Attachment 8

Regulatory asset base and corporate income tax

30 June 2022

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8.1 Introduction

This attachment includes information about Icon Water's Regulatory Asset Base (RAB), net tax expenses and Tax Asset Base (TAB).

The RAB reflects the written-down value of efficient capital expenditure that Icon Water has incurred to provide water and wastewater services to Australian Capital Territory (ACT) customers. The RAB provides the basis for calculating both the return on capital and the return of capital (ie. depreciation) – two of the five building blocks that comprise Icon Water's total revenue requirement.

There are two steps involved in calculating the RAB:

- first, determining the opening RAB for the 2023–28 regulatory period, commencing 1 July 2023.
- second, determining the value of the RAB in each year of the 2023–28 regulatory period from 2023–24 to 2027–28.

Sections 8.2 and 8.3 set out Icon Water's approach to implementing each of these steps and the resulting value of the RAB.

In a post-tax framework, net tax expenses are included as one of the five building blocks that comprise Icon Water's total revenue requirement. To calculate tax expenses, a TAB must be calculated. This is similar to the calculation of the RAB with some exceptions; the TAB is used together with other inputs to calculate total tax expenses. Net tax expenses are calculated by reducing total tax expenses by the value of imputation credits.

Sections 8.4 and 8.5 set out Icon Water's approach to calculating the TAB, total tax expenses, imputation credits and net tax expenses.

Box 8-1: Key points

The opening value of the RAB for 2023–24 is $1,676 million for water and $1,081 million for wastewater. The closing value of the RAB for each year of the 2023–28 regulatory period is shown in the table below.

Closing RAB 2023–24 to 2027–28 ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Water	$1,755	$1,811	$1,857	$1,885	$1,911
Wastewater	$1,147	$1,196	$1,275	$1,380	$1,490
Total revenue requirement	**$2,903**	**$3,007**	**$3,132**	**$3,265**	**$3,401**

Source: Icon Water.
Note: Totals may not sum due to rounding.

Net tax liabilities are shown in the table below.

Net tax expenses 2023–24 to 2027–28 ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Water	$0.22	$0.06	$0.16	$0.48	$1.03
Wastewater	$1.46	$2.27	$3.23	$4.25	$5.41
Total	**$1.68**	**$2.33**	**$3.39**	**$4.72**	**$6.44**

Source: Icon Water.
Note: Totals may not sum due to rounding.

The approach we have used to calculate the RAB and TAB is the same as the methodology we used for our 2018 regulatory submission.

8.2 Opening RAB for 2023–24

8.2.1 Introduction

Icon Water derives the opening value of its RAB for 2023–24 by rolling forward its RAB from the previous year using the following calculation:

$$Opening\ RAB_{t+1} = Opening\ RAB_t + Actual\ net\ capital\ expenditure_t - Actual\ asset\ disposals_t - Forecast\ depreciation_t + Actual\ indexation_t$$

The RAB roll-forward takes as its starting point the closing RAB value from the 2013–18 regulatory period (2017–18) as the opening RAB value for 2018–19. The closing value for 2018–19 (which is the opening value for 2019–20) is then calculated by adding actual net capital expenditure[1], deducting actual asset disposals and forecast depreciation and adding actual indexation. This calculation is then repeated for each year to arrive at a closing value for 2022–23, which is equal to the opening RAB value for the 2023–28 regulatory period starting in 2023–24.

While actual values are used for net capital expenditure and asset disposals, depreciation is based on forecast capital expenditure from the previous regulatory period. This is consistent with the approach used for the previous regulatory period and with the approach used by regulators in other jurisdictions.

Each of the inputs required to implement the roll-forward calculation are discussed separately below.

