

 PRELIMINARY DECISION

AusNet Services distribution determination

 2016 to 2020

Attachment 8 – Corporate income tax

October 2015

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: (03) 9290 1444
Fax: (03) 9290 1457

Email: AERInquiry@aer.gov.au

1. Note
2. This attachment forms part of the AER's preliminary decision on AusNet Services' revenue proposal 2016–20. It should be read with all other parts of the preliminary decision.
3. The preliminary decision includes the following documents:
4. Overview

Attachment 1 - Annual revenue requirement

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 - Demand management incentive scheme

Attachment 13 - Classification of services

Attachment 14 - Control mechanism

Attachment 15 - Pass through events

Attachment 16 - Alternative control services

Attachment 17 - Negotiated services framework and criteria

Attachment 18 - f-factor scheme

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1. Shortened forms

| 1. Shortened form
 | 1. Extended form
 |
| --- | --- |
| 1. AEMC
 | 1. Australian Energy Market Commission
 |
| 1. AEMO
 | 1. Australian Energy Market Operator
 |
| 1. AER
 | 1. Australian Energy Regulator
 |
| 1. AMI
 | 1. Advanced metering infrastructure
 |
| 1. augex
 | 1. augmentation expenditure
 |
| 1. capex
 | 1. capital expenditure
 |
| 1. CCP
 | 1. Consumer Challenge Panel
 |
| 1. CESS
 | 1. capital expenditure sharing scheme
 |
| 1. CPI
 | 1. consumer price index
 |
| 1. DRP
 | 1. debt risk premium
 |
| 1. DMIA
 | 1. demand management innovation allowance
 |
| 1. DMIS
 | 1. demand management incentive scheme
 |
| 1. distributor
 | 1. distribution network service provider
 |
| 1. DUoS
 | 1. distribution use of system
 |
| 1. EBSS
 | 1. efficiency benefit sharing scheme
 |
| 1. ERP
 | 1. equity risk premium
 |
| 1. Expenditure Assessment Guideline
 | 1. Expenditure Forecast Assessment Guideline for electricity distribution
 |
| 1. F&A
 | 1. framework and approach
 |
| 1. MRP
 | 1. market risk premium
 |
| 1. NEL
 | 1. national electricity law
 |
| 1. NEM
 | 1. national electricity market
 |
| 1. NEO
 | 1. national electricity objective
 |
| 1. NER
 | 1. national electricity rules
 |
| 1. NSP
 | 1. network service provider
 |
| 1. opex
 | 1. operating expenditure
 |
| 1. PPI
 | 1. partial performance indicators
 |
| 1. PTRM
 | 1. post-tax revenue model
 |
| 1. RAB
 | 1. regulatory asset base
 |
| 1. RBA
 | 1. Reserve Bank of Australia
 |
| 1. repex
 | 1. replacement expenditure
 |
| 1. RFM
 | 1. roll forward model
 |
| 1. RIN
 | 1. regulatory information notice
 |
| 1. RPP
 | 1. revenue and pricing principles
 |
| 1. SAIDI
 | 1. system average interruption duration index
 |
| 1. SAIFI
 | 1. system average interruption frequency index
 |
| 1. SLCAPM
 | 1. Sharpe-Lintner capital asset pricing model
 |
| 1. STPIS
 | 1. service target performance incentive scheme
 |
| 1. WACC
 | 1. weighted average cost of capital
 |

# Corporate income tax

We are required to make a decision on the estimated cost of corporate income tax for AusNet Services' 2016–20 regulatory control period.[[1]](#footnote-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 amount enables AusNet Services to recover the costs associated with the estimated corporate income tax payable during the 2016–20 regulatory control period.

This attachment presents our assessment of AusNet Services' proposed corporate income tax allowance for the 2016–20 regulatory control 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.

## Preliminary decision

We do not accept AusNet Services' proposed cost of corporate income tax allowance of $262.0 million ($ nominal). Our preliminary decision on the estimated cost of corporate income tax is $138.7 million over the 2016–20 regulatory control period. This represents a reduction of $123.2 million (or 47.0 per cent) compared to AusNet Services' proposal.

