Review of regulated tax asset base for regulated revenue purposes

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Reliance restricted

Review of regulated tax asset base for regulated revenue purposes

Dear Ms McMahon

Enclosed is the report of Vaughan Lindfield.

Our engagement was performed in accordance with our engagement letter dated 24 April 2013, and our procedures were limited to those described in that letter and provided in your letter of instruction dated 16 November 2012. The scope of this report is to determine the most appropriate and reliable information to use as a starting depreciable tax base, including using the ‘prime cost’ method to depreciate the depreciable tax base to 1 July 2014.

As outlined in our engagement letter, our report is based on information and instructions provided by you. We have not conducted an audit or other verification of any information supplied to us. We have assumed that the information supplied to us is accurately stated, except where indicated.

Neither Vaughan Lindfield’s report nor any part of it may be published or distributed other than for the specified purpose without obtaining the written consent of Ernst & Young, unless disclosed in accordance with any law or by order of a Court of competent jurisdiction or as reasonably required for the purpose of the proceedings.

We appreciate the co-operation and assistance provided to us during the course of our work. If you have any questions, please call me on (08) 9429 2261.

Yours sincerely

VLindfield

Vaughan Lindfield
Partner – Tax Advisory

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A. Abbreviations

In this report, I use the following abbreviations:

Abbreviation	Description
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ATCO Gas Australia	ATCO Gas Australia Pty Ltd
Commissioner	Commissioner of Taxation
ERA	Economic Regulation Authority
ITAA36	*Income Tax Assessment Act 1936*
ITAA97	*Income Tax Assessment Act 1997*
NGR	National Gas Rules
RAB	Regulatory Asset Base
RoR	Rate of Return
the Guidelines	*Guidelines for Rate of Return for Gas Transmission and Distribution Networks (Consultation Paper - 21 December 2012)*
WACC	Weighted Average Cost of Capital

B. Appendices to this report

The following appendices form part of this report and should be read in conjunction with the contents of this report.

Appendix A	My curriculum vitae
Appendix B	Documents I have relied on
Appendix C	Fixed asset register analysis

C. Introduction

1. I am a Partner of Ernst & Young working in its Corporate Tax practice. My curriculum vitae is at Appendix A.

Background

2. I understand this report has been prepared to assist ATCO Gas Australia to estimate its regulatory tax asset base for the purpose of calculating the depreciation tax deduction used in post-tax revenue modelling as part of the revisions to its access arrangement for the ATCO Gas Australia Network. The proposed access arrangement is for the five and a half year period from 1 July 2014 to 31 December 2019.

3. I am instructed that the following is the relevant background to this matter:

    a. ATCO Gas Australia owns, operates and maintains the largest reticulated gas distribution network in Western Australia. The gas reticulation networks serve Geraldton, Kalgoorlie, Albany, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel and the Perth greater metropolitan area including Mandurah. The Kalgoorlie and Albany networks are not regulated. Accordingly, the Geraldton, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel and the Perth greater metropolitan area including Mandurah networks form the ATCO Gas Australia Network for the purposes of this report.

    b. The role of the ERA is to determine whether ATCO Gas Australia's proposed revised access arrangement meets the National Gas Law objective of promoting economically efficient investment in, and operation and use of, gas networks and services, and complies with the requirements of the National Gas Law.

    c. ATCO Gas Australia's current access arrangement applies until a new proposed access arrangement is approved by the ERA.

    d. The ERA has applied a pre-tax real estimate of the RoR in its recent decisions on access arrangements for the Dampier to Bunbury Natural Gas Pipeline and the Mid-West and South-West Gas Distribution System. The ERA also accepted a proposal to apply a pre-tax nominal estimate of the RoR by Goldfields Gas Transmission for the Goldfields Gas Pipeline.[1]

    e. More recently, the ERA has applied a 'hybrid real' post-tax approach in its electricity networks determination on Western Power's third access arrangement period for 2012/13 to 2016/17.[2]

    f. The ERA consultation paper recognises these approaches are generally not consistent with the requirements under the new NGR 87.[3]

    g. The basis behind the ERA shifting to the post-tax approach appears to be consistent with the objectives of the NGR, particularly NGR 87 which requires a nominal vanilla approach to developing the RoR. In its consultation paper, the ERA confirms a vanilla WACC would be independent of any influence of tax (i.e. the impact of tax on the returns to a business

