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For the purposes of calculating the additional revenue required and the resulting adjustment to rates to achieve market-based returns, the Board requires that the electricity distribution utilities use a deemed capital structure and debt rate as specified in Table 3-1.

The revenue requirement adjustment for a return up to the MBRR, if elected by the electricity distribution utility, should be based upon a deemed common equity ratio ("CER") of CER per cent, a debt-to-capital ratio of (1-CER) per cent, a target return on equity ("TROE") of up to 9.88 per cent, and a DR (see Table 3-1). The DR is based on the forecast long-term Canada bond rate.

The formula for calculating the pre-market opening (i.e., exclusive of PILs) Market Adjusted Revenue Requirement ("MARR") for 2000-2001 rates is given in equation 3-2. The 1999 Rate Base is the distribution "wires only" 1999 year-end rate base calculated in accordance with Table A.3 in Appendix D.

$$\text{MARR} = (\text{1999 Rate Base}) \times ((\text{CER} \times \text{Target ROE}) + ((1 - \text{CER}) \times \text{DR})) \quad [3-2]$$

This equation calculates the total revenue requirement associated with the return on equity and debt expense. Pre-market opening rates will not include a revenue requirement for PILS. Post-market opening rates will include PILS. Upon market opening, rates will be adjusted to reflect PILS. PILs will apply to the portion of MARR related to ROE and will be prorated for the amount of ROE which has been phased-in. Further information on this calculation, as well as the appropriate tax rate, will be available once a market opening date has been established.

The deemed CER per cent, (1-CER) per cent, and DR values to use in the above formula depend on the size of each utility's rate base, as set out in Table 3-1.

Table 3-1 Deemed Common Equity and Debt Ratios and Debt Cost Rates			
<u>Size of Utility Rate Base</u>	<u>CER%</u>	<u>(1-CER)%</u>	<u>DR</u>
Greater than \$1.0 billion	35%	65%	6.80%
Between \$250 million and \$1 billion	40%	60%	6.90%
Between \$100 million and \$250 million	45%	55%	7.00%
Under \$100 million	50%	50%	7.25%