# Consultation on cost of equity methodology

Prepared on behalf of the
Energy Networks Association
(ENW; NPG; SPN; SSE; UKPN)

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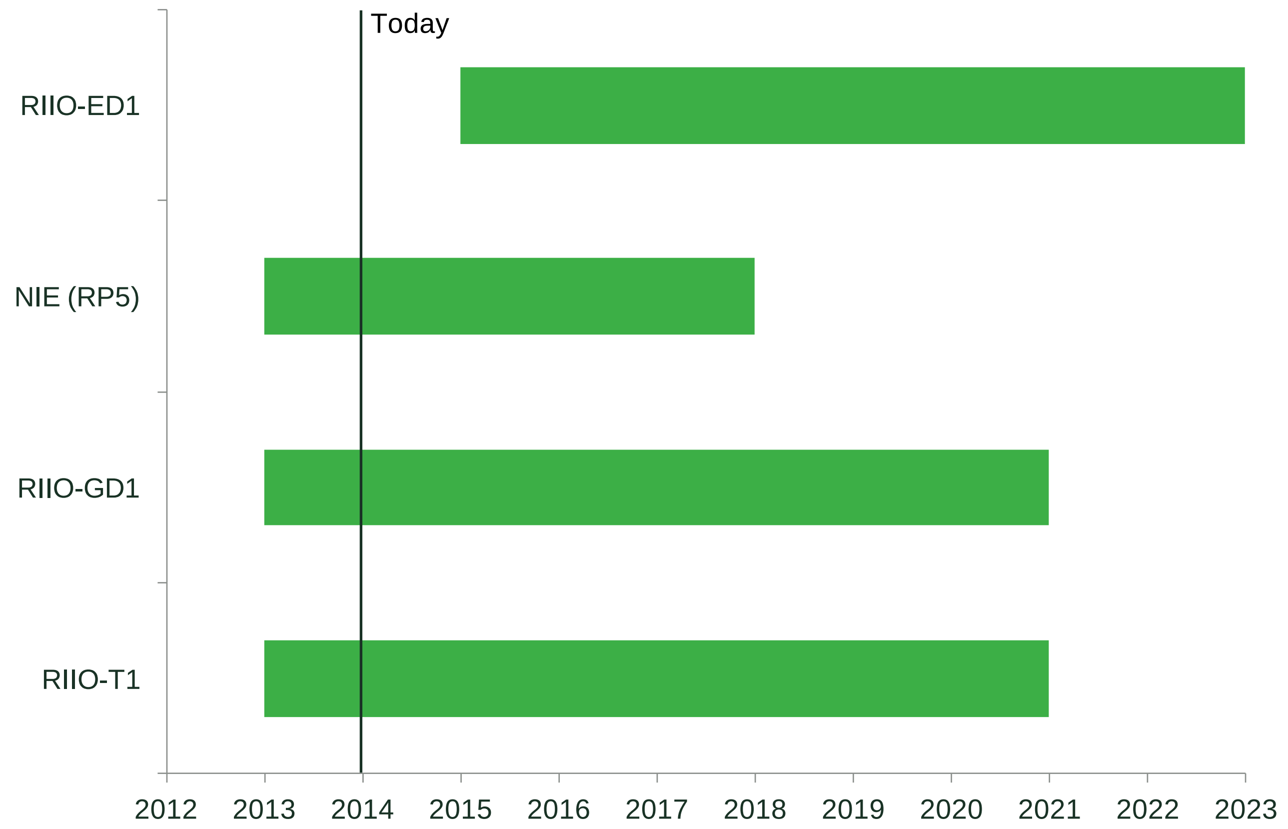
oxera
compelling economics