1 Economic Regulation Authority, Consultation Paper – Guidelines for the Rate of Return for Gas Transmission and Distribution Networks, 21 December 2012, paragraph 76
2 Economic Regulation Authority, Consultation Paper – Guidelines for the Rate of Return for Gas Transmission and Distribution Networks, 21 December 2012, paragraph 77
3 Economic Regulation Authority, Consultation Paper – Guidelines for the Rate of Return for Gas Transmission and Distribution Networks, 21 December 2012, paragraph 78

would need to be accounted for separately, as an explicit deduction from the relevant cash flows). The ERA concludes a vanilla WACC is a 'post-tax' framework.[4]

h. ATCO Gas Australia receives certain developer and customer contributions towards the extension of gas distribution infrastructure. Customer contributions can be cash contributions or gifted assets. ATCO Gas Australia has advised cash contributions are generally recognised as revenue upon receipt for tax purposes. ATCO Gas Australia has further advised gifted assets are generally recognised as revenue upon receipt, or on a percentage completion basis if the asset is of significant value and the contribution spans tax years. These assets are measured at their fair value.

Scope of work

4. I am instructed to determine the most appropriate and reliable information to use as a starting depreciable tax base to the extent a post-tax regime is adopted by the ERA as at 1 July 2014.

Assumptions

5. I have been instructed to make the following assumptions:

   a. The data provided to me in respect of the assets held by ATCO Gas Australia as at 30 June 2000, and subsequent acquisitions and disposals to 30 June 2011, contained in the tax fixed asset registers is a complete record. Further, I have assumed that all assets listed in the schedules provided existed as at this date and were the property of ATCO Gas Australia for the period they are shown as being owned by ATCO Gas Australia. I have assumed, except where otherwise stated, that the cost data and acquisition date provided to me for these assets is accurate.

   b. As at 30 June 2000, AlintaGas Networks (the former name of ATCO Gas Australia) was privatised. At this date, accounting and tax values for regulated tax assets were established. Division 58 of ITAA97 provides special rules which apply in calculating deductions for the decline in value of depreciating assets and balancing adjustments for assets which were held by an exempt entity and are subsequently held by a taxable entity.

   c. I have been advised a reconciliation was performed at the time of privatisation by KPMG and a methodology was devised to ensure all assets were transferred with the correct descriptions, cost, acquisition date, accumulated depreciation and written down value. I have sighted a high level reconciliation of the broad asset categories and values allocated at the date of privatisation, however I have not sighted confirmation that the methodology proposed was enacted in full. I have compared the tax written down value set out in the reconciliation document and an AlintaGas internal memorandum regarding the KPMG analysis dated 9 May 2001 to the tax written down value as at 30 June 2000 in the detailed fixed asset register provided to me by ATCO Gas Australia, and note these values differ by approximately 5.5% (with the detailed register disclosing a lower written down value).

      ATCO Gas Australia has provided me with a reconciliation of this difference. This difference is primarily constituted of Work in Progress (WIP) and non-regulated assets of non-distribution entities within the group. The remaining unidentified discrepancy is approximately 0.2% of the total tax written down value. My conclusion is that the tax written down value of the privatised regulated assets as set out in the detailed fixed asset register as at 30 June 2000 is appropriate.

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4 Economic Regulation Authority, Consultation Paper – Guidelines for the Rate of Return for Gas Transmission and Distribution Networks, 21 December 2012, paragraphs 74-75

d. As at 23 July 2003, AlintaGas Networks was acquired by WA Network Holdings (previously Alinta Network Holdings), and the tax base values of the regulated assets were reset for tax purposes. A step down in value of approximately $72m was included in the tax base.

e. As at 29 July 2011, ATCO Australia acquired 100% of WA Gas Networks (subsequently renamed ATCO Gas Australia). As part of this acquisition, the tax base values of the regulated assets were reset for tax purposes, which resulted in a step up in the tax base.

f. For the purpose of calculating a regulated tax asset base, income tax consolidation adjustments which reset the tax bases of the regulated assets have been disregarded. We discuss the rationale for this further in the paper.

g. I have accepted the estimated additions for the period 1 July 2011 to 30 June 2014, and the forecast additions for each subsequent period to the year ended 31 December 2019, that I have been provided with.

h. As part of determining the opening depreciable starting base, I have reviewed the effective lives applied to the assets by ATCO Gas Australia. I detail the assumptions I have made and the process I have followed at Appendix C.

