



PRELIMINARY DECISION
Jemena distribution
determination
2016 to 2020

Attachment 8 – Corporate
income tax

October 2015

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Note

This attachment forms part of the AER's preliminary decision on Jemena's revenue proposal 2016–20. It should be read with all other parts of the preliminary decision.

The preliminary decision includes the following documents:

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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Shortened forms

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

| Shortened form | Extended form |
|----------------|---|
| RFM | roll forward model |
| RIN | regulatory information notice |
| RPP | revenue and pricing principles |
| SAIDI | system average interruption duration index |
| SAIFI | system average interruption frequency index |
| SLCAPM | Sharpe-Lintner capital asset pricing model |
| STPIS | service target performance incentive scheme |
| WACC | weighted average cost of capital |

8 Corporate income tax

We are required to make a decision on the estimated cost of corporate income tax for Jemena's 2016–20 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 amount enables Jemena 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 Jemena's 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.

8.1 Preliminary decision

We do not accept Jemena's proposed cost of corporate income tax allowance of \$97.2 million (\$ nominal). Our preliminary decision on the estimated cost of corporate income tax is \$62.9 million over the 2016–20 regulatory control period. This represents a reduction of \$34.2 million (or 35.2 per cent) compared to Jemena's proposal.

The reduction reflects our amendments to some of Jemena's proposed inputs for forecasting the cost of corporate income tax such as 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 S factor and share asset schemes (section 8.4.5), and our preliminary decision on 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 Jemena over the 2016–20 regulatory control period.

Table 8-1 AER's preliminary decision on Jemena's corporate income tax allowance for the 2016–20 regulatory control period (\$ million, nominal)

| | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Tax payable | 24.6 | 18.6 | 20.0 | 20.5 | 21.1 | 104.9 |
| Less: value of imputation credits | 9.9 | 7.4 | 8.0 | 8.2 | 8.4 | 42.0 |
| Net corporate income tax allowance | 14.8 | 11.2 | 12.0 | 12.3 | 12.7 | 62.9 |

Source: AER analysis.

¹ NER, cl. 6.4.3(a)(4).

8.2 Jemena's proposal

Jemena proposed a forecast cost of corporate income tax of \$97.2 million (\$ nominal) using the AER's PTRM, which adopts a straight-line tax depreciation approach and the following inputs:²

- an opening TAB as at 1 January 2016 of \$767.6 million (\$ nominal)
- an expected statutory income tax rate of 30 per cent per year
- a value for gamma of 0.25
- remaining tax asset lives of assets in existence as at 31 December 2015 calculated based on the standard tax asset life for an asset class multiplied by the ratio of the RAB remaining asset life to the RAB standard asset life³
- standard tax asset lives calculated with regard to the relevant tax categories from the ATO tax rulings reflecting the mix of capex proposed for the 2016–20 regulatory control period and revised economic lives for component assets.⁴

Table 8-2 sets out Jemena's proposed corporate income tax allowance for the 2016–20 regulatory control period.

Table 8-2 Jemena's proposed cost of corporate income tax allowance for the 2016–20 regulatory control period (\$ million, nominal)

| | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Tax payable | 25.5 | 25.4 | 29.1 | 24.0 | 25.7 | 129.5 |
| Less: value of imputation credits | 6.4 | 6.3 | 7.3 | 6.0 | 6.4 | 32.4 |
| Net corporate income tax allowance | 19.1 | 19.0 | 21.8 | 18.0 | 19.3 | 97.2 |

Source: Jemena, *Regulatory proposal*, April 2015, Attachment 06.01.

Note: Totals may not add up due to rounding.

8.3 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 Jemena's 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:

² Jemena, *Regulatory proposal*, April 2015, p. 57 and Attachment 6.01.

³ Jemena, *Regulatory proposal*, April 2015, Attachment 6.03.

⁴ Jemena, *Regulatory proposal*, April 2015, Attachment 7-4.

