

Cost of Capital: 10 Hot Topics



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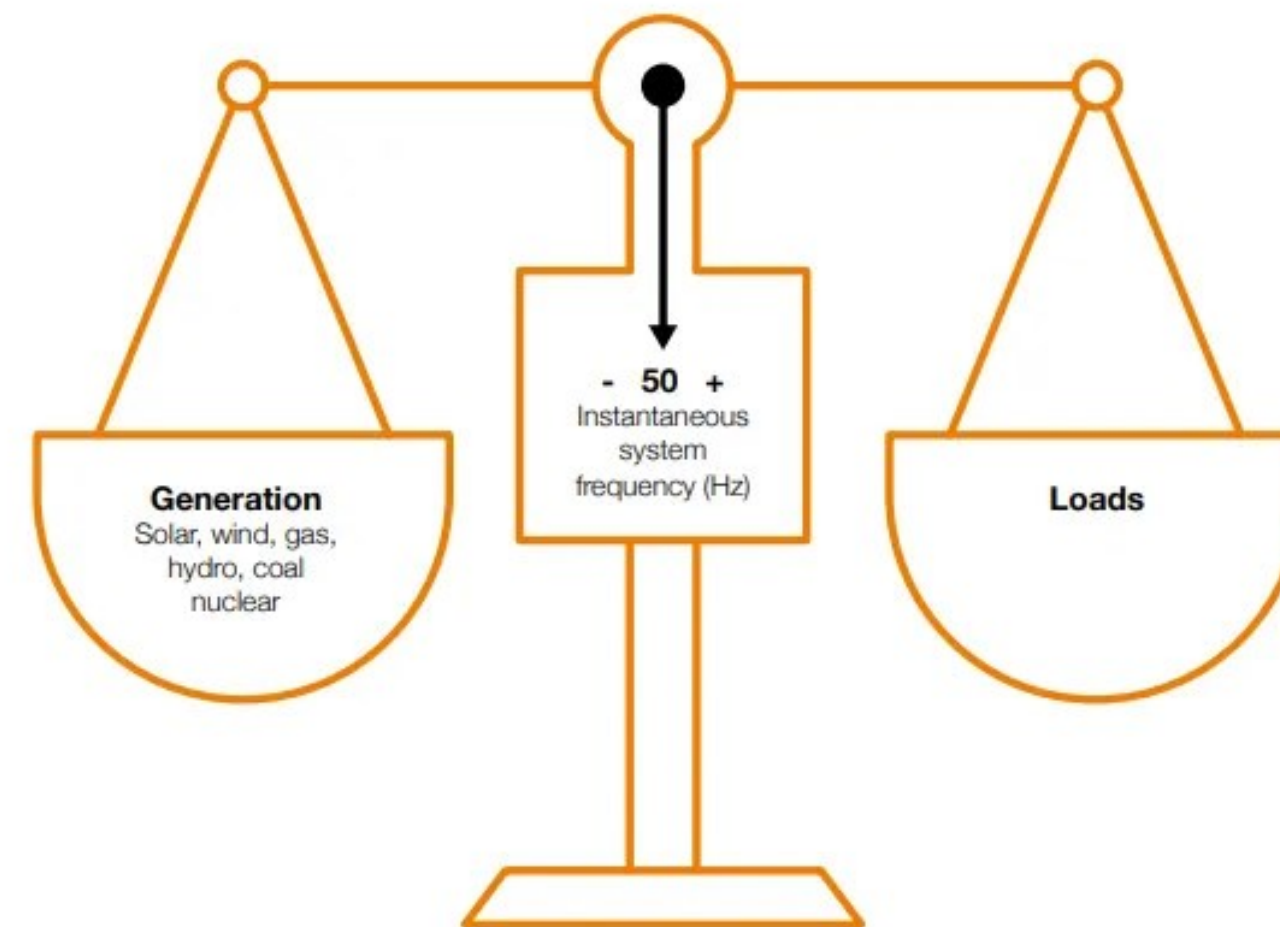
1. Climate Change

Governments have employed new emission reduction objectives into regulatory frameworks. How are regulators implementing these objectives in cost of capital and regulatory determinations more broadly?



2. Stability & Predictability of Approach

Energy utilities are highly valued for their stable and predictable returns. How do regulators take this into account in their decision making?



3. Reasonableness Checks

Regulators typically build up their cost of capital by applying models, data and parameters. How do regulators know if the final outcome is reasonable?



4. Diminishing Set of **Publicly Listed** Comparator Firm

Observing market outcomes is important for determining an appropriate cost of capital. How are regulators adapting to the diminishing set of comparator firms?



