Q. With regard to the calculation of the return on rate base ("RORB") for 2008 and the discussion and example on page 5 and 6 of Exhibit MGB-1, if the rate of return on equity ("ROE") for 2008, as determined by the approach set out in Section III of the Exhibit, is sufficiently low so as to cause the calculated RORB for 2008 to fall below 7.48%, then is it proposed that the requested return on rate base for 2008 will be adjusted <u>downward</u> to reflect the up-dated 2008 ROE calculation? If so, please provide a sample tabulation of this possibility, similar to the illustration shown in Table 3 of Exhibit MGB-1.

A. In a fashion similar to that outlined in the Exhibit, if the rate of return on equity (ROE) for 2008, as determined by the approach set out in Section III of the Exhibit, is sufficiently low so as to cause the calculated RORB for 2008 to fall below the bottom of the range (7.48% as per the quoted example), then it is proposed that the RORB as then determined, would become the mid-point of the allowed range for the subsequent year (2009) and would be applied to the test year rate base to calculate revised rates to become effective January 1 of the 2009 year.

Following on the examples as noted in the Exhibit, we could assume a situation where the rate of return on equity for the 2008 as determined in the approach set out in Section III of the Exhibit, is 3.5%. The table below illustrates the impact:

Weighted Average Cost of Capital
2008

	Cost Rate	Capital Structure Ratios	Weighted Component
Debt	8.39%	83.50%	7.01%
Equity	3.50%	14.08%	0.49%
Employee Future Benefits	0.00%	2.42%	0.00%
		Weighted Average Cost of Capital	7.50%

Return on Rate Base
2008

	Assets ($000,000)	Weighted Average Cost of Debt	Weighted Average Cost of Capital	Allowed Return
Rural Interconnected and Isolated Assets	$212	7.01%		$15
Other Rate Base Assets	$1,279		7.50%	$96
Total Assets	$1,491			$111
Return on Rate Base	7.43%			

In this case, the new return on rate base falls below the established range (see Table 1 of the Exhibit) and so the new return on rate base (7.43%) would become the mid-point of the allowed range for the 2009 year and would be applied to the test year rate base to calculate revised rates to become effective January 1 of 2009.