



FINAL DECISION
Evoenergy
Access Arrangement

2021 to 2026

Attachment 7
Corporate income tax

April 2021

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Note

This attachment forms part of the AER's final decision on the access arrangement that will apply to Evoenergy 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 7 – Corporate income tax

Attachment 12 – Demand

Attachment 13 – Capital expenditure sharing scheme

Contents

| | |
|------------------------------|---|
| Note | 2 |
| Contents | 3 |
| 7 Corporate income tax..... | 4 |
| 7.1 Final decision | 4 |
| 7.2 Assessment approach..... | 8 |
| Shortened forms | 9 |

7 Corporate income tax

Our determination of the total revenue for Evoenergy includes the estimated cost of corporate income tax for Evoenergy'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 Evoenergy's proposed corporate income tax amount for the 2021–26 period. It also presents our assessment of its 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.

7.1 Final decision

Our final decision on Evoenergy's estimated cost of corporate income tax is \$2.9 million (\$ nominal) over the 2021–26 period. This decision represents an increase of \$1.4 million (89.6 per cent) from Evoenergy's revised proposed cost of corporate income tax of \$1.5 million.

The estimated cost of corporate income tax is impacted by our decision on other building block components. The higher corporate income tax we determined is due to:

- a lower expected inflation rate through our implementation of the findings of our 2020 inflation review² (Attachment 3)³
- our final decision to apply an updated return on equity (Attachment 3).⁴

For this final decision, we accept Evoenergy's revised proposal and determine an opening TAB value as at 1 July 2021 of \$259.5 million.

Our final decision is to accept Evoenergy's approach to forecasting its cost of corporate income tax for the 2021–26 period as set out in the PTRM. This includes our draft decision to accept Evoenergy's proposal of zero forecast immediate expensing of capex for the 2021–26 period. We are satisfied that Evoenergy has not immediately expensed capex for tax purposes historically and therefore its forecast of zero over the 2021–26 period is consistent with its current practice. We will collect actual data relating to this expenditure in our annual reporting regulatory information notice (RIN) to further inform our decision on the forecast for the immediate expensing of capex in the next review for Evoenergy.

¹ NGR, r. 76(c).

² AER, *Final position, Regulatory treatment of inflation*, December 2020.

³ All else equal, a lower expected inflation rate will increase the cost of corporate income tax because it increases the forecast regulatory depreciation, a component of the taxable income.

⁴ All else equal, a higher rate of return on equity will increase the cost of corporate income tax because it increases the return on the equity portion of the capital base, a component of the taxable income.

We also accept Evoenergy’s revised proposal on the standard and remaining tax asset lives for all of its asset classes to estimate forecast tax depreciation over the 2021–26 period for the purposes of calculating tax expenses, consistent with our draft decision.

Table 7.1 sets out our final decision on the estimated cost of corporate income tax for Evoenergy over the 2021–26 period.

Table 7.1 AER’s final decision on Evoenergy’s cost of corporate income tax for the 2021–26 access arrangement period (\$ million, nominal)

| | 2020–21 | 2021–22 | 2022–23 | 2023–24 | 2024–25 | Total |
|---|------------|------------|------------|------------|------------|------------|
| Tax payable | 1.5 | 1.4 | 1.3 | 1.4 | 1.5 | 7.0 |
| Less: value of imputation credits | 0.9 | 0.8 | 0.8 | 0.8 | 0.9 | 4.1 |
| Net corporate income tax allowance | 0.6 | 0.6 | 0.5 | 0.6 | 0.6 | 2.9 |

Source: AER analysis.

In our draft decision, we accepted:⁵

- Evoenergy’s opening TAB value as at 1 July 2021 subject to some minor input updates
- Evoenergy’s proposed standard tax asset lives for all of its asset classes and the continuation of using the weighted average method to calculate remaining tax asset lives for estimating the forecast tax depreciation
- Evoenergy’s implementation of the findings of our 2018 tax review, in particular applying a 20 year cap on the tax asset lives for certain classes of new gas assets.⁶

Evoenergy’s revised proposal adopted our draft decision updates to the opening TAB, while updating 2019–20 net capex for actuals.⁷

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 \$259.5 million (\$ nominal). This value is consistent with Evoenergy’s revised proposal and is \$0.8 million (0.3 per cent) lower than our draft decision.

In our draft decision, we accepted Evoenergy’s proposed method to establish the opening TAB as at 1 July 2021. However, we made minor adjustments to the 2014–15 actual capex added to the TAB to reflect the annual reporting RIN for that year. We

⁵ AER, *Draft decision, Evoenergy access arrangement 2021–26, Attachment 7 – Corporate income tax*, November 2020, pp. 13–14.

⁶ AER, *Final report: Review of regulatory tax approach*, December 2018.

