



**FINAL DECISION**  
**Murraylink 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 Murraylink'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

Murraylink transmission determination 2018–2023

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

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 Murraylink's 2018–23 regulatory control period.<sup>1</sup> This allows Murraylink 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 \$2.5 million (\$nominal) for Murraylink over the 2018–23 regulatory control period. This amount represents a decrease of \$3.2 million (or 56.0 per cent) from the \$5.7 million (\$nominal) in Murraylink's revised proposal. Our final decision represents a slight increase in the estimated cost of corporate income tax in our draft decision. The decrease from the revised proposal reflects our adjustments on the return on capital (attachment 3) and the 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.

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

**Table 8.1 AER's final decision on Murraylink'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	0.7	0.7	0.8	0.9	1.0	4.2
Less: value of imputation credits	0.3	0.3	0.3	0.4	0.4	1.7
<b>Net corporate income tax allowance</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>2.5</b>

Source: AER analysis.

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

Our final decision on the opening tax asset base (TAB) value is \$83.4 million (\$nominal) as at 1 July 2018. This is \$0.1 million (or 0.1 per cent) lower than Murraylink's revised proposal of \$83.5 million. We have corrected some standard tax asset lives to align with our draft decision and this results in a minor reduction in the tax asset base as at 1 July 2018. The main reason for the decrease from our draft

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

decision is the update to actual capex amounts for 2016–17 and revised estimated capex for 2017–18.

In our draft decision, we accepted Murraylink'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>2</sup>

In its revised proposal, Murraylink updated the 2016–17 capex with actual amounts for that year.<sup>3</sup> It also provided a revised estimate of capex for 2017–18 with more up to date values. We accept these updates.<sup>4</sup> However, we also made several amendments to the revised proposed RFM to correct some input errors relating to standard tax asset lives and actual capex. Two of the tax standard asset lives were recorded in the wrong rows in Murraylink's revised proposal RFM. We have corrected these errors to be consistent with our draft decision RFM. Following an information request from us on these input errors, Murraylink agreed with our amendments.<sup>5</sup>

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

**Table 8.2 AER's final decision on Murraylink's TAB roll forward for the 2013–18 regulatory control period (\$million, nominal)**

	2013–14	2014–15	2015–16	2016–17	2017–18 <sup>b</sup>
Opening TAB	81.3	79.1	77.2	75.5	73.6
Capital expenditure <sup>a</sup>	0.3	0.7	0.9	0.8	12.5
Less: tax depreciation	2.5	2.6	2.6	2.7	2.7
<b>Closing TAB</b>	<b>79.1</b>	<b>77.2</b>	<b>75.5</b>	<b>73.6</b>	<b>83.4</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 Murraylink's revised proposed standard tax asset lives. However, we do not accept the name change for the asset class 'Ancillary 7 -

<sup>2</sup> AER, *Draft decision: Murraylink determination 2018–23, Attachment 8—Corporate income tax*, September 2017

<sup>3</sup> Murraylink, *Response to information request # 013*, 20 February 2018; Murraylink, *Response to information request # 015*, 15 March 2018; Murraylink provided an updated value for 2016–17 actual capex assigned to the 'Other operating assets' asset class which included regulatory reset costs. It stated that this updated value would be reflected in the 2017–18 regulatory accounts.

<sup>4</sup> Murraylink, *Revised revenue proposal*, 1 December 2017, p. 17.

<sup>5</sup> Murraylink, *Response to information request # 013*, 20 February 2018.



pressure vessel testing and inspection' to 'Inspection and test equipment'. This is discussed in attachment 5.

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>6</sup>

Consistent with our draft decision, we accept Murraylink's revised proposal to use the weighted average method to calculate the remaining tax asset lives as at 1 July 2018 for its existing asset classes. However, we have updated the revised proposed remaining tax asset lives because we have corrected some input errors relating to standard tax asset life inputs and actual capex inputs in the revised proposed RFM (as discussed above). These inputs affect the remaining tax asset lives calculation.

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

**Table 8.3 AER's final decision on Murraylink'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
Switchyard	40.0	26.3
Transmission line	40.0	25.4
Easements	n/a	n/a
Ancillary 15 - control systems	15.0	11.7
Ancillary 30	30.0	29.1
Ancillary 7 - pressure vessel testing and inspection	7.0	4.2
Other operating assets	5.0	4.9
Office machines	3.0	1.8

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.

(a) For this final decision, Murraylink 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.

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

## **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.