6. To verify that the data I was provided with is a complete record, I have performed the following reconciliation:

   a. I have attempted to reconcile the tax fixed asset register to the SAP disclosures which contribute to the ACTO Australia consolidated income tax return. This reconciliation contained some minor discrepancies, which were less than 0.4% of the cost of the tax depreciable asset base I have determined at 1 July 2011 (see Appendix C for further details). I note there are limited reconciliations between the tax fixed asset register and audited financial statements of ATCO Gas Australia or ATCO Australia (or their predecessors).

Information

7. The documents I have relied on are listed in Appendix B.

8. I have not conducted an audit or other verification of any information supplied to me. I have assumed that the information supplied to me is accurately stated.

9. Neither Ernst & Young nor I warrant the accuracy or reliability of any of the information supplied to me.

10. The opinions set out in this report may alter if there are any changes to the information supplied to me or assumptions made.

11. To my knowledge, there is no missing information which would impact the calculations that I have performed on the data provided.

Qualifications

12. My opinion is based on my interpretation of the relevant regulatory provisions, my experience in the relevant field, and on the information provided to me by ATCO Gas Australia management. Should any of these facts and circumstances change my conclusion may change.

13. This report has been based on the relevant taxation legislation, rulings and case law as it stands at the date of this report. In the event that such legislation, rulings or case law changes over time, the position I have taken may be affected. I am not responsible for updating any advice previously provided for changes in the law or its interpretation.

14. It is important that you ask me to review this report, if any advice contained in it is to be relied upon in the future or in any other context other than this specific engagement. My original advice may no longer be applicable or appropriate in such circumstances.

Reliance on this report

15. This report has been prepared, and may be relied on, solely for the purposes of this assignment. This report has been prepared specifically for ATCO Gas Australia. Neither Ernst & Young nor I accept responsibility to anyone other than ATCO Gas Australia, or to ATCO Gas Australia if they use the report for some other purpose.

16. Neither this report nor any part of it may be published or distributed other than for the specified purpose without obtaining the written consent of Ernst & Young.

Assistance by colleagues

17. In order to arrive at my opinions in this matter, I have selected colleagues to assist me. My colleagues carried out the work that I decided they should perform. I have reviewed their work and original documents to the extent I considered necessary to form my opinions. The opinions expressed in this report are mine.

Conduct of this assignment

18. I understand that my report is to be prepared in respect of ATCO Gas Australia's next access arrangement review with the ERA. I acknowledge that the report may be provided to the ERA by ATCO Gas Australia.

19. I have been instructed that the report is to be prepared in a form which satisfies the requirements of the guidelines for expert witnesses in proceedings in the Federal Court of Australia. These guidelines are set out in Federal Court of Australia Practice Note CM7.

20. I have read, understood and complied with the Practice Note.

21. I have made all the inquiries which I believe are desirable and appropriate. No matters of significance that I regard as relevant to my opinion have, to my knowledge, been withheld.

Structure of this report

22. The structure of the remainder of this report is as follows.

23. In Section D, I set out a summary of my opinions.

24. In Section E, I discuss my opinion in further detail and outline the reasons for my opinions.

D. Summary of my opinion

25. In this section I summarise the opinions expressed elsewhere in this report. This summary should be read in conjunction with the full report.

26. I have calculated the following is the tax depreciable asset base as at 1 July 2014:

Regulated assets	Tax depreciable base ($)
Total regulated tax asset base	495,305,697

27. The above asset base excludes unregulated assets.

28. Land has also been excluded on the basis that land is not depreciable for tax purposes.

29. Contributed and gifted assets have been included in the above tax depreciable starting base as required by the income tax legislation. My understanding is that these assets have been identified by ATCO Gas Australia and included in the tax depreciation register.

30. The depreciable starting base has been calculated using a prime cost method. I note the prime cost method of depreciation is an election which is generally available under the provisions of the ITAA97. This method appears reasonable for the purposes of this exercise, as prime cost depreciation provides a consistent annual deduction over the life of an asset and it also appears to be consistent with the approach used by other regulatory authorities where a post-tax WACC is adopted.

E. Opinion

Determination of depreciable start base

31. As noted above, the ERA requires a calculation of a post-tax revenue for the gas distribution business operated by ATCO Gas Australia. In addition, the assets have been depreciated using the prime cost method.

