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Thursday, 13 April 2023

International Tax Unit  
Corporate and International Tax Division  
Treasury  
Langton Crescent  
Parkes ACT 2600

Dear Sir/Madam

**Submission to the Treasury on Multinational Tax Integrity – strengthening Australia's interest limitation (thin capitalisation) rules**

Transgrid supports the Government's policy objective of aligning Australia's thin capitalisation rules with the OECD's best practice guidance and we welcome the opportunity to provide feedback on the exposure draft released on 16 March 2023.

Transgrid operates and manages the high voltage electricity transmission network in NSW and the ACT, connecting generators, distributors and major end users. Our transmission network is at the heart of the National Electricity Market and is vital to achieving NSW and ACT's net-zero emissions targets, by connecting geographically and technologically diverse, low-cost generation to deliver renewable energy to customers.

As the operator of Australia's largest transmission network, we are responding to and supporting the NSW Roadmap with support from the Australian Government's \$20 billion Rewiring the Nation policy. We are undertaking major nation-building projects that will facilitate the connection of new renewable generation and storage capacity so we are ready for the retirement of coal generation. For instance, our Powering Tomorrow Together Program will deliver three nationally critical projects:

- Project EnergyConnect (PEC) is a \$2.3 billion 900km interconnector between Wagga Wagga, NSW and Robertstown in South Australia, with a connection to Redcliffs, Victoria. PEC is a key element of Australian Energy Market Operator's (AEMO) Integrated System Plan (ISP) and has also been declared as a Critical State Significant Infrastructure (CSSI) by the NSW Government. It is expected to create 1,500 new jobs and generate \$4 billion in economic benefit.
- HumeLink is one of NSW's largest energy infrastructure projects, consisting of a new 500kV transmission line connecting Wagga Wagga, Bannaby and Maragle. It is estimated to cost \$3.3 billion, create more than 1,000 construction jobs and unlock the full capacity of the expanded Snowy Hydro Scheme.
- VNI West is a priority project in AEMO's 2022 ISP and was recently declared by the Commonwealth Government as one of the first 'nationally critical' transmission projects. It will provide a new 500kV connection between the Western Renewables Link in Victoria and Project EnergyConnect in NSW.



Projects of this scale and magnitude cannot be achieved without massive capital investment. Due to the accelerated timeline for delivering these major transmission projects, we must take on a significant quantity of new debt and equity over the short-term. Of the \$12.8 billion required to deliver AEMO's ISP projects, Transgrid will need to invest \$8 billion over the next five years. This means we carry a high debt load to finance these projects within a compressed timeframe in addition to our 'business as usual' capital expenditure.

It is anticipated the debt will be sourced from a range of external financiers and will bring with it enormous complexity due to the size, nature and timing of the capital expenditure and the intricacies of the regulatory framework within which we operate.

We support the Government's thin capitalisation policy objective and acknowledge the complexity associated with making such a significant change. We also commend the Government for including an external third-party debt test for highly geared industries as an alternative to the fixed ratio test. This recognises the legitimate differences in gearing capacity across different industries. Our key concern is the external third-party debt test must allow typical third-party debt financing arrangements, such as those that will finance the critical infrastructure projects described above, without compromising the integrity measures the Government is introducing. Unfortunately, this is not the case with the current exposure draft, which must be revised to enable genuine third-party debt financing arrangements that are commonplace in the infrastructure sector to meet the relevant test.

We are aware that various industry bodies and professional services firms are making submissions in this respect. Transgrid broadly supports the revision of the proposed legislation to the extent it refines the external third-party debt test so that it is practical for infrastructure sector participants, such as Transgrid, to apply. We have participated in the submission from Infrastructure Partnerships Australia and we endorse the technical changes to the legislation proposed in that document.

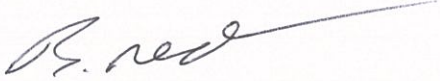
A final concern is the haste with which the legislative change is occurring, with no grandfathering or transition period for existing financial arrangements and a commencement date of 1 July 2023. The proposed changes are significant and far reaching. They will affect many taxpayers and are likely to have flow-on impacts to other parts of the economy. This major legislative change requires careful consideration by a broad range of experts and stakeholders to ensure the law reflects the policy intent, is clear and without ambiguity, and provides certainty for taxpayers and the broad range of affected stakeholders.

To achieve this, we recommend that the Government allows more time for consultation so that the legislation is appropriately targeted with no unintended consequences. We propose:

- a further consultation period to occur before the legislation is finalised;
- a new bill should not be introduced into parliament until the further consultation period is completed and Treasury has had sufficient time to consider both rounds of submissions in full; and
- further consultation should not mean the new law is introduced with retrospective effect, instead, the start date should be deferred to income years beginning on or after 1 July 2024.



Yours faithfully



Brett Redman  
Chief Executive Officer