

1 **Q. Vander Weide Evidence – In Dr. Vander Weide’s March 2012 evidence, he uses the**
2 **term “quality of regulation”. Does Dr. Vander Weide believe that quality of**
3 **regulation extends beyond the availability of cost adjustment and revenue**
4 **stabilization mechanisms? If so, please explain. If not, please explain.**
5

6 A. Yes. Dr. Vander Weide uses the phrase “quality of regulation” to refer to the regulator’s
7 general willingness to set rates that provide an opportunity for equity investors to earn a
8 fair and reasonable return on investment. Cost adjustment and revenue stabilization
9 mechanisms do not guarantee that the regulated company will have a reasonable
10 opportunity to maintain its financial integrity and earn a fair rate of return on its
11 investment. To provide a reasonable opportunity for equity investors in a utility to earn a
12 fair return on investment, the regulator must, at a minimum, set the allowed overall return
13 equal to the company’s weighted average cost of capital.