8.2.2 RAB values from previous regulatory period

The opening RAB values for 2018–19 are equal to the closing values for 2017–18. The Commission determined these amounts to be $1,509 million for water and $860 million for wastewater.[2]

When making its final determination, the regulator does not know actual capital expenditure for the last year of the roll-forward period. The Commission made its final determination for the 2018–23 regulatory period in May 2018 and actual capital expenditure for 2017–18 was not known at the time. Therefore, the Commission used forecast capital expenditure for the final year in the roll-forward calculation. The standard regulatory process is to make an adjustment for the difference between forecast and actual capital expenditure for 2017–18 in the 2023–28 regulatory decision.

Icon Water has calculated the RAB values from the previous regulatory period in the same way it was calculated for the last regulatory proposal. This involves calculating the difference between forecast and actual net capital expenditure, including an adjustment for the difference between forecast and actual inflation. In addition, the return on the difference in net capital expenditure is calculated and added to the difference in net capital expenditure to determine the total 2017–18 adjustment amount.

The adjustments for water and wastewater are shown in Table 8-1. The total adjustment for water and wastewater is negative, reflecting that actual net capital expenditure for 2017–18 was lower than forecast. The total adjustment amount is added to the closing value for 2022–23 and is therefore reflected in the opening RAB for 2023–24.

[1] Net capital expenditure is total capital expenditure net of capital contributions.

[2] Independent Competition and Regulatory Commission, *Final Report Regulated Water and Sewerage Services Prices 2018–23*, 2018, p. 82.

Table 8-1: Adjustment for difference between forecast and actual 2017–18 net capital expenditure ($million, nominal)

	Water	Wastewater
Actual net capex	$34.1	$68.2
Actual disposals	$0.1	$0.1
Actual net capex (less disposals)	$34.0	$68.1
Estimated net capex	$42.0	$78.6
Estimated disposals	$0.0	$0.0
Estimated net capex, inflation adjusted	$41.8	$78.2
Difference in net capex	-$7.8	-$10.1
Return on difference	-$2.5	-$3.3
Total adjustment	**-$10.3**	**-$13.4**

Source: Icon Water.
Note: The inflation adjustment accounts for the difference between forecast (2.5%) and actual (1.93%) inflation in 2017–18. Totals may not sum due to rounding.

8.2.3 Actual efficient net capital expenditure

Actual efficient net capital expenditure for water and wastewater is set out in Table 8-2. **Attachment 7: Capital expenditure** provides details of the capital expenditure program, including explanations for the deviations from the efficient capital expenditure that was approved as part of the Commission's 2018 decision.

Table 8-2: Actual net capital expenditure ($million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23
Water	$36.1	$48.6	$39.3	$24.4	$28.3
Wastewater	$65.7	$55.5	$49.4	$57.8	$54.5
Total	**$101.8**	**$104.1**	**$88.7**	**$82.2**	**$82.7**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.2.4 Actual asset disposals

There were a small number of actual asset disposals in the 2018–23 regulatory period. Most of these occurred in 2019–20. The total actual disposal values for the 2018–23 regulatory period are presented in Table 8-3.

Table 8-3: Actual asset disposals ($, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23
Water	$4,620	$8,426	$1,265	$4,770	$4,770
Wastewater	$4,620	$213,178	$873	$72,890	$72,890
Total	**$9,241**	**$221,604**	**$2,138**	**$77,661**	**$77,661**

Source: Icon Water.
Note: Totals may not sum due to rounding. Values for 2021–22 and 2022–23 are forecast.

8.2.5 Forecast depreciation

Forecast depreciation for 2018–23 is taken from the Commission's 2018 decision, which includes an indexation value based on forecast inflation. Therefore, in the roll-forward calculation, forecast depreciation is adjusted for the difference between forecast and actual inflation. The Commission's forecast depreciation is presented in Table 8-4 and the adjusted forecast depreciation is presented in Table 8-5.

Table 8-4: Forecast depreciation, excluding inflation adjustment ($million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23
Water	$31.1	$34.5	$37.5	$40.1	$40.8
Wastewater	$26.3	$30.3	$33.2	$35.7	$37.7
Total	**$57.5**	**$64.8**	**$70.7**	**$75.8**	**$78.6**

Source: Independent Competition and Regulatory Commission, *WSSR Pricing Model 2018*, 2018.
Note: Totals may not sum due to rounding.

