

28 August 2024

Mr Gavin Fox
General Manager Network Pricing
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Email - ModelReviews@aer.gov.au

Dear Gavin,

AER Draft Financeability Guideline

Energy Networks Australia (**ENA**) welcomes the opportunity to make this submission in response to the Australian Energy Regulator's (**AER**) consultation on the draft financeability guideline.

ENA represents Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA supports the need for timely and efficient transmission investments to deliver the energy transition at least cost to customers and recognises the important role the financeability guideline plays in ensuring such projects can be financed and delivered.

The key points in this submission are the following:

- » ENA supports the broad framework proposed by the AER in its draft financeability guideline as it is based on a transparent, replicable and predictable approach—which are essential requirements set out in the Australian Energy Market Commission's (**AEMC's**) Rule change;
- » The financeability test in the guideline requires two refinements to operate as intended under the AEMC Rule change:
 - The rating bands in the test are currently too wide and could allow a material decline in financeability to occur. This can be addressed through a simple linear interpolation method or mitigated through the use of rating sub bands to improve the accuracy of the test;
 - The 3-year forward averaging of financial metrics will tend to mask financeability problems in individual years and should not be applied.
- » The adjustment of debt costs arising from hybrid finance needs refinement to ensure that the model accurately reflects the interest costs faced by a TNSP that has benefited from hybrid finance;
- » The guideline should clarify the period over which the test is to be applied, and how the test will be applied in the case of a TNSP pursuing multiple ISP projects; and

- » ENA has identified some proposed improvements to the models that would be used to implement the financeability test, for the AER's consideration.

ENA supports the broad framework proposed in the draft guideline

The AEMC's Rule change recognised that a "replicable and predictable" financeability test is required to provide certainty for Transmission Network Service Providers (TNSPs) and their investors in order to commit to actionable Integrated System Plan (ISP) projects. ENA commends the AER in proposing a test that meets these requirements of replicability and predictability.

Specifically, ENA supports the AER's proposal to base the financeability test on the leverage and coverage scorecard in rating agency Moody's Global Methodology which is:

- » Transparent;
- » Replicable and therefore capable of producing predictable outcomes; and
- » Formulaic and requires no qualitative judgment in applying the test.

ENA considers that the Moody's Global Methodology represents the most transparent approach available on which to base the AER's financeability assessment in accordance with the requirements of the Rules.

ENA proposes two refinements to ensure the financeability test operates as intended

ENA has identified two issues with the design of the test that may result in genuine financeability problems going unaddressed and thereby prevent the guideline from meeting its intended purpose:

1. *The rating bands in the Global Rating Methodology are so broad that even a serious deterioration in financeability due to investment in an ISP project would result in no corrective action.*

The proposed test permits a significant deterioration in a TNSP's financeability position – from its current position to a position at the bottom of a very wide credit rating band. This is inconsistent with the 'no worse off' objective that is central to the AEMC's rule change.

The attached submission demonstrates that this problem also has a compounding or cascading effect for TNSPs undertaking multiple ISP projects. A sufficiently serious deterioration in financeability, due to this cascading effect, may prevent a TNSP from undertaking further actionable ISP projects. This would ultimately be to the detriment of consumers.

The attached submission demonstrates that a relatively straightforward and minor change (consistent with Moody's approach in other industries) to the proposed test would address this issue and produce outcomes that are consistent with the 'no worse off' objective.

2. *Use of 3-year forward averages of the financial metrics will tend to mask financeability problems in individual years.*

ENA understands that, when conducting forward-looking rating assessments of TNSPs, Moody's typically conducts a year-by-year forward assessment of financial metrics without applying any averaging—to ensure that financeability problems in individual years are identified. This approach is particularly so when the TNSP is undertaking large investments (such as ISP projects) because in these circumstances it is important to identify a deterioration in financeability in individual years.

The use of a 3-year forward average of the financial metrics, as reflected in the draft guideline, is inconsistent with this approach and will tend to mask financeability problems in individual years. Equally, applying a 3-year forward average may highlight financeability issues in years where the TNSP does not incur any capital expenditure for the proposed ISP project and lead to unnecessary adjustment of regulated cash flows.

For these reasons, ENA proposes that the financeability test should take account of financial metrics for individual years without applying any averaging.

The calculation of the adjustment to debt costs due to hybrid finance needs refinement

In the current financeability model, the adjustment to the debt costs related to hybrid loans is calculated by subtracting the interest payable on the equity portion of the hybrid loan from the benchmark interest costs. This would be appropriate if the interest rate on the hybrid loan is identical to the benchmark interest rate. However, if this is not the case, then the approach in the existing model will understate the TNSP's interest expenses if the benchmark interest rate is lower than the interest rate on the hybrid loan, and overstate these expenses if the benchmark rate is higher.

ENA submits that, in order to avoid such outcomes, the TNSP's total interest expense should explicitly account for the interest on the debt portion of the hybrid loan that must be paid, at the hybrid loan interest rate.

ENA understands that this proposed approach is consistent with the approach Moody's uses in practice to account for the effect of hybrid loans on a TNSP's interest expenses when conducting rating assessments.

The guideline should clarify two matters

ENA submits that it would be helpful if the guideline could clarify two additional issues that are not directly addressed in the draft guideline:

1. *The horizon over which the test would be implemented.*

ENA notes that the illustrative example provided by the AER allows for the test to be performed over a 10-year period. The Rules do not place any limit on the timeframe over which the test should be applied. As such, ENA submits that it should be left to the applying TNSP to propose the timeframe for the test, and be responsible for justifying the need for the test over the proposed horizon. ENA further submits that the models used to implement the test (i.e. the PTRMs and financeability model) should be sufficiently flexible to accommodate the timeframe proposed by a TNSP, rather than be restricted to just 10 years.

2. *How the test would be applied to a TNSP undertaking multiple ISP projects.*

ENA proposes that:

- If a TNSP pursues multiple ISP projects sequentially (i.e. the regulatory determination for each project is finalised before the next is proposed) then the test should be applied in a sequential fashion to each ISP project, where any remedy to a financeability problem for a particular project would form the base scenario for testing the financeability of the next project.
- The guideline should explain how the financeability test will operate in practice in the case where a TNSP proposes multiple, overlapping ISP projects (i.e. the TNSP proposes a new project before the AER has made a determination in relation to a previous project). The resolution of financeability issues in relation to the first project may not be known at the time the AER is evaluating the next project. This challenge could be overcome by use of the linear interpolation approach described above because that approach is always guaranteed to restore the TNSP to its original financeability position. Hence, every subsequent project can be assessed with certainty against that original starting point.

