Q. On page 56, lines 10 to 16 of her Prefiled Testimony, Ms. McShane states that a range for the rate of return on rate base would only be relevant if the Board decided to make a determination of an appropriate capital structure, return on equity and return on rate base. If the Board were to make a determination of an appropriate capital structure, return on equity and return on rate base, and establish rates accordingly, what, in Ms. McShane's opinion, would be the appropriate range for the rate of return on rate base?

A. In Ms. McShane's view, if the Board were to set an appropriate capital structure and return on equity, a reasonable range for the return on rate base for the purpose of determination of over and under earnings would be plus or minus 1% of the established range. With the guarantee fee still in place, a reasonable capital structure would contain 70% debt and 30% equity. If the Board were to approve a return on equity of 11.25%, the "point" estimate of return on rate base for the establishment of the revenue requirement would be:

	Proportion	Cost Rate	Weighted Component
Debt	70%	8.35%	5.845%
Equity	30%	11.25%	3.375%
Return on Rate Base			9.22%

A review of the rates would be triggered if the return on rate base exceeded 10.2% (9.2% + 1.0%).