Table 8-5: Forecast depreciation, including inflation adjustment ($million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23
Water	$30.4	$33.3	$35.9	$38.9	$39.6
Wastewater	$25.7	$29.3	$31.8	$34.6	$36.7
Total	**$56.1**	**$62.6**	**$67.7**	**$73.5**	**$76.3**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.2.6 Actual indexation

Consistent with standard regulatory practice, the RAB is indexed to ensure the real value of the RAB is maintained over time. The Commission indexed the RAB for the 2018–23 regulatory period using forecast inflation. When the RAB is rolled forward, indexation is recalculated using actual inflation. Actual inflation, measured using the All Groups Consumer Price Index (CPI) for the relevant financial year is calculated in a way that is consistent with the method used by the Commission to roll forward the RAB in 2018. This approach uses the sum of the four quarters for the relevant financial year divided by the sum of the four quarters for the prior financial year as follows:

$$CPI_t = \frac{CPI_{June(t)} + CPI_{Sep(t)} + CPI_{Dec(t)} + CPI_{Mar(t)}}{CPI_{June(t-1)} + CPI_{Sep(t-1)} + CPI_{Dec(t-1)} + CPI_{Mar(t-1)}}$$

Given the timing of the regulatory proposal in June 2022, the 2021–22 CPI estimate is based on the inflation forecast for June 2022 from the Reserve Bank of Australia's (RBA) Statement of Monetary Policy (SoMP).[3] This will be updated by the Commission following the release of the June 2022 CPI figures from the Australian Bureau of Statistics. For 2022–23, the CPI estimate is based on the inflation forecast for June 2023 from the RBA's SoMP.[4] The Commission will update this estimate with the latest inflation forecast before its final decision. The RAB roll-forward in the next regulatory period will account for the difference between forecast and actual inflation for 2022–23.

The indexation amount for each year is then calculated as follows:

$$Indexation_t = CPI_t * (Opening\ RAB_t + Net\ capital\ expenditure_t + Asset\ disposals_t)$$

Forecast depreciation does not enter the indexation calculation because it is adjusted separately by the difference between actual and forecast inflation as discussed above in section 8.2.5. The resulting indexation amounts are presented in Table 8-6.

Table 8-6: Indexation ($million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23
Water	$25.2	$20.9	$25.9	$60.7	$45.8
Wastewater	$14.7	$12.6	$15.8	$38.1	$29.6
Total	**$39.9**	**$33.5**	**$41.72**	**$98.7**	**$75.4**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.2.7 Opening RAB for 2023–24

Using the roll-forward calculation set out in section 8.1 and the values for each of the inputs set out above, the RAB is rolled forward as shown in Table 8-7 and Table 8-8 to give an opening RAB for 2023–24 of $1,676 million for water and $1,081 million for wastewater.

[3] Reserve Bank of Australia, *Statement of Monetary Policy - February 2022*, 2022, p. 56.

[4] Reserve Bank of Australia, *Statement of Monetary Policy - February 2022*, 2022, p. 56.

Table 8-7: Water RAB roll-forward ($million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23
Opening RAB	$1,509.0	$1,539.9	$1,576.0	$1,605.3	$1,651.5
Net capital expenditure	$36.1	$48.6	$39.3	$24.4	$28.3
Asset disposals	$0.0	$0.0	$0.0	$0.0	$0.0
Forecast depreciation	$30.4	$33.3	$35.9	$38.9	$39.6
Indexation	$25.2	$20.9	$25.9	$60.7	$45.8
Adjustment for 2017–18					-$10.3
Total	**$1,539.9**	**$1,576.0**	**$1,605.3**	**$1,651.5**	**$1,675.6**

Source: Icon Water.
Note: Totals may not sum due to rounding.

