



**FINAL DECISION**  
**TransGrid transmission**  
**determination**  
**2018 to 2023**

**Attachment 8 – Corporate**  
**income tax**

May 2018

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## Note

This attachment forms part of the AER's final decision on TransGrid's transmission determination for 2018–23. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

TransGrid transmission determination 2018–23

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment A – Negotiating framework

Attachment B – Pricing methodology

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## Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	annual service revenue requirement
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIA	demand management innovation allowance
DRP	debt risk premium
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
MAR	maximum allowed revenue
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSCAS	network support and control ancillary services
NSP	network service provider
NTSC	negotiated transmission service criteria
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model

Shortened form	Extended form
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
TNSP	transmission network service provider
TUoS	transmission use of system
WACC	weighted average cost of capital

## 8 Corporate income tax

Our revenue determination includes the estimated cost of corporate income tax for TransGrid's 2018–23 regulatory control period.<sup>1</sup> This allows TransGrid to recover the estimated costs associated with the corporate income tax payable during the 2018–23 regulatory control period.

### 8.1 Final decision

Our final decision on the estimated cost of corporate income tax is \$177.1 million (\$nominal) for TransGrid over the 2018–23 regulatory control period. This amount represents an increase of \$6.0 million (or 3.5 per cent) from the \$171.1 million (\$nominal) in TransGrid's revised proposal.<sup>2</sup> Our final decision represents an increase of \$8.6 million (or 5.1 per cent) from the \$168.5 million (\$nominal) estimated cost of corporate income tax in our draft decision. The increase from the revised proposal reflects our adjustment on the return on capital (sections 2.2 in the Overview) building block, which affects revenues, and in turn impacts the tax calculation. The changes affecting revenues are discussed in attachment 1.

Table 8.1 shows our final decision on the estimated cost of corporate income tax allowance for TransGrid over the 2018–23 regulatory control period.

**Table 8.1 AER's final decision on TransGrid's cost of corporate income tax allowance over the 2018–23 regulatory control period (\$million, nominal)**

	2018–19	2019–20	2020–21	2021–22	2022–23	Total
Tax payable	52.8	56.2	58.8	62.2	65.2	295.2
Less: value of imputation credits	21.1	22.5	23.5	24.9	26.1	118.1
<b>Net corporate income tax allowance</b>	<b>31.7</b>	<b>33.7</b>	<b>35.3</b>	<b>37.3</b>	<b>39.1</b>	<b>177.1</b>

Source: AER analysis.

<sup>1</sup> NER, cl. 6A.6.4.

<sup>2</sup> The estimated corporate income tax is impacted by our decision on various building block components. The higher corporate income tax is mainly driven by a lower tax depreciation which resulted from the reduction we made to the forecast capex. The lower tax depreciation offsets revenues which gives rise to a higher estimated taxable income, all things being equal, and therefore also to a higher corporate income tax allowance for TransGrid in the 2018–23 regulatory control period. In addition, we have increased the forecast return on equity which also contributed to the increase in the estimated corporate tax allowance.

### ***Opening tax asset base as at 1 July 2018***

For this final decision, we accept TransGrid's revised opening tax asset base (TAB) value of \$4055.1 million (\$nominal) as at 1 July 2018. This is \$30.1 million (or 0.7 per cent) higher than the value determined in our draft decision.

In our draft decision, we accepted TransGrid's proposed method to establish the opening TAB as at 1 July 2018. However, we noted that we would update the opening TAB value for the final decision to reflect the actual capex for 2016–17 and revised estimate of capex for 2017–18.<sup>3</sup>

In its revised proposal, TransGrid updated the 2016–17 capex with actual amounts consistent with the values in the annual regulatory account submitted to the AER for this year. It also provided a revised estimate of capex for 2017–18 with more up to date values. We accept these updates, which result in a higher revised opening TAB than what we determined in the draft decision.<sup>4</sup>

Table 8.2 sets out our final decision on the roll forward of TransGrid's TAB values over the 2013–18 regulatory period.

**Table 8.2 AER's final decision on TransGrid's TAB roll forward for the 2014–18 regulatory control period (\$ million, nominal)**

	2014–15	2015–16	2016–17	2017–18 <sup>b</sup>
Opening TAB	3702.9	3797.2	3847.1	3826.8
Capital expenditure <sup>a</sup>	285.6	252.1	133.7	363.8
Less: tax depreciation	191.3	202.2	154.1	135.5
<b>Closing TAB</b>	<b>3797.2</b>	<b>3847.1</b>	<b>3826.8</b>	<b>4055.1</b>

Source: AER analysis.

(a) As commissioned, net of disposals.

(b) Based on estimated capex.

### ***Standard and remaining tax asset lives as at 1 July 2018***

For this final decision, we accept the majority of TransGrid's revised proposed standard tax asset lives, except for the standard tax asset life for the 'NSCAS assets' asset class. In the draft decision, we did not accept TransGrid's proposed standard tax asset life of 25 years for the 'Transmission line life extension (2018–23)' asset class. Instead, we determined a standard tax asset life of 35 years to be consistent with our draft decision on the standard asset life for regulatory depreciation purposes.

<sup>3</sup> AER, *Draft decision: TransGrid determination 2018–23, Attachment 8—Corporate income tax*, September 2017.