The reduction reflects our amendments to some of AusNet Services' proposed inputs for forecasting the cost of corporate income tax such as our preliminary decision on the opening TAB (section 8.4.2) and the standard and remaining tax asset lives (sections 8.4.3 and 8.4.4 respectively). It also reflects changes to the proposed tax treatment of revenue adjustments associated with the EBSS and S factor schemes (section 8.4.5), and the value of imputation credits—gamma—(attachment 4). Changes to building block costs also affect revenues, which in turn impacts the tax calculation. The changes affecting revenues are discussed in attachment 1.

Table 8.1 sets out our preliminary decision on the estimated cost of corporate income tax allowance for AusNet Services over the 2016–20 regulatory control period.

Table 8.1 AER's preliminary decision on AusNet Services' cost of corporate income tax allowance for the 2016–20 regulatory control period ($ million, nominal)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| Tax payable | 57.6 | 41.7 | 46.8 | 43.5 | 41.6 | 231.2 |
| Less: value of imputation credits | 23.1 | 16.7 | 18.7 | 17.4 | 16.7 | 92.5 |
| **Net corporate income tax allowance** | **34.6** | **25.0** | **28.1** | **26.1** | **25.0** | **138.7** |

Source: AER analysis.

## AusNet Services' proposal

AusNet Services proposed a forecast cost of corporate income tax of $262.0 million ($ nominal) using the AER's PTRM, which adopts a straight-line tax depreciation approach and the following inputs:[[2]](#footnote-2)

* an opening TAB as at 1 January 2016 of $2265.5 million ($ nominal)[[3]](#footnote-3)
* an expected statutory income tax rate of 30 per cent per year
* a value for gamma of 0.25
* remaining tax asset life for each asset class in existence at 1 January 2016, derived from the standard tax asset life for that asset class multiplied by the ratio of the RAB remaining asset life to the RAB standard asset life
* standard tax asset lives calculated using a weighted average of relevant tax categories from the July 2014 ATO tax ruling (TR 2014/4).

Table 8.2 sets out AusNet Services' proposed corporate income tax allowance for the
2016–20 regulatory control period.

Table 8.2 AusNet Services' proposed cost of corporate income tax allowance for the 2016–20 regulatory control period ($ million, nominal)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| Tax payable | 82.1 | 62.6 | 72.2 | 71.2 | 61.2 | 349.3 |
| Less: value of imputation credits | 20.5 | 15.7 | 18.0 | 17.8 | 15.3 | 87.3 |
| **Net corporate income tax allowance** | **61.6** | **47.0** | **54.1** | **53.4** | **45.9** | **262.0** |

Source: AusNet Services, Regulatory proposal, April 2015, p. 391.

## AER’s assessment approach

Under clause 6.5.3 of the National Electricity Rules (NER), we must make an estimate of taxable income for each regulatory year. Our estimate must be for the taxable income a benchmark efficient entity would earn for providing standard control services if it operated AusNet Services ' business. The estimate is required to be determined in accordance with the PTRM. Our approach for calculating a service provider's cost of corporate income tax allowance is set out in our PTRM and involves the following steps:

1. We estimate the annual taxable income that would be earned by a benchmark efficient entity operating the service provider's business. A service provider's taxable income is calculated by subtracting from the approved forecast revenues the benchmark estimates of tax expenses. Using the PTRM, we model the service provider's benchmark tax expenses, including interest tax expense and tax depreciation, over the regulatory control period. The interest tax expense is estimated using the benchmark 60 per cent gearing used for the rate of return calculation. Tax depreciation is calculated using a separate value for the TAB, and standard and remaining tax asset lives for taxation purposes. All tax expenses (including other expenses such as opex) are offset against the service provider's forecast revenue to estimate the taxable income.
2. The statutory income tax rate is then applied to the estimated annual taxable income (after adjustment for any tax loss carried forward) to arrive at a notional amount of tax payable.
3. We apply a discount to that notional amount of tax payable to account for the utilisation of imputation credits (gamma) by investors.
4. The tax payable net of assumed utilised imputation credits represents the corporate income tax allowance and is included as a separate building block in determining the service provider’s annual revenue requirement.