Table 8-8: Wastewater RAB roll-forward ($million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23
Opening RAB	$859.6	$914.2	$952.8	$986.3	$1,047.5
Net capital expenditure	$65.7	$55.5	$49.4	$57.8	$54.5
Asset disposals	$0.0	$0.2	$0.0	$0.1	$0.1
Forecast depreciation	$25.7	$29.3	$31.8	$34.6	$36.7
Indexation	$14.7	$12.6	$15.8	$38.1	$29.6
Adjustment for 2017–18					-$13.4
Total	**$914.2**	**$952.8**	**$986.3**	**$1,047.5**	**$1,081.4**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.2.8 Asset lives

While the RAB roll-forward calculation does not require asset lives as an input, remaining asset lives are calculated as part of the roll-forward calculation. This is important because remaining asset lives are required as an input to calculating the value of the RAB for the 2023–28 regulatory period.

8.3 RAB for 2023–24 to 2027–28

The RAB for each year of the 2023–28 regulatory period is calculated as follows:

$$Opening\ RAB_{t+1} = Opening\ RAB_t + Forecast\ net\ capital\ expenditure_t - Forecast\ asset\ disposals_t - Forecast\ depreciation_t + Forecast\ indexation_t$$

The starting point for the RAB calculation is the closing RAB from the roll-forward calculation set out in section 8.2. This value is then adjusted for forecast net capital expenditure[5], forecast asset disposals, forecast depreciation and forecast indexation. The calculation is repeated for each year of the new regulatory period.

8.3.1 Forecast efficient net capital expenditure

Forecast efficient net capital expenditure for water and wastewater is set out in Table 8-9. **Attachment 7: Capital expenditure** provides details of the forecast capital expenditure program and capital contributions.

Table 8-9: Forecast efficient net capital expenditure ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Water	$75.7	$54.0	$47.2	$31.2	$33.0
Wastewater	$77.3	$61.6	$94.2	$123.2	$129.5
Total	**$153.0**	**$115.5**	**$141.4**	**$154.5**	**$162.5**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.3.2 Forecast asset disposals

There are no asset disposals forecast for the 2023–28 regulatory period.

8.3.3 Forecast depreciation

Forecast depreciation is calculated consistently with the methodology used in the Commission's 2018 decision, which adopted the straight-line method using economic asset lives where possible.

The straight-line depreciation method allows for an equal proportion of the asset's value to be recovered in each year of its useful life. This approach is simple, transparent and consistent with regulatory practice used by other Australian regulators.

The economic lives of assets are used in the calculation of depreciation because they reflect the cost of the asset over time and promote:

- an efficient use of assets by customers over time
- an efficient planning and investment in assets over time
- intergenerational equity, because customers in each generation only pay for those assets that are used in the provision of services to them.

[5] Forecast net capital expenditure is total forecast capital expenditure net of capital contributions.

Icon Water has used a weighted average asset life for existing water and wastewater assets and asset-specific lives for water security assets and new capital expenditure. Asset lives for new capital expenditure are determined at the project level and are set equal to the asset lives used in previous regulatory decisions. This approach is reasonable because there have been no material changes to the expected asset lives of assets Icon Water intends to deliver during the 2023–28 regulatory period.

The depreciation forecasts used in the RAB calculations are presented in Table 8-10.

Table 8-10: Forecast depreciation ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Water	$41.1	$45.2	$49.1	$52.9	$56.3
Wastewater	$40.8	$44.0	$47.9	$52.8	$57.6
Total	**$81.8**	**$89.2**	**$97.0**	**$105.7**	**$114.0**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.3.4 Forecast inflation

The approach used in the Commission's 2018 decision was to index the RAB using forecast inflation. Then, when calculating the maximum allowed revenue, the indexation amount is removed to avoid double counting the effect of inflation through the application of a nominal Weighted Average Cost of Capital (WACC). This methodology does not alter the total amount that Icon Water is permitted to earn in present value terms (compared with no indexation), but it does alter the profile of how costs are recovered over time.

