



The
Treasury

Mr Jim Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
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Dear Mr Cox *Jim*

Discussion Paper – The incorporation of company tax in price determinations

Thank you for the opportunity to provide comments on the Discussion Paper relating to the incorporation of company tax in price determinations.

In reviewing the regulatory methodology with respect to the treatment of tax, Treasury agrees that the advantages and disadvantages of IPART's approach should be compared against alternative approaches used by other Australian and international regulators. Treasury considers that any proposed change to the treatment of tax should therefore clearly demonstrate it is superior to the current approach in meeting IPART's objectives as discussed in Chapter 2 of the Paper. This assessment should also have regard to providing simplicity and certainty in the implementation of the regulatory regime.

Chapter 6 of the Paper notes that no cashflow modelling has been undertaken to consider the impact on the regulated businesses of moving to a post tax methodology. The Paper does provide estimates for the impacts of using different tax rates in the current pre-tax real WACC framework. For example, using an effective tax rate of 21% to 22% for the water businesses would be expected to lead to a reduction in revenue of around 2%.

If an alternative tax treatment approach is proposed, then Treasury suggests that IPART, in consultation with the relevant businesses, model the impact on regulated revenues for each business. If a post tax approach was proposed then this would require the modelling of tax depreciation and the tax base. Treasury suggests that the results of the modelling should then be made public and available for comment prior to a final decision.

Should IPART wish to discuss this submission in greater detail, please call Mark Della on 9228 5112.

Yours sincerely

Richard Timbs
Deputy Secretary