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 2011–15 regulatory control period and the service provider's actual capex incurred during the 2011–15 regulatory control period.⁵
- **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, Jemena proposed to transition to the straight-line tax depreciation approach from the diminishing value approach.⁶ 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.⁷ Jemena's 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

⁵ 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.

⁶ Our 2011–15 determination for Jemena 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.

⁷ AER, *Draft decision, Ausgrid distribution determination 2015–16 to 2018–19, Attachment 8: Corporate income tax*, November 2014, pp. 8–17 to 8–19.

multiplied by the ratio of the RAB remaining asset life to the RAB standard asset life. We will assess Jemena's 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 Jemena 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.⁸ This estimate must be determined in accordance with the manner set out in the PTRM.⁹

8.3.1 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.¹⁰ Depending on the source of the revenue increase, the tax increase may be equal to or less than proportional to the company tax rate.¹¹

⁸ NER, cl. 6.5.3.

⁹ NER, cls. 6.5.3 and 6.4.2(b)(4).

¹⁰ 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.

¹¹ 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.

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 Jemena, a 10 per cent increase in the corporate income tax allowance causes revenues to increase by about 0.5 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 1.7 per cent.

8.4 Reasons for preliminary decision

We do not accept Jemena's proposed estimated cost of corporate income tax. We have instead determined a cost of corporate income tax allowance of \$62.9 million (\$ nominal). This represents a reduction of \$34.2 million (or 34.2 per cent) from Jemena's 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 impact revenues, and therefore also impact the forecast corporate income tax allowance.

We also made changes to Jemena's proposed tax treatment of revenue adjustments associated with the S factor and share asset schemes (section 8.4.5).

8.4.1 Transition to straight-line tax depreciation

We accept Jemena's 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.

Jemena's corporate income tax allowance for the 2011–15 regulatory control period was calculated based on the diminishing value method. 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.¹² This transitional rule does not apply for the 2016–20 regulatory control period. Therefore, we accept Jemena's proposal to transition to our preferred straight-line tax depreciation approach for the 2016–20 regulatory control period.

8.4.2 Opening tax asset base

We accept Jemena's proposed method to establish the opening TAB as at 1 January 2016 as it is based on the approach approved at the 2010 determination. However, we do not accept Jemena's proposed opening TAB value as at 1 January 2016 of \$767.6 million (\$ nominal). Instead we determine an opening TAB as at 1 January 2016 of \$766.1 million (\$ nominal).¹³ This represents a reduction of \$1.6 million (\$ nominal) or 0.2 per cent. This reduction is due to the removal of capitalised finance charges from the proposed capex in 2011 as discussed in attachment 2.

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. Jemena's proposal allocated the closing TAB value of land assets as at 31 December 2015 to its 'Non-network - other' asset class.¹⁴ Allocating this value to the 'Non-network - other' asset class results in the TAB value of land depreciating over the remaining tax asset life. We do not consider this appropriate as land is generally considered a non-depreciating asset for tax purposes.¹⁵ 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 Jemena's TAB values over the 2011–15 regulatory control period.

¹² AER, *Final decision, Victorian electricity distribution network service providers Distribution determination 2011–2015*, October 2010, pp. 520–521.

¹³ At the time of this preliminary decision, the roll forward of Jemena's TAB includes estimated capex values for 2015. We will update the 2015 estimated capex values for the substitute (final) decision.

¹⁴ Jemena, *Regulatory proposal*, April 2015, Attachment 6.03.

¹⁵ The Income Tax Assessment Act (ITAA) 1997 excludes land from the definition of a 'depreciating asset' (ITAA 1997, s. 40-30).

Table 8-3 AER's preliminary decision on Jemena's TAB roll forward (\$ million, nominal)

| | 2011 | 2012 | 2013 | 2014 | 2015 ^a |
|------------------------|--------------|--------------|--------------|--------------|-------------------|
| Opening TAB | 445.4 | 514.3 | 572.1 | 614.9 | 678.1 |
| Capital expenditure | 129.8 | 122.6 | 122.7 | 132.4 | 152.9 |
| Less: Tax depreciation | 60.9 | 64.8 | 79.9 | 69.1 | 64.9 |
| Closing TAB | 514.3 | 572.1 | 614.9 | 678.1 | 766.1 |

Source: AER analysis.