The Commission considered its approach to forecast inflation as part of its 2020 review of the WACC. The Commission decided to maintain its approach to index the RAB using forecast inflation.[6]

Consistent with the Commission's 2018 decision, Icon Water has indexed the RAB and made the corresponding adjustment to the maximum allowed revenue. The indexation value is calculated as follows:

$$Indexation\ value = (Opening\ RAB + Net\ capital\ expenditure + Asset\ disposals) * Forecast\ inflation$$

The methodology used to calculate forecast inflation is discussed in **Attachment 9: Rate of return and forecast inflation**. The resulting indexation values for each year of the 2023–28 regulatory period are presented in Table 8-10.

[6] Independent Competition and Regulatory Commission, *Review of Methodologies for the Weighted Average Cost of Capital*, 2021, p 43.

Table 8-11: Forecast indexation ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Water	$45.0	$46.8	$48.2	$49.2	$49.9
Wastewater	$29.4	$30.9	$32.6	$35.1	$37.9
Total	**$74.4**	**$77.7**	**$80.8**	**$84.2**	**$87.8**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.3.5 RAB for 2023–24 to 2027–28

The RAB for each year of the 2023–28 regulatory period is calculated using the formula set out at the beginning of section 8.3 and each of the input values discussed above. The resulting RAB values are presented in Table 8-12 for water and in Table 8-13 for wastewater.

Table 8-12: Water RAB 2023–24 to 2027–28 ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Opening RAB	$1,675.6	$1,755.2	$1,810.8	$1,857.1	$1,884.6
Net capital expenditure	$75.7	$54.0	$47.2	$31.2	$33.0
Asset disposals	$0.0	$0.0	$0.0	$0.0	$0.0
Forecast depreciation	$41.1	$45.2	$49.1	$52.9	$56.3
Indexation	$45.0	$46.8	$48.2	$49.2	$49.9
Closing RAB	**$1,755.2**	**$1,810.8**	**$1,857.1**	**$1,884.6**	**$1,911.1**

Source: Icon Water.
Note: Totals may not sum due to rounding.

Table 8-13: Wastewater RAB 2023–24 to 2027–28 ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Opening RAB	$1,081.4	$1,147.4	$1,195.8	$1,274.7	$1,380.2
Net capital expenditure	$77.3	$61.6	$94.2	$123.2	$129.5
Asset disposals	$0.0	$0.0	$0.0	$0.0	$0.0
Forecast depreciation	$40.8	$44.0	$47.9	$52.8	$57.6
Indexation	$29.4	$30.9	$32.6	$35.1	$37.9
Closing RAB	**$1,147.4**	**$1,195.8**	**$1,274.7**	**$1,380.2**	**$1,490.1**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.4 Tax asset base

Tax depreciation is one of the inputs required to calculate tax expenses. This calculation is undertaken as part of the TAB. The TAB methodology mirrors that used to calculate the RAB with the following exceptions:

- The opening values used in the roll-forward calculation reflect TAB values, not RAB values.
- Depreciation in the roll-forward calculation is based on actual deprecation, not forecast depreciation.
- Tax asset lives, not economic asset lives, are used to calculate depreciation.
- The TAB is not indexed for inflation, rather it is maintained in historical terms.

8.4.1 TAB roll-forward

As with the RAB, the TAB must be rolled forward from 2017–18 to the end of 2022–23 to establish an opening TAB value for 2023–24. This is done using the following calculation:

$$Opening\ TAB_{t+1} = Opening\ TAB_t + Actual\ net\ capital\ expenditure_t - Actual\ asset\ disposals - Actual\ Depreciation_t$$

The TAB roll-forward takes as its starting point the closing TAB value from the 2013–18 regulatory period (2017–18) as the opening TAB value for 2018–19. The opening TAB value for 2018–19 is $1,048 million for water and $531 million for wastewater. The opening values have been adjusted for the difference between actual and forecast net capex in the last year of the previous regulatory period (2017–18). This adjustment is necessary because at the time of the last regulatory decision, the actual capital expenditure for 2018–19 was not known and hence based on forecasts. Unlike the RAB adjustment, the TAB adjustment excludes a return on the difference between actual and forecast expenditure.

