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# **2019-20 Application for Pass-through of Easement Tax Event**

**Submitted: 1 February 2019**



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## **Contact**

This document is the responsibility of AusNet Services.  
Please contact the indicated owner of the document with any inquiries.

Monico Aquino  
AusNet Services  
Level 32, 2 Southbank Boulevard  
Melbourne, Victoria 3006  
Ph: (03) 9695 6804

**Table of Contents**

<b>1</b>	<b>Introduction .....</b>	<b>4</b>
<b>2</b>	<b>Details and Date of the Positive Change Event .....</b>	<b>5</b>
2.1	Details of the Positive Change Event.....	5
2.2	Date of the Positive Change Event.....	5
<b>3</b>	<b>Calculation of Pass-through Amount .....</b>	<b>6</b>
3.1	The Eligible Pass Through Amount .....	6
3.2	The Positive Pass Through Amount .....	6
<b>4</b>	<b>Other Relevant Information.....</b>	<b>7</b>
<b>5</b>	<b>Conclusion.....</b>	<b>7</b>

## 1 Introduction

In 2004, the Victorian Government extended land tax to electricity transmission easements owned by electricity transmission companies in Victoria. As the Easement Land Tax (ELT) constitutes a significant variable exogenous cost upon AusNet Services, from 1 April 2008, the tax and associated pass-through arrangements were subsumed into the future revenue cap.

The pass-through arrangements contained in Clause 11.6.21 (a) and (d) of the NER allow any variance between the forecast ELT and the actual tax levied to be corrected in the relevant regulatory year's revenue. The annual correction, referred to as an *easement tax change event*, is not subject to the materiality threshold contained in the NER. Clause 11.6.21 (d) makes clear that the process set out in Clause 6A.7.3 of the NER is to be followed with regards to an application for a *negative* or *positive pass through amount* arising from an *easement tax change event*.

This document constitutes an application for a *positive pass through amount* resulting from an *easement tax change event* to be applied to the regulatory year from 1 April 2019 to 31 March 2020.

The Application sets out the information requirements as per Clause 6A.7.3 (c) of the NER in the following sections:

- details of the pass-through event including the date of the relevant pass-through event;
- the financial effect of the pass-through event;
- relevant further information; and
- appendices containing relevant supporting evidence.

It should be noted that all amounts expressed in this Application are GST exclusive (that is, GST is not included).

It should also be noted that much of the relevant legislation refers to SPI PowerNet, the previous name of the licensed transmission entity of AusNet Services. In June 2015, AusNet Services' licensed transmission entity was renamed to AusNet Transmission Group Pty Ltd.<sup>1</sup>

Accordingly, the term SPI PowerNet in the legislation refers to AusNet Transmission Group Pty Ltd, and the terms SPI PowerNet and AusNet Services are used interchangeably throughout this document.

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<sup>1</sup> Essential Services Commission, *Electricity Transmission Licence – AusNet Transmission Group Pty Ltd: Schedule 2*, 3 June 2015

## 2 Details and Date of the Positive Change Event

In April 2004, the Victorian Parliament passed the Land Tax (Amendment) Act 2004 (submitted previously with 2004 application). The Act extends the essential parts of the Land Tax Act 1958 (now repealed and replaced by the Land Tax Act 2005) to electricity transmission easements owned by electricity transmission companies in Victoria. Specifically, this refers to electricity easements owned by AusNet Services.

### 2.1 Details of the Positive Change Event

Clause 11.6.21 (a) of the NER defines an *easement tax change event* as meaning:

... a *change* in the amount of land tax that is payable by SPI PowerNet [the former name of AusNet Services' licenced transmission entity] in respect of the easements which are used for the purposes of SPI PowerNet's *transmission network*. For the purposes of this definition, the *change* in the amount of land tax that is payable by SPI PowerNet must be calculated as the difference between:

- (1) the amount of land tax that is payable in each *regulatory year* by SPI PowerNet, as advised by the Commissioner of State Revenue, Victoria; and
- (2) the amount of land tax which is forecast for the purposes of and included in the *revenue determination* for each *regulatory year* of the *regulatory control period*.

Clause 11.6.21 (d) deems an *easement tax change event* as a *pass through event* and a *positive or negative change event* as the case may be.

