowance using the AER's PTRM and included the following inputs:²

- A revised opening TAB at 1 July 2014, reflecting updates for 2013–14 actual capex.
- Revised forecast capex.
- Revised forecast opex.

TransGrid also used the standard tax asset lives consistent with those approved in the draft decision and remaining tax asset lives reflecting updates for 2013–14 actual capex and a value for gamma of 0.25 consistent with its initial proposal.

Due to the revised inputs, TransGrid's corporate income tax allowance is \$23.2 million (or 10.1 per cent) lower in its revised proposal than in its initial proposal.

Table 8-2 sets out TransGrid's revised proposed corporate income tax allowance for the 2014–18 period.

Table 8-2 TransGrid's revised proposed corporate income tax allowance for the 2014–18 period (\$ million, nominal)

	2014–15	2015–16	2016–17	2017–18	Total
Tax payable	52.4	56.7	82.7	84.5	276.3
Less: value of imputation credits	13.1	14.2	20.7	21.1	69.1
Net corporate income tax allowance	39.3	42.5	62.0	63.4	207.2

Source: TransGrid, *Revised revenue proposal*, January 2015, p. 130.

8.3 AER's assessment approach

We did not change our assessment approach for the corporate income tax allowance from our draft decision. Section 8.3 of our draft decision details that approach.

² TransGrid, *Revised revenue proposal*, p.130; TransGrid, *Revised proposed PTRM*, January 2015.

8.4 Reasons for final decision

We do not accept TransGrid's revised proposed estimated cost of corporate income tax. We instead determine an estimated cost of corporate income tax of \$101.5 million (\$ nominal) for TransGrid, which represents a reduction of \$105.8 million (or 51.0 per cent) from its revised proposal.

This reduction is due to the adjustment of proposed inputs to the PTRM which affect the calculation of the taxable income, and therefore the estimated corporate income tax allowance:³

- The opening TAB value at the commencement of the 2014–18 period (section Opening tax asset base at 1 July 2014 8.4.1).
- The remaining tax asset lives (section 8.4.2).
- The value for gamma (attachment 4).
- Our determinations on other building block components, including forecast opex (attachment 7) and forecast capex (attachment 6).

We maintain our draft decision acceptance of the standard tax asset lives (section 8.4.2) inputs to the PTRM for tax purposes.⁴

8.4.1 Opening tax asset base at 1 July 2014

We determine TransGrid's opening TAB value as at 1 July 2014 to be \$3750.3 million (\$ nominal).

In the draft decision, we accepted TransGrid's proposed method for determining the opening TAB as at 1 July 2014, subject to updating for actual capex for 2013–14.

In its revised proposal, TransGrid updated its estimated capex for 2013–14 with actual capex in the roll forward model (RFM). As discussed in attachment 2, we identified a small discrepancy when reconciling these capex inputs with TransGrid's regulatory accounts. In response to our questions, TransGrid acknowledged that there was an indexation error applied in its revised proposal and resubmitted the corrected 2013–14 actual capex value.⁵ The correction results in a reduction of \$0.5 million to the revised proposed opening TAB value as at 1 July 2014. While this adjustment is small, we have decided to require the change because it was a clear clerical error.

Table 8-3 sets out our final decision on the roll forward of TransGrid's TAB values.

³ NER, cl. 6A.6.4.

⁴ AER, *TransGrid 2015-18 draft transmission determination*, November 2014, Attachment 8.

⁵ TransGrid, *Email response to information request by AER*, 27 January 2015.

Table 8-3 AER's final decision on TransGrid's TAB roll forward for the 2009–14 regulatory control period (\$ million, nominal)

	2009–10	2010–11	2011–12	2012–13	2013–14
Opening TAB	2718.0	2800.8	3001.4	3189.2	3382.8
Capital expenditure ^a	221.0	345.1	345.5	362.6	553.5
Tax depreciation	-138.3	-144.4	-157.7	-169.0	-185.9
Closing TAB	2800.8	3001.4	3189.2	3382.8	3750.3

Source: AER analysis.

(a) As commissioned, net of disposals.

8.4.2 Standard and remaining tax asset lives

Consistent with our draft decision, we accept TransGrid's proposed standard tax asset lives, which include the following changes to the standard tax asset lives for:

- 'Underground cables 2014–18' asset class (to 45 years from 50 years).
- 'Secondary systems 2014–18' asset class (to 15 years from 35 years).
- 'Communications 2014–18' asset class (to 10 years from 35 years).
- The new asset class 'Transmission line life extension' of 25 years.

In the draft decision, we accepted TransGrid's proposed weighted average method to calculate the remaining tax asset lives as at 1 July 2014. We noted that the remaining tax asset lives would be updated for the final decision because TransGrid's revised proposal would include revisions for 2013–14 actual capex. This is because the 2013–14 capex values are used to calculate the weighted average remaining tax asset lives in the RFM. Based on the further change to the 2013–14 capex as discussed in section 8.4.1 we have updated the remaining tax asset lives as at 1 July 2014 for this final decision.

We are satisfied the proposed standard and remaining tax asset lives are likely to provide an appropriate estimate of the tax depreciation amount for a benchmark efficient TNSP as required by the NER.⁶

Table 8-4 sets out our final decision on the standard and remaining tax asset lives as at 1 July 2014 for TransGrid.

⁶ NER, cl. 6A.6.4.

Table 8-4 AER's final decision on TransGrid's standard and remaining tax asset lives as at 1 July 2014 (years)

Asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2014
Transmission lines (pre 2004-05)	n/a	2.1
Underground cables (pre 2004-05)	n/a	34.6
Substations including buildings (pre 2004-05)	n/a	12.2
SCADA and communications (pre 2004-05)	n/a	0.4
Non-network assets (pre 2004-05)	n/a	n/a
SMHEA assets (pre 2004-05)	n/a	n/a
Transmission lines (2004-09)	n/a	44.1
Underground cables (2004-09)	n/a	36.4
Substations including buildings (2004-09)	n/a	33.8
SCADA and communications (2004-09)	n/a	8.8
Non-network assets (2004-09)	n/a	3.5
Transmission lines & cables (2009-14)	n/a	48.7
Substations (2009-14)	n/a	38.2
Secondary systems (2009-14)	n/a	33.5
Communications (2009-14)	n/a	33.4
Business IT (2009-14)	n/a	3.0
Minor plant, motor vehicles & mobile plant (2009-14)	n/a	6.2
Equity raising costs (2009-14)	n/a	36.6
Transmission lines (2014-18)	50.0	n/a
Underground cables (2014-18)	45.0	n/a
Substations (2014-18)	40.0	n/a
Secondary systems (2014-18)	15.0	n/a
Communications (short life) (2014-18) ^a	10.0	n/a
Business IT (2014-18)	4.0	n/a
Minor plant, motor vehicles & mobile plant (2014-18)	8.0	n/a
Transmission line life extension (2014-18)	25.0	n/a
Equity raising costs (2014-18) ^b	n/a	n/a
Land and easements	n/a	n/a

Source: AER analysis.

- n/a: Not applicable. The asset classes ending with '(pre 2004-05)'; '(2004-09)'; and '(2009-14)' do not have assigned standard tax asset lives because forecast capex is no longer allocated to them.
- (a) As discussed in our draft decision attachment 5, we have changed the name of this asset class to 'Communications (short life) 2014–18' to better reflect the nature of the assets allocated to this asset class.
- (b) For this final decision, TransGrid does not satisfy the requirements to incur benchmark equity raising costs associated with its forecast capex for the 2014–18 period. Therefore, a standard tax asset life for equity raising costs (2014–18) is not required.