Attachment 9: Corporate income tax

Access Arrangement Information for the 2016-21 ACT, Queanbeyan and Palerang Access Arrangement

Submission to the Australian Energy Regulator

June 2015

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Key points

- The tax asset base is rolled forward for the 2010-21 period, and the calculated tax depreciation is used to establish the corporate income tax requirement.
- The total corporate income tax is calculated using a gamma of 25 per cent as discussed in Attachment 8.
- ActewAGL Distribution calculates a total of $15 million (nominal) in corporate income tax during the 2016-21 period.

Consumer benefits

- By adopting the proposed corporate income tax revenue, customers only fund tax payments related to the particular operating/capital circumstances applicable to a prudently and efficiently operated network business in the ACT.

Consistent with the approach that ActewAGL Distribution adopted and that the Australian Energy Regulator (AER) approved for the 2010 access arrangement review, ActewAGL Distribution has adopted a post-tax framework to estimate its total revenue requirement. That framework in turn requires that the cost of corporate tax be estimated as a separate building block. This attachment addresses the requirement of Rule 72(1)(h) of the National Gas Rules (Rules) for the access arrangement information to include 'the estimated cost of corporate income tax in accordance with rule 87A …'. This attachment, including appendices, also addresses the information required by the AER in its Regulatory Information Notice (RIN).

9.1 Introduction

Rule 87A states that the estimated cost of corporate income tax for each regulatory year (ETCt) must be estimated in accordance with the following formula:

$ETCt = (ETIt \times rt)\ (1 - \gamma)$

where:

- ETIt is an estimate of the taxable income for that regulatory year that would be earned by a benchmark efficient entity as a result of the provision of reference services if such an entity, rather than the service provider, operated the business of the service provider;

- rt is the expected statutory income tax rate for that regulatory year as determined by the AER; and
- γ is the value of imputation credits.

ActewAGL Distribution has calculated the corporate income tax building block using the approach in the AER's post tax revenue model (PTRM) and covered in this attachment.

The key inputs into this method of setting the allowance for corporate income taxes are the tax asset base (TAB), tax standard and remaining lives, and the gamma parameter setting the value of imputation tax credits.[1]

9.2 Tax asset base

The TAB is rolled forward using the AER's roll-forward model (RFM) included in appendix 7.01, and uses the same capital expenditure (capex) and capital contributions inputs as for the capital base.

The value of the TAB and the roll forward is demonstrated in Table 9.1 and Table 9.2. Consistent with the AER's RFM, the TAB has been updated for the actual capex outcome in 2009/10 rather than the forecast capex amount included in the AER's 2010 final decision. ActewAGL Distribution has calculated depreciation based on the standard and remaining lives as set out in the AER's 2010 final decision.

Table 9.1 Roll forward of the TAB, 2010-16

$ million (nominal)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Opening TAB	189.4	191.6	195.8	200.0	210.9	217.7	231.9
plus capital expenditure	10.4	12.8	14.3	19.4	17.8	23.7	33.3
less depreciation	8.2	8.6	9.1	9.5	10.0	10.6	11.2
Closing TAB	191.6	195.8	200.0	210.9	217.7	231.9	254.1

The forecast TAB over the 2016-21 period is calculated within the PTRM included in appendix 11.01 and is shown in Table 9.2.

[1] Gamma measures the value of imputation credits to investors. Though it does not enter into the nominal vanilla weighted-average cost of capital (WACC), it is typically considered part of the cost of capital. ActewAGL Distribution discusses the appropriate rate for gamma in attachment 8.

Table 9.2 Roll forward of the TAB, 2016-2021

$ million (nominal)	2016/17	2017/18	2018/19	2019/20	2020/21
Opening TAB	254.1	267.5	285.0	300.0	314.1
***plus* capital expenditure**	23.0	28.0	26.6	26.8	20.7
***less* tax depreciation**	9.6	10.6	11.6	12.7	13.7
Closing TAB, distribution	267.5	285.0	300.0	314.1	321.0

9.3 Tax standard and remaining lives, 2016-2021

ActewAGL Distribution has calculated the tax remaining lives using a method analogous to that used to calculate the remaining lives of the capital base; that is, using the AER's method in the RFM to calculate remaining lives. There is no remaining life for IT systems because there was no positive value in the TAB at 1 July 2016. The calculated remaining lives as at 1 July 2016 are shown in Table 9.3.

ActewAGL Distribution proposes to maintain the existing standard lives for all asset categories in the standard control for the 2016-21 period, as set out in Table 9.3.

Table 9.3 Tax standard and remaining lives gas assets

Asset class	Standard life (years)	Remaining life (years)
HP Mains	50	43.1
HP Services	50	29.4
MP Mains	50	30.0
MP Services	30	24.6
TRS & DRS – Valves & Regulators	40	38.1
Contract meters	15	9.0
Tariff meters	15	13.0
Regulatory costs	5	n/a
IT System	5	6.5

9.4 Tax loss carried forward

The newest versions of the AER's PTRM and the AER's RIN, schedule 1, require ActewAGL Distribution to provide calculations to demonstrate whether a tax loss carried forward exists as at 1 July 2016, noting that the figures used must be actuals.

ActewAGL Distribution is a partnership and does not pay any tax. ActewAGL Distribution has therefore not included any tax-loss carried-forward amount from the previous period to the 2015/16 starting point of the PTRM.

9.5 Corporate income tax building blocks

ActewAGL Distribution proposes a corporate income tax building block as set out in Table 9.4.

This building block is based on:

- an estimate of the taxable income for each respective regulatory year using the PTRM input parameters as set out in this proposal, consistent with what would be earned by a benchmark efficient entity;
- the application of a utilisation of imputation credits of 25 per cent, as set out in Attachment 8; and
- ActewAGL Distribution's proposal to use the legislated corporate tax rate of 30 per cent as the expected statutory income tax rate.

Abbreviations used in this document

Abbreviation	Full term
ACT	Australian Capital Territory
AER	Australian Energy Regulator
capex	capital expenditure
DRS	district regulator set
HP	high pressure
MP	medium pressure
PTRM	post-tax revenue model
Rules, the	National Gas Rules
TAB	tax asset base
TRS	trunk-receiving station