The cost of corporate income tax allowance is an output of our PTRM. We therefore assess the service provider's proposed cost of corporate tax allowance by analysing the proposed inputs to the PTRM for calculating that allowance. These inputs include:

* **The opening TAB as at the commencement of the 2016–20 regulatory control period:** We consider that the roll forward of the opening TAB should be based on the approved opening TAB as at commencement of the 2016–20 regulatory control period and the service provider's actual capex incurred during the 2011–15 regulatory control period.[[4]](#footnote-4)
* **The remaining tax asset life for each asset class at the commencement of the 2016–20 regulatory control period:** For the 2016–20 regulatory control period, AusNet Services proposed to transition to the straight-line tax depreciation approach from the diminishing value approach.[[5]](#footnote-5) This requires the establishment of remaining tax asset lives at 1 January 2016. We have recently approved a method in our determination for Ausgrid to establish remaining tax asset lives for existing assets.[[6]](#footnote-6) AusNet Services' proposal is based on this method to calculate the remaining tax asset life for an asset class. This involves using the standard tax asset life for the asset class multiplied by the ratio of the RAB remaining asset life to the RAB standard asset life. We will assess AusNet Services' proposed approach against that approved method.
* **The standard tax asset life for each asset class:** We assess the service provider's proposed standard tax asset lives, where necessary, against those prescribed by the Commissioner for taxation in tax ruling 2015/2 and the approved standard tax asset lives in the service provider's distribution determination for the 2011–15 regulatory control period.
* **The income tax rate:** The statutory income tax rate is 30 per cent per year.
* **The value of gamma:** We have determined the gamma input for AusNet Services is 0.40. Refer to attachment 4 for detailed discussion on this matter.

We are required to estimate the cost of corporate income tax based on a benchmark efficient entity.[[7]](#footnote-7) This estimate must be determined in accordance with the manner set out in the PTRM.[[8]](#footnote-8)

### Interrelationships

The cost of corporate income tax building block feeds directly into the annual revenue requirement (ARR). This allowance is determined by four factors:

* pre-tax revenues
* tax expenses (including tax depreciation)
* the corporate tax rate
* gamma—the expected proportion of company tax that is returned to investors through the utilisation of imputation credits—which is offset against the corporate income tax allowance. This is discussed further at attachment 4.

Of these four factors, the corporate tax rate is set externally by the Government. The higher the tax rate the higher the required tax allowance.

The pre-tax revenues depend on all the building block components. Any factor that affects revenue will therefore affect pre-tax revenues. Higher pre-tax revenues can increase the tax allowance.[[9]](#footnote-9) Depending on the source of the revenue increase, the tax increase may be equal to or less than proportional to the company tax rate.[[10]](#footnote-10)

The tax expenses (or deductions) depend on various building block components and their size. Some components give rise to tax expenses, such as opex, interest payments and tax depreciation of assets. However, others do not, such as increases in return on equity. Higher tax expenses offset revenues as deductions in the tax calculation and therefore reduce the cost of corporate income tax allowance (all things being equal). Tax expenses include:

* Interest on debt – Interest is a tax offset. The size of this offset depends on the ratio of debt to equity and therefore the proportion of the RAB funded through debt. It also depends on the allowed return on debt and the size of the RAB.
* General expenses – In the main these expenses will match the opex allowance.
* Tax depreciation – A separate TAB is maintained for the businesses reflecting tax rules. This TAB is affected by many of the same factors as the RAB, such as capex, although unlike the RAB value it is maintained at its historical cost with no indexation. The TAB is also affected by the depreciation rate and asset lives assigned for tax depreciation purposes.