32. As such, the following process has been utilised to calculate the depreciable starting base:

    a. I have obtained a complete fixed asset register as at 23 July 2003. This is the earliest date when detailed fixed asset information was available. I note that approximately two thirds of the assets in this register have a capitalisation date of 30 June 2000 (being the date of privatisation). The remaining assets were added between 1 July 2000 and 23 July 2003. I have not been able to reconcile this register to detailed prior period information. Rather, the fixed asset register as at 23 July 2003 has been restated to 30 June 2000 by removal of accumulated depreciation and additions subsequent to that date. This has been compared to the tax written down value set out in the Division 58 reconciliation document prepared as at the date of privatisation (being 30 June 2000), and I note these values differ by approximately 5.5% (with the restated detailed register disclosing a lower written down value).

       ATCO Gas Australia has provided me with a reconciliation of this difference, showing it is primarily constituted of Work in Progress (WIP) and non-regulated assets of non-distribution entities within the group. The remaining unidentified discrepancy is approximately 0.2% of the total tax written down value. My conclusion is that the tax written down value of the privatised regulated assets as set out in the detailed fixed asset register as at 30 June 2000 is appropriate. This analysis is listed as an assumption in this report.

    b. I obtained details of the additions of each category of regulated assets for the income tax periods ended 31 December 2000, 31 December 2001, 31 December 2002, 31 December 2003, 31 December 2004, 31 December 2005, 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009, 30 June 2010 and 30 June 2011 to arrive at the total cost of assets held for tax purposes as at 1 July 2011.

    c. Additions for the periods ended 31 December 2000 (six months), 31 December 2001, 31 December 2002, 31 December 2003, and 31 December 2004 were not subject to external audit, however I have been provided with reconciliations from ATCO Gas Australia in relation to these additions which were previously submitted to the ERA as part of the 2005 Access Arrangement. Accordingly, I have relied on this internal documentation of ATCO Gas Australia to verify these figures.

    d. Additions for the periods ended 31 December 2005, 31 December 2006, 31 December 2007, 31 December 2008, and 31 December 2009 were subject to external audit by Deloitte. The additions included in the fixed asset register that I have been provided with materially reconcile to the audited Special Purpose Financial Report for the four year period ended 31 December 2008 and the audited Special Purpose Financial Report for the year ended 31 December 2009.

    e. Additions for the periods ended 30 June 2010 and 30 June 2011 have not been subject to external audit however the accounts for 30 June 2010 have been independently reviewed by Deloitte. Accordingly, I have relied on internal documentation of ATCO Gas Australia to verify these figures.

    f. I obtained details of the forecast additions of regulated assets for the income tax periods ended 30 June 2012, 30 June 2013 and 30 June 2014 to arrive at the estimated total cost of assets held for tax purposes as at 1 July 2014. I have assumed ATCO Gas Australia's forecast expenditure is accurate and reliable. These additions can be updated within the calculation once the actual figures are available.

g. I have reviewed the effective lives used for depreciation purposes in this register and confirmed that they are within the range for similar assets in the Commissioner of Taxation's effective life determinations which were published in 2000 to 2003. I have done this on an average basis and investigated exceptions. I had to make a number of assumptions during this process, which are disclosed in Appendix C.

h. This asset register has utilised a capped effective life of 20 years for certain assets pursuant to section 40-102 of the ITAA97 (specifically gas transmission and distribution assets used in the gas supply industry). This section was inserted into the ITAA97 by Taxation Laws Amendment Act (No. 4) 2002. The Explanatory Memorandum to this Amendment Act confirms the effective life of such assets prior to the insertion of section 40-102 was also 20 years. Accordingly, the adoption of 20 years for such assets in the register (including those capitalised prior to 2002) is appropriate.

i. ATCO Gas Australia has adopted longer effective lives for certain assets in the register than those specified by the Commissioner of Taxation (primarily meters which were acquired on or before 31 December 2007). A taxpayer has the ability to self-assess effective lives for depreciating assets where the effective lives suggested by the Commissioner of Taxation do not reflect the decline in value of those assets as used by the taxpayer. I have made enquiries of ATCO Gas Australia regarding the support for self-assessing these effective lives, however I have not been advised of any specific reasons for the choice to use these longer self-assessed effective lives. The use of longer effective lives for these certain assets results in a higher starting base for depreciation purposes, and is therefore a more conservative position.

