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### **AUS CONSULTANTS PRESENTS COST OF EQUITY PAPER....**

Mount Laurel, NJ (June 9, 2009) - AUS Consultants, a leading financial consulting firm for the utility industry, presented the findings of its latest study entitled "***A New Approach to Estimating the Cost of Common Equity Capital for Public Utilities***" at the Advanced Workshop in Regulation and Competition at the 28<sup>th</sup> Annual Eastern Conference of the Center for Research in Regulated Industries at Rutgers University, held at Skytop Lodge in Skytop, Pennsylvania, on May 14, 2009.

The AUS study was presented by Pauline M. Ahern, CRRA, Principal of AUS Consultants and Richard A. Michelfelder, Ph. D. Research Associate of AUS Consultants and Assistant Professor of Finance at Rutgers University, School of Business – Camden. The study was co-authored by Ms. Ahern, Prof. Michelfelder and Frank J. Hanley, CRRA, Principal and Director of AUS Consultants.

The study proposes and empirically validates a simple consumption-based asset pricing specification to model the risk-return relationship for public utility stocks. In her presentation Ms. Ahern noted that "this analytic model can be applied to provide information for estimating the cost of common equity and the allowed rate of return for utilities. It supplements traditional Discounted Cash Flow, Risk Premium and Capital Asset Pricing models." According to Prof. Michelfelder "the consumption-based asset pricing model estimates the risk-return relationship directly. More importantly, when estimated with recent time series methods, the model produces a prediction of the risk premium which is driven by its predicted volatility, thus providing an expectational estimate of the equity risk premium which could be utilized in either a Risk Premium or Capital

Asset Pricing Model to estimate the cost of common equity for public utilities in regulatory proceedings.”

Both experts observed that the model’s usefulness is not limited to estimating the cost of common equity for public utilities; it may be generalized to estimate the cost of common equity for any asset.

In addition, the robust empirical evidence on the positive risk-return relationship shows that utility stocks are not a consumption hedge and are therefore not good hedging securities against contractions in the economy.

The paper may be accessed through the following URL:

[http://www.ausinc.com/news/New\\_Approach\\_to\\_Estimating\\_the\\_Cost\\_of\\_Common\\_Equity\\_Capital\\_for\\_Public\\_Utilities.pdf](http://www.ausinc.com/news/New_Approach_to_Estimating_the_Cost_of_Common_Equity_Capital_for_Public_Utilities.pdf)

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*AUS Consultants is a subsidiary of AUS Inc., a Mount Laurel, New Jersey-based global market research and consulting firm. Founded in 1967, AUS provides its clients with a wide range of sophisticated market research, systems, and consulting services. AUS Consultants includes experienced teams of economist, engineers, public utility rate specialists and valuation professionals.*

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