For AusNet Services, a 10 per cent increase in the corporate income tax allowance causes revenues to increase by about 0.4 per cent. The proposed gamma of 0.25, compared to the value in our preliminary decision of 0.40, would increase the corporate income tax allowance by 32 per cent and total revenues by about 1.3 per cent.

## Reasons for preliminary decision

We do not accept AusNet Services' proposed cost of corporate income tax allowance of $262.0 million ($ nominal). We have instead determined a cost of corporate income tax allowance of $138.7 million. This represents a reduction of $123.2 million (or 47.0 per cent) from AusNet Services' proposal.

This is because we adjusted the following proposed inputs to the PTRM for tax purposes:

* the opening TAB value at 1 January 2016 (section 8.4.2)
* the standard and remaining tax asset lives (sections 8.4.3 and 8.4.4 respectively)
* the value of gamma (attachment 4)
* other building block components including forecast opex (attachment 7) and forecast capex (attachment 6) that affect revenues, and therefore also impact the forecast corporate income tax allowance.[[11]](#footnote-11)

We also made changes to AusNet Services' proposed tax treatment of revenue adjustments associated with the EBSS and S factor schemes (section 8.4.5).

### Transition to straight-line tax depreciation

We accept AusNet Services' proposal to use the straight-line depreciation approach to calculate the corporate income tax allowance for the 2016–20 regulatory control period. This is consistent with the approach set out in the PTRM.

AusNet Services' corporate income tax allowance for the 2011–15 regulatory control period was calculated based on the diminishing value method.[[12]](#footnote-12) This method was established by the previous regulator, the Essential Services Commission of Victoria (ESCV), and adopted by the AER for the 2011–15 regulatory control period in accordance with clause 11.17.2 (Transitional provisions of specific application to Victoria) of the NER.[[13]](#footnote-13) This transitional rule does not apply for the 2016–20 regulatory control period. Therefore, we accept AusNet Services' proposal to transition to our preferred straight-line tax depreciation approach for the 2016–20 regulatory control period.

### Opening tax asset base

We accept AusNet Services proposed method to establish the opening TAB at 1 January 2016 as it is based on the approach approved at the 2010 determination. However, we do not accept AusNet Services' proposed opening TAB value at 1 January 2016 of $2265.5 million ($ nominal). Instead we determine an opening TAB value as at 1 January 2016 of $2218.2 million ($ nominal).[[14]](#footnote-14) This represents a decrease of $47.3 million ($ nominal) or 2.1 per cent. This decrease is due to our decision not to accept AusNet Services proposal to transfer $47.3 million ($ nominal) of AMI IT and communication assets from alternative control services to standard control services.[[15]](#footnote-15) The reasons for our decision are set out in attachment 16.

We also consider that the opening TAB value for land as at 1 January 2016 should be allocated to its own non-depreciating asset class. AusNet Services' proposal allocated the closing TAB value of land assets as at 31 December 2015 to its 'Subtransmission' and 'Distribution system assets' asset classes. Allocating this value to these asset classes results in the TAB value of land depreciating over their remaining tax asset lives. We do not consider this appropriate as land is generally considered a non-depreciating asset for tax purposes.[[16]](#footnote-16) This is also consistent with the treatment of the 'Land' asset class under the ESCV's approach to tax depreciation. Therefore, we have created a new non-depreciating 'Land' asset class to allocate the TAB value of land as at 1 January 2016.

Table 8.3 sets out our preliminary decision on the roll forward of AusNet Services' TAB values over the 2011–15 regulatory control period.

Table 8.3 AER's preliminary decision on AusNet Services' TAB roll forward ($ million, nominal)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   | 2011 | 2012 | 2013 | 2014 | 2015a |
| Opening TAB | 1278.7 | 1444.8 | 1624.3 | 1832.8 | 2041.0 |
| Capital expenditure | 290.8 | 331.1 | 386.3 | 428.2 | 387.4 |
| Less: Tax depreciation | 124.8 | 151.5 | 177.8 | 220.0 | 210.2 |
| **Closing TAB** | **1444.8** | **1624.3** | **1832.8** | **2041.0** | **2218.2** |

Source: AER analysis.

