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23/11/2018

Warwick Anderson
General Manager, Network Finance and Reporting
Australian Energy Regulator
GPO Box 52
Melbourne VIC 3001

Dear Warwick

Re: AER's discussion paper on review of regulatory tax approach

On 2 November 2018, the AER released the discussion paper on regulatory tax review. TransGrid welcomes the opportunity to submit and will continue to work on a collaborative basis with the AER consumers, the broader network industry and other stakeholders to ensure that there is confidence in regulatory taxation arrangements.

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

TransGrid supports the AER's conclusion to maintain an efficient benchmark entity approach and the standard approach of using statutory corporate tax rate (currently 30%) within the incentive-based regulatory framework when estimating the efficient cost of complying with tax obligations. We also support the AER's conclusion that the tax asset base should not be adjusted at the time of a corporate transaction. This is consistent with the National Electricity Objective and in the long term interest of the consumers.

TransGrid supports the submission made by Energy Networks Association. We would like to also note the following points:

> TransGrid considers that the calculation of interest expense for tax purposes should align with the gearing and the return on debt used for the benchmark rate of return. This is consistent with the incentive-based regulatory framework approach which benefits the long-term interests of consumers by allowing the network businesses to take the risk to depart from the benchmark.

> It is our view that the current approach should remain for the treatment of refurbishment costs as this option encourages businesses to maintain their networks at significantly lower cost than replacing assets.

> In terms of adopting the diminishing value approach for depreciation, we consider that the businesses should have the option to select whether to adopt straight-line or diminishing value approach to tax depreciation according to the individual business circumstances. Any changes should be made on a prospective basis only, aligning with the relevant tax rules, which do not allow tax payers to switch depreciation methods for an asset once an election is made. In

addition, we agree with the Energy Networks Association submission that further consultation is required on the proposed adoption of the diminishing value method, which cannot be applied across all asset classes under the income tax rules.

> The AER should consider the broader context of this review, including the cumulative effect of other policy and regulatory interventions. Such interventions have the potential to undermine efficient transmission investment and the benefits it brings to consumers.

Please contact Michelle Trinh on (02) 9284 3467 if you would like to discuss further.

Yours sincerely,

Caroline Taylor
Acting Executive Manager Policy & Corporate Affairs