Proposed improvements to the models used to implement the financeability tests

ENA appreciates the AER publishing an early version of the financeability model and post-tax revenue models (PTRMs) that it intends to use to implement the financeability test. This has helped ENA and other stakeholders understand more clearly how the AER envisages the test would work in practice.

ENA proposes for the AER's consideration a number of improvements to these models that would:

- » Ensure better alignment between the approach specified in the guideline and the calculations performed by the model;
- » Correct apparent discrepancies in some formulas and calculations; and
- » Enhance the flexibility and transparency of the model to accommodate different concessional finance arrangements.

ENA notes that, in some instances, the improvements we propose would result in a smaller cash flow adjustment to TNSPs than if those improvements were not adopted. However, ENA considers that only the minimum adjustment to regulated cash flows to ensure the financeability of ISP projects should be made—no more, and no less—as this would best promote the National Electricity Objective (NEO).

ENA provides further detail on each of these points and the AER's questions in the Attachment.

ENA looks forward to working with the AER as it finalises the Guideline. In the meantime, if you would like to discuss this submission, please contact Dominic Adams (dadams@energynetworks.com.au) in the first instance.

Yours sincerely,

A handwritten signature in blue ink that reads "D van den Berg".

Dominique van den Berg
Chief Executive Officer

Attachment – ENA submission on draft financeability guideline

1. ENA supports the broad framework for the AER’s proposed test

When making its Rule change on accommodating financeability in the regulatory framework, the AEMC explained that:

the financeability framework [introduced by the Rule change] is intended to provide TNSPs and investors with greater certainty to support investment decisions in actionable ISP projects by introducing a prescriptive test rather than a principles-based approach.¹

To that end, the AEMC determined that the AER must develop a financeability test that:

will be replicable and predictable, providing certainty for TNSPs and their investors.²

The AEMC further explained that, in order to ensure that the test is “replicable and predictable,”

The AER’s methodology for determining a TNSP’s financeability position will differ from credit rating agencies in that it will not be able to adjust the financeability position based on qualitative factors. Rather, the AER must apply a quantitative approach, based only on its chosen selection of financial metrics.³

The AEMC also concluded that a Rule change that permitted the AER to exercise judgment, for example by having regard to broad Revenue and Pricing Principles, would undermine the prescriptive nature of the financeability framework set out in the Rule.⁴ This would not result in a replicable and predictable framework that investors could rely upon when making investment decisions in relation to actionable ISP projects. Equally, the AEMC determined that a test based on a ‘material change’ approach would not provide sufficient certainty for investors and dismissed this approach on that basis.⁵

ENA considers that the AER’s proposed financeability test does meet the Rule change requirements of being replicable and predictable. Specifically, the AER’s proposal to base the test solely on the leverage and coverage scorecard in Moody’s Global Rating Methodology satisfies the AEMC’s requirement that the test must not have regard to

¹ AEMC, *National Electricity Amendment (Accommodating financeability in the regulatory framework) Rule 2024, Rule determination, 21 March 2024, p. 27.*

² *ibid*, p. 26.

³ *ibid*, p. 26.

⁴ *ibid*, p. 27.

⁵ *ibid*, p. 20.

the qualitative factors that rating agencies consider when conducting rating assessments.

Furthermore, by basing the financeability test on the leverage and coverage scorecard in Moody's Global Rating Methodology, the AER has ensured that the test is:

- » Transparent;
- » Replicable and therefore capable of producing predictable outcomes; and
- » Formulaic and predictable, requiring no qualitative judgment when implementing the test.

For these reasons, ENA supports the AER's proposal to apply a financeability test based on the leverage and coverage scorecard in Moody's Global Rating Methodology.

2. ENA proposes two refinements to the financeability test

Whilst ENA supports the broad framework for the AER's proposed test, ENA has identified two features of the proposed test that may result in genuine financeability problems going unaddressed and thereby prevent the guideline from meeting its central intent:

1. The rating bands in the Global Rating Methodology are so broad that even a serious deterioration in financeability due to investment in an ISP project would result in no corrective action; and
2. Use of 3-year forward averages will tend to mask financeability problems in individual years.

To address these shortcomings, ENA proposes two refinements to the test that would be straightforward to implement within the framework of the leverage and coverage scorecard in rating agency Moody's Global Rating Methodology for Regulated Electric and Gas Networks (**Moody's Global Methodology**), and which would ensure that test would operate as intended to properly identify genuine financeability problems when they arise.

Key steps in the proposed financeability test

The first step in applying the AER's financeability test is to compute, for each year for which the test is being performed, each of the four financial metrics used in the test,⁶ using the cash flows from the relevant post-tax revenue model (**PTRM**). In the draft guideline, the AER proposes that a 3-year forward average of each metric should be calculated.

⁶ The four metrics are the Adjusted Interest Coverage Ratio (AICR), Net debt/regulatory asset base (a measure of gearing), Funds from operations (FFO)/Net debt, and Retained cash flows (RCF)/Net debt.

The second step is to match the (3-year forward average) value for each metric to a numeric score corresponding to broad rating ranges presented in Moody's Global Methodology (see Table 1 below).

Table 1: Ranges for financial metric results and rating category score mapping

Rating category	AICR	Net debt/RAB	FFO/Net debt	RCF/Net debt	Numeric score
Weighting	25%	31.25%	31.25%	12.5%	
Aaa	≥5.5	<30%	≥35%	≥30%	1
Aa	3.5-5.5	30%-45%	26%-35%	21%-30%	3
A	2.0-3.5	45%-60%	18%-26%	14%-21%	6
Baa	1.4-2.0	60%-75%	11%-18%	7%-14%	9
Ba	1.1-1.4	75%-90%	5%-11%	1%-7%	12
B	0.9-1.1	90%-100%	0%-5%	-4%-1%	15
Caa	<0.9	≥100%	<0%	<-4%	18

Source: *Financeability guideline, Explanatory Statement – Proposed, 17 July 2024, Table 3.2.*

These numeric scores are then adjusted using the multipliers presented in Table 2.