j. Using the effective lives determined by ATCO Gas Australia in the fixed asset register and the total cost of assets held at 31 December 2003, 31 December 2004, 31 December 2005, 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009, 30 June 2010, and 30 June 2011, I was able to confirm the tax written down value for these assets at 30 June 2011. This calculation was done on a prime cost basis.

k. Further, using the effective lives determined by ATCO Gas Australia in the fixed asset register and the forecast additions of regulated assets for the income tax periods ended 30 June 2012, 30 June 2013 and 30 June 2014, I was able to confirm the forecast tax written down value for these assets at 30 June 2014. This calculation was done on a prime cost basis.

l. I undertook a comparison of ATCO Gas Australia's effective lives for actual and forecast additions in the fixed asset register information from 23 July 2003 to 30 June 2014, compared to the Commissioner's rates for the corresponding years. Again, I completed a sensitivity analysis where differences were identified. My conclusion is that there should be no material impact from any exceptions identified.

m. As ATCO Gas Australia is a subsidiary member of an income tax consolidated group, it is not required to lodge standalone income tax return, but rather a consolidated income tax return is lodged combining its tax information with that of the other members of its consolidated group. Accordingly, it has not been possible for me to compare the written down value of fixed assets within the data provided to me with lodged income tax returns.

n. Further, as described at paragraph 5(c), the tax bases of assets were 'stepped down' upon income tax consolidation as of 23 July 2003. Accordingly, prima facie the tax written down value disclosed in the income tax returns and associated schedules incorporate the impact of this step down and would not provide suitable corroboration for the purposes of the regulatory asset base calculation.

I have completed a reconciliation of the tax written down value for assets disclosed in the income tax return for the year ended 30 June 2011, excluded the value of unregulated assets, and reversed the impact of the 2003 income tax consolidation 'step down'. The comparison of this adjusted tax written down value to the written down value of the regulatory asset base register at 30 June 2011 provides a variance of approximately 1.3%. I do not consider this variance to be material.

33. The detailed process that I have used to review the Microsoft Excel files provided to me is included at Appendix C.

34. I have relied on the following information, which I understand from my and my colleagues' discussions with ATCO Gas Australia personnel:

    a. The effective lives for assets acquired were determined based upon the Commissioner's effective lives (and the statutory capped effective lives where applicable) and effective lives will be determined on the same basis going forward. Certain assets have self-assessed effective lives in excess of the Commissioner's suggested lives for periods ended on or before 31 December 2007. I have made enquiries of ATCO Gas Australia regarding the support for self-assessing these effective lives, however I have not been advised of the reasons for these longer self-assessed effective lives. The use of longer effective lives for these certain assets results in a higher starting base for depreciation purposes, and is therefore a more conservative position.

    b. Contributed and gifted assets have been included in the tax fixed asset register and are depreciated using effective lives determined based upon the Commissioner's guidance.

    c. ATCO Gas Australia adds assets to the tax fixed asset register on a regular basis as each asset is installed and ready for use.

    d. Labour which is costed to the assets on a timesheet basis is capitalised for income tax purposes. I note this treatment is in line with the ATO's view.

    e. ATCO Gas Australia has no assets which are subject to hire purchases or finance leases. Some assets are subject to operating leases and the lease payments on these assets are expensed as incurred.

Ring-fencing assets between regulated and unregulated assets

35. The Guidelines provide that ATCO Gas Australia disaggregate financial information into the following segments:

    a. Regulated assets

    b. Unregulated assets

36. In order to determine a depreciable starting base for tax purposes for the regulated business, ATCO Gas Australia is therefore required to exclude all unregulated assets. My review of the fixed asset register information has not identified the inclusion of any unregulated assets.

Income tax consolidation

37. Income tax consolidation is permitted for Australian corporate groups which satisfy the requirements under the relevant provisions of the ITAA97. One of the outcomes of income tax consolidation in the reset of the tax values of certain assets, include fixed assets.

38. The effects of income tax consolidation should not be applied to regulated businesses which operate under the assumption of a benchmark stand-alone operation on the basis that the tax

consolidated rules would not apply in these circumstances. Income tax consolidation is also precluded to prevent businesses which provide both regulated and unregulated services diverting tax concessions away from regulated assets. The effects of income tax consolidation have therefore been eliminated in determining the opening depreciable base on the basis that the regulated assets of ATCO Gas Australia are treated as a standalone business as opposed to part of a broader corporate group.

