CitiPower Powercor Australia united energy

12.03.19

Mr Warwick Anderson
General Manager, Networks Finance and Reporting
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Warwick

Post-tax revenue models consultation

CitiPower, Powercor and United Energy (**the Businesses**) welcome the opportunity to comment on the AER's proposed amendments to the post-tax revenue model to implement the findings of the AER on the regulatory tax framework.

Treatment of residual tax asset value

The AER's proposed amended PTRM writes off an asset once it has been in the TAB for its tax/regulatory life. This results in a spike in depreciation expense the final effective year. This is inconsistent with Australian tax law to move low value assets of less than $1,000 to a low value pool for depreciation at a 37.5% diminishing value rate. Under Australian tax law most assets will depreciate over an extended number of years before being written off.

For example, consider a $1m asset with a tax life of 10 years:

- Under the AER proposed approach, the asset will depreciate at a diminishing rate of 20% per annum for ten years and in the eleventh year will be fully depreciated.
- Under Australian tax law, the asset will depreciate at a diminishing rate of 20% per annum for 32 years when it will be added to the low value pool where it will continue to depreciate at a diminishing rate of 37.5% indefinitely.

The AER's proposed approach also adds significant complexity to the tax depreciation calculations, because it requires year-on-year asset tracking for each asset category.

The Australian tax law approach is more appropriately replicated by simply applying a diminishing value rate to an asset value on an ongoing basis (**alternative approach**).

The attached spreadsheet "Tax depreciation illusatration.xlsx" provides an illustration of tax depreciation for a single asset under the AER proposed approach, Australian tax law approach and alternative approach.

Applying the alternative approach allows all capex with the same diminishing value tax depreciation rate to be grouped, and therefore significantly simplifies the tax depreciation calculation. How this

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approach could work in the PTRM is that for each asset category there are two rows of calculations:

1. written down tax value$_t$ = written down tax value$_{t-1}$ + capex$_{t-1}$ – tax depreciation$_{t-1}$
2. tax depreciation$_t$ = written down tax value$_t$ x 200% / tax life

Opening tax loss position

The AER's proposed amended PTRM shows that the opening balance of tax losses are required as an input into the PTRM. A comment box suggests using the opening tax loss per tax accounts or statutory accounts. This is inconsistent with the final report of the AER tax review. It can be inferred that the input is intended to be tax losses as calculated in the previous PTRM. We therefore request that the comment is amended accordingly.

Please contact me on [redacted] or [redacted] if you have any questions.

Kind regards

Mark de Villiers

Head of Regulatory Strategy and Pricing