Table 2: Weighting multiplier for financial metrics

Score (Metrics)	Weighting multiplier (Metric _{WM})
1	1
3	1
6	1
9	1.15
12	2
15	3
18	5

Source: *Financeability guideline, Proposed, 17 July 2024, Table 2.3.*

The next step is to compute a weighted average of the adjusted scores using the weights presented in Table 1 to derive an overall score. Under the proposed test, a financeability problem will only be identified if there is an increase in the numeric score between the 'base' scenario (i.e., without the ISP project) and the 'unadjusted' scenario (i.e., with the ISP project, but before any adjustment of cash flows).

This overall score can then be mapped to an individual credit metric using ranges for the numeric scores presented in Table 3 below. Based on that mapping, the AER proposes a financeability threshold (consistent with the benchmark credit rating of BBB+ under the 2022 Rate of Return Instrument) of 8.5.

Table 3: Moody's overall scorecard-indicated outcome

Numeric score	Moody's Outcome	S&P equivalent rating
$x < 1.5$	Aaa	AAA
$1.5 \leq x < 2.5$	Aa1	AA+
$2.5 \leq x < 3.5$	Aa2	AA
$3.5 \leq x < 4.5$	Aa3	AA-
$4.5 \leq x < 5.5$	A1	A+
$5.5 \leq x < 6.5$	A2	A
$6.5 \leq x < 7.5$	A3	A-
$7.5 \leq x < 8.5$	Baa1	BBB+
$8.5 \leq x < 9.5$	Baa2	BBB
$9.5 \leq x < 10.5$	Baa3	BBB-
$10.5 \leq x < 11.5$	Ba1	BB+
$11.5 \leq x < 12.5$	Ba2	BB
$12.5 \leq x < 13.5$	Ba3	BB-
$13.5 \leq x < 14.5$	B1	B+
$14.5 \leq x < 15.5$	B2	B
$15.5 \leq x < 16.5$	B3	B-

Source: *Financeability guideline, Proposed, 17 July 2024, Table 2.4.*

ENA agrees that all of these steps replicate the leverage and coverage scorecard in Moody's Global Rating Methodology faithfully.

Issue #1: Overly broad rating bands permit significant deterioration in financeability position

One shortcoming of the process identified by ENA is that the ranges in Table 1 above used to assign the initial numeric score for each metric are based on broad rating bands (i.e., Aaa, Aa, A, and so on) rather than individual rating notches (i.e., Aaa, Aa1, Aaa2, and so on). As is evident from Table 1, the ranges for each broad rating band are very wide – for example, the Baa range for FFO/Net debt varies from 11% to 18% and the Ba range for that metric is from 5% to 11%.

Consequently:

- » a TNSP could face a material deterioration in financeability within a broad rating band without triggering the identification of any financeability issue; and
- » where a financeability issue is identified (because the ISP project causes a drop to a lower rating band) the financeability position is restored only to the bottom of the original band.

By way of example, a TNSP's FFO/Net debt ratio could deteriorate from 10.9% (near the top of Moody's broad Ba band) to 5.1% (near the bottom of Moody's broad Ba band), due to investing in an actionable ISP project. Given the width of the Ba band, the TNSP's numeric score would remain unchanged at 12, implying no deterioration in financeability at all on that particular metric. However, in reality, a rating downgrade

would be almost certain if a TNSP's FFO/Net debt ratio were to deteriorate to that degree.⁷

Moreover, a deterioration of the FFO/Net debt ratio from 10.9% to 4% *would* identify a financeability issue, but the remedy would be the acceleration of cash flows just sufficient to produce a ratio of 5% – being the bottom of the relevant band.

In practice, such a material deterioration in the key financial metrics could trigger a credit downgrade and/or response by lenders, recognising that a serious deterioration in financeability has occurred.

In summary, the proposed test would permit a deterioration in a TNSP's financeability position from its current position to a position at the bottom of the band. If the TNSP's original financeability position is below the financeability threshold (i.e., if its financeability score is greater than 8.5), any deterioration in a TNSP's financeability position is inconsistent with the 'no worse off' objective which is expressly stated in clause 6A.6.3A(1)(2) of the Rules. To the extent that the test involves very wide bands, there is potential for a material deterioration in the financeability position.

Moreover, the extent of the deterioration varies from case to case. Where a TNSP begins marginally above the bottom of the relevant band, the permitted deterioration is small. But where a TNSP happens to begin near the top of a band, the permitted deterioration is large.

This permitted deterioration is exacerbated for TNSPs involved in multiple ISP projects – where a cascading effect can arise. For the first ISP project in the sequence, cash flows would be accelerated to restore the financeability position to the bottom of the relevant band. If there was then some minor deterioration in financeability (e.g., due to compulsory system strength expenditure) the financeability position would fall to the top of the lower band. A subsequent ISP project would then see cash flows accelerated to restore the financeability position to the bottom of the lower band, and so on. Consider a TNSP that began with an FFO/Net debt ratio of say 8% and which would see an ISP project reduce that metric to 4.5%. The proposed test would restore that metric to 5% (being the bottom of the relevant band). If that metric, then deteriorated slightly to 4.9% (due to some other required expenditure) the TNSP would then fall into the B band. A subsequent ISP project would then involve an acceleration of cash flows to support a ratio of 0% – that being the bottom of the new band.

In this example, the proposed guideline would have the effect of undermining the objective of the AEMC's Rule change because it would allow a TNSP's FFO/Net debt ratio to fall from 8% to 0%. Of course, in this example the second, and all subsequent,

⁷ This example uses a single financial metric, the FFO/Net debt ratio, for simplicity and to explain the issue clearly. ENA recognises that the proposed financeability test uses multiple metrics, and that a material deterioration in one metric will not necessarily result in a rating downgrade. However, ENA notes that the circumstances that would cause a serious deterioration in one metric is likely to result in a deterioration in other metrics as well. Furthermore, the fundamental point that the rating bands used in the proposed test are overly broad is true for all four metrics specified, not just the FFO/Net debt ratio.

ISP projects would not proceed, to avoid such a downward spiral in the TNSP's credit rating which would be entirely predictable under the proposed guideline.

This reveals the potential for a serious disconnect between the outcomes of the proposed test and outcomes that may be faced by a TNSP in reality. The test as it is currently specified may identify no problem at all, but in reality, the TNSP may be subjected to a rating downgrade. Such a disconnect would render the test not fit-for-purpose, because it would not be capable of detecting genuine financeability problems in certain circumstances (i.e., where the deterioration in financeability occurs *within* a single broad rating band, rather than *between* broad rating bands) and because it does not maintain the TNSP's financeability position.

