FINAL DECISION
Australian Gas Networks (SA) Access Arrangement

2021 to 2026

Attachment 7
Corporate income tax

April 2021

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's final decision on the access arrangement that will apply to Australian Gas Networks (SA) ('AGN') for the 2021–26 access arrangement period. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 2 – Capital base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency carryover mechanism

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7 Corporate income tax

Our determination of the total revenue for AGN includes the estimated cost of corporate income tax for AGN's 2021–26 access arrangement period.[1] Under the post-tax framework, a corporate income tax amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM). This attachment presents our assessment of AGN's proposed corporate income tax amount for the 2021–26 access arrangement period. It also presents our assessment of its proposed opening tax asset base (TAB), and the standard tax asset lives used to estimate tax depreciation for the purpose of calculating tax expenses.

7.1 Final decision

Our final decision on AGN's estimated cost of corporate income tax is zero over the 2021–26 access arrangement period. This is consistent with AGN's revised proposal and our draft decision.

We expect AGN to incur a forecast tax loss over the 2021–26 access arrangement period.[2] We have determined that $126.2 million in tax losses as at 30 June 2026 will be carried forward to the 2026–31 access arrangement period where it can be used to offset future tax liabilities. The forecast tax losses arise because AGN's forecast tax expenses will exceed its revenue for tax assessment purposes over the 2021–26 access arrangement period. This is mostly due to the implementation of our findings from the 2018 *Review of the regulatory tax approach*, where the introduction of immediate expensing of capital expenditure (capex) and diminishing value method of tax depreciation have resulted in a significant increase of forecast tax depreciation.[3]

For this final decision, we determine an opening TAB value as at 1 July 2021 of $868.2 million ($nominal). This value is $5.9 million lower than AGN's revised proposal of $874.1 million ($nominal). This difference is mainly due to a revision to AGN's estimated IT capex for 2020–21.

Our final decision confirms our acceptance of AGN's approach to forecasting its cost of corporate income tax for the 2021–26 access arrangement as set out in the PTRM. We accept AGN's revised proposal on the standard tax asset lives for all of its asset classes and use of the year-by-year tracking method to estimate forecast tax depreciation over the 2021–26 access arrangement period for the purpose of calculating tax expenses, consistent with our draft decision.

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1 National Gas Rules (NGR), r. 76(c).

2 A forecast tax loss occurs when the forecast assessable income is lower than the forecast tax expense. In this event no tax is payable. Any residual amount of tax loss will be carried forward over to future access arrangement periods to offset future taxable income until the tax loss is fully exhausted.

3 The third key finding from the 2018 tax review relates to capping tax lives for gas assets to 20 years. However, AGN has historically assigned tax asset lives of 20 years or less to its asset classes, hence this change does not affect AGN.

We also accept the revised proposed amount of forecast immediate expensing of capex, consistent with our final decision on the revised proposed capex amounts associated with the mains replacement program (attachment 5). We will collect actual data relating to this expenditure in our annual reporting regulatory information notice (RIN) to further inform our decision on the amount of forecast immediate expensing of capex in the next review for AGN.

In the draft decision, we accepted:[4]

- AGN's proposed opening TAB value as at 1 July 2021 subject to some minor input updates
- AGN's proposed standard tax asset lives for all of its asset classes and use of the year-by-year tracking method to estimate forecast tax depreciation
- AGN's proposed method of forecasting its immediate expensing of its capex over the 2021–26 access arrangement period. However, we revised the amounts due to our draft decision reducing the associated forecast mains replacement capex.

Our draft decision also included an amount of accelerated tax depreciation in response to AGN's proposal to accelerate the depreciation of assets from its capital base that will be (or are forecast to be) replaced.

AGN's revised proposal adjusted its forecast immediate expensing amounts in line with the revised proposed mains replacement capex. AGN has also adopted our draft decision updates to the opening TAB. It made further updates to reflect revisions for estimated capex.[5]

Opening tax asset base as at 1 July 2021

For our final decision, we determine an opening TAB value as at 1 July 2021 of $868.2 million ($nominal). This value is $5.9 million lower than AGN's revised proposal of $874.1 million ($nominal) and is $45.2 million ($nominal) lower than our draft decision.

