# The regulated firm and the DCF model: Some lessons from financial theory

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William Beranek[1] & Keith M. Howe[2]



## Abstract

This paper explores lessons from established financial theory for allowed rate of return calculations within the constant-growth dividend (DCF) framework. Analysts using this model have been wedded to the conventional cost-of-equity formula. We set forth equivalent alternatives which make the analysts' task easier, more precise, and more confident. What is even more important, we derive a set of consistency conditions that must be observed for the appropriate use of the model. We also use a basic capital-market principle to determine an alternative, flotation-cost adjusted, rate of return, an expression which provides useful insights for regulatory participants.

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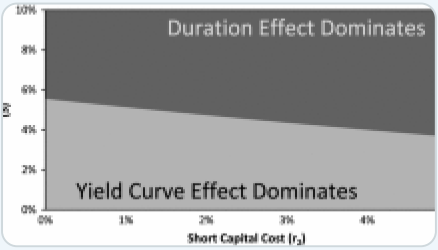


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# Author information


## Authors and Affiliations

**University of Georgia, Preston Brooks Hall, 30602, Athens, GA, Grecee**

William Beranek

**DePaul University, 25 East Jackson, 60604, Chicago, IL, USA**

Keith M. Howe


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