This problem could be remedied if the test were refined to ensure that it accurately specifies each TNSP's financeability position and maintains it, rather than imprecisely defining its position as being within excessively broad bands. In terms of the illustrative FFO/Net debt metric example above, if a TNSP began with a ratio of 8%, it would be permitted to accelerate cash flows that are just sufficient to maintain a ratio of 8%.⁸ This approach is straightforward and is most consistent in achieving the 'no worse off' objective identified by the AEMC.

We also note that this approach can be easily extended to accommodate all the metrics in Table 1. For example, rather than assigning every FFO/Net debt ratio within the 5% to 11% range a score of 12, a simple linear interpolation would be applied such that higher values of that ratio would be assigned a lower score and vice versa.

The outcome of this approach would be a specific financeability score, rather than allocation to a particular rating band. Cash flows would then be accelerated to maintain the (pre-ISP) financeability score.

ENA notes that Moody's uses this approach in its published Global Rating Methodology for other industries (e.g., Communications Infrastructure⁹ and Toll roads¹⁰ and Real Estate Investment Trusts (REITs) and Other commercial Real Estate Firms¹¹), whereby the numeric score assigned to each metric is derived through linear interpolation within the ranges for each rating band. Under this approach, the numeric score for a particular metric may be expressed as a fraction (e.g., a numeric score of 10.3 or 9.6) rather than whole integers as in Table 1.

We note that the problem identified above could be mitigated, although not eliminated, by adopting narrower bands – for example, corresponding to each rating 'notch' rather than broad rating levels. In this regard, we note that Moody's Global Methodology assigns the overall financeability score to individual rating notches

⁸ The focus on FFO/Net debt is a simplified description for illustrative purposes. In practice, the TNSP's financeability position would be defined by the weighted average score across the four metrics.

⁹ Moody's, Communications Infrastructure – Rating Methodology, 25 February 2022, p. 15.

¹⁰ Moody's, Privately Managed Toll Roads – Rating Methodology, 2 December 2022, p. 24

¹¹ Moody's, REITs and Other Commercial Real Estate Firms – Rating Methodology, 1 February 2024, p. 16

rather than to broad rating bands. Moody's applies this notched/sub-band approach to other industries, such as Finance Companies.¹²

It is straightforward to simply disaggregate the broad rating bands presented in Table 1 into sub-bands that correspond to individual rating notches. An example of how this could be implemented is presented below in Table 4.

This table simply adds equally-spaced 'steps' (corresponding to each rating notch within each rating band) between Moody's upper and lower bounds for each broad rating band in Table 1.

The adoption of sub-bands such as these would also be a minor refinement to the financeability test. A table similar to Table 4 below would simply replace Table 2.1 in the draft guideline; all other steps in the financeability test would remain unchanged. In particular, there would be *no change* to:

- » The multipliers used to adjust the numeric scores for each financial metric;
- » The weights applied to each metric; or
- » The financeability threshold of 8.5.

This would reflect the type of assessment that rating agencies undertake when rating TNSPs in practice, since rating agencies are concerned with evaluating whether a TNSP should be downgraded by single notches rather than whole rating bands. By way of example, in October 2020, Moody's downgraded ElectraNet a single notch from Baa1 to Baa2. Clearly, Moody's did not decide to wait until ElectraNet's rating had deteriorated by a whole rating band (i.e., from Baa to Ba) before implementing a downgrade.

We note that the adoption of narrower bands mitigates, but does not eliminate the problem identified above. In particular, it permits a smaller (but still potentially sizeable) deterioration in the financeability position arising with each ISP project. Thus, it reduces, but does not eliminate, the extent to which the financeability position of the TNSP is allowed to deteriorate.

Under either approach above, as already noted, the AER's guideline should maintain a TNSP's financeability position in accordance with clause 6A.6.3A(1)(2) and the objective of the AEMC's Rule change.

¹² Moody's, Rating Methodology - Finance Companies, 18 July 2024, Exhibit 6, p. 25.

Table 4: Example of disaggregated ranges for financial metric results and rating category score mapping

Metric	AICR	Net debt/RAB	FFO/Net debt	RCF/Net debt	Numeric score
Weighting	25%	31.25%	31.25%	12.5%	
Aaa	≥5.5	<30%	≥35%	≥30%	1
Aa1	4.83 - 5.5	30% - 35%	32% - 35%	27% - 30%	2
Aa2	4.17 - 4.83	35% - 40%	29% - 32%	24% - 27%	3
Aa3	3.5 - 4.17	40% - 45%	26% - 29%	21% - 24%	4
A1	3 - 3.5	45% - 50%	23% - 26%	19% - 21%	5
A2	2.5 - 3	50% - 55%	21% - 23%	16% - 19%	6
A3	2 - 2.5	55% - 60%	18% - 21%	14% - 16%	7
Baa1	1.8 - 2	60% - 65%	16% - 18%	12% - 14%	8
Baa2	1.6 - 1.8	65%-70%	13% - 16%	9% - 12%	9
Baa3	1.4 - 1.6	70% - 75%	11% - 13%	7% - 9%	10
Ba1	1.3 - 1.4	75% - 80%	9% - 11%	5% - 7%	11
Ba2	1.2 - 1.3	80% - 85%	7% - 9%	3% - 5%	12
Ba3	1.1 - 1.2	85% - 90%	5% - 7%	1% - 3%	13
B1	1.03 - 1.1	90% - 93%	3% - 5%	-1% - 1%	14
B2	0.97 - 1.03	93% - 97%	2% - 3%	-2% - -1%	15
B3	0.9 - 0.97	97% - 100%	0% - 2%	-4% - -2%	16
Caa1	0.6 - 0.9	100% - 103%	-2% - 0%	-6% - -4%	17
Caa2	0.3 - 0.6	103% - 107%	-3% - -2%	-7% - -6%	18
Caa3	<0.3	≥107%	< -3%	<-7%	19

Source: ENA.

Issue #2: Use of 3-year forward averages

The draft guideline proposes the numeric score assigned to each financial metric be calculated using a 3-year forward average, rather than the value for that metric in each year. This smooths the metrics over time and may mask weak financial metrics in individual years. ENA submits that this is more likely to result in poor financeability in particular years going undetected, in which case the test would not be fit-for-purpose.