(a) Based on estimated capex.

8.4.3 Standard tax asset lives

We accept Jemena's proposed approach to determining standard tax asset lives for its existing asset classes, except for the 'SCADA/Network control' and 'Equity raising costs' asset classes.

Jemena proposed an approach to determining standard tax asset lives for its existing asset classes that reflect the mix of capex forecast for the 2016–20 regulatory control period.¹⁶ This approach breaks the value of forecast capex down by the required component assets. Each group of component assets is assigned a standard tax asset life consistent with the relevant tax categories from the ATO tax rulings. For example the wooden pole component assets are assigned a 45 year standard tax asset life. The standard tax asset life applying to the more aggregated asset classes is a weighted average of these component tax assets lives.

We consider this approach will generally result in standard tax asset lives consistent with the values prescribed by the Commissioner for taxation in tax ruling 2015/2.¹⁷ However, as discussed in section 5.4.1 for RAB standard asset lives, we do not consider that this approach adequately accounts for the specialised nature of SCADA related IT assets. We have instead determined a standard tax asset life of 10 years for the 'SCADA/Network control' asset class, consistent with the approach for RAB standard asset lives. This is also consistent with the standard tax asset life for SCADA related asset classes determined for distributors in other jurisdictions.¹⁸

We have also changed the standard tax asset life for the 'Equity raising costs' asset class to 5 years from Jemena's proposed 39.8 years for tax depreciation purposes.

¹⁶ Jemena, *Regulatory proposal*, April 2015, Attachment 7-4.

¹⁷ 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.

¹⁸ AER, *Preliminary decision Energex distribution determination - Attachment 8 - Corporate income tax*, April 2015, p. 13; AER, *Preliminary decision Ergon Energy distribution determination - Attachment 8 - Corporate income tax*, April 2015, p. 13.

This is because the ATO requires equity raising costs to be amortised over a five-year period on a straight-line basis.¹⁹ In recent determinations, we adopted a standard tax asset life of 5 years for amortising equity raising costs for tax depreciation purposes.²⁰

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.²¹

Table 8-4 sets out our preliminary decision on the standard tax asset lives for Jemena. We are satisfied the approved standard tax asset lives provide an estimate of the tax depreciation amount for a benchmark efficient service provider as required by the NER.²²

8.4.4 Remaining tax asset lives

Our 2010 determination for Jemena 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.²³ As discussed in section 8.4.1, we accept Jemena's 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 as at 1 January 2016.

We consider Jemena's proposed approach to establish remaining tax asset lives as at 1 January 2016 is reasonable. This approach is based on the standard tax asset life for an asset class multiplied by the ratio of the RAB remaining asset life to the RAB standard asset life.²⁴ We are satisfied that the 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 approach is consistent with the method approved in our recent determination for Ausgrid.²⁵

In accepting Jemena's 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

¹⁹ ATO, *Guide to depreciating assets 2001-02: Business related costs—section 40-880 deductions*, ATO reference; NO NAT7170, p. 25.

²⁰ AER, *Draft decision: Powerlink transmission determination 2012–13 to 2016–17*, 2011, pp. 265–266; AER, *Draft decision: ElectraNet transmission determination 2013–14 to 2017–18*, 2013, pp. 193–194.

²¹ We note that Jemena did propose any land capex over the 2016–20 regulatory control period, therefore this change has no impact over that period.

²² NER, cl. 6.5.3.

²³ AER, *Victorian distribution draft decision 2011–15*, June 2010, p. 552.

²⁴ Jemena, *Regulatory proposal*, April 2015, Attachment 6.03.