In our draft decision, we accepted AGN's proposed method to establish the opening TAB as at 1 July 2021. However, we updated the actual capex, asset disposal and capital contributions added to the TAB to reflect the historical annual reporting regulatory information notice that was lodged after AGN's submission of its initial proposal. We also included a final year asset adjustment to reflect the reallocation of the remaining tax values of AGN's replaced assets undergoing accelerated depreciation. We noted that the opening TAB may be updated to reflect actual capex for 2019–20 and any revised 2020–21 capex estimates as part of the final decision.[6]

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4 AER, *Draft decision, Australian Gas Networks access arrangement 2021–26, Attachment 7 - Corporate income tax*, November 2020, p. 13.

5 AGN, *Revised Final Plan 2021–26, Attachment 1.4A - PTRM*, 13 January 2021.

6 AER, *Draft decision, Australian Gas Networks access arrangement 2021–26, Attachment 7 - Corporate income tax*, November 2020, pp. 15–16.

AGN's revised proposal adopted the amendments we made to the opening TAB value in the draft decision in full. It also updated the 2019–20 estimated capex with actuals and revised the 2020–21 estimate of capex with the latest figures.[7]

For the reasons discussed in attachment 2, we have updated the 2019–20 actual capex and capital contributions for a number of asset classes in the RFM to be consistent with the annual RIN. We have also accepted AGN's further revision to its estimated IT capex for 2020–21 subsequent to its revised proposal. As a result of this revision, our final decision for AGN's 2020–21 estimated capex is $5.9 million ($nominal) lower than its revised proposal of $122.7 million ($nominal). We will update the 2020–21 estimated capex for actuals at the next access arrangement review.

Table 7.1 sets out our final decision on the roll forward of AGN's TAB values over the 2016–21 access arrangement period.

Table 7.1 AER'S final decision on AGN's TAB roll forward for the 2016–21 access arrangement period

	2016–17	2017–18	2018–19	2019–20	2020–21[a]
Opening TAB	576.3	636.5	698.3	758.7	809.7
Capital expenditure[b]	98.8	105.6	109.6	103.0	116.8
Less: tax depreciation	38.5	43.8	49.2	52.0	58.3
Closing TAB	636.5	698.3	758.7	809.7	868.2

Source: AER analysis.

(a) Based on estimated capex.

(b) Net of disposals.

Standard tax asset lives

For this final decision, we accept AGN's revised proposed standard tax asset lives for all of its asset classes. They are consistent with our draft decision, and we confirm our position that the standard asset lives are broadly consistent with the values prescribed by the Commissioner for taxation in ATO ruling 2020/3 and the Income Tax Assessment Act (ITAA).[8]

Table 7.2 sets out our final decision on the standard tax asset lives for AGN. We are satisfied that the standard tax asset lives are appropriate for application over the 2021–26 access arrangement period. We are also satisfied that the standard tax asset lives provide an estimate of the tax depreciation amount that would be consistent with the

7 AGN, *Revised Final Plan 2021–26, Attachment 1.2A - Roll Forward Model*, 13 January 2021.

8 ATO, *Taxation Ruling TR2020/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2020)*. p. 181. They are also consistent with the statutory cap on the effective life of 20 years for gas pipeline assets under the ITAA.

tax expenses used to estimate the annual taxable income for a benchmark efficient service provider.[9]

Table 7.2 AER's final decision on AGN's standard tax asset lives (years)

Tax asset class[a]	Standard tax asset life
Mains	20.0
Inlets	20.0
Meters	15.0
Telemetry	10.0
IT system	4.0
Other distribution system equipment	20.0
Other	10.0
Low pressure mains depreciation	n/a
Low pressure inlets depreciation	n/a

Source: AER analysis.

(a) All asset classes apply the diminishing value method of tax depreciation for new capex.

n/a Not applicable. We have not assigned a standard tax asset life to the 'Low pressure mains depreciation' and 'Low pressure inlets depreciation' asset classes because they have no new capex allocated to them for the 2021–26 access arrangement period. This is because the assets within these asset classes were reallocated from the 'Mains' and 'Inlets' asset classes for accelerated tax depreciation purposes. We expect the residual tax value for these asset classes will be fully depreciated over the 2021–26 period.

7.2 Assessment approach

We did not change our assessment approach for the cost of corporate income tax from our draft decision. Attachment 7 (section 7.3) of our draft decision details that approach.[10]

9 NGR, r. 87A(1).

10 AER, *Australian Gas Networks access arrangement 2021–26, Attachment 7 - Corporate income tax*, November 2020, pp. 6–13.

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
CCP/CCP24	Consumer Challenge Panel, sub-panel 24
capex	capital expenditure
ITAA	Income Tax Assessment Act 1997
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
PTRM	post tax revenue model
RFM	roll forward model
RIN	regulatory information notice
TAB	tax asset base