5. The Term for Estimating **Cost of Equity**

The expected cost of equity varies depending on the investment horizon. Should regulators match the term of the regulatory control period or a longer period reflecting the life of the underlying assets?



6. Accommodating Large New Investment

To incorporate large scale renewable energy projects, large augmentations of existing networks are needed. How do regulators factor these new investments into their cost of capital decisions, especially the cost of debt?



7. The Market Risk Premium

The data and models for estimating the market risk premium are not very good. What methods should regulators use, and should they anticipate a relationship between the market risk premium and interest rates?



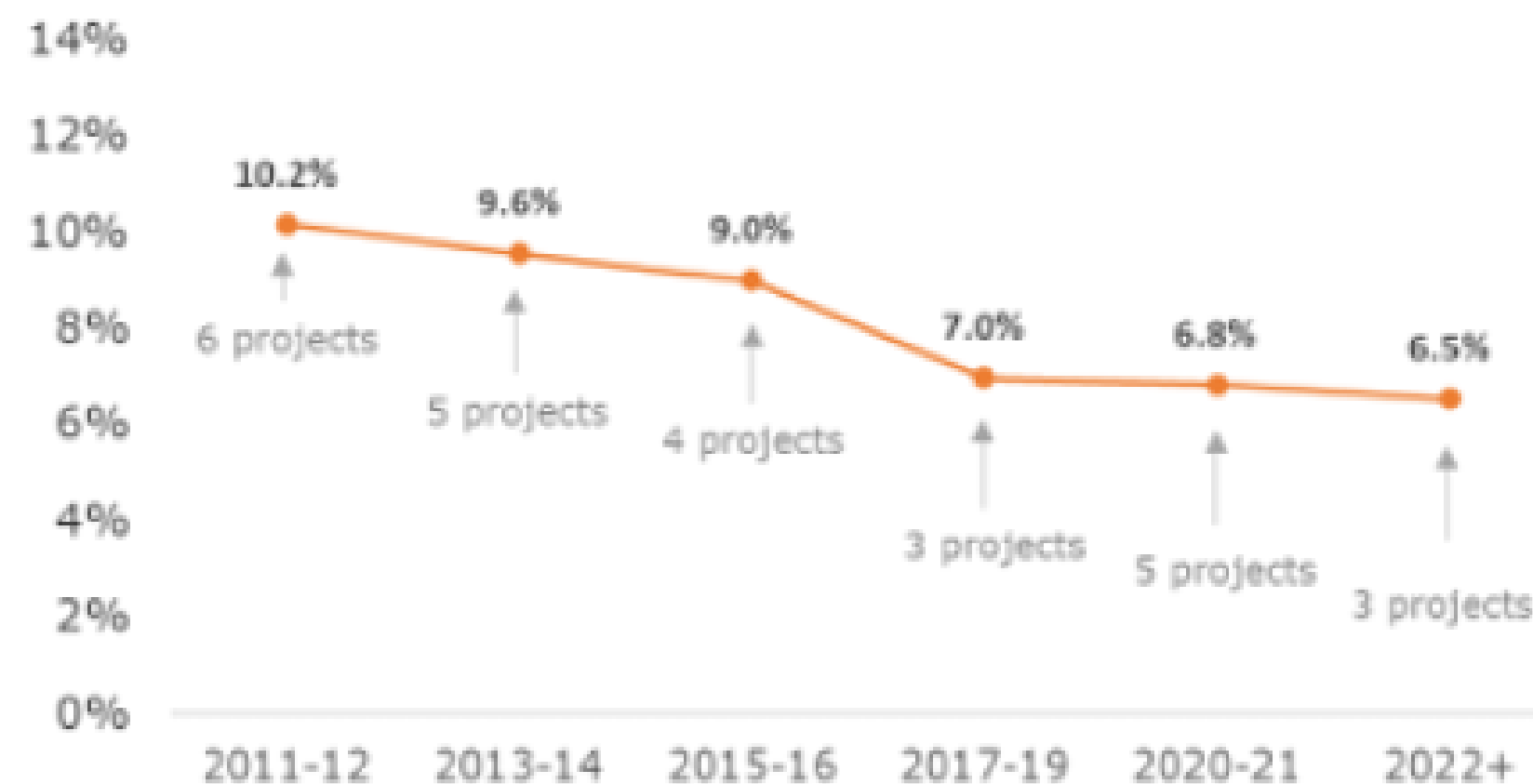
8. Stranding **Risk** for Gas Networks

In the face of emission reduction action there is an expectation that use of gas will decline. How do regulators factor in stranding risk?