ENA understands that the AER's rationale for applying 3-year forward averages is that a rating agency may not downgrade a TNSP based on poor financial metrics in a single year and that rating agencies may exercise some forbearance if there is a

reasonable expectation that performance on particular financial metrics will improve over time.

ENA submits that it is important to separate two distinct issues:

- » The ability of the test to detect a deterioration in financeability; and
- » The appropriate response if any such deterioration is detected.

The use of 3-year forward averages may prevent a genuine deterioration in financeability being detected. By way of example, consider a TNSP that has a stable FFO/Net debt ratio of 10.9% in the base scenario (i.e., before investment in an actionable ISP project).¹³ Under the AER’s proposed test, the TNSP would (on that particular metric) have a numeric score in the base scenario of 12, corresponding a broad Ba rating.

Suppose that following investment in an actionable ISP project (i.e., in the unadjusted scenario), the TNSP’s FFO/Net debt ratio is expected to drop immediately to 4.50%, and recover gradually to 9.50% by year 4. Table 5 shows that the FFO/Net debt in Years 1 and 2 would be commensurate with a material deterioration in financeability (as demonstrated by an increase in the numeric score from 12 to 15), consistent with a downgrade from a Ba rating to a B rating, followed by a sufficient improvement in financeability in years 3 and 4 to restore the original Ba rating.

However, if the test were based on a 3-year forward average of the FFO/Net debt ratio, then the test would detect no deterioration in financeability in any year, since the numeric score in none of the years increases above the base scenario score of 12.

Table 5: Expected impact on financeability following investment in actionable ISP project

		Year 1	Year 2	Year 3	Year 4
Annual	FFO/Net debt	4.50%	4.90%	9.10%	9.50%
	Numeric score	15	15	12	12
3-year forward average	FFO/Net debt	6.17%	7.83%	9.37%	9.50%
	Numeric score	12	12	12	12

Source: ENA.

¹³ For simplicity, this illustrative example uses only one of the metrics in the proposed test. However, the insight from this example may be generalised to a test that considers all four metrics in the proposed test.

That is, in reality, the TNSP would have faced a serious deterioration in financeability in Years 1 and 2, but the test would be incapable of detecting that due to the use of 3-year forward averages.

ENA understands that Moody's usual practice, when conducting rating assessments for TNSPs is to apply no averaging over time to the financial metrics, and that this is particularly relevant when undertaking major capital programs and augmentations to avoid lag effects from deteriorating metrics. This is because Moody's seeks to understand the effect of the investment program on individual years. The averaging of metrics over time may (as the example above shows) obscure such effects.

Moody's then makes a separate determination, based on qualitative factors, on how much forbearance to exercise before downgrading the TNSP. The factors that Moody's takes into account when making such an assessment include (amongst other things):

- » the commitment of the shareholders to restore financeability;
- » the commercial environment in which the TNSP is operating; and
- » the financial policy of the TNSP (e.g., management and board tolerance for financial risk).

The AEMC's Rule change explicitly ruled out consideration of such qualitative factors for the purposes of implementing and responding to the outcomes of the financeability test.

In response to a material decrease in financeability in one or more years, Moody's may decide to downgrade a TNSP's rating. Alternatively, Moody's may decide to apply a level of forbearance and designate a TNSP's outlook as "negative" (i.e., a signal of a high likelihood of a rating downgrade in the medium term) or to place the TNSP on a downgrade "watchlist" (i.e., a signal of a rating downgrade in the nearer term). Any of these outcomes can provide a strong enough signal to the market that lenders react immediately by increasing the applicable interest rates, until such time as Moody's signals an improvement in the TNSP's financeability.

In view of this, ENA proposes that the financeability test should apply no averaging at all to the financial metrics over time; each financial metric would be assessed on a year-by-year basis. This would be more consistent with Moody's actual practice, and would result in a test that is fit-for-purpose. If the test is failed in any individual year, then regulated cash flows should be adjusted for that year to address that failure.

ENA also notes that applying a 3-year forward average may highlight financeability issues in years where the TNSP does not incur any capital expenditure for the proposed ISP project. This could trigger an unwarranted cash flow adjustment for those years. This would also be inconsistent with the intent of the test.

In summary, the AER has proposed a financeability test that is applied to the relevant data for each year, and which identifies whether there is a financeability issue in each year. If the test identifies a financeability issue for any year, that issue should be

rectified fully.¹⁴ Averaging of the metrics across years is inconsistent with this and may lead the AER to conclude that the identified financeability issue is sufficiently short-lived, therefore requiring no action. Equally the averaging of metrics may also identify a financeability issue in years in which there is no underlying issue. These outcomes would not only violate the purpose of the test but would also seem to mimic (through a quantitative approach) the discretion that Moody's may exercise, having regard to qualitative factors, about whether to downgrade a TNSP in response to a deterioration in financial metrics. The AEMC's Rule change explicitly rules this out.

3. The calculation of the adjustment to debt costs due to hybrid finance needs refinement

Consistent with the requirements of the AEMC's Rule change, the AER's proposed financeability model allows the financeability test to account for any concessional finance agreed between a funding body and the applying TNSP for the purposes of helping to address a financeability issue.

The current version of the proposed financeability model accounts for two forms of concessional finance:

- » A concessional loan; and
- » Hybrid loans.

For either form of concessional finance, for the purposes of implementing the financeability test the model computes an adjustment to the TNSP's:

- » "debt costs" (i.e., interest expenses); and
- » "debt RAB" (i.e., the debt portion of the TNSP's RAB).

ENA considers that there is an error in the way the model currently calculates the adjustment to debt costs in the case of hybrid finance, and understands that the approach currently employed in the model differs from the approach Moody's uses when adjusting an issuer's interest expenses to account for hybrid finance.

At present, in the scenario in which the TNSP has received a hybrid loan, the adjustment to debt costs is calculated as the *equity* portion of the total interest on the hybrid loan. That figure is then deducted from the total debt costs in the PTRM to arrive at an adjusted debt cost number.

However, this calculation does not account for the likelihood that the interest rate the TNSP must pay on the *debt* portion of the hybrid loan will differ from the benchmark interest rate.

Consider a simple, single-year example in which:

¹⁴ We also note that this would trigger a proportionate response. A financeability issue that arises in a single year is more likely to be resolved by a within-period revenue adjustment to smooth out the required cashflow, while a sustained financeability issue across multiple years is likely to require cashflow to be brought forward from future years.

