



FINAL DECISION
Amadeus Gas Pipeline
Access Arrangement
2016 to 2021

Attachment 8 – Corporate
income tax

May 2016

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Note

This attachment forms part of the AER's final decision on the access arrangement for the Amadeus Gas Pipeline for 2016–21. It should be read with all other parts of the final decision.

The final decision includes the following documents:

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

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Shortened forms

Shortened form	Extended form
AA	Access Arrangement
AAI	Access Arrangement Information
APTNT	APT Pipelines (NT) Pty Limited (APTNT)
AER	Australian Energy Regulator
AGP	Amadeus Gas Pipeline
ATO	Australian Tax Office
capex	capital expenditure
CAPM	capital asset pricing model
CPI	consumer price index
DRP	debt risk premium
ECM	Efficiency carryover mechanism
ERP	equity risk premium
Expenditure Guideline	Expenditure Forecast Assessment Guideline
gamma	value of imputation credits
GTA	Gas Transport Services Agreement
MRP	market risk premium
NGP	Northern Gas Pipeline (formerly North East Gas Interconnector/NEGI)
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RBA	Reserve Bank of Australia
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
TAB	tax asset base
UAFG	unaccounted for gas

Shortened form	Extended form
WACC	weighted average cost of capital
WPI	Wage Price Index

8 Corporate income tax

When determining the total revenue for APTNT, we must estimate APTNT's cost of corporate income tax.¹ APTNT has adopted the post-tax framework to derive its revenue requirement for the 2016–21 access arrangement period.² 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 APTNT's revised proposed cost of corporate income tax of \$3.3 million (\$nominal) for the 2016–21 access arrangement period. This is mainly a consequence of our adjustments to APTNT's proposed value of imputation credits–gamma–(attachment 4) and other building block costs that affect revenues, such as the rate of return on capital (attachment 3) and forecast capex (attachment 6).³

We approve APTNT's proposed method to roll forward the tax asset base (TAB) because it is consistent with the AER's roll forward model (RFM) for electricity service providers and the approach previously approved in gas access arrangement decisions. However, we do not approve APTNT's revised proposed opening TAB value of \$42.5 million (\$nominal) as at 1 July 2016 due to adjustments we have made to conforming capex for 2015–16. Instead we determine an opening TAB value of \$40.2 million (\$nominal).

Our adjustments result in an estimated cost of corporate income tax of \$1.5 million (\$nominal) for APTNT as shown in Table 8.1.

We have revised the access arrangement having regard to our reasons for refusing to approve APTNT's proposal and the further matters identified in the NGR section 64(2). Our revisions are reflected in the *Approved Access Arrangement for the Amadeus Gas Pipeline 1 July 2016 to 30 June 2021*, May 2016, which gives effect to this decision.

¹ NGR, r. 76(c).

² APTNT, *Amadeus Gas Pipeline Access Arrangement Information*, January 2016, p. 27.

³ Changes to other building block costs affect revenues, which also impact the tax calculation.

Table 8.1 AER’s final decision on corporate income tax allowance for APTNT (\$million, nominal)

	2016–17	2017–18	2018–19	2019–20	2020–21	Total
Tax payable	0.5	0.5	0.5	0.5	0.6	2.6
Less: value of imputation credits	0.2	0.2	0.2	0.2	0.2	1.0
Net corporate income tax allowance	0.3	0.3	0.3	0.3	0.3	1.5

Source: AER analysis.

8.2 APTNT’s revised proposal

APTNT’s revised proposal forecast a cost of corporate income tax of \$3.3 million (\$nominal) for the 2016–21 access arrangement period. APTNT’s methodology for determining its corporate income tax is unchanged from its initial proposal.

APTNT adopted the methodology accepted in our draft decision to determine the revised proposed TAB at 1 July 2016. The TAB was updated for APTNT’s 2015–16 revised estimate of capex.

APTNT’s revised proposed TAB roll forward over the 2011–16 access arrangement period is set out in Table 8.2.

