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

Dear Mr Anderson

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

TransGrid welcomes the opportunity to respond to the Australian Energy Regulator's (AER's) consultation on its proposed amendments to the Post Tax Revenue Model. The amendments will give effect to the changes set out in the AER's final report on the review of the 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.

Our responses to the two questions in the AER's explanatory statement are set out below:

Question 1: Do you have any concerns with the approach of using the RAB standard asset life input to the PTRM as the constraint in the DV formula?

The annual depreciation diminishes under the DV approach and the residual value would not be fully written off. This is the common tax practice which conforms with the tax depreciation rules under Division 40 ITAA97. We believe it will be prudent to align the regulatory approach to the tax practice, this is the original intent of the AER. By doing so, it will avoid manual intervention in the year by year tracking process.

TransGrid believes that the constraint should not be placed in the DV formula, i.e. the assets should continue to be depreciated using the DV formula in line with the tax rules.

Question 2: Besides the three asset classes identified above, are there any other asset classes that you consider should not be subject to the DV method of tax depreciation?

The AER proposed to retain the straight-line depreciation method for in-house software, buildings and equity raising costs to be consistent with tax treatment for these categories. We are not aware of any other asset classes that should not be subject to the DV method for tax depreciation.

In addition, we note that the proposed amendments in the "PTRM input" sheet do not accommodate opening asset values based on different approaches to tax depreciation, i.e. straight-line and DV method. This split will be required in the regulatory period after the DV method is implemented.

We support the submission made by Energy Networks Australia and appreciate the opportunity to comment. If you would like to discuss this matter further, please contact Michelle Trinh, Acting Manager/Prescribed Revenue & Pricing on [redacted].

Yours faithfully

[redacted]

Jason Conroy
Chief Financial Officer