FINAL DECISION
Directlink transmission determination
2015−16 to 2019−20

Attachment 8 − Corporate income tax

April 2015

AUSTRALIAN
ENERGY
REGULATOR

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Note

This attachment forms part of the AER's final decision on Directlink's revenue proposal 2015–20. 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 and negotiated services

Attachment 13 – pass through events

Contents

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 Directlink's 2015–20 regulatory control period.[1] Under the post-tax framework, a corporate income tax allowance is calculated as part of the building block assessment using our post-tax revenue model (PTRM).

This attachment sets out our final decision on Directlink'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 Directlink's proposed approach to estimating its cost of corporate income tax. We determine Directlink's corporate income tax allowance to be $2.1 million ($ nominal) for the 2015–20 regulatory control period. This represents a reduction of $1.1 million (or 35.6 per cent) from Directlink's revised proposal.

Our final decision differs from Directlink's revised proposal due to our determination on Directlink'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 Directlink.

Table 8-1 AER's final decision on Directlink's cost of corporate income tax allowance for the 2015–20 regulatory control period ($ million, nominal)

	2015–16	2016–17	2017–18	2018–19	2019–20	Total
Tax payable	0.6	0.6	0.7	0.7	0.8	3.4
Less: value of imputation credits	0.2	0.3	0.3	0.3	0.3	1.4
Net corporate income tax allowance	**0.3**	**0.4**	**0.4**	**0.4**	**0.5**	**2.1**

Source: AER analysis.

1 NER, cl. 6A.5.4(a)(4).

8.2 Directlink's revised proposal

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

- A revised opening TAB at 1 July 2015, reflecting updates for 2013–14 actual capex and 2014–15 estimate of capex.
- Revised forecast capex.
- Revised forecast opex.

Directlink also used standard and remaining tax asset lives consistent with those approved in the draft decision and a value for gamma of 0.25. Due to the revised inputs, Directlink's estimated corporate income tax allowance is $1.2 million (or 27.3 per cent) lower in its revised proposal than in its initial proposal. Table 8-2 sets out Directlink's proposed corporate income tax allowance for the 2015–20 regulatory control period.

Table 8-2 Directlink's revised proposed corporate income tax allowance for the 2015–20 regulatory control period ($ million, nominal)

	2015–16	2016–17	2017–18	2018–19	2019–20	Total
Tax payable	0.7	0.8	0.9	0.9	1.0	4.3
Less: value of imputation credits	0.2	0.2	0.2	0.2	0.3	1.1
Net corporate income tax allowance	**0.5**	**0.6**	**0.6**	**0.7**	**0.7**	**3.2**

Source: Directlink, *Revised revenue proposal*, p. 15.

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 Directlink, *Revenue proposal*, pp.40–42; Directlink, *Revised proposed PTRM*, January 2015.

8.4 Reasons for final decision

We do not accept Directlink's revised proposed estimated cost of corporate income tax. We instead determine an estimated cost of corporate income tax of $2.1 million ($ nominal) for Directlink, which represents a reduction of $1.1 million (or 35.6 per cent) from its revised proposal.

We have accepted the following revised proposed inputs to the PTRM for tax purposes:

- The opening TAB value at the commencement of the 2015–2020 regulatory control period (section 8.4.1)
- The standard and remaining tax asset lives (section 8.4.2).

However, we have adjusted other proposed inputs to the PTRM which affect the calculation of the taxable income, and therefore the estimated corporate income tax allowance. These include the value for gamma (attachment 4), forecast opex (attachment 7) and forecast capex (attachment 6).

8.4.1 Opening tax base at 1 July 2015

We accept Directlink's proposed opening TAB value as at 1 July 2015 of $99.1 million ($ nominal). Directlink has applied the approach set out in our roll forward model (RFM) to establish its revised proposed opening TAB value.

Also, as discussed in attachment 2, we accept Directlink's revised proposal where it updated its estimated capex for 2013–14, with actual capex in the RFM. We also accept Directlink's revised proposal estimate of capex for 2014–14 in the RFM.

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

Table 8-3 AER's final decision on Directlink's TAB roll forward for the 2015–20 regulatory control period ($ million, nominal)

	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15[b]
Opening TAB	116.7	115.7	113.4	110.3	107.2	104.2	103.1	101.4	99.2	98.6
Capital expenditure[a]	2.0	0.8	–	–	–	2.0	1.5	0.9	2.6	3.8
Tax depreciation	–3.0	–3.1	-3.1	–3.1	–3.1	-3.1	–3.1	–3.2	–3.2	–3.2
Closing TAB	115.7	113.4	110.3	107.2	104.2	103.1	101.4	99.2	98.6	99.1

Source: AER analysis.

(a) As commissioned, net of disposals.

(b) Based on estimated capex.

8.4.2 Standard and remaining tax asset lives

Consistent with our draft decision, we accept Directlink's proposed standard and remaining tax asset lives for its 'Substation' and 'Transmission line' asset classes.

In the draft decision, we accepted Directlink's proposal to align the remaining tax asset life of the 'Transmission line' asset class with that of the 'Substation' asset class. This is because the transmission line will have no useful life when the substation ceases to operate. We also accepted Directlink's proposal to change its standard tax asset lives for tax depreciation purposes of new capex over the 2015–20 regulatory control period. We considered the proposed forecast capex are for stay in business and ancillary equipment purposes and should have the same remaining tax life as the substation assets. Therefore, we were satisfied that it was reasonable to change the standard tax asset life of the 'Transmission line' asset class and 'Substations' asset class to 26 years.[3]

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.[4]

Table 8-4 sets out our final decision on Directlink's standard and remaining tax asset lives for the 2015–20 regulatory control period.

Table 8-4 AER's final decision on Directlink's standard and remaining tax asset lives as at 1 July 2015 (years)

Asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2015
Substations	26.2	26.2
Transmission line	26.2	26.2
Easements	n/a	n/a

Source: AER analysis.

n/a: Not applicable.

3 AER, *Draft decision, Directlink transmission determination 2015-16 to 2019-20, Attachment 8: Corporate income tax*, November 2014, p. 11.

4 NER, cl. 6A.6.4.