Table 8.2 APTNT’s revised proposed tax asset base roll forward over the current 2011–16 access arrangement period (\$million, nominal)

	2011–12	2012–13	2013–14	2014–15	2015–16
Opening tax asset base	9.3	11.8	26.0	27.9	30.0
Capex	4.1	15.8	3.8	4.0	14.8
Tax depreciation	–1.6	–1.5	–1.9	–2.0	–2.3
Closing tax asset base	11.8	26.0	27.9	30.0	42.5

Source: APTNT, *Revised proposed RFM*, January 2016.

Applying the same approach accepted in the draft decision, APTNT’s revised proposal calculated the corporate income tax over the 2016–21 access arrangement period using the following inputs:

- Revised opening TAB at 1 July 2016 of \$42.5 million (\$nominal) reflecting updates for 2015–16 estimated capex.
- An expected statutory income tax rate of 30 per cent per year.
- A value for the assumed utilisation of imputation credits (gamma) of 0.25 which is consistent with its initial proposal.

- The standard tax asset lives as approved in the 2011–16 access arrangement period.
- Revised remaining tax asset lives which are calculated using a weighted average remaining life approach as contained in its revised proposed RFM.
- Revised forecast capex.
- Revised forecast opex.

For the 2016–21 access arrangement period, APTNT's revised proposal forecast a total corporate income tax cost of \$3.3 million (\$nominal) as set out in Table 8.3.

Table 8.3 APTNT's revised proposed corporate income tax allowance for the 2016–21 access arrangement period (\$million, nominal)

	2016–17	2017–18	2018–19	2019–20	2020–21	Total
Tax payable	0.9	0.8	0.9	0.9	0.9	4.5
Less: Value of imputation credits	0.2	0.2	0.2	0.2	0.2	1.1
Net corporate income tax allowance	0.7	0.6	0.7	0.7	0.7	3.3

Source: APTNT, *Revised proposed PTRM*, January 2016.

Note: Numbers may not add due to rounding.

8.3 AER's assessment approach

We have not changed our assessment approach for the corporate income tax from our draft decision. Section 8.3 of our draft decision details that approach.⁴

8.4 Reasons for final decision

Our final decision on APTNT's corporate income tax allowance is \$1.5 million (\$nominal), which is a reduction of \$1.8 million or 53.8 per cent of APTNT's revised proposal.

Consistent with our draft decision, we accept APTNT's proposed approach for calculating the corporate income tax allowance. In accepting the approach, we have updated several inputs to APTNT's revised proposed PTRM for calculating the cost of corporate income tax for the 2016–21 access arrangement period. These relate to:

- Changing the value of gamma to 0.4 from 0.25 (attachment 4).
- Changes to other building block components including the rate of return on capital (attachment 3) and forecast capex (attachment 6) that impact total revenues and therefore also impact the forecast corporate income tax allowance.⁵

⁴ AER, *Draft decision, attachment 8*, November 2015, pp. 11–12.

8.4.1 Opening tax asset base as at 1 July 2016

Consistent with the draft decision, we accept APTNT's proposed method to roll forward the TAB. However, we do not approve the revised proposed opening TAB of \$42.5 million (\$nominal) as at 1 July 2016. We instead determined an opening TAB of \$40.2 million (\$nominal). This amendment is due to input changes we made to APTNT's revised estimate of capex for 2015–16.

In our draft decision, we accepted APTNT's proposed method to establish the opening TAB at 1 July 2016 because APTNT's approach is consistent with the AER's RFM for electricity service providers and the approach previously approved in other gas access arrangement decisions. However, we amended APTNT's proposed opening TAB for adjustments we made to conforming capex for 2015–16 and the remaining tax asset lives. We noted that the capex inputs for 2015–16 may be updated in the revised proposal based on more up to date information.

APTNT's revised proposal adopted our draft decision adjustments to roll forward the opening TAB from 1 July 2011 to 30 June 2016. It also updated the values for the estimate of 2015–16 conforming capex.⁶

In our final decision we have updated the 2015–16 estimate of conforming capex in the RFM to reflect our final decision on conforming capex in 2015–16. Our detailed assessment of conforming capex is set out in attachment 6.

Table 8.4 sets out our final decision on the roll forward of APTNT's TAB values.

