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26/07/2018

Mr Warwick Anderson
General Manager, Network Finance and Reporting
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001
Lodged via email: TaxReview2018@aer.gov.au

Dear Mr Anderson,

Review of Regulatory Tax Approach – Response to Initial Report

TransGrid welcomes the opportunity to respond to the initial report released by the Australian Energy Regulator (AER) on 28 June 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.

TransGrid would like to continue to work collaboratively with AER, consumers, the broader network industry and other stakeholders to ensure that there is confidence in regulatory taxation arrangements.

We have contributed to and support the more detailed submission by Energy Networks Australia to this review. In particular, we would like to emphasise several key principles we consider should be adopted for this review:

> The foundation of the current Australian regulatory framework is that it is incentives-based. We support retaining an incentive-based regulatory framework and agree with the AER that caution should be exercised regarding a tax pass-though approach as it is likely to lead to increased consumer charges over time. The current regulatory framework encourages network businesses to be more efficient to the benefit of consumers' long-term interests. On this basis the focus of this review should be to determine whether the AER can deliver a better benchmark for tax costs that is compatible within this incentive framework. This focus should be on whether the regulatory tax allowance under the current approach is consistent with the tax that would be paid by the benchmark efficient entity, taking into account the dynamic nature of the tax system.

> When considering any potential change to estimating the benchmark efficient corporate tax allowance, a cost and its tax effect should be treated consistently, i.e either both are treated outside the regulatory framework or both are treated inside the regulatory framework.

> An important principle of policy making is that any change should only be introduced on a prospective basis, accompanied by sound evidence and a clear explanation of the reasons for the change. Any change, if made, should not have any retrospective effect. The reason this is important is that a transparent and stable regulatory framework is an important feature of a well-functioning regulatory environment. Networks, by their nature as very large infrastructure businesses with assets that have long operating lives, are heavily dependent on investor capital. Regulatory certainty is therefore paramount to businesses being able to continue to access capital markets to secure sufficient and affordable finance for such capital-intensive and long-lived assets.

We would welcome the opportunity to discuss this review further with the AER. Please contact Michelle Trinh, Acting Manager/ Regulatory Revenue & Pricing on [redacted].

Yours faithfully

Caroline Taylor
Acting Executive Manager, Regulation