12 March 2019

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Mr Warwick Anderson
General Manager, Network Finance and Reporting
Australian Energy Regulator
GPO Box 3131
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Dear Warwick

Submission: Post-tax revenue models (transmission and distribution) – April 2019 amendment

Thank you for the opportunity to comment on the implementation of the Australian Energy Regulator's (**AER**) final report on the Review of Regulatory Tax Approach dated 17 December 2018 (**Report**). We appreciate the collaborative approach taken by AER staff to engage with Ausgrid on the implementation of the tax review changes within challenging timeframes.

To give effect to the changes set out in the report, the AER has provided network businesses with amended transmission and distribution post-tax revenue models (**PTRMs**).

The AER has introduced three main changes to the PTRM:

- The new PTRM uses Diminishing Value (**DV**) tax depreciation rather than straight line tax depreciation; and
- The new PTRM allows for immediate expensing of some quantum of capex for tax purposes;
- The AER has also incorporated new functionality that allows the tracking of existing assets such that their tax asset lives can be revised if required.

In Ausgrid's view the AER has implemented the modelling changes described in the Report accurately in the PTRMs.

<u>Diminishing Value</u>

Ausgrid supports the AER's decision to use regulatory asset lives as the constraint for fully depreciating assets under the DV method. Ausgrid is of the view that regulatory asset lives are generally a better reflection of the economic life of assets than the tax asset lives.

Immediate expensing of capex for tax purposes

Ausgrid understands that the AER is seeking to apply an actuals informed approach across the energy network industry. As indicated in our Revised Proposal dated 8 January 2019, Ausgrid does not immediately expense its refurbishment capital expenditure (**refurb capex**) for tax purposes. This is demonstrated within Ausgrid's response to the AER's 2018 tax regulatory information notice (**RIN**). Ausgrid has further explained the fact that it does not immediately expense refurb capex in person with AER staff at a meeting held at the AER's offices in Sydney on 24 January 2019. On this basis, under an actuals informed approach, we would expect that the AER does not assume any refurb capex will be immediately deductible for tax purposes for Ausgrid, nor other businesses in the same position.

Year-by-year tracking functionality

Ausgrid welcomes the AER's incorporation of the year-by-year tracking functionality in the revised PTRM. The determination of effective life / number of years over which assets can be depreciated is generally determined at the time the asset is acquired. Under section 40-110 of the Income Tax Assessment Act 1997, a business may choose to recalculate the effective life in a later income year if the effective life being used at the time is no longer accurate because of changed circumstances (for example, the use of the asset is more or less rigorous than initially anticipated). This will allow for better alignment between the regulatory tax allowance and actual tax paid for businesses using the year-on-year approach for their actual depreciation expense.

If you have any queries in respect of the above, please contact Yvonne Martins on [redacted] or Iftekhar Omar on [redacted].

Yours sincerely,

[redacted]

Rob Amphlett Lewis
Executive General Manager
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Ausgrid