²⁵ AER, *Ausgrid distribution determination 2015–16 to 2018–19 draft decision*, attachment 8, November 2014, pp. 25–26.

in attachment 5.²⁶ We have also updated the remaining tax asset lives for any changes to the RAB and tax standard asset lives as a result of our preliminary decision.²⁷ This is because Jemena's approach to calculate the remaining tax asset life uses the ratio of the RAB remaining asset life to the RAB standard asset life.

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 Jemena's 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.²⁸

Table 8-4 sets out our preliminary decision on the remaining tax asset lives at 1 January 2016 for Jemena. 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.²⁹

Table 8-4 AER's preliminary decision on Jemena's standard and remaining tax asset lives (years)

| Asset class | Standard tax asset life | Remaining tax asset lives as at 1 January 2016 |
|----------------------------|-------------------------|--|
| Subtransmission | 38.8 | 28.5 |
| Distribution system assets | 45.7 | 29.2 |
| Metering | n/a | 1.0 |
| Public lighting | n/a | 1.3 |
| SCADA | 10.0 | 9.3 |
| Non network - IT | 4.4 | 2.5 |
| Non network - other | 17.4 | 11.1 |
| Land | n/a | n/a |
| Equity raising costs | 5.0 | n/a |

Source: AER analysis.

n/a: not applicable.

²⁶ 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.

²⁷ The only change to RAB and tax standard life relates to the 'SCADA' asset class changed to 10 years.

²⁸ We may also update the remaining tax asset lives as at 1 January 2016 as a result of changes to the RAB standard lives and tax standard lives as a result of revisions to capex at the final decision. This is because Jemena's approach to determining standard tax asset lives reflects the mix of approved forecast capex, and these standard tax asset lives are an input to the remaining tax asset life calculation.

²⁹ NER, cl. 6.5.3.

8.4.5 Tax treatment of other revenue adjustments

We do not accept Jemena's proposed tax treatment of the revenue adjustments arising from the close out of the ESCV's previous S factor scheme and the shared assets adjustment. In Jemena's 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. This approach adds an additional tax penalty or reward to the revenues associated with the schemes. No explanation for this approach was provided by Jemena.

The proposed approach for these revenue adjustments differs from the approach Jemena has proposed for carryovers related to its EBSS. Under the EBSS the revenue adjustments are recognised in the PTRM as both income and expenses, so no additional tax penalty or reward is calculated.³⁰ In this case, the sizes of the revenue adjustments reflect the parameters of the scheme only.

We consider that the S factor and shared asset revenue adjustments should be given identical income and expense tax status in the PTRM (as proposed for the EBSS revenue adjustments). In the case of the S factor, such an approach is consistent with the implementation of the S factor in the 2010 regulatory determination for Jemena.³¹ For the shared assets revenue adjustment, such an approach is consistent with our recently published guidelines on this scheme and prevents an additional tax penalty being calculated for Jemena.³² In both cases, there is no reason why the tax treatment for these two revenue adjustments should be different from the EBSS scheme.

Given the overall positive revenue adjustments determined for Jemena for the 2016–20 regulatory control period, the changes in this preliminary decision remove a small additional tax allowance (about \$0.5 million) that would have been included under Jemena's proposed approach.³³

³⁰ A similar outcome occurs in the PTRM if the revenue adjustments are completely excluded from the tax calculation, which can be done by setting both the income and expense switches to "no".

³¹ 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, AER, *Final decision, Victorian electricity distribution network service providers, Distribution determination 2011–2015*, October 2010, pp. 708–716; Australian Competition Tribunal, *Application by United Energy Distribution Pty Limited (No 2) [2012] ACompT 8* (5 April 2012), paragraphs 24–81.

³² AER, *Better regulation, Shared asset guideline*, November 2013, p. 20.

³³ Jemena has a negative shared asset revenue adjustment, but this is offset by a larger positive S factor revenue adjustment. There is also a large positive EBSS revenue adjustment, but the tax treatment of this revenue adjustment has not changed from Jemena's proposal.