7 August 2018

WHAT

We have released our Draft Report on our financeability test we generally use as part of our building block approach in price regulation decisions. While stakeholder feedback to our Issues Paper confirmed that our 2013 financeability test is working well, we have made changes to:

- broaden the test by calculating financeability tests for both the benchmark and actual business
- assume a real cost of debt in the financeability test
- adjust the target ratios (benchmark values) we use to assess financeability
- clarify the process to identify and remedy any financeability concerns, and
- allow flexibility in making cash flow adjustments beyond one regulatory period, if necessary.

We discuss our reasoning for making these decisions in our Draft Report.

WHY

We use the financeability test to assess the impact of our pricing decisions on the short-term financeability of regulated businesses. We last reviewed our financeability test in 2013, and made small changes in early 2015.

Overall, we consider our current test is working well. However, we will make improvements that are feasible and likely to deliver a clear net benefit.

WHO

In general, we apply our financeability test when we use our building block approach in determining revenue and prices for regulated businesses. This includes the regulated water utilities and some businesses in other industries.

HOW

Our Draft Report explains our draft decisions on how we propose to conduct our financeability test going forward.

Stakeholders now have the opportunity to comment on our Draft Report and draft decisions.

We will consider all stakeholder feedback and undertake our own analysis before making our final decisions. We will release our Final Report and decisions in November 2018.

WHAT NEXT

We invite interested parties to make written submissions to our Draft Report by **Friday 7 September 2018**.

You can find details of how to make your submission on page iii of the Draft Report.