39. Accordingly, the impacts of income tax consolidation adjustments to fixed assets have been removed from the fixed asset register utilised for the purpose of obtaining the depreciable tax base as at 1 July 2014.

Replacement asset/repair expenditure included in the opening depreciable tax base

40. Whether replacement assets are repairs, improvements or separate depreciating assets is a contentious area of the tax law, in particular in relation to infrastructure assets.

41. Where replacement assets which have been expensed are subsidiary parts of a broader asset (for example, a pipe is replaced which forms part of a distribution line to a particular geographic area), I consider such treatment of replacement assets is appropriate.

Contributions from customers

42. Customer contributions and gifted assets should generally be taxable to ATCO Gas Australia in the year that the income is derived as a non-cash business benefit[5] or as ordinary income in the hands of ATCO Gas Australia.

43. For ATCO Gas Australia, as the holder of the contributed asset, the corresponding deduction for the asset received should be over time, based on the relevant asset's effective life and nature. Therefore, there is a timing difference between when the income is assessed to ATCO Gas Australia and when the corresponding deduction (where available) can be claimed by ATCO Gas Australia.

44. I understand that contribution revenue and the corresponding asset received are recorded at an equal value, which is the fair value. I have been advised the value of contributed and gifted assets for the purpose of this review generally ranged from negligible to approximately $6.2m per year).

45. As the above approach is consistent with the requirements of the tax legislation I have not removed the contributed assets from the opening depreciable tax base.

Determination of effective lives of assets

46. For income tax purposes, usually the effective lives of depreciable assets can either be based on the Commissioner of Taxation's effective life for that asset, or the effective life can be self-assessed by the taxpayer.

47. I understand that ATCO Gas Australia generally determines the effective lives of assets based on the effective lives which are published by the Commissioner of Taxation. The effective lives for certain assets have been capped under statutory capping provisions.

48. I have been provided with details of the depreciation rates and methods used for the various categories of regulated assets which are usually acquired by ATCO Gas Australia in the form of

5 Section 21A *ITAA36.*

a rate card. From this information, I have reviewed the effective lives which are used to depreciate each category of assets.

49. The depreciation rates and methods that I have been provided with are based on current legislation and ATO guidance. I have completed a sample review of the effective lives for the additions added to the depreciation register during the period 23 July 2003 to 30 June 2011. I have also completed a sample review of the effective lives adopted for forecast asset additions for the period 1 July 2011 to 31 December 2019. As outlined above, ATCO Gas Australia has adopted longer effective lives for certain assets in the register than those specified by the Commissioner of Taxation (primarily meters which were acquired on or before 31 December 2007). A taxpayer has the ability to self-assess effective lives for depreciating assets where the effective lives suggested by the Commissioner of Taxation do not reflect the decline in value of those assets as used by the taxpayer. I have made enquiries of ATCO Gas Australia regarding the support for self-assessing these effective lives. I consider the use of longer effective lives for these certain assets is not unreasonable because it results in a conservative opening tax depreciable base.

50. When reviewing prior year additions, I have compared the effective lives used to depreciate each asset to an average of the Commissioner of Taxation's effective lives for that broader asset category. For example, the rate used to depreciate an item of equipment and vehicles has been compared to an average of the Commissioner of Taxation's effective lives for specific items of equipment and vehicles relevant to ATCO Gas Australia.

Asset disposals

51. ATCO Gas Australia advised disposals are immaterial for the purposes of this calculation. This appears consistent with the financial statements that I have sighted. My analysis of the fixed asset registers and discussions with ATCO Gas Australia have not identified any material disposals of assets.

Conclusion

52. Based on the above analysis and process, I have calculated the following tax depreciable asset base as at 1 July 2014:

Regulated assets	Tax depreciable base ($)
Total regulated tax asset base	495,305,697

53. The above tax depreciable base excludes land and unregulated assets (being Kalgoorlie and Albany assets).

Appendix A Vaughan Lindfield Curriculum Vitae

Vaughan Lindfield
Partner, Business Tax Advisory

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Vaughan joined Ernst & Young as a Partner in 2011 after previously spending three years in the executive management team of Alinta Energy Limited in Sydney. Vaughan brings significant commercial experience with respect to infrastructure projects and is highly regarded for his ability to manage complex assignments with multiple stakeholders associated with such projects.