(a) Based on estimated capex.

### Standard tax asset lives

We accept the majority of AusNet Services' proposed standard tax asset lives[[17]](#footnote-17) because they are broadly consistent with the values prescribed by the Commissioner for taxation in tax ruling 2015/2.[[18]](#footnote-18)

We are satisfied that the proposed standard tax asset lives are appropriate for applying over the 2016–20 regulatory control period.

We also consider that a standard tax asset life of ‘n/a’ should be assigned to the new ‘Land’ asset class for tax modelling purposes in the PTRM reflecting the non-depreciating nature of land capex.[[19]](#footnote-19)

Table 8.4 sets out our preliminary decision on the standard tax asset lives for AusNet Services.

### Remaining tax asset lives

Our 2010 determination for AusNet Services did not contain remaining tax asset lives for depreciating its opening TAB as at 1 January 2011. Instead, the transitional rules at the time required us to adopt for the 2011–15 regulatory control period the same tax depreciation methodology as used by the ESCV for the 2006–10 regulatory control period.[[20]](#footnote-20) As discussed in section 8.4.1, we accept AusNet Services' proposal to use the straight-line depreciation approach to calculate the corporate income tax allowance for the 2016–20 regulatory control period. This requires us to determine remaining tax asset lives for depreciating the opening TAB at 1 January 2016.

We accept AusNet Services' proposed approach for calculating the remaining tax asset lives at 1 January 2016.[[21]](#footnote-21) This approach calculates the remaining tax asset life using the standard tax asset life for the asset class multiplied by the ratio of the RAB remaining asset life to the RAB standard asset life. We consider AusNet Services' proposed approach provides reasonable estimates of remaining tax asset lives for the majority of AusNet Services' asset classes. We also consider that AusNet Services' proposed approach aligns the cash flows associated with the estimate of tax depreciation with the expected life of the network. This is because for the majority of asset classes the standard asset lives for AusNet Services' RAB are comparable to the standard tax asset lives. We are therefore satisfied that the proposed approach results in an estimate of tax depreciation consistent with the tax expenses used to estimate the annual taxable income of a benchmark efficient entity over the 2016–20 regulatory control period. The proposed approach is consistent with the method approved in our recent determination for Ausgrid.[[22]](#footnote-22)

As discussed in section 8.4.2, we consider that the tax value of land at 1 January 2016 should be separately reported as an asset class rather than incorporated as part of the 'Subtransmission' and 'Distribution system assets' asset classes. This disaggregation resulted in a slight reduction to the remaining tax asset lives of the 'Subtransmission' and 'Distribution system assets' asset classes at 1 January 2016.[[23]](#footnote-23)

1. In accepting AusNet Services' approach to establish the remaining tax asset lives as at 1 January 2016, we have updated the proposed remaining tax asset lives consistent with the adjustments to the RAB remaining asset lives as at 1 January 2016, discussed in attachment 5.[[24]](#footnote-24) This is because AusNet Services' approach to calculate the remaining tax asset life uses the ratio of the RAB remaining asset life to the RAB standard asset life.
2. At the time of this preliminary decision, the RAB remaining asset lives used in this calculation include estimated capex values for 2015. We expect to update the 2015 estimated capex values for the final decision. Therefore, for the final decision, we will update AusNet Services' remaining tax asset lives at 1 January 2016 using the method approved in this preliminary decision for any revisions to the RAB remaining asset lives.