The TAB is rolled forward as shown in Table 8-14 and Table 8-15 to arrive at a closing value for 2022–23.

Table 8-14: Water TAB roll-forward ($million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23
Opening TAB	$1,048.3	$1,049.4	$1,060.3	$1,060.0	$1,043.6
Net capital expenditure	$36.1	$48.6	$39.3	$24.4	$28.3
Asset disposals	$0.0	$0.0	$0.0	$0.0	$0.0
Depreciation	$35.0	$37.7	$39.6	$40.8	$41.7
Closing TAB	**$1,049.4**	**$1,060.3**	**$1,060.0**	**$1,043.6**	**$1,030.2**

Source: Icon Water.
Note: Totals may not sum due to rounding.

Table 8-15: Wastewater TAB roll-forward ($million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23
Opening TAB	$530.6	$571.9	$598.8	$617.2	$641.7
Net capital expenditure	$65.7	$55.5	$49.4	$57.8	$54.5
Asset disposals	$0.0	$0.2	$0.0	$0.1	$0.1
Depreciation	$24.4	$28.4	$31.0	$33.1	$35.0
Closing TAB	**$571.9**	**$598.8**	**$617.2**	**$641.7**	**$661.2**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.4.2 TAB for 2023–24 to 2027–28

The closing value of the TAB for 2022–23 from the roll-forward calculation set out in section 8.4.1 is applied as the opening value for the TAB for 2023–24. The opening value of the TAB for each subsequent year of the 2023–28 regulatory period is then calculated as follows:

$$Opening\ TAB_{t+1} = Opening\ TAB_t + Forecast\ net\ capital\ expenditure_t - Forecast\ asset\ disposals - Forecast\ depreciation_t$$

The opening value of the TAB for 2023–24 is adjusted for forecast net capital expenditure, forecast asset disposals and forecast depreciation to determine the opening value of the TAB for 2024–25. The calculation is repeated for each subsequent year of the 2018–23 regulatory period. The resulting TAB is presented in Table 8-16 for water and in Table 8-17 for wastewater.

Table 8-16: Water TAB 2023–24 to 2027–28 ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Opening TAB	$1,030.2	$1,064.9	$1,074.8	$1,075.4	$1,057.5
Net capital expenditure	$75.7	$54.0	$47.2	$31.2	$33.0
Forecast asset disposals	$0.0	$0.0	$0.0	$0.0	$0.0
Forecast depreciation	$41.0	$44.0	$46.6	$49.2	$51.2
Closing TAB	**$1,064.9**	**$1,074.8**	**$1,075.4**	**$1,057.5**	**$1,039.3**

Source: Icon Water.
Note: Totals may not sum due to rounding.

Table 8-17: Wastewater TAB 2023–24 to 2027–28 ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Opening TAB	$661.3	$707.9	$735.9	$794.1	$878.8
Net capital expenditure	$77.3	$61.6	$94.2	$123.2	$129.5
Forecast asset disposals	$0.0	$0.0	$0.0	$0.0	$0.0
Forecast depreciation	$30.8	$33.6	$36.0	$38.6	$41.2
Closing TAB	**$707.9**	**$735.9**	**$794.1**	**$878.8**	**$967.0**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.5 Total and net tax expenses

Total tax expenses are calculated by multiplying taxable profit by the corporate tax rate. Consistent with the Commission's 2018 decision, the corporate tax rate is set at 30 per cent. The adoption of a corporate tax rate of 30 per cent is also consistent with the rate expected to be applied in the 2023–28 regulatory period to the benchmark efficient entity that is applied in estimating the WACC and net tax liabilities.

