

ADDENDUM

The AER has asked me to provide specific page number references for certain figures that I cite in my September 2018 report 'The AER's Draft WACC Guideline: An International Perspective'.

Table 2

Ofgem's DPCR4 WACC calculations for 2005-10

Paragraph 8.45 on p.106 of Ofgem's November 2004 final determination document (<https://www.ofgem.gov.uk/ofgem-publications/46251/8944-26504-pdf>) states that the allowed cost of equity is 7.5%.

Ofgem cross-references in this paragraph to the detailed CAPM computations in its March 2004 policy document (<https://www.ofgem.gov.uk/ofgem-publications/46353/6597-consultation-finalpdf>).

The values for the risk-free rate, MRP and equity beta may be found in the final column of table 7.1 on p.85 of that document.

Ofgem's DPCR5 WACC calculations for 2010-15

Table 3.3 on p.49 of Ofgem's December 2009 final determination document (<https://www.ofgem.gov.uk/ofgem-publications/46746/fp1core-document-ss-finalpdf>) states that the allowed cost of equity is 6.7%.

Ofgem states in paragraph 3.96 on p.52 of this document that its estimate of the risk-free rate is 2.0%.

Ofgem's RII0-ED1 WACC calculations for 2015-23

Paragraph 5.5 on p.40 of Ofgem's November 2014 final determination document (https://www.ofgem.gov.uk/sites/default/files/docs/2014/11/riio-ed1_final_determination_overview_-_updated_front_cover_0.pdf) states that the allowed cost of equity is 6.0%.

Paragraphs 5.4, 5.7 and 5.16 cross-reference to Ofgem's earlier draft determination document (<https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-final-determinations-slow-track-electricity-distribution-companies>).

The values for the risk-free rate, MRP and equity beta may be found in the final column of table 2.2 on p.7 in a supporting annex to that document (https://www.ofgem.gov.uk/sites/default/files/docs/2014/07/riio-ed1_draft_determination_financial_issues.pdf).

Ofgem's early RII0-2 WACC calculations for 2023-28

Paragraph 1.11 on p.9 of Ofgem's February 2018 consultation document (https://www.ofgem.gov.uk/system/files/docs/2018/03/riio2_march_consultation_document_final_v1.pdf) states that Ofgem's early range for the cost of equity is 3-5%.

Values for the risk-free rate, expected market return and equity beta may be found in the final columns of table 4 on p.90.

[Table 4](#)

The Commerce Commission's 2010 input methodologies

The final row of table 6.1 on p.134 of the Commission's reasons paper (https://comcom.govt.nz/_data/assets/pdf_file/0026/95570/Input-Methodologies-EDBGPB-Extracts-from-Chapter-6-and-Appendix-E-December-2010.pdf) states the values of the TAMRP and asset/equity beta.

I explain in annex 3 to my paper how I derived a value for the MRP from the stated TAMRP.

I re-levered the stated asset beta to 60% gearing using the Commission's re-leveraging formula $\beta_e = \beta_a / (1 - g)$.

The Commerce Commission's 2016 input methodologies

Paragraph 274 of the Commission's cost of capital decision paper (https://comcom.govt.nz/_data/assets/pdf_file/0021/60537/Input-methodologies-review-decisions-Topic-paper-4-Cost-of-capital-issues-20-December-2016.pdf) states the value of the asset beta.

I re-levered the stated asset beta to 60% gearing using the Commission's re-leveraging formula $\beta_e = \beta_a / (1 - g)$.

Paragraph 490 of the decision paper states the value of the TAMRP.

I explain in annex 3 to my paper how I derived a value for the MRP from the stated TAMRP.

[Annex 4](#)

Table 37 on p.57 of the Council of European Energy Regulators' report (<https://www.ceer.eu/documents/104400/-/-/44a08bad-efe7-01da-8b37-a3dd7edccfd5>) states the values of the MRP used by European regulators.

Table 55 on p.80 of the report states values for the European regulators' equity betas.

Where necessary, I have re-levered the stated betas to 60% gearing using the formulae given in table 51 on p.76, the figures for gearing stated in table 42 on p.66, and the tax rates stated in table 47 on p.71 of that report.

[UK Regulation Network study referred to at the bottom of p.11 of my report](#)

The recent report by Professor Stephen Wright, Professor Robin Mason, Phil Burns and Perry Dickford can be accessed on the UK Regulators Network website (<http://www.ukrn.org.uk/wp-content/uploads/2018/03/2018-CoE-Study.pdf>).