- » a hypothetical TNSP has an opening RAB of \$1 billion;
- » the benchmark gearing is 60% (as per the 2022 Rate of Return Instrument); and
- » the benchmark rate of interest is 6% per annum.

In this case, the TNSP's benchmark debt would be \$600 million (i.e., \$1 billion RAB x 60% gearing), and the benchmark interest expense would be \$36 million (i.e., 6% x \$600 million).

Now, assume that the TNSP receives a hybrid loan of \$100 million to replace \$100 million of its existing benchmark debt. The interest rate on the hybrid loan is 10% per annum,¹⁵ and 50% of the loan is treated like equity. In this case, the total interest on the hybrid loan would be \$10 million (i.e., 10% x \$100 million).

The current financeability model would compute the adjustment to debt costs as -\$5 million (i.e., -(50% equity x \$10 million)). That is, \$5 million (being the equity share of the total interest on the hybrid loan) is deducted from the TNSP's benchmark interest expense of \$36 million to arrive at an adjusted interest expense of \$31 million. This fails to allow for the possibility that the interest rate on the debt portion of the hybrid loan that the TNSP is responsible for servicing under the concessional finance agreement is higher than the benchmark interest rate on the debt that the hybrid loan has replaced.

The error in this approach can be seen using a more extreme example. Suppose that the interest rate on the hybrid loan was 99% per annum rather than 10% per annum. The existing model would suggest that the adjustment to debt costs should be -\$50 million, and that the TNSP's adjusted interest costs would be -\$14 million. That is, the TNSP would be *paid* to hold concessional finance. This is clearly implausible and indicates an error in the way in which the adjustment to debt costs has been calculated in the case of hybrid loans.

ENA submits that the TNSP's adjusted debt costs should be computed as:

- » The TNSP's total interest expenses (accounting for the interest on the hybrid loan); *less*
- » The equity share of interest on the hybrid loan.

To achieve this the TNSP's total interest expenses (accounting for the interest on the hybrid loan) should be calculated as:

- » The TNSP's benchmark interest expense (i.e., \$36 million in the example above); *plus*
- » The total interest on the hybrid loan (i.e., \$10 million in the example above); *less*
- » The benchmark interest expense replaced by the hybrid loan (i.e., 6% x \$100 million = \$6 million in the example above).

This would amount to \$40 million in the example above.

¹⁵ It is common for hybrid loans to attract a higher rate of interest than ordinary corporate debt, given that these forms of finance have part equity characteristics.

The TNSP's adjusted debt costs would therefore be \$35 million (i.e., \$40 million – \$5 million). This recognises that after receiving the hybrid loan, the TNSP needs to service:

- » \$500 million of debt raised at the benchmark interest rate of 6% per annum; and
- » \$50 million of debt raised at the hybrid loan interest rate of 10% per annum (with the remaining \$50 million of the hybrid loan acting like equity).

ENA understands that this proposed approach is consistent with the approach Moody's uses in practice to account for the effect of hybrid loans on a TNSP's interest expenses when conducting rating assessments, and therefore the correct method to apply to meet the intent of the guideline.

4. The guideline should clarify two matters

There are two areas in which ENA considers it would be useful if the final guideline could provide further clarification, to enhance predictability for all stakeholders:

- » The horizon over which the test will be implemented; and
- » How the test will be implemented in the case of TNSPs undertaking multiple actionable ISP projects.

Horizon for the test

The draft guideline does not specify the period over which a financeability test will be implemented. The illustrative example provided in the draft guideline performs the financeability test over a 10-year horizon. It is unclear whether the AER envisages that this will be the standard period over which a financeability test will be performed, or whether the relevant period for a test will be tailored for each ISP project.

The Rules do not place any limit on the timeframe over which the test should be applied. As such, ENA submits that it should be left to the applying TNSP to propose the timeframe for the test, and be responsible for justifying the need for the test over the proposed horizon. ENA further submits that the models used to implement the test (i.e., the PTRMs and financeability model) should be sufficiently flexible to accommodate the timeframe proposed by a TNSP, rather than be restricted to just 10 years.

Implementation of the test when a TNSP is responsible for multiple ISP projects

Some TNSPs may be responsible for delivering multiple ISP projects and may request a financeability test for each such project. However, the draft guideline does not explain how the financeability of each project would be assessed in this circumstance.

ENA considers that if a TNSP pursues multiple ISP projects sequentially (i.e., the regulatory determination for each project is finalised before the next is proposed), then the test should be applied in a sequential fashion to each ISP project, where any remedy to a financeability problem for a particular project would form the base scenario for testing the financeability of the next project. That is:

- » The baseline for the first project would be calculated using the PTRM excluding all ISP projects;
- » Then, the test would be applied to the first project, and any remedy required by the outcome of the test would be applied. This would form a new baseline for assessing the second project; and
- » The test would then be applied to the second project using the new baseline, and so on.

The guideline should also explain how the financeability test will operate when a TNSP proposes multiple, overlapping ISP projects (i.e., the TNSP proposes a new project before the AER has made a determination in relation to a previous project). The resolution of financeability issues in relation to the first project may not be known at the time the AER is evaluating the next project. In these circumstances, it will not be possible to implement the test sequentially.

One way to overcome this problem would be to adopt the linear interpolation approach discussed in section 2. That approach guarantees that the TNSP's financeability position will always be restored to its position before the first ISP project. In that sense, it is the purest way of applying the 'no worse off' objective that underpinned the AEMC Rule change. This means that the effect of the second (and all subsequent projects) can be assessed against the TNSP's financeability position before the first project.

5. Proposed improvements to the models used to implement the financeability tests

ENA thanks the AER for publishing a financeability model and supporting PTRMs along with the draft guideline, as these models have greatly assisted stakeholders in developing a clear understanding of how the proposed financeability test would operate in practice.

While not a formal regulatory model under the rules, we understand that the financeability model would be the starting point for a financeability assessment in accordance with the guideline.

When working through these models, ENA has identified a number of potential issues for the AER's consideration. Table 6 summarises these issues and the proposed approaches to address these issues that ENA considers would:

- » Ensure better alignment between the approach specified in the guideline and the calculations performed by the model;
- » Correct apparent calculation and formulaic discrepancies; and
- » Enhance the flexibility and transparency of the model to accommodate different concessional finance arrangements.

ENA notes that in some instances, the improvements we propose would result in a smaller cash flow adjustment to TNSPs than if those improvements were not adopted. However, ENA considers that only the minimum adjustment to regulated cash flows to

ensure the financeability of ISP projects should be made—no more, and no less—as this would best promote the NEO.