Table 8.4 sets out our preliminary decision on the remaining tax asset lives at 1 January 2016 for AusNet Services. We are satisfied the remaining tax asset lives provide an appropriate estimate of the tax depreciation amount for a benchmark efficient service provider as required by the NER.[[25]](#footnote-25)

Table 8.4 AER's preliminary decision on AusNet Services' standard and remaining tax asset lives (years)

|  |  |  |
| --- | --- | --- |
| Asset class | Standard tax asset life  | Remaining tax asset lifeas at 1 January 2016 |
| Subtransmission | 43.0 | 34.0 |
| Distribution system assets | 46.0 | 31.7 |
| Standard metering | n/a | n/a |
| Public lighting | n/a | n/a |
| SCADA/Network control | 10.0 | 6.9 |
| Non-network general assets - IT | 4.0 | 2.6 |
| Non-network general assets - Other | 12.0 | 8.1 |
| Land | n/a | n/a |
| Accelerated depreciation opening RAB adjustment - Subtransmission | n/a | n/a |
| Accelerated Depreciation Opening RAB Adjustment - Distribution | n/a | n/a |
| Accelerated depreciation - Subtransmission (2016–20) | n/a | n/a |
| Accelerated depreciation - Distribution (2016–20) | n/a | n/a |
| Equity raising costs | 5.0 | n/a |

Source: AER analysis.

n/a: not applicable.

### Tax treatment of other revenue adjustments

We do not accept AusNet Services' proposed tax treatment of the revenue adjustments arising from the operation of the EBSS over the 2011–15 regulatory control period and the close out of the ESCV’s previous S factor scheme. The approach is inconsistent with incentives developed for the schemes and the approach used to calculate the revenue adjustments at the 2010 regulatory determination.

In AusNet Services' proposed PTRM it set the switch for tax expense to ‘no’ in relation to these revenue adjustments, while recognising the revenues as income for the tax calculation. AusNet Services did not explain this approach in its regulatory proposal. This approach adds an additional tax penalty or reward to the revenues associated with the schemes. In contrast, if the revenue adjustments are recognised in the PTRM as both income and expenses for tax purposes, so no additional tax penalty or reward is calculated.[[26]](#footnote-26) An equivalent outcome occurs in the PTRM if the revenue adjustments are completely excluded from the tax calculation, counted as neither tax income nor tax expense.[[27]](#footnote-27) In both cases, the sizes of the revenue adjustments reflect the parameters of the scheme only.

We consider that the EBSS and S factor revenue adjustments should be given identical income and expense tax status in the PTRM.[[28]](#footnote-28) We consider that such an approach:

* is consistent with the implementation of the EBSS and S factor in the 2010 regulatory determination for AusNet Services [[29]](#footnote-29)
* is consistent with our recently published guidelines on incentive schemes, which were subject to stakeholder consultation[[30]](#footnote-30)
* is consistent with our application of incentive schemes for all other network service providers to date[[31]](#footnote-31)
* means that the service provider faces a constant incentive to pursue efficiency gains across the regulatory control period. That is, the service provider obtains the same reward (or penalty) from a given expenditure decrease (increase), regardless of which year of the regulatory control period it occurs.[[32]](#footnote-32) A constant incentive means timing issues associated with the application of regulation do not distort expenditure decisions.

These reasons were discussed in detail in our final decision for Ausgrid.[[33]](#footnote-33) We do not repeat the detailed reasoning here. Ausgrid had also proposed to change the tax treatment of scheme revenue adjustments in the PTRM. No new issues have been raised by AusNet Services for us to consider regarding this matter. We have therefore amended the proposed PTRM to recognise the revenue adjustments with consistent tax status across revenues and expenses for the tax calculation in the PTRM.[[34]](#footnote-34)

Given the overall negative revenue adjustments determined for AusNet Services for the 2016–20 regulatory control period, the changes in this preliminary decision add a small additional tax allowance (about $0.4 million) that would not have been included under AusNet Services' proposed approach.[[35]](#footnote-35)

