

Early confirmation of our IM review risk-free rate decision for the cost of capital

Good morning

We recently received a request to provide early confirmation of our IM review decision regarding our methodology for estimating the risk-free rate. The risk-free rate is one of the parameters we estimate when determining the allowed cost of capital for regulated suppliers.

Having considered this request, we believe that in this instance there is value in providing early confirmation of our decision.

Our decision is to retain the prevailing rate approach to estimate the risk-free rate. However, as detailed in our draft decision in June 2016, we have extended the determination window used from one month to three months.

Therefore, we will estimate a risk-free rate using the three month window of eight to ten months prior to the start of each regulatory period (or the three month window preceding the start of the disclosure year for ID).

Full reasons for our decision will be published in Topic paper 4: Cost of capital issues, as part of our package of IM review decisions, on 20 December 2016.

Kind regards

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