

14 September 2018

Contact: [REDACTED]
Telephone: [REDACTED]
Our ref: D2018/101320

Mr Anthony Rush
Director
Independent Pricing and Regulatory Tribunal
Via email: anthony_rush@ipart.nsw.gov.au

Dear Mr Rush

Review of Financeability Test 2018 – Draft Report

WaterNSW is pleased to provide feedback on the IPART Review of Financeability Test 2018 Draft Report (Draft Report), released on 7 August 2018. Overall, we are supportive of the proposals contained within the Draft Report as being incremental improvements to the current Financeability Test, introduced by IPART in 2013.

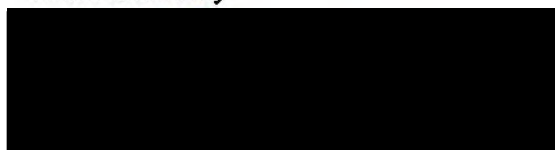
In particular, we are supportive of IPART's proposals in the Draft Report to:

- conduct separate tests on both the benchmark business and the actual business;
- set target Adjusted Interest Coverage (AICR) and FFO/Debt financial ratios;
- utilise a real cost of debt **in an approach consistent with Moody's methodology**;
- improve the clarity of process for determining when a financeability concern exists; and
- tailor the remedy to suit the source of the financeability issue.

However we request that IPART reconsider adding an additional financial ratio – for monitoring purposes only – the *Return on Capital Employed (RoCE)* ratio. This ratio should be compared to the WACC as a "check" on the pricing determination. Checking that $RoCE - WACC \geq 0$ in the **benchmark** test would provide high confidence in the regulatory revenue model and the pricing determination, that the regulated revenue allowed by IPART indeed provides the return to capital providers implied in the determination process.

We trust this submission will be of use to IPART as it prepares its Final Report. Please contact Carl Charlier at [REDACTED] or [REDACTED] if you would like to discuss any aspect of WaterNSW's submissions in relation to the 2018 Financeability Test Review.

Yours sincerely



Joseph Pizzinga
Chief Financial Officer