<sup>4</sup> TransGrid, *Revised Revenue Proposal 2018/19 – 2022/23*, 1 December 2017, p. 148.



TransGrid's revised proposal adopted the draft decision standard tax asset life of 35 years.

In our draft decision, we also did not accept the standard tax asset life of 36 years for the proposed new 'NSCAS assets' asset class because we did not approve the proposed roll-in amount of NSCAS assets.<sup>5</sup> TransGrid's revised proposal did not adopt our draft decision to roll-in these assets at zero value to the RAB and TAB. It has kept the standard tax asset life of 36 years for this asset class in its revised proposed PTRM.<sup>6</sup> As discussed in attachment 6, we maintain our position in the draft decision that the NSCAS assets should be rolled into the RAB at a zero value. Therefore, consistent with our draft decision, we have not assigned a standard tax asset life for this asset class in this final decision.

We are satisfied that the standard tax asset lives as determined in the final decision are appropriate for application over the 2018–23 regulatory control period. We are also satisfied the standard tax asset lives provide an appropriate estimate of the tax depreciation for a benchmark efficient TNSP as required by the NER.<sup>7</sup>

Our final decision accepts TransGrid's revised proposal remaining tax asset lives as at 1 July 2018 for its existing asset classes, which were calculated using the weighted average method. This is consistent with the approach accepted in our draft decision. In the draft decision, we accepted TransGrid's proposal to adopt the weighted average method to calculate remaining tax asset lives as at 1 July 2018. We noted that TransGrid's approach is a continuation of that approved in its previous determinations. We also noted that TransGrid's approach requires a new set of asset classes to be created for depreciating new capex over the 2018–23 regulatory control period. We considered this approach to be reasonable as it achieves a similar outcome as the 'year-by-year tracking' approach for tax depreciation that we approved in recent decisions for other network service providers.

Table 8.3 sets out our final decision on the standard and remaining tax asset lives as at 1 July 2018 for TransGrid.

**Table 8.3 AER's final decision on TransGrid's standard and remaining tax asset lives as at 1 July 2018 (years)**

Asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2018
Transmission lines (pre 2004–05)	n/a	0.0

<sup>5</sup> AER, *Draft decision: TransGrid determination 2018–23, Attachment 8—Corporate income tax*, September 2017.

<sup>6</sup> TransGrid, *Revised Revenue Proposal 2018/19 – 2022/23*, 1 December 2017, pp. 149; We note that while TransGrid in its revised proposal has stated it accepted the amendments we have made to the standard asset lives in the draft decision, its revised proposal PTRM still factors in the standard tax asset life of 35.6 years for 'NSCAS assets' that we have rejected in our draft decision.

<sup>7</sup> NER, cl. 6A.6.4.

Asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2018
Underground cables (pre 2004–05)	n/a	30.6
Substations including buildings (pre 2004–05)	n/a	8.2
Transmission lines (2004–09)	n/a	40.1
Underground cables (2004–09)	n/a	32.4
Substations including buildings (2004–09)	n/a	29.8
SCADA and communications (2004–09)	n/a	4.8
Transmission lines & cables (2009–14)	n/a	44.7
Substations (2009–14)	n/a	34.2
Secondary systems (2009–14)	n/a	29.5
Communications (2009–14)	n/a	29.4
Minor plant, motor vehicles & mobile plant (2009–14)	n/a	2.2
Transmission lines (2014–18)	n/a	49.6
Underground cables (2014–18)	n/a	43.1
Substations (2014–18)	n/a	38.3
Secondary systems (2014–18)	n/a	13.7
Communications (short life) (2014–18)	n/a	9.1
Business IT (2014–18)	n/a	3.2
Minor plant, motor vehicles & mobile plant (2014–18)	n/a	6.8
Transmission line life extension (2014–18)	n/a	24.0
Residual - other	n/a	1.0
Transmission lines (2018–23)	50.0	n/a
Underground cables (2018–23)	45.0	n/a
Substations (2018–23)	40.0	n/a
Secondary systems (2018–23)	15.0	n/a
Communications (short life) (2018–23)	10.0	n/a
Business IT (2018–23)	4.0	n/a
Minor plant, motor vehicles & mobile plant (2018–23)	8.0	n/a
Transmission line life extension (2018–23)	35.0	n/a

Asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2018
Land and easements	n/a	n/a
NSCAS assets	n/a	n/a
Equity raising costs <sup>a</sup>	n/a	32.6

Source: AER analysis.

n/a: not applicable. We have not assigned a standard tax asset life to some asset classes because the assets allocated to those asset classes are not subject to tax depreciation. The asset classes ending with '(pre 2004–05)'; '(2004–09)'; '(2009–14)' and '(2014–18)' also do not have assigned standard tax asset lives because forecast capex is no longer allocated to them.

(a) For this final decision, TransGrid does not satisfy the requirements to incur benchmark equity raising costs associated with its forecast capex for the 2018–23 regulatory control period. Therefore, a standard tax asset life for equity raising costs is not required.

## 8.2 Assessment approach

We did not change our assessment approach for corporate income tax from our draft decision. Attachment 8 section 8.3 of our draft decision details that approach.