



FINAL DECISION

ElectraNet transmission determination 2018 to 2023

Attachment 8 – Corporate income tax

April 2018

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Note

This attachment forms part of the AER's final decision on ElectraNet'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

ElectraNet 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 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
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
RIN	regulatory information notice

Shortened form	Extended form
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 ElectraNet's 2018–23 regulatory control period.¹ This allows ElectraNet to recover the estimated cost 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 \$40.3 million (\$ nominal) for ElectraNet over the 2018–23 regulatory control period. This amount represents an increase of \$2.8 million (or 7.4 per cent) from the \$37.5 million (\$ nominal) in ElectraNet's revised proposal.² Our final decision represents an increase of \$3.2 million (or 8.5 per cent) from the \$37.2 million (\$ nominal) estimated cost of corporate income tax in our draft decision. The increase from the revised proposal reflects our adjustments on the return on capital (section 2.3 of the Overview) and regulatory depreciation (attachment 5) building blocks, which affect revenues and in turn impact the tax calculation. The changes affecting revenues are discussed in attachment 1.

Our final decision implements the 'year-by-year tracking' approach for calculating tax depreciation under the straight-line method, which is the same approach used in ElectraNet's revised proposal and our draft decision. We are satisfied the application of the year-by-year tracking method to calculate ElectraNet's tax depreciation of existing assets provides an estimate of the tax depreciation amount for a benchmark efficient service provider as required by the NER.³ The use of year-by-year tracking means it is no longer necessary to calculate remaining tax asset lives as at 1 July 2018.⁴

Table 8-1 shows our final decision on the estimated cost of corporate income tax allowance for ElectraNet over the 2018–23 regulatory control period.

¹ NER, cl. 6A.6.4.

² The higher corporate income tax is mainly driven by the higher taxable income, which in turn is the result of a higher return on equity approved in our final decision compared to the revised proposal.

³ NER, cl. 6A.6.4.

⁴ Remaining tax asset lives as at 1 July 2012 and standard tax asset lives are used in the year-by-year tracking method, and these are consistent with our 2012 distribution determination.

Table 8-1 AER's final decision on ElectraNet'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	8.2	12.4	13.7	16.5	16.4	67.2
Less: value of imputation credits	3.3	5.0	5.5	6.6	6.6	26.9
Net corporate income tax allowance	4.9	7.5	8.2	9.9	9.9	40.3

Source: AER analysis.

Opening tax asset base as at 1 July 2018

For this final decision, we accept ElectraNet's revised opening tax asset base (TAB) value of \$1938.5 million (\$ nominal) as at 1 July 2018. This is \$11.6 million (or 0.6 per cent) higher than the value determined in our draft decision.

In our draft decision, we accepted ElectraNet's proposed method to establish the opening TAB as at 1 July 2018, but made some amendments to correct for some minor input errors for capex and asset disposals over the 2013–18 regulatory control period. ElectraNet's revised proposal has adopted our draft decision amendments. Our draft also 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 2017–18.⁵ ElectraNet's revised proposal 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.⁶

Table 8-2 sets out our final decision on the roll forward of ElectraNet's TAB values over the 2013–18 regulatory period.

⁵ AER, *Draft decision: ElectraNet determination 2018–23, Attachment 8—Corporate income tax*, October 2017.

⁶ ElectraNet, *Revised Revenue Proposal, PTRM*, 1 December 2017.

Table 8-2 AER's final decision on ElectraNet's TAB roll forward for the 2013–18 regulatory control period (\$ million, nominal)

	2013–14	2014–15	2015–16	2016–17	2017–18 ^b
Opening TAB	1340.7	1510.7	1541.8	1604.4	1712.5
Capital expenditure ^a	220.6	92.6	130.6	178.2	304.6
Less: tax depreciation	50.6	61.5	68.0	70.0	78.7
Closing TAB	1510.7	1541.8	1604.4	1712.5	1938.5

Source: AER analysis.

(a) As commissioned, net of disposals.

(b) Based on estimated capex.

Standard tax asset lives as at 1 July 2018

For this final decision, we accept ElectraNet's revised proposed standard tax asset lives. In our draft decision, we accepted ElectraNet's proposed standard tax asset lives for its existing asset classes. However, we did not accept ElectraNet's proposed standard tax asset life of 27 years for the 'Transmission line refit - 2018-23' asset class. We instead determined a standard tax asset life of 48.1 years for the 'Transmission line refit - 2018-23' asset class, the same as our draft decision on the standard asset life for this asset class. ElectraNet's revised proposal did not adopt our draft decision and proposed a standard tax asset life of 47.5 years for the 'Transmission line refit - 2018-23' asset class. We accept the standard tax asset life of 47.5 years proposed by ElectraNet because it is consistent with the effective life for depreciating transmission line assets as set out in the ATO tax ruling.⁷

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.⁸

Table 8-3 sets out our final decision on the standard tax asset lives as at 1 July 2018 for ElectraNet.

⁷ ATO, Taxation Ruling Income tax: effective life of depreciating assets (applicable from 1 July 2017), June 2017 <http://law.ato.gov.au/atoLaw/view.htm?docid=%22TXR%2FTR20172%2FNAT%2FATO%2F00001%22>, accessed on 21 February 2018.

⁸ NER, cl. 6A.6.4.

Table 8-3 AER's final decision on ElectraNet's standard tax asset lives as at 1 July 2018 (years)

Asset class	Standard tax asset life
Commercial buildings	40
Communications - civil	12.5
Communications - other	12.5
Computers, software, and office machines	3.3
Easement	n/a
Land	n/a
Network switching centres	4
Office furniture, movable plant, and misc	12.8
Refurbishment	43.8
Substation primary plant	40
Substation demountable buildings	40
Substation establishment	40
Substation fences	40
Substation secondary systems - electromechanical	12.5
Substation secondary systems - electronic	12.5
Transmission lines - overhead	47.5
Transmission lines - underground	47.5
Accelerated depreciation	5
Refurbishment projects 2008-2013	40
Equity raising cost - 2003 Opening RAB and 2003-08 capex	43
Equity raising cost 2013-2018	5
Transmission line refit - insulators replacement 2013-18	27
Communications - other (post 2018)	10
Transmission line refit - 2018-23	47.5

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.

8.2 Assessment approach

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