

22 August 2019

Mr Warwick Anderson  
General Manager, Network Finance and Reporting  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Dear Warwick

**Allocation of Interest and Tax Expenses for the Return on Equity (Regulatory)  
Profitability Measures**

Thank you for the opportunity to provide a response to the above discussion paper. We endorse the views put forward in the ENA and APGA submissions, the development of which we have been involved in, and refer you to the detail of those papers for more on our views. In this submission, we would like to highlight a few key points:

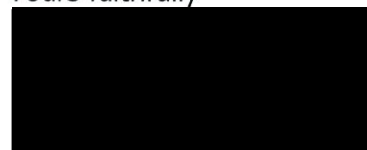
- We believe there is a need for some degree of flexibility in respect to how companies address interest and tax costs as the nature of each company is different, and forcing all to take the same approach is likely to give misleading results. In a general sense, there is some flexibility in accounting rules, for the same reason, and we believe the AER should not enforce a one-size-fits-all solution for the same reason that accounting rules do not. As with normal accounting reporting, businesses should be required to explain what choices they have made, and why this is reasonable.
- Although the focus is on the allocation of interest and tax expenses, the AER should be mindful of its overall goal of delivering metrics which are capable of making "apples with apples" comparisons between actual and allowed profits, and should avoid metrics which structurally mix up information which is and is not relevant to regulated assets. As part of this, clarity and comprehensibility in any explanatory statements accompanying the publication of the measures will be crucial.
- In respect of the allocation of interest expenses, as a business with activities not regulated by the AER, we endorse the call of APGA to be mindful of the different and possibly misleading outcomes which could result if these activities are not carefully accounted for. This may mean that other approaches, such as using the allowed cost of debt, actually give a better picture of actual profits from a regulatory perspective, for some businesses.
- In respect of taxation, we believe the AER should adopt the simplest approach of applying a 30% tax rate to taxable profits and using the PTRM tax depreciation, rather than attempting to make allocations of actual tax. Any more complex mechanism is likely to lead only to debate and confusion and we believe it is likely to be better to deal with complexities associated with tax in the explanatory statements than by any attempt to perfect the metric. Having said that, we note that the treatment of permanent differences between statutory and regulatory tax accounting, like the AER's use of an indexed RAB is

still an open issue, and we look forward to the AER's further thoughts on how this might best be dealt with.

As a final point, we have been heavily involved, through the ENA, in the working group formed between business, the AER and consumer representatives, and will continue to be involved as the measures develop. We feel that these working groups are working very well, with a high degree of genuine engagement on the part of all concerned. We commend the AER, and the other working group stakeholders, for the spirit in which the dialogue has evolved, and look forward to this working group making further positive contributions to the development of the profitability metrics.

Should you have any further questions in respect of this submission, please contact [REDACTED] in the first instance.

Yours faithfully



**Craig de Laine**  
**GM People and Strategy**