1. NER, cl. 6.4.3(a)(4). [↑](#footnote-ref-1)
2. AusNet Services, Regulatory proposal, April 2014, p. 388 and AusNet Services regulatory proposal attachment, PTRM - Standard control service. AusNet Services submitted two updated PTRMs for the 2016–20 regulatory control period after the submission of its initial proposal; first on 6 July 2015, and then again on 10 September 2015. The July 2015 updated PTRM includes a number of adjustments to account for a ruling from the Australian Tax Office (ATO) that alters the tax liability associated with power line replacement works being undertaken by AusNet Services and funded by the Victorian Government’s Powerline Replacement Fund. In addition to these changes, the September 2015 updated PTRM included a correction of the transposition of tax asset lives for the 'Subtransmission' and 'Distribution system assets' asset classes and further changes to revenue adjustments. AusNet Services, ATO Ruling on liabilities from Victorian Government’s Powerline Replacement Fund contributions – amendments to 2016-20 revenue proposal, 6 July 2015. AusNet Services, Negative pass through application - ATO tax determination, 10 September 2015. [↑](#footnote-ref-2)
3. This amount includes $47.3 million of AMI/IT communication tax assets proposed to be transferred from alternative control service to standard control service TAB. [↑](#footnote-ref-3)
4. The tax depreciation is therefore recalculated based on actual capex. The same tax depreciation approach of using actual capex applies to the roll forward of the TAB at the next reset. [↑](#footnote-ref-4)
5. Our 2011–15 determination for AusNet Services did not contain remaining tax asset lives for depreciating its opening TAB at 1 January 2011 as they are not required under the diminishing value approach. [↑](#footnote-ref-5)
6. AER, Draft decision, Ausgrid distribution determination 2015–16 to 2018–19, Attachment 8: Corporate income tax, November 2014, pp. 8–17 to 8–19. [↑](#footnote-ref-6)
7. NER, cl. 6.5.3. [↑](#footnote-ref-7)
8. NER, cll. 6.5.3 and 6.4.2(b)(4). [↑](#footnote-ref-8)
9. In fact, there is an iterative relationship between tax and revenues. That is, revenues lead to tax, being applied, which increases revenues and leads to slightly more tax and so on. The PTRM is therefore set up to run an iterative process until the revenue and tax allowances become stable. [↑](#footnote-ref-9)
10. For example, although increased opex adds to revenue requirement, these expenses are also offset against the revenues as deductions in determining tax, so there is no net impact in this case. A higher return on equity, in contrast, gives rise to no offsetting tax expenses and therefore increases the tax allowance in proportion to the company tax rate. [↑](#footnote-ref-10)
11. This include changes submitted by AusNet Services in the updated PTRMs on 6 July 2015 and 10 September 2015. These changes are discussed in the relevant attachments. [↑](#footnote-ref-11)
12. This is referred to as the reducing balance method in AusNet Services' proposal. See AusNet Services, Regulatory proposal, April 2014, p. 387. [↑](#footnote-ref-12)
13. AER, Final decision, Victorian electricity distribution network service providers Distribution determination 2011–2015, October 2010, pp. 520–521. [↑](#footnote-ref-13)
14. At the time of this preliminary decision, the roll forward of AusNet Services' TAB includes estimated capex values for 2015. We will update the 2015 estimated capex values for the substitute (final) decision. [↑](#footnote-ref-14)
15. The regulatory asset value and the tax asset value for these assets are different— in this case, the tax asset value is less than the regulatory asset value. [↑](#footnote-ref-15)
16. The Income Tax Assessment Act (ITAA) 1997 excludes land from the definition of a ‘depreciating asset’ (ITAA 1997, s. 40-30). [↑](#footnote-ref-16)
17. Following from an information request from us, AusNet Services has corrected an input error in the PTRM in relation to standard and remaining tax asset lives for the 'Subtransmission' and 'Distribution system assets' asset classes. This was included in the 10 September 2015 submission from AusNet Services which included an updated PTRM. [↑](#footnote-ref-17)
