Impact of Deemed Capital Structure

	Proportion	Cost	Weighted Component
Debt	85%	8.35	7.01
Equity	15%	3.00	0.45
		Return on Rate Base	7.46%

Even if the Board chose to deem a capital structure different from the 85/15 shown above, the Company's cost of capital would still be well in excess of the original requested return on rate base. Thus, there would be no reason to alter the Return on Rate Base.

Let's assume that the equity portion of rate base is deemed to be 25%, rather than the 15% requested.

Return on Rate Base is still:	7.46%
Less: cost of 75% debt at same rate as above:	(6.26%)
results in return for deemed equity of :	1.20%
Thus, return on equity is (1.20/25% equity):	4.80%

The Board's power to deem a capital structure different from that actually in place is usually reserved for circumstances where the company in question is requesting a larger proportion of (higher cost) equity than is considered warranted. That is clearly not the case here.