A qualified chartered accountant with more than 18 years tax experience, Vaughan is highly regarded for his working knowledge of key tax issues impacting energy and infrastructure companies and projects.

Vaughan has extensive experience in dealing with all financing arrangements associated with integrated mining infrastructure projects from both a commercial and tax perspective.

Vaughan has also advised Government with respect to Infrastructure matters under the NTER. For example, Vaughan was a key member of the Ernst & Young tax team that advised the Office of Energy on the disaggregation of Western Power and recently he has advised the WA Treasury on the income tax treatment of capital contributions.

Client / Project	Value to client
Western Power – Expert report	Vaughan provided an expert report to Western Power in relation to the veracity of the starting depreciable tax base of regulatory assets. This report was prepared to assist Western Power estimate its tax attributes for post-tax revenue modeling as part of the revisions to its access arrangement for the Western Power Network.
Department of Treasury (WA)	Vaughan has advised WA Treasury regarding the income tax treatment of gifted property, including the resulting assessable and deductible amounts to WA Treasury.
Alinta Ltd Scheme of Arrangement	Vaughan provided advice in structuring the Alinta Limited Scheme of Arrangement on behalf of Alinta Energy Ltd. Alinta Energy was a member of a consortium that comprised Prime Infrastructure (now owned by Brookfield), and Singapore Power. The consortium acquired Alinta Ltd (a Top 40 ASX listed company at that time) and subsequently split up the assets of Alinta. This was considered a highly complicated transaction from both a commercial, legal and tax perspective given the shared vehicle acquisition structure adopted. Vaughan was also involved in settling the outstanding obligations under the Umbrella document with both Prime and Singapore Power in his capacity as a member of the Alinta Energy Management team.
WA Office of Energy	Vaughan was a key member of the tax advisory team associated with the disaggregation of Western Australia's leading energy infrastructure business, Western Power into four separate entities

Professional background and qualifications

- Institute of Chartered Accountants Program (Admitted 11 February 2002)
- CPA Program (Admitted 25 July 1995)
- Bachelor of Commerce (Edith Cowan University)

Appendix B Documents I have relied on

1. Microsoft Excel documents provided by ATCO Gas Australia:

    a. ‘SAP TAB data CC ignored.xlsx’ by Elbie Marias on 31 May 2013
    b. ‘RAB additions CC ignored.xlsx’ by Elbie Marias on 31 May 2013
    c. ‘TAB comparison.xlsx’ by Elbie Marias on 31 May 2013
    d. ‘E&Y Step down and Original workings.xls’ by Elbie Marias on 31 May 2013
    e. ‘Cap_Contrib_asset_class_2005_19_used.xlsx’ by Allan Hudson on 17 October 2013

2. The following Microsoft Word document provided by ATCO Gas Australia:

    a. ‘Tax Asset Base.docx’ by Elbie Marias on 31 May 2013

3. Special Purpose Financial Reports:

    a. WA Gas Networks Pty Ltd (formerly Alinta Gas Networks Pty Ltd) Special Purpose Financial Report for the four year period ended 31 December 2008
    b. WA Gas Networks Pty Ltd Special Purpose Financial Report for the year ended 31 December 2009

4. ‘Ernst & Young Alinta network Holdings Pty Ltd Tax Consolidation June 2005.pdf’, Ernst & Young, 6 June 2005

5. Legislation:

    a. Income Tax Assessment Act 1936 (Cth)
    b. Income Tax Assessment Act 1997 (Cth)

6. ATO guidance publications:
    a. ATO Interpretive Decision ATO ID 2011/43
    b. Taxation Ruling TR 2013/4

Appendix C Fixed asset register analysis

I have made the following changes and performed the following calculations on the data which was supplied to me.

Effective lives of assets

When reviewing the effective lives of the assets on the depreciation schedule, I compared ATCO Gas Australia's effective lives for particular assets (or classes of assets) to the effective lives set out in the relevant determinations by the Commissioner of Taxation. ATCO Gas Australia's fixed asset register as at 23 July 2003 includes details of the classes of assets and a limited description of the individual assets. For certain assets, these descriptions are not sufficient to determine the exact nature of the asset. I have therefore made a number of assumptions to review the effective lives that ATCO Gas Australia has allocated to these assets.