Whether an easement tax change event has occurred cannot be assessed until the following information is known:

- **The real and nominal ELT forecast** – the ELT for a given regulatory year is forecast in real terms in the 2017 transmission determination. The exact nominal amount forecast becomes known when the relevant September quarter CPI is issued by the Australian Bureau of Statistics (ABS). The 2018 September CPI (to be applied to the 2019-20 regulatory year) was issued on 31 October 2018.
- **The amount of ELT payable for a given regulatory year** – this becomes known when the State Revenue Office issues its Land Tax Assessment Notice. The 2018 Land Tax Assessment Notice was issued on 15 January 2019.

### 2.2 Date of the Positive Change Event

Therefore, the date on which the *positive change event* occurred was when the 2018 Land Tax Assessment Notice was issued on 15 January 2019 by the State Revenue Office.

### 3 Calculation of Pass-through Amount

#### 3.1 The Eligible Pass Through Amount

The *eligible pass through amount* in respect of this *positive change event* is calculated from the difference between:

- the amount of land tax that is payable in the 2019-20 regulatory year by AusNet Services, as advised by the Commissioner of State Revenue, Victoria; and
- the nominal amount of land tax which is forecast in the Final Decision for the 2019-20 regulatory year.

The State Revenue Office of Victoria has issued a land tax assessment of **\$170,585,935** on AusNet Services' transmission easements to be recovered over the 2019-20 regulatory year. This Assessment Notice is attached as Appendix A.

The real forecast easement land tax allowance contained in the 2017 determination is **\$135,019,541**. The relevant sections of the 2017 determination setting out the real ELT forecasts are attached as Appendix B.

The nominal amount of **\$143,441,327** is calculated via the formula set out below:

$$\text{2017 Determination ELT Forecast (\$2016/17)} \times (1 + 2.40\%^2) \times [\text{CPI}_t/\text{CPI}_{t-1}] \times [\text{CPI}_{t-1}/\text{CPI}_{t-2}]$$

where:

$\text{CPI}_t$  = the CPI for the calendar quarter ending 30 September immediately preceding the relevant regulatory year (in this case 2018).

Substituting in the required values the calculation becomes:

$$\text{\$135,019,541} \times (1 + 2.40\%) \times (113.5/111.4) \times (111.4/109.4) = \text{\$143,441,327}$$

The difference between the actual and forecast amounts is **\$27,144,608**. This amount constitutes the *eligible pass through amount*.

#### 3.2 The Positive Pass Through Amount

The actual costs that will be incurred by AusNet Services in 2019-20 will be **\$27,144,608** higher than has been allowed for in the 2017 determination. This amount constitutes the *positive pass through amount* and occurs solely as a consequence of the *positive change event*.

AusNet Services is proposing to pass through the full amount to *Transmission Network Users* in the 2019-20 regulatory year.

<sup>2</sup> The AER applied the 2017 determination forecast inflation rate of 2.40% to convert the real allowance in \$2016-17 into nominal terms to determine the unsmoothed building block requirement for. This relevant section of the 2017 determination is attached as Appendix C. While the inflation value presented in this pass through application is rounded to two decimal places, the eligible pass through amount has been calculated using the unrounded value in the 2017 determination Post-Tax Revenue Model.

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## Pass Through of Easement Tax 2019-20

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### 4 Other Relevant Information

As per Part J of Chapter 6A of the NER, AusNet Services allocates the ELT into the *prescribed common transmission services* category for pricing purposes. Therefore, AusNet Services intends to allocate any variance in the cost of the ELT to the same category. The common service charge is recovered exclusively from AEMO (previously VENCORP). AEMO has previously agreed to this allocation, as it quarantines entry connection parties who cannot easily pass-through the costs themselves (VENCORP's letter of agreement was submitted previously with the 2004 application).

### 5 Conclusion

As per Clauses 11.6.21 (a) and (d) and 6A.7.3 of the NER, AusNet Services is seeking to pass through to *Transmission Network Users* the *positive pass through amount* of **\$27,144,608** in the 2019-20 regulatory year.

**Pass Through of Easement Tax 2019-20**

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Appendix A: 2019 Easement Land Tax Assessment

Appendix B: Easement Land Tax Section of the 2017 determination

Appendix C: Forecast Inflation Section of the 2017 determination