18. ATO, Taxation Ruling Income tax: effective life of depreciating assets (applicable from 1 July 2015), July 2015, http://law.ato.gov.au/atolaw/view.htm?docid=%22TXR%2FTR20152%2FNAT%2FATO%2F00001%22, accessed on 29 July 2015. [↑](#footnote-ref-18)
19. We note that AusNet Services did propose any land capex over the 2016–20 regulatory control period, therefore this change has no impact over that period. [↑](#footnote-ref-19)
20. AER, Victorian distribution draft decision 2011–15, June 2010, p. 552. [↑](#footnote-ref-20)
21. Following from an information request from us, AusNet Services has corrected an input error in the PTRM in relation to standard and remaining tax asset lives for the 'Subtransmission' and 'Distribution system assets' asset classes. This was included in the 10 September 2015 submission from AusNet Services which included an updated PTRM. [↑](#footnote-ref-21)
22. AER, Ausgrid distribution determination 2015–16 to 2018–19 draft decision, attachment 8, November 2014, pp. 25–26. [↑](#footnote-ref-22)
23. Based on applying the accepted method to calculate remaining tax asset lives for these asset classes. [↑](#footnote-ref-23)
24. Having established the remaining tax asset lives as at 1 January 2016 for this determination process, we consider that when rolling forward these remaining tax asset lives to 1 January 2020 at the next reset our preferred weighted average method should be used. [↑](#footnote-ref-24)
25. NER, cl. 6.5.3. [↑](#footnote-ref-25)
26. This can be done in the PTRM by setting both the tax income and tax expense switches to ‘yes’. [↑](#footnote-ref-26)
27. This can be done in the PTRM by setting both the tax income and tax expense switches to ‘no’. [↑](#footnote-ref-27)
28. As noted above, whether the switches for income: expenses are set ‘yes: yes' or ‘no: no’ for these revenue adjustments brings the same tax outcome. [↑](#footnote-ref-28)
29. AER, Final framework and approach paper for Victorian electricity distribution regulation, CitiPower, Powercor. Jemena, SP AusNet and United Energy, Regulatory control period commencing 1 January 2011, May 2009, pp. 103–104, 112–113; AER, Final decision, Victorian electricity distribution network service providers, Distribution determination 2011–2015, October 2010, pp. 643–644. 654–658, 708–716; Australian Competition Tribunal, Application by United Energy Distribution Pty Limited (No 2) [2012] ACompT 8 (5 April 2012), paragraphs 24–81. [↑](#footnote-ref-29)
30. AER, Better regulation, Efficiency benefit sharing scheme for electricity network service providers, November 2013; AER, Better regulation, Capital expenditure incentive guideline for electricity network service providers, November 2013; and AER, Better regulation, Shared asset guideline, November 2013. [↑](#footnote-ref-30)
31. See for example; AER, Final decision, New South Wales Distribution determination 2009–10 to 2013–14, 28 April 2009, p. 208; AER, Final decision, Australian Capital Territory distribution determination, 28 April 2009, p. 88; AER, Final decision, Victorian electricity distribution network service providers distribution determination 2011–2015, October 2010, p. 520; AER, Final decision, Queensland distribution determination 2010–11 to 2014–15, May 2010, p. 229; AER, Final decision, South Australia distribution determination 2010–11 to 2014–15, May 2010, p. 163; AER, Final distribution determination, Aurora Energy Pty Ltd 2012–13 to 2016–17, April 2012, p. 251. [↑](#footnote-ref-31)
32. In contrast, AusNet Services' proposal would distort this incentive by providing a greater reward (penalty) to the business for expenditure decreases (increases) in later years of the regulatory control period. [↑](#footnote-ref-32)
33. AER, *Final decision, Ausgrid distribution determination 2015–16 to 2018–19, Attachment 8 – Corporate income tax*, April 2015, pp. 8-18. [↑](#footnote-ref-33)
34. That is, the revenue adjustments are either both tax income and tax expense (EBSS, shared assets); or neither tax income nor tax expense (S factor). [↑](#footnote-ref-34)
35. AusNet Services has a positive EBSS revenue adjustment, but this is offset by a larger negative S factor revenue adjustment. There is also a negative shared asset revenue adjustment, but the effective tax treatment of this revenue adjustment has not changed from AusNet Services' proposal. [↑](#footnote-ref-35)