

31/05/2018

Mr Warwick Anderson
General Manager, Network Finance and Reporting
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001
Lodged via email: TaxReturn2018@aer.gov.au

Dear Mr Anderson,

Review of its regulatory tax approach

TransGrid welcomes the opportunity to respond to the issues paper released by the Australian Energy Regulator (AER) on 15 May 2018 as part of a review into its regulatory tax approach.

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 supporting the delivery of lowest-cost generation to consumers across the National Electricity Market.

The AER's regulatory approach is an incentive-based model where allowed revenues are set to compensate regulated businesses for benchmark efficient costs. We support the AER's current approach to estimating the efficient tax allowance.

TransGrid and the broader network industry would like to work collaboratively with AER, consumers and other stakeholders to ensure that there is confidence in regulatory taxation arrangements. In this regard, TransGrid supports the more detailed submission by Energy Networks Australia to this review. We would like to further emphasise several concerns as outlined below regarding the underlying principles for this review and the approach to consultation.

- > The foundation of the current Australian regulatory framework is that it is incentives-based whereby by energy networks retain the benefit (or detriment) where costs are lower (or higher) than expected based on the regulatory concept of benchmark efficient costs. Consequently, it would be wrong to observe a difference between an actual cost and the relevant regulatory allowance and then conclude that the regulatory allowance or the approach to estimating the allowance should be adjusted.
- > Confidence in a stable regulatory environment is an important consideration when making investment decisions about infrastructure assets. We are concerned that the review is not in the long term interests of consumers, as it is likely to lead to a loss of confidence in the Australian regulatory environment, which would increase the cost of investment and therefore the cost of energy to consumers.
- > We are disappointed at the short consultation period for this issues paper which covers technical and complex matters. We would encourage the AER to undertake ongoing and meaningful consultation with a broad range of stakeholders – and particularly with the stakeholders that are directly impacted by any recommendations or changes from the review.

We would welcome the opportunity to discuss this review and the important and complex issues that it covers with the AER and other stakeholders further. Please contact me on 02 9284 3715.

Yours faithfully

A handwritten signature in purple ink that reads "Caroline Taylor". The signature is written in a cursive, flowing style.

Caroline Taylor

Acting Executive Manager, Regulation