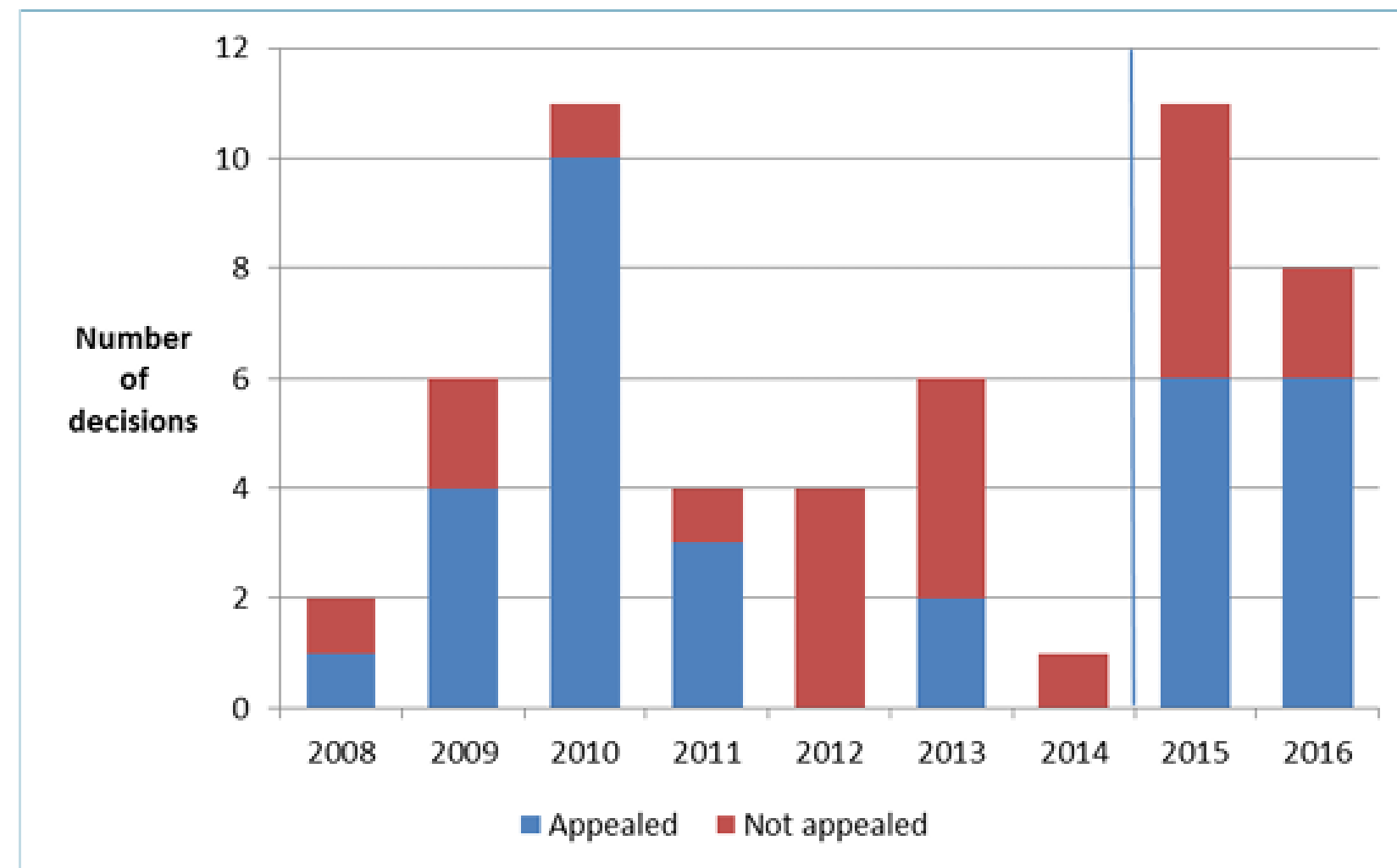
9. Competition for the Right to Supply

Competition is always better than regulation where feasible. With climate action leading to large new transmission links, it is possible to open the construction and operation of these links to competition. How are regulators facilitating this competition and how can they use the information from the auctions in their cost of capital processes?



10. Merits Review

Good in theory, but bad for consumers and bad for everyone else (except the lawyers). What is the experience with merits review?




Additional Issues

1. Accurately estimating the cost of debt
2. Convenience yield and risk-free rate
3. Weighting debt and equity
4. Financeability testing
5. Totex
6. Split cost of capital
7. Standard error of the cost of capital
8. Indexation of the regulatory asset base
9. Inflation forecasting



Thank You

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