Approximately 2000 assets within the register were capitalised on 30 June 2000, being the date of privatisation of the entity. Whilst these assets were acquired by the entity prior to 30 June 2000, specific details of the acquisition dates are not available. These assets are allocated a proportion of their remaining effective life as at 30 June 2000. This treatment is in accordance with the requirements of Division 58 of the ITAA97.

I have taken the following steps to verify the effective lives used by ATCO Gas Australia:

- Reviewed the effective lives adopted by ATCO Gas Australia for each category of assets and compared these to the Commissioner's effective lives (or, where applicable, an average of the Commissioner's effective lives). Where the effective life applied by ATCO Gas Australia was within the Commissioner's range for similar assets, I have accepted the life applied by ATCO Gas Australia. I have also accepted ATCO Gas Australia's effective life where there was a prima facie discrepancy, but the discrepancy was explainable.

- When considering the difference between the closing written down values using ATCO Gas Australia's effective lives compared to the closing written down values based on the Commissioner's effective lives on a year by year basis, my analysis generally produced variances of less than 1% of the written down tax values for each year.

Assets excluded from the fixed asset register

Certain asset categories have been excluded from the tax fixed asset register to ensure that the appropriate assets are included in the income tax calculations in the post-tax revenue model.

My analysis has ensured the following assets categories have been excluded from the fixed asset register:

- All assets within the Kalgoorlie and Albany districts, which are unregulated assets.

- All assets within the "Land" asset class, as land should not be depreciated.

Fixed asset register reconciliation

I have been provided with a reconciliation of the tax fixed asset base for the year ended 30 June 2011 to 31 December 2019. This reconciliation has been prepared as follows:

- This reconciliation utilises the tax fixed asset details within ATCO Gas Australia's SAP financial management software system. These tax fixed asset details are used to complete the income tax return lodgements for ATCO Gas Australia's parent company (ATCO Australia Pty Ltd).

- As outlined above, the tax bases of fixed assets were 'stepped down' as of 23 July 2003 upon income tax consolidation. I have been provided with a schedule of regulated assets which removes the impact of the step down for the tax periods ended 31 December 2003 to 31 December 2019. The 'stepped down' amount of $71.5m which has been reinstated in the regulated assets register materially reconciles to the details within the Ernst & Young Alinta Network Holdings Pty Ltd tax consolidation report dated 6 June 2005.

- The step down removal adjustment for the year ended 30 June 2011 is summed with the SAP tax written down value of regulated assets as at 30 June 2011 to calculate the 'non-stepped down' tax base of regulated assets.

- The tax base as at 30 June 2011 calculated using this method can be contrasted with the written down value calculated pursuant to the methodology outlined in paragraph 32 of this report (being determination of opening balance of regulated assets at 30 June 2000, adding regulated asset additions and depreciating over relevant effective lives using the prime cost method). The result of this comparison was:

Method of calculation	Tax depreciable base ($)
Total regulated tax asset base at 30 June 2011 (using SAP details)	419,303,213
Total regulated tax asset base at 30 June 2011 (using privatised assets value plus additions less depreciation)	417,686,485

In this regard, I have made the following observations:

- The discrepancy between these two methods is 0.38% as at 30 June 2011. I do not consider this discrepancy to be material.

- The regulatory asset additions and depreciation calculations materially reconcile to the calculations utilised for income tax calculation and reporting purposes as at 30 June 2011.

- The regulatory asset base register materially reconciles to the tax asset register as at 30 June 2011.

The 30 June 2011 regulated asset base has been extrapolated by ATCO Gas Australia to 30 June 2014 by including forecast additions and calculating depreciation using consistent methodologies to the prior periods. The same comparison of two methods of calculation has been completed:

Method of calculation	Tax depreciable base ($)
Total regulated tax asset base at 30 June 2014 (using SAP details)	496,028,435
Total regulated tax asset base at 30 June 2014 (using privatised assets value plus additions less depreciation)	495,305,697

In this regard, I have made the following observations:

- The discrepancy between these two methods is 0.15% as at 30 June 2014. I do not consider this discrepancy to be material.
- The regulatory asset additions and depreciation calculations materially reconcile to the calculations utilised for income tax calculation and reporting purposes as at 30 June 2014.
- The regulatory asset base register materially reconciles to the tax asset register as at 30 June 2014.

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