

# Attachment 6

Corporate income tax

Access arrangement information

ACT and Queanbeyan-Palerang gas network 2021–26

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## 6 Corporate income tax

### Key points

Evoenergy has estimated the cost of corporate income tax consistent with the National Gas Rules (Rules) using the AER's gas roll-forward model (RFM) and gas post-tax revenue model (PTRM). Evoenergy's calculation of tax depreciation reflects the AER's 2018 regulatory tax approach, including the use of diminishing value depreciation and capping tax asset lives at 20 years. In addition, Evoenergy has adjusted the estimated cost of corporate income tax using the value of imputation credits in the AER's 2018 rate of return instrument. Evoenergy's resulting estimate of corporate income tax for the 2021-26 regulatory period is set out in the table below.

#### Estimate of corporate income tax

\$ million nominal	2021/22	2022/23	2023/24	2024/25	2025/26
Corporate income tax	0.39	0.30	0.26	0.25	0.29

### 6.1 Introduction

Division 2 (r72) of the Rules sets out the specific requirements for access arrangement information relevant to price and revenue regulation. In relation to corporate income tax, access arrangement information must include the estimated cost of corporate income tax calculated in accordance with rule 87A, including the allowed imputation credits referred to in that rule.

Division 5A (r87A) of the Rules states that:

The estimated cost of corporate income tax of a service provider for each regulatory year of an access arrangement period ( $ETC_t$ ) is to be estimated in accordance with the following formula:

$$ETC_t = (ETI_t \times r_t) (1-\gamma)$$

where

- $ETI_t$  is an estimate of the taxable income for that regulatory year that would be earned by a benchmark efficient entity as a result of the provision of reference services if such an entity, rather than the service provider, operated the business of the service provider;
- $r_t$  is the expected statutory income tax rate for that regulatory year as determined by the AER; and
- $\gamma$  is the allowed imputation credits for the regulatory year.

To calculate the cost of corporate income tax requires several inputs, most of which are discussed in other sections of the access arrangement information. However, one of the inputs specific to calculating the cost of corporate income tax is forecast tax depreciation. To calculate forecast tax depreciation requires the calculation of a tax asset base (TAB). Therefore, this section first discusses Evoenergy's calculation of the TAB before setting out the estimated cost of corporate income tax.

## 6.2 Tax asset base

Evoenergy has used the AER's gas RFM to roll forward the TAB (see Table 6.1) and the AER's PTRM to calculate the projected TAB for 2021-26 regulatory period (see Table 6.2). The inputs Evoenergy has used to calculate the TAB and tax depreciation reflect the AER's regulatory tax approach as set out in its final report released in December 2018<sup>1</sup>. Specifically, Evoenergy has adopted the diminishing value depreciation method as set out in the gas PTRM (with no exceptions) and has capped tax asset lives at 20 years. Evoenergy has identified no capital expenditure for immediate expensing.

**Table 6.1 Tax asset base roll-forward**

\$ million nominal	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Opening tax asset values	231.70	238.02	245.80	248.68	252.61	256.87
Actual net capex	17.09	19.15	13.27	13.89	14.79	14.79
Actual tax depreciation	-10.77	-11.37	-10.39	-9.96	-10.52	-11.17
Closing tax asset values	238.02	245.80	248.68	252.61	256.87	260.50

**Table 6.2 Tax asset base projection**

\$ million nominal	2021/22	2022/23	2023/24	2024/25	2025/26
Opening tax asset values	260.50	264.81	267.37	265.91	262.34
Forecast net capex	15.52	15.58	13.11	12.13	11.81
Forecast tax depreciation	-11.22	-13.02	-14.57	-15.71	-16.58
Closing tax asset values	264.81	267.37	265.91	262.34	257.57

## 6.3 Cost of corporate income tax

In accordance with the rule 87A of the Rules, the cost of corporate income tax is calculated as taxable income multiplied by the corporate tax rate adjusted downward for the value of imputation credits.

Evoenergy has adopted a corporate tax rate of 30 per cent and the value of 0.585 for imputation credits in accordance with the AER's 2018 rate of return instrument.

Taxable income is calculated within the PTRM as the revenue for tax assessment purposes less total tax expenses.

Revenue for tax assessment purposes is comprised of:

- the return on capital (see Attachment 5); plus

<sup>1</sup> AER 2018, Review of regulatory tax approach, Final report, December

- the return of capital (see Attachment 4); plus
- operating expenditure (see Attachment 2) plus
- tax payable (intermediate calculation); less
- the value of imputation credits which is calculated as tax payable multiplied by 0.585; plus
- additional income, comprised of customer contributions and revenue adjustments treated as taxable income (see Attachment 8).