# Key messages

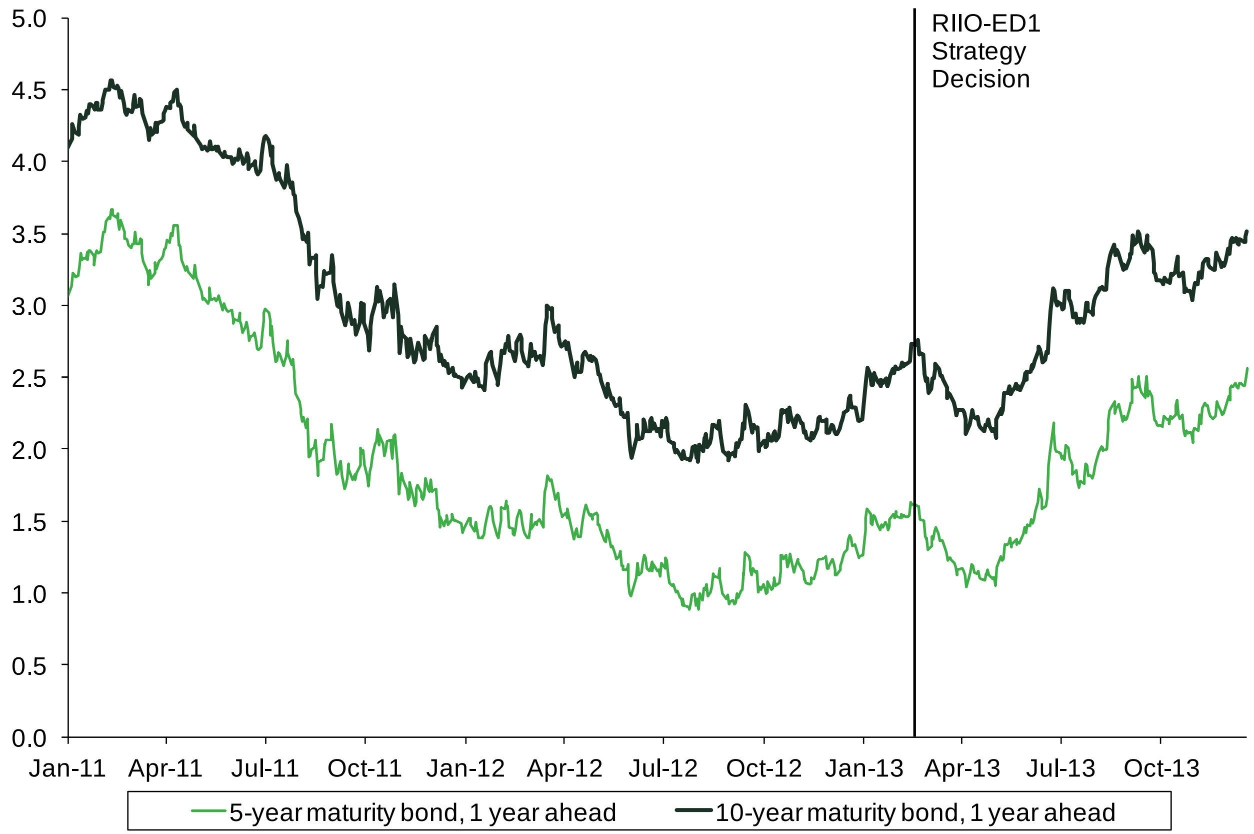
- the RIIO process has been good—changing methodology at this stage risks undermining the benefits that have been delivered to date
- it is not clear that directly reading across the CC provisional decision would be appropriate because of differences in regulatory context
- the significant overlap with RIIO-T1 and GD1 may distort investment and consumption choices
- downward pressure on credit ratings is likely as a result of both an increase in regulatory risk and lower cash flows
- developments in the capital markets since publication of the RIIO-ED1 strategy decision do not support a reduction in the cost of equity

# NIE control period compared to RIIO control periods
## Long-term approach more appropriate for RIIO




Source: Oxera.

# Developments in forward rates (nominal, %)
## Increase of ~100bp since strategy decision




Source: Bank of England; Oxera.

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