ENA also recognises that the AER has explained that those parts of the financeability model that relate to the treatment of concessional finance may be revised to reflect the concessional finance arrangements actually agreed between a funding body and the applying TNSP. Therefore, we recognise that some of the modelling issues we have identified in relation to the treatment of concessional finance may be resolved in due course, when the AER implements the model in the context of making an actual determination on financeability, and we support the need for this flexibility.

ENA would be happy to engage further on these matters with the AER and work together to develop specific solutions in the model to address these issues.

Table 6: Issues identified in the models used to implement the AER’s proposed financeability test and suggested solutions

Description of issue	Proposed solution
<p>1. Currently, if a financeability problem is identified, then the formulas in the Adjusted PTRM will adjust the TNSP’s cash flows to restore the TNSP to its base score, even if that base score was lower (i.e., better) than the specified financeability threshold of 8.5. This would result in more cash flows being accelerated than would be required to address a financeability problem under the Rule.</p>	<p>The formula in row 16 of the financeability model should be edited so that the appropriate target (8.5 or base case score) is used.</p>
<p>2. Reprofitting of cash flows to address a financeability problem in one year may create a new problem in a different year, because reprofiling cash flows in an NPV-neutral way will mean that cash flows in some years are reduced to increase cash flows in other years. There is no process for ensuring this does not occur.</p>	<p>The model should ensure no financeability problem for all years for which the test is being performed.</p>
<p>3. The financeability model currently deducts tax payable on unsmoothed revenue, when calculating FFO and RCF. It should instead deduct tax payable based on smoothed revenue from MAR.</p>	<p>Tax payable deducted from MAR to calculate FFO and RCF should reflect smoothed revenues rather than unsmoothed revenues. This will require a separate calculation of tax payable based on smoothed (rather than unsmoothed) revenue for the purposes of implementing the financeability test.</p>
<p>4. The interest expense used to calculate tax payable when computing FFO and RCF ignores the effect of any concessional finance.</p>	<p>Tax payable used in the FFO and RCF calculations should reflect interest expenses that account for any concessional finance that the AER is required to account for when implementing the financeability test.</p>
<p>5. When as-incurred depreciation is implemented to address a financeability problem, the tax depreciation amount used to calculate FFO and RCF changes.</p>	<p>Revise the model to ensure that tax depreciation is invariant to whether as-incurred depreciation or as-commissioned depreciation is used to set the regulatory depreciation allowance.</p>
<p>6. The adjusted case calculations (rows 28 and 29) in the financeability model appear to incorrectly refer to the debt and RAB amounts in the unadjusted case (rows 59 and 60 of the Inputs tab). This appears to be a cell referencing error. Debt and RAB amounts in unadjusted and adjusted cases will diverge over time if accelerated depreciation is used in the adjusted case to address a financeability problem.</p>	<p>The formula in rows 28 and 29 of the adjusted case calculations should be edited to refer to rows 72 and 73 of the Inputs tab.</p>

Description of issue	Proposed solution
<p>7. The scores assigned to the FFO/Net debt and RCF/Net debt ratios are not consistent with Moody's Global Methodology in cases where net debt is negative (see footnotes to table on p. 8 of the Moody's Global Methodology):</p> <ul style="list-style-type: none"> » Negative scores are assigned low grades (Caa or B bands) in the model, whereas Moody's Global Methodology assigns these an Aaa score when net debt is negative and FFO or RCF are positive. » Similarly, if both the denominator and numerator are negative, a score of B is assigned in the Moody's Global Methodology. 	<p>Edit the formulae in the financeability model that assigns numeric scores to the FFO/Net debt and RCF/Net debt ratios to reflect the Moody's Global Methodology.</p>
<p>8. The historical concessional finance adjustments to debt RAB (Inputs row 47) do not flow through to debt RAB for the base scenario. By contrast, the historical concessional finance adjustments to debt costs (Inputs row 46) do flow through correctly to interest payments for the base scenario.</p>	<p>Revise the debt RAB formula to ensure that the historical concessional finance adjustments to debt RAB flow through correctly to debt RAB for the base scenario.</p>
<p>9. Any historical concessional finance adjustments that the TNSP has benefited from do not currently affect the unadjusted CPA and adjusted CPA calculations.</p>	<p>Revise the expected concessional finance inputs to capture both the impact of existing concessional finance and any new concessional finance associated with the ISP project.</p>
<p>10. The formula for concessional finance adjustments of hybrid loans appears to calculate the terminal year for the loan incorrectly (i.e., the final year for the loan is identified as one year after the loan is due to mature). This leads to incorrect adjustments for concessional finance in the year after the loan matures.</p>	<p>Revise the formula for identifying the final year of the hybrid loan to determine the terminal year of the loan correctly.</p>
<p>11. The equity proportion of historical hybrid loans on debt RAB is hardcoded to 50% in the formulae in row 47 (except for cell G47), despite the option in cell E40 to select the treatment (which only applies for the first year).</p>	<p>Revise the formula in row 47 to refer to the equity proportion of the historical hybrid loans specified in cell E40.</p>

Description of issue	Proposed solution
<p>12. The impact of a hybrid loan on debt costs is modelled by allowing the loan to amortise: the impact on debt costs diminishes over the life of the loan (the formula calculates the interest assuming constant principal repayment). By contrast, the impact of a hybrid loan on the debt RAB is modelled as constant over the term of the loan (i.e., it seems that the assumption is a non-amortising hybrid loan, for the purposes of calculating the debt RAB).</p>	<p>Ensure that assumptions about whether a hybrid loan is amortising or not is consistent when calculating the impact of a hybrid loan on the debt RAB and on loan costs, and that these assumptions are transparent to the user. Consider adding a toggle to allow the user to select whether any concessional loan or any hybrid loan is amortising or non-amortising, and then calculate the debt costs and debt RAB accordingly.</p>
<p>13. The calculation of debt cost adjustments uses a formula, whereby the interest appears to be paid on the <i>closing</i> loan balance. However, in the PTRM interest expenses are calculated based on the <i>opening</i> debt RAB balance.</p>	<p>Consider whether the calculation of debt cost adjustments should be based on the opening loan balance—consistent with the usual treatment in the PTRM. The approach adopted may be determined by the terms of the concessional finance agreement, so AER may need to tailor the approach to this issue accordingly.</p>
<p>14. The financeability model appears to assume a single tranche of concessional finance (i.e., concessional loan and hybrid finance drawn down in its entirety upfront). In practice, concessional finance may be provided in multiple tranches.</p>	<p>Consider whether the model should be adapted to provide the flexibility to reflect the draw down of concessional finance in tranches. The treatment ultimately adopted in the model will need to reflect the terms of any concessional finance agreed between the funding body and the TNSP.</p>