Total tax expenses are comprised of:

- operating expenditure (see Attachment 2); plus
- tax depreciation (taken from the TAB calculation as discussed above); plus
- interest calculated as the return on debt multiplied by the opening capital base multiplied by the gearing ratio (see Attachment 5 for Evoenergy’s estimate of the return on debt and gearing ratio and Attachment 4 for Evoenergy’s calculation of the capital base); plus
- revenue adjustments treated as tax expenses (see Attachment 8).

Based on these inputs, Evoenergy’s estimate of tax revenue, tax expenses, taxable income and the cost of corporate income tax are presented in Table 6.3.

**Table 6.3 Cost of corporate income tax**

\$ million nominal	2021/22	2022/23	2023/24	2024/25	2025/26
<b>Estimated tax revenue</b>	58.93	60.45	62.97	64.78	69.15
<b>Estimated tax expenses</b>	55.79	58.04	60.91	62.74	66.85
<b>Estimated taxable income, ETIt</b>	3.14	2.41	2.05	2.04	2.31
<b>Estimated cost of corporate income tax ETCt = (ETIt x 30%)(1-0.585)</b>	0.39	0.30	0.26	0.25	0.29

## Shortened forms

Term	Meaning
<b>AA</b>	Access Arrangement
<b>ACT</b>	Australian Capital Territory
<b>ACT climate change strategy</b>	ACT Government's Climate Change Strategy 2019-25
<b>ACTCOSS</b>	ACT Council of Social Service
<b>AEMC</b>	Australian Energy Market Commission
<b>AEMO</b>	Australian Energy Market Operator
<b>AER</b>	Australian Energy Regulator
<b>ANU</b>	Australian National University
<b>ARENA</b>	Australian Renewable Energy Agency
<b>BISOE</b>	BIS Oxford Economics
<b>CABS</b>	A Jemena Ltd proprietary system providing retailer billing, demand customer management, network balancing and retailer nomination services.
<b>CALD</b>	culturally and linguistically diverse (community)
<b>capex</b>	capital expenditure
<b>CCP, CCP24</b>	the AER's Consumer Challenge Panel (number 24)
<b>CEG</b>	Competition Economists Group
<b>CEPA</b>	Centre for Efficiency and Productivity Analysis (University of Queensland)
<b>CESS</b>	Capital Expenditure Sharing Scheme
<b>CIE</b>	Centre of International Economics
<b>CIT</b>	Canberra Institute of Technology
<b>CPI</b>	consumer price index
<b>DAE</b>	Deloitte Access Economics
<b>DAMS</b>	Distribution asset management services (agreement)
<b>DC</b>	Demand Capacity Tariff
<b>DT</b>	Demand Throughput Tariff
<b>E2G</b>	Electricity-to-gas
<b>EEIS</b>	Energy Efficiency Improvement Scheme
<b>ECM</b>	Efficiency Carryover Mechanism
<b>ECRC</b>	Energy Consumer Reference Council
<b>EGWWS</b>	electricity, gas, water and waste services (sector)
<b>EI</b>	Economic Insights
<b>EIL</b>	Energy Industry Levy
<b>ETC</b>	Estimated cost of corporate income tax
<b>EPSDD</b>	ACT Environment, Planning and Sustainable Development Directorate

Term	Meaning
<b>GDBs</b>	gas distribution businesses
<b>GN21</b>	Evoenergy gas network access arrangement 2021–26
<b>GJ</b>	gigajoule = $10^9$ joules
<b>GWh</b>	gigawatt hour
<b>I&amp;C</b>	Industrial and commercial
<b>ITAUUF</b>	Information Technology Asset Utilisation Fee
<b>km</b>	kilometre
<b>LPG</b>	liquid petroleum gas
<b>MDLs</b>	Meter Data Loggers
<b>NGL</b>	National Gas Law
<b>NGO</b>	National Gas Objective
<b>NSW</b>	New South Wales
<b>opex</b>	operating expenditure
<b>PPF</b>	Partial Factor Productivity
<b>PJ</b>	petajoule = $10^{15}$ joules
<b>PLS</b>	Pressure Limiting Station
<b>PPA</b>	power purchase agreement
<b>PTRM</b>	post-tax revenue model
<b>QPRC</b>	Queanbeyan–Palerang Regional Council (local government authority)
<b>RAB</b>	regulatory asset base
<b>RFM</b>	roll-forward model
<b>RIN</b>	Regulatory Information Notice
<b>Rules</b>	National Gas Rules
<b>SDRS</b>	Secondary District Regulator Sets
<b>TAB</b>	tax asset base
<b>TJ</b>	terajoule = $10^{12}$ joules
<b>UAG</b>	unaccounted for gas
<b>UNFT</b>	Utilities Network Facilities Tax
<b>VB</b>	Volume Boundary (tariff class)
<b>VI</b>	Volume Individual (tariff class)