Table 8.4 AER's final decision on APTNT's tax asset base roll forward for the 2011–16 access arrangement period (\$million, nominal)

	2011–12	2012–13	2013–14	2014–15	2015–16
Opening tax asset base	9.3	11.8	26.0	27.9	30.0
Capex	4.1	15.8	3.8	4.0	12.6
Tax depreciation	-1.6	-1.5	-1.9	-2.0	-2.3
Closing tax asset base	11.8	26.0	27.9	30.0	40.2

Source: AER analysis.

8.4.2 Standard tax asset lives

Consistent with our draft decision, we approve APTNT's proposed standard tax asset lives assigned to each of its asset classes for the 2016–21 access arrangement period. This is because they are consistent with the statutory cap on the effective life of gas

⁵ NGR, r. 87A.

⁶ APTNT, *Revised proposed RFM*, January 2016.

transmission assets under the *Income Tax Assessment Act (ITAA) 1997*, and with the standard tax asset lives prescribed in the Tax Ruling 2015/2.⁷ The proposed standard tax asset lives are also consistent with the approved standard tax asset lives in the 2011–16 access arrangement.⁸

In our draft decision, we decided to create a 'Land and easement' asset class for APTNT's forecast land capex in the 2016–21 access arrangement period.⁹ We did not apply a standard tax asset life to this new asset class for tax depreciation purposes ("n/a" is assigned for tax depreciation modelling purposes in the PTRM). This is because land and easement are non-depreciating assets, and therefore should not have a standard tax asset life for tax depreciation purposes. This approach is consistent with Australian accounting standards and ATO's treatment for such assets.¹⁰ APTNT's revised proposal adopted our draft decision on the 'Land and easement' asset class.¹¹

Table 8.5 sets out our final decision on the standard tax asset lives for APTNT.

8.4.3 Remaining tax asset lives as at 1 July 2016

Consistent with our draft decision, we accept APTNT's proposed weighted average method to calculate remaining tax asset lives at 1 July 2016. In accepting the weighted average method, we have updated APTNT's remaining tax asset lives as at 1 July 2016 for this final decision.

In our draft decision, we accepted APTNT's proposed weighted average method for calculating the remaining tax asset lives at 1 July 2016 which is consistent with our preferred approach. We updated APTNT's remaining tax asset lives as at 1 July 2016 to reflect our amendments to the remaining tax asset lives inputs as at 1 July 2011 and to the opening tax asset values in the proposed RFM. APTNT adopted these amendments in its revised proposal.¹²

We also noted in our draft decision that the remaining tax asset lives may be recalculated for the final decision because of updates to APTNT's 2015–16 capex estimates in the TAB roll forward. The 2015–16 capex values are inputs used to calculate the weighted average remaining tax asset lives.¹³ Based on the revisions for 2015–16 capex in the TAB roll forward as discussed in section 8.4.1, we have updated APTNT's remaining tax asset lives at 1 July 2016 for this final decision.

⁷ ITAA 1997, s. 40.102(5); Australian Taxation Office, *Taxation Ruling Income tax: effective life of depreciating assets (applicable from 1 August 2015)*:

<http://law.ato.gov.au/atolaw/view.htm?docid=%22TXR%2FTR20152%2FNAT%2FATO%2F0001%22>.

⁸ AER, *Amadeus final decision PTRM*, July 2011.

⁹ AER, *Draft decision, attachment 8*, November 2015, p. 13.

¹⁰ Australian accounting standard board, *Accounting standard AASB1021: Depreciation, August 1997*, pp. 10–11; ATO, *Guide to depreciating assets 2011*, 2011, p. 3.

¹¹ APTNT, *Amadeus Gas Pipeline Access Arrangement Information*, January 2016, p. 9.

¹² APTNT, *Revised proposed RFM*, January 2016

¹³ AER, *Draft decision, attachment 8*, November 2015, p. 13.

Our final decision on APTNT's remaining tax asset lives for each of its asset classes for the 2016–21 access arrangement period is set out in Table 8.5.

Table 8.5 AER's final decision on APTNT's standard tax asset lives and remaining tax asset lives as at 1 July 2016 for the 2016–21 access arrangement period (year)

Tax asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2016
Pipelines	20	16.9
Compression	20	n/a
Meter station	20	16.7
SCADA	15	14.9
O&M facilities	10	8.8
Buildings	40	n/a
Land and easement	n/a	n/a

Source: AER analysis.
n/a Not applicable.