Note: For completeness we note that currently, there is a mismatch between the 3-year forward averaging approach described in the draft guideline and the calculations implemented in the published version of the financeability model. The draft guideline states that a 3-year forward average of the individual financial metrics used in the test would be taken. However, the model takes a 3-year forward average of the overall numeric score for the TNSP. ENA's preferred solution is for no averaging over time (of the financial metrics or the numeric scores) to be applied, as proposed above in the submission. If that proposal were to be accepted, this issue would fall away. However, if ENA's proposed approach is not accepted, then the financeability model should be corrected to align with the approach specified in the guideline

6. Responses to key questions for stakeholders

Table 7 below summarises ENA’s responses to the consultation questions for stakeholders posed in the explanatory statement to the draft financeability guideline.

Table 7: Responses to AER consultation questions

Consultation question	ENA responses
<p>1. Does the proposed financeability guideline conform with the AEMC’s final determination on financeability rule change? If not, what are the main issues with the proposed guideline?</p>	<p>ENA agrees that the proposed financeability guideline largely conforms with the AEMC’s final Rule change decision. However, ENA submits that in order for the financeability test to be fit for purpose and consistent with the intent of the AEMC’s Rule change, it must be capable of identifying genuine financeability problems should they arise.</p> <p>ENA has identified two features of the proposed test that may in some circumstances result in the test failing to detect a genuine, material deterioration in financeability (see section 2 above). This would not satisfy the ‘no worse off’ objective underpinning the AEMC’s Rule change and would therefore render the test not fit-for-purpose. ENA therefore proposes that these two issues should be addressed and explains in section 2 how this could be achieved simply.</p>
<p>2. Is replicating Moody’s leverage and coverage scorecard an appropriate quantitative approach to calculate a TNSP’s financeability position? If not, what is a more appropriate approach?</p>	<p>ENA supports the AER’s proposal to base the test on Moody’s leverage and coverage scorecard, as this methodology is:</p> <ul style="list-style-type: none"> » Transparent; » Replicable; and » Formulaic and predictable. <p>These are essential requirements for a financeability test specified by the AEMC in its Rule change.</p>

Consultation question	ENA responses
<p>3. Are there any issues with how we have replicated Moody's leverage and coverage scorecard methodology in the guideline? If so, how should we address these issues?</p>	<p>As explained in section 2 above, ENA proposes a minor refinement to Moody's Global Methodology (i.e., the application of linear interpolation or sub-bands when assigning a numeric score to individual financial metrics) that would make the test more capable of detecting genuine financeability problems if/when they occur and, therefore, more consistent with the intent of the AEMC's Rule change.</p> <p>As set out in section 2, ENA also proposes that each metric should be assessed on an annual basis, rather than using a 3-year forward averaging approach. ENA understands that when conducting rating assessments of TNSPs, particularly those undertaking major capital expansion projects (such as actionable ISP projects), Moody's assess individual metrics on an annual basis without applying any averaging (to ensure that any financeability issues in particular years are identified clearly). Hence, ENA's proposed approach is consistent with Moody's actual practice when rating TNSPs.</p>
<p>4. Is there a more appropriate mechanism to adjust the financeability position for expected concessional finance agreements? If so, what is the mechanism?</p>	<p>The AER's proposed approaches for accounting for concessional finance arrangements (as set out in the illustrative example and financeability model) appear broadly reasonable.</p> <p>However, as section 3 explains, the existing financeability model either overstates or understates the required adjustment to debt costs in the case of a hybrid loan, if the interest rate on that loan differs from the benchmark interest rate. In order to correct this issue, the adjustment to debt costs should explicitly account for the interest on the debt portion of the hybrid loan that must be paid, at the hybrid loan interest rate.</p> <p>Furthermore, ENA notes that:</p> <ul style="list-style-type: none"> » Section 5 above identifies a number of modelling issues (some of which relate to the treatment of concessional finance) for the AER's consideration; and » Ultimately, as required by the Rule change, the treatment of concessional finance in the financeability test should reflect the terms of the concessional finance agreement between the funding body and the applying TNSP.

Consultation question	ENA responses
<p>5. Is the proposed financeability threshold appropriate given the AEMC’s final determination? If not, what is a more appropriate threshold to apply?</p>	<p>ENA supports the specified financeability threshold of 8.5 adopted in the draft guideline as this is consistent with the minimum threshold for a BBB+ equivalent rating (the benchmark credit rating in the current Rate of Return Instrument) specified in Moody’s Global Methodology.</p>
<p>6. Are the proposed methods and approach to addressing a demonstrated financeability issue appropriate? Are there any methods to address the issues that are not covered?</p>	<p>ENA agrees that all of the approaches for addressing a financeability issue identified by the AER (i.e., as-incurred depreciation, accelerated depreciation and adjusting X-factors within a regulatory control period) are all appropriate methods, since all of these approaches are NPV-neutral.</p> <p>ENA supports the principle that the applying TNSP should be allowed to nominate any NPV-neutral approach to reprofile cash flows to address an identified financeability problem. The over-riding consideration is that once cash flows have been adjusted, there should be no financeability issue in any of the years for which the test is applied.</p> <p>Section 4 of this report sets out two clarifications that we think would improve the draft guideline.</p> <p>Section 5 of this report identifies a number of technical corrections to the draft models distributed by the AER.</p>
<p>7. Are amendments to the current template regulatory models to include the ability to apply shaped depreciation required, or are the options available in the current template models sufficient?</p>	<p>ENA supports the AER’s consideration of shaped depreciation approaches, including the sum-of-the-years’ digits method for applying shaped depreciation, and agrees that the regulatory models should be amended to allow these approaches.</p> <p>Consistent with the response to the previous question, ENA considers that TNSPs should be able to propose any NPV-neutral adjustment to regulated cash flows to address an identified financeability issue. That includes the possibility of applying shaped depreciation.</p> <p>The regulatory models should therefore be sufficiently flexible to accommodate any NPV-neutral approach proposed by a TNSP.</p>