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COAG
Energy Council

4 JUN 2015

The Hon Tom Koutsantonis MP
Minister for Mineral Resources and Energy
GPO Box 2264
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MC15-000950

Dear Minister *Tom*

Thank you for your letter of 26 February 2015 concerning SA Power Networks' corporate income tax allowance under the Australian Energy Regulator's (AER's) determination process.

I am aware of reports of concerns that the income tax allowance for some electricity networks as allowed for in the AER's determination is more than the actual amount paid. This has also been raised during the recent Senate inquiry into the performance of electricity network businesses. I understand officials will investigate this issue further on behalf of the COAG Energy Council.

The AER's task is to set a revenue cap for the relevant network. In doing so it will consider what costs an efficient organisation would incur in providing regulated network services. However, networks are free to choose the manner in which they deliver the services and organise their corporate structures. Therefore actual costs, such as operating expenditure, capital expenditure and tax, will vary from amounts allowed for by the regulator. The goal of the regulatory framework is that only efficient costs can be recovered from consumers.

To some degree the concerns you relate to reflect a broader question as to whether major companies are paying appropriate levels of tax. Such questions clearly go beyond the scope of energy market regulation and the Energy Council's remit. In this regard though, I note that the Senate Economics References Committee is currently investigating corporate tax avoidance and minimisation, and is due to report by the first sitting day in June 2015. I also note that the Australian Government has commenced its tax discussion and review process, with the release of the tax discussion paper in March 2015. This process involves a comprehensive review of Australia's tax system with the objective of achieving a better tax system.

Yours sincerely

Ian Macfarlane

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