Attachment 4.08

Approach to Opening tax asset base and remaining tax asset lives as at 1 July 2014

May 2014

Introduction

This attachment sets out Ausgrid's approach to calculating the value of the tax asset base and the relevant remaining tax asset lives as at 1 July 2014. These calculations are relevant to the determination of corporate income tax component of the building block approach.

Approach to estimating opening tax asset base as at 1 July 2014

In determining the opening tax asset base as at 1 July 2014, Ausgrid applied the approach approved by the AER in its 2009-14 determination for Ausgrid (EnergyAustralia at the time). The AER determined that Ausgrid would be allowed to use hardcoded depreciation amounts to depreciate the opening tax asset base as at 1 July 2009 over the 2009-14 period.[1] However, capex over the period was to be depreciated as per the AER's roll forward model (RFM) and post-tax revenue model (PTRM) approach, which applies straight line depreciation using the standard tax asset lives approved by the AER.

Ausgrid has applied hardcoded amounts to depreciate the opening tax asset base, but with updates to incorporate actual capex, capital contributions and disposals for 2008-09. The 2008-09 actual capex, capital contributions and disposals were unknown when the AER made its final 2009-14 determination for Ausgrid. The 2008-09 actuals are now known and we have updated both the 2008-09 opening tax asset base and the depreciation on the opening tax asset base as at 1 July 2009. Tables 1,.2 and 3 compare the determination approved opening tax asset base as at 1 July 2009 and the revised opening tax asset base as at 1 July 2009 (incorporating actual capex, capital contributions and disposals for 2008-09).

Table 1: Comparison between approved and revised 1 July 2009 Opening Tax asset base ($m, nominal)

	Approved Tax Asset Base (as at 1 July 2009)	Revised Tax Asset Base (as at 1 July 2009)	Difference
Distribution	$ 4363	$ 4,553	**$190**
Transmission	$634	$645	**$11**
Total	**$4,997**	**$5,198**	**$201**

Table 1 illustrates that the tax asset base as at 1 July 2009 increased significantly compared to what was forecast at the time of the determination. This reflects that 2008-09 actual capex was significantly greater than initially forecast for the 2009-14 determination.

Table 2: Approved depreciation on Opening Tax asset base as at 1 July 2009 ($m, nominal)

	2009/10	2010/11	2011/12	2012/13	2013/14
Distribution	286	169	151	132	117
Transmission	32	16	14	12	11
Total	**318**	**185**	**165**	**144**	**128**

Table 3: Revised depreciation on Opening Tax asset base as at 1 July 2009 ($m, nominal)

	2009/10	2010/11	2011/12	2012/13	2013/14
Distribution	290	172	154	138	126
Transmission	33	17	15	13	12
Total	**323**	**189**	**169**	**151**	**138**

Tables 2 and 3 illustrate that revised tax depreciation is higher than approved hard-coded tax depreciation. This reflects the higher opening asset base as at 1 July 2009.

Actual and expected capex for the 2009-14 period is added to the values of the tax asset base as at 1 July 2009, with the associated depreciation calculated based on the AER's approved standard tax lives, to derive the opening tax asset values as at 1 July 2014. These values are reflected in Ausgrid's PTRM for the 2014-19 period.

[1] See AER, *NSW DNSPs final decision*, April 2009, p. 209 and AER, *NSW DNSPs draft decision*, December 2008, p. 207.

The depreciation expense on the opening tax value as at 1 July 2104 is calculated using the remaining tax asset lives as at 1 July 2014, the calculation of which is described below.

Approach to calculating remaining tax asset lives as at 1 July 2014

The AER's preferred approach to estimating asset lives weights the remaining life of existing assets as at the start of a new regulatory period and capex throughout the previous regulatory period by their respective depreciated values to estimate a weighted average remaining life for each asset class. As, the AER did not approve remaining tax asset lives in its 2009-14 determination for Ausgrid, it is therefore not possible to use the AER's preferred approach to estimating remaining lives.

However, the AER did approve standard tax asset lives for each asset class in its 2009-14 determination. We also have remaining life and standard lives for the regulatory asset base. We have therefore calculated remaining tax asset lives for each asset class by multiplying the standard tax asset lives by the ratio of remaining life to standard life for the standard regulatory asset base. We have followed the approach demonstrated by the formula below:

$$\text{Remaining tax asset life}_i = \text{Standard tax asset life}_i \times (\text{Remaining asset life}_i / \text{Standard Asset life}_i)$$

i= relevant asset class.

This approach is reflected in the PTRMs for distribution and transmission standard control services.