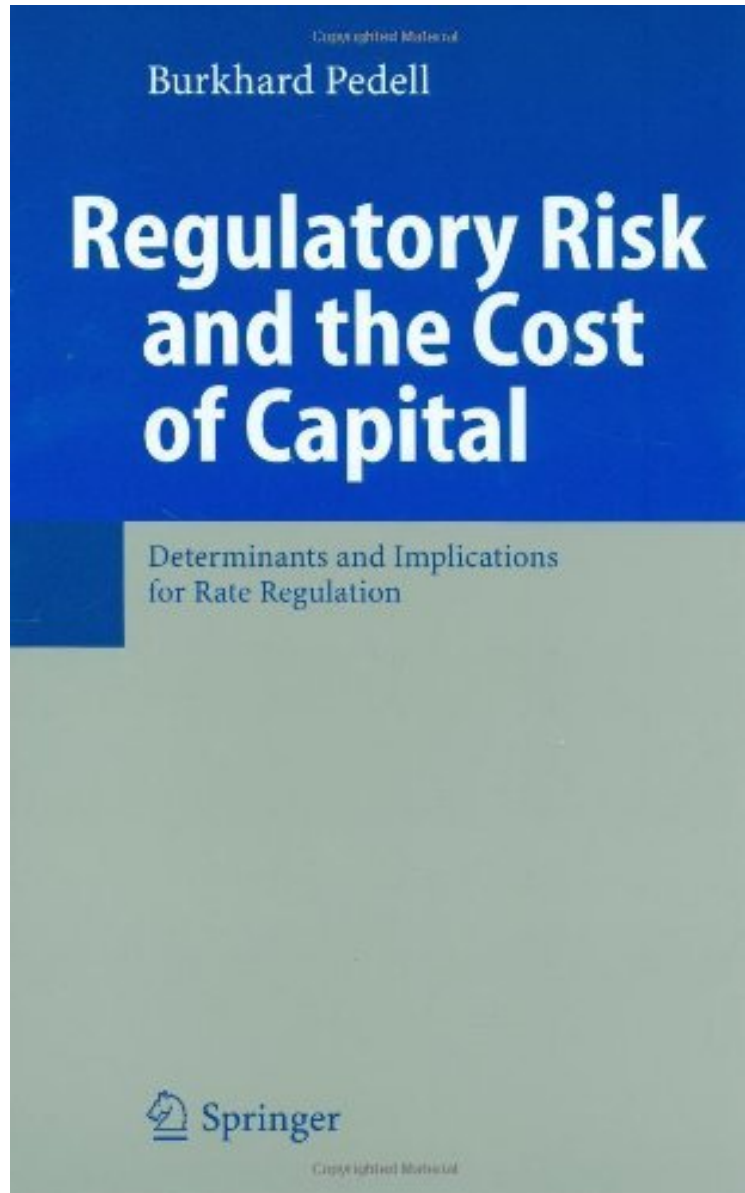


# Regulatory Risk and the Cost of Capital: Determinants and Implications for Rate Regulation

Burkhard Pedell

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Austrian Controller Award 2005 This book develops a comprehensive concept of regulatory risk integrating existing theoretical and empirical research. The focus is on explaining how the design of the regulatory system influences the risk of a rate-regulated firm, as well as on elaborating appropriate methods for the determination of the regulatory rate base and the allowed rate of return. Regarding the regulatory rate base, the question of whether market value of capital or book value of assets should be employed and the choice of the depreciation scheme are at the center of the discussion. Specific methodical issues concerning cost of capital assessment for rate-regulated firms are analyzed, i.e. the circularity of rate regulation, the sharing of risks between capital owners and rate payers, the length of the regulatory review period, the regulation of the capital structure as well as the conversion of a post-tax to pre-tax weighted average cost of capital.