

1 Q. Section 80 of the *Public Utilities Act* states that a utility “is entitled to earn
2 annually a just and reasonable return as determined by the board on the rate
3 base as fixed and determined by the board”. In Hydro’s opinion, would
4 Section 80 allow rates to be set using an interest coverage model? If not,
5 why not (KCM, page 27, lines 10-18)?
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8 A. No. “Just and reasonable” return is typically estimated by reference to three
9 standards. Ability to attract capital on reasonable terms; maintenance of
10 creditworthiness; and opportunity to earn returns commensurate with those
11 of alternative investments of comparable risk. An interest coverage model
12 does not address the third standard at all, and the first only in a narrow
13 sense. Interest coverage can be one test of whether the return allowed is
14 just and reasonable, but it cannot be the point of departure for estimating a
15 just and reasonable return.