Taxable profit is calculated following the same methodology as used in previous regulatory decisions:

$$Taxable\ profit = Forecast\ tariff\ revenue + Other\ income - Tax\ depreciation - Interest - Operating\ expenses - Previous\ year\ losses$$

Each of these inputs is determined as follows:

- Forecast tariff revenue is calculated by multiplying price by forecast demand. The calculation of price is set out in **Attachment 12: Tariff structure and proposed prices**, and the demand forecasts are discussed in **Attachment 11: Demand**.
- Other income is the sum of charges for bulk water provided to Queanbeyan-Palerang Regional Council, special purpose (subvention) payments by the Commonwealth Government and miscellaneous charges and income from other sources.
- Tax deprecation is calculated within the TAB as discussed in section 8.4.
- Interest expenses are calculated by multiplying the RAB by the cost of debt, adjusted for the level of gearing (ie. the share of debt funding).
- The approach used for estimating operating expenses is discussed in **Attachment 6: Operating expenditure**.
- Previous year losses are the accumulated tax losses from previous years. If the taxable profit calculation (excluding previous year losses) results in a loss then these losses are carried forward and tracked over time. The opening value of accumulated losses for 2023–24 is set at the closing value for 2022–23 as calculated by the Commission for their 2018 decision (which was zero).

Application of the above calculation is presented in Table 8-18 and Table 8-19.

Table 8-18: Taxable profit and total tax expenses for water ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Forecast tariff revenue	$182.2	$189.3	$197.6	$206.3	$215.3
Plus other income	$19.0	$19.7	$20.5	$21.1	$21.8
Less tax depreciation	$41.0	$44.0	$46.6	$49.2	$51.2
Less interest	$42.9	$43.5	$43.6	$43.3	$42.7
Less operating expenses	$116.2	$121.3	$127.1	$132.8	$138.6
Less previous year losses	$0.0	$0.0	$0.0	$0.0	$0.0
Taxable profit	$1.0	$0.3	$0.7	$2.1	$4.6
Total tax expenses	**$0.3**	**$0.1**	**$0.2**	**$0.6**	**$1.4**

Source: Icon Water.
Note: Totals may not sum due to rounding.

Table 8-19: Taxable profit and total tax expenses for wastewater ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Forecast tariff revenue	$139.5	$150.3	$162.0	$174.5	$187.9
Plus other income	$16.1	$16.6	$17.0	$17.5	$18.0
Less tax depreciation	$30.7	$33.6	$36.0	$38.6	$41.2
Less interest	$28.1	$28.8	$29.5	$30.9	$32.5
Less operating expenses	$90.3	$94.4	$99.1	$103.6	$108.1
Less previous year losses	$0.0	$0.0	$0.0	$0.0	$0.0
Taxable profit	$6.5	$10.1	$14.4	$18.9	$24.1
Total tax expenses	**$1.9**	**$3.0**	**$4.3**	**$5.7**	**$7.2**

Source: Icon Water.
Note: Totals may not sum due to rounding.

8.5.1 Net tax expense

The regulatory approach adopted by the Commission derives net tax expenses by reducing the estimated amount of corporate tax by the value of imputation credits (represented by γ, gamma).

That is:

$$Net\ tax\ expenses = total\ tax\ expenses * (1 - \gamma)$$

Icon Water has adopted a value of 0.25 for imputation credits based on a distribution rate of 0.70 and a utilisation rate of 0.35. More information on gamma is available in **Attachment 9: Rate of return and forecast inflation.**

The resulting net tax expenses used in the calculation of maximum allowed revenues are set out in Table 8-20.

Table 8-20: Net tax expenses ($million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Water	$0.3	$0.1	$0.2	$0.6	$1.4
Wastewater	$1.9	$3.0	$4.3	$5.7	$7.2
Total	**$2.2**	**$3.1**	**$4.5**	**$6.3**	**$8.6**

Source: Icon Water.
Note: Totals may not sum due to rounding.

Abbreviations and acronyms

ACT	Australian Capital Territory
CPI	Consumer Price Index
RAB	Regulatory Asset Base
RBA	Reserve Bank of Australia
SoMP	Statement of Monetary Policy
TAB	Tax Asset Base
WACC	Weighted Average Cost of Capital