

13 November 2018



WHAT

We have released our Final Report and decisions on our financeability test, which we generally use as part of our building block approach in price regulation decisions. We use the financeability test to assess how our price decisions are likely to affect the business's financial sustainability and ability to raise funds to manage its activities, over the upcoming regulatory period.

While stakeholder feedback 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
- ▼ adjust the target ratios (benchmark values) we use to assess financeability
- ▼ clarify the process to identify any financeability concerns, and
- ▼ tailor the remedy for a financeability concern based on its source.

In response to stakeholder feedback, we have made changes to a few draft decisions. These include to:

- ▼ use the actual cost of debt of the business to calculate the metrics for the actual test, and
- ▼ revise the target ratios for the benchmark test.

Our reasoning for making our final decisions and other minor amendments are discussed in our Final Report.



WHY

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

Overall, we consider our 2013 financeability test worked well. However, we have made improvements that better address the objectives of the test.



WHO

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



HOW

We consider that our 2018 test can be replicated by stakeholders, which contributes to the transparency of our regime for regulated businesses and other stakeholders. We also consider that our 2018 test supports efficient and prudent financing decisions by regulated businesses.



WHEN

Our 2018 financeability test will apply to pricing decisions that take effect **on or after 1 July 2019**.