⁷ Evoenergy, *Attachment 1.2 – Summary of responses to AER’s Draft Decision, Revised GN21 plan – Response to the draft decision, ACT and Queanbeyan-Palerang gas network 2021–26*, January 2021, p. 1.

subsequently updated the proposed remaining tax asset lives to reflect our adjustments to the opening TAB value. We noted in our draft decision 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.⁸

Evoenergy’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.

For the reasons discussed in Attachment 2, we have reviewed the revised 2019–20 actual capex and capital contributions figures, and are satisfied that they are consistent with the annual RIN for that year. We have also confirmed with Evoenergy that its initial proposed estimated capex for 2020–21 remains appropriate.⁹ We will update the 2020–21 estimated capex for actuals at the next access arrangement review.

Table 7.2 sets out our final decision on the roll forward of Evoenergy’s TAB values over the 2016–21 period.

Table 7.2 AER’s final decision on Evoenergy’s TAB roll forward for the 2016–21 access arrangement period

| | 2015–16 ^a | 2016–17 | 2017–18 | 2018–19 | 2019–20 | 2020–21 ^b |
|----------------------------------|----------------------|--------------|--------------|--------------|--------------|----------------------|
| Opening TAB | 231.4 | 237.7 | 245.5 | 248.4 | 252.4 | 255.8 |
| Capital expenditure ^c | 17.1 | 19.2 | 13.3 | 13.9 | 13.9 | 14.8 |
| Less: tax depreciation | 10.8 | 11.4 | 10.4 | 9.9 | 10.5 | 11.1 |
| Closing TAB | 237.7 | 245.5 | 248.4 | 252.4 | 255.8 | 259.5 |

Source: AER analysis.

- (a) The 2015–16 capex is included in the roll forward period as it was an interval of delay.
- (b) Based on estimated capex.
- (c) Net of disposals.

Standard and remaining tax asset lives as at 1 July 2021

For this final decision, we accept Evoenergy’s revised proposed standard and remaining tax asset lives for all its asset classes. Evoenergy’s revised proposed standard tax asset lives are consistent with our draft decision, and we confirm our position that they are broadly consistent with the values prescribed by the

⁸ AER, *Draft decision, Evoenergy access arrangement 2021–26, Attachment 7 – Corporate income tax*, November 2020, p. 16.

⁹ Evoenergy, *Response to AER information request IR019 RFM PTRM modelling issues (question 2 revised)*, 29 March 2021.

Commissioner for taxation in ATO ruling 2020/3 and the Income Tax Assessment Act (ITAA).¹⁰

Consistent with the draft decision, we also accept Evoenergy's revised proposal to apply the weighted average method for calculating the remaining tax asset lives as at 1 July 2021. This method is a continuation of the approved approach used in the 2016–21 period and applies the approach as set out in our roll forward model. Consequently, our final decision is to accept Evoenergy's revised proposed remaining asset lives.

Table 7.3 sets out our final decision on the standard and remaining tax asset lives for Evoenergy. We are satisfied that these lives are appropriate for application over the 2021–26 period. We are also satisfied these lives provide an estimate of the tax depreciation amount that would be consistent with the tax expenses used to estimate the annual taxable income for a benchmark efficient service provider.¹¹

¹⁰ 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.

¹¹ NGR, r. 87A(1).

Table 7.3 AER’s final decision on Evoenergy’s standard and remaining tax asset lives as at 1 July 2021 (years)

| Asset class | Standard tax asset life ^a | Remaining tax asset lives as at 1 July 2021 ^b |
|---------------------------------|--------------------------------------|--|
| HP mains | 20.0 | 39.5 |
| HP services | 20.0 | 23.8 |
| MP mains | 20.0 | 27.0 |
| MP services | 20.0 | 23.8 |
| TRS & DRS – valves & regulators | 20.0 | 33.7 |
| Contract meters | 15.0 | 14.1 |
| Tariff meters | 15.0 | 11.3 |
| Regulatory costs | 5.0 | n/a |
| IT system | 5.0 | n/a |
| Land and easement | n/a | n/a |

Source: AER analysis.

(a) All new assets use the diminishing value method of tax depreciation.

(b) Used for straight-line method of tax depreciation.

n/a Not applicable. We have not assigned a standard tax asset life and remaining tax asset life to the 'Land and easement' asset class because the assets allocated to it are non-depreciating. We also have not assigned a remaining tax asset life to the 'Regulatory costs' and 'IT system' asset classes because they have no opening TAB values as at 1 July 2021.

7.2 Assessment approach

We have not changed 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.¹²

¹² AER, *Draft decision, Evoenergy access arrangement 2021–26, Attachment 7 – Corporate income tax*, November 2020, pp. 6–13.

Shortened forms

| Shortened form | Extended form |
|----------------|-------------------------------|
| AER | Australian Energy Regulator |
| ATO | Australian Taxation Office |
| HP | High pressure |
| ITAA | Income Tax Assessment Act |
| MP | Medium pressure |
| NGR | National Gas Rules |
| PTRM | Post-tax revenue model |
| RIN | Regulatory information notice |
| TAB | Tax asset base |