AGENDA

AER ROUND-TABLE

REVIEW OF WACC PARAMETERS FOR ELECTRICITY TRANSMISSION & DISTRIBUTION

Friday 10 October 2008
Melbourne

Melbourne, Level 38, The Tower, 360 Elizabeth Street
(Please report to Level 35 Reception)

2.00PM-4.00PM (EST)

1. Introduction

2. Specific issues for discussion (refer to Attachment)

Issue	Lead discussant	Respondent
(A) Multi-parameter considerations	Professor Gray/Dr Bishop	Associate Professor Lally; Associate Professor Handley
(B) Term of the nominal risk free rate	Dr Bishop	Associate Professor Lally; Associate Professor Handley
(C) Gamma	Professor Gray	Associate Professor Lally; Associate Professor Handley
(D) Market risk premium	Dr Bishop	Associate Professor Lally; Associate Professor Handley
(E) Equity beta	Professor Gray	Associate Professor Lally; Associate Professor Handley

2. Conclusion

Attachment: Specific issues for discussion

Introduction (5 minutes)

(A) Multi-parameter considerations (20 minutes)

Reliability of empirical results across parameters (beta, gamma, MRP)

Lead discussant Gray/Bishop (respondents Lally; Handley):

Is it appropriate to rely more heavily on market data for the estimation of some WACC parameters (e.g. gamma, MRP, gearing), while considering low reliance be placed on market data for estimating other parameters (e.g. beta)?

[Discussants – 10 minutes (5 minutes each); Respondents / Questions – 10 minutes]

(B) Term of the nominal risk free rate (25 minutes)

Liquidity of bond markets

Lead discussant Bishop (ValueAviserAssociates) (respondents Lally; Handley):

Can you explain the basis of ValueAdviserAssociates' assertion that the markets for short term CGS are illiquid relative to the market for long term Commonwealth Government Securities (CGS), both historically and currently? Is it more appropriate to consider the current terms to maturity rather than maturity at the time of issue?

[Discussant – 5 minutes; Respondents / Questions – 10 minutes]

Have ValueAdviserAssociates considered the liquidity of corporate bond markets over different maturities?

[Discussant – 5 minutes; Respondents / Questions – 5 minutes]

(C) Gamma (25 minutes)

Lead discussant Gray (SFG), (respondents Lally; Handley)

Can each of you provide your views on the methodology you consider provides the best estimate of the value of imputation credits (i.e. theta) in theoretical and empirical terms? Specifically to SFG, can you explain the theoretical basis for the rejection of tax statistics as providing a value for imputation credits in the Australian economy?

[Discussant – 5 minutes; Respondents / Questions – 10 minutes]

Is the often quoted empirical result from dividend drop-off studies – that cash dividends are not fully valued – a valid result in theoretical terms? If an adjustment is required, what is the most appropriate adjustment?

[Discussant – 5 minutes; Respondents / Questions – 5 minutes]

(D) Market Risk Premium (25 minutes)

Lead discussant Bishop (respondents Lally, Handley):

Given ValueAdviserAssociates used a monthly time series (annualised) of historical excess returns for the post 1980 data, why did ValueAdviserAssociates' end the data series in December 2007, rather than incorporating the most recent available monthly data from 2008?

[Discussant – 3 minutes; Respondents – 2 minutes]

The ability of an arithmetic average of historical excess returns to be an unbiased estimate of a forward looking MRP relies on the assumption that historical excess returns are independent draws from the same distribution. Is this a realistic assumption? What does this mean for whether an arithmetic average is likely to over- or underestimate a forward looking MRP? If this is the case what are the alternatives?

[Discussant – 5 minutes; Respondents / Questions – 5 minutes]

What are the strengths and weaknesses of using dividend growth models to estimate a forward looking MRP and beta? Does the appropriateness of using dividend growth models differ depending on the parameter (MRP or beta)?

[Discussant – 5 minutes; Respondents / Questions – 5 minutes]

(E) Equity Beta (20 minutes)

Lead discussant Gray (respondents Lally, Handley):

The SFG Consulting report notes that in Cannavan et al (2004) the 'R-squared' for the gamma analysis is above 65 per cent. Do you consider that R-squared is the only determinant of data reliability?

[Discussant – 5 minutes; Respondents / Questions – 5 minutes]

Do you consider that seven years of data should be used to estimate the equity beta or the longest possible window of data? Why does the analysis in Gray et al only examine monthly observations? Do you think it is worthwhile considering whether weekly observations are more reliable than monthly observations? How many observations should be considered when using weekly data?

[Discussant – 5 minutes; Respondents / Questions – 5 minutes]