Q. Referring to page 21, footnote 14: Please provide all authority, support and precedent for treating preferred stock as 50% debt and 50% common equity.

A. Ms. McShane did not intend for the 50/50 debt/equity treatment of preferred shares to be an authoritative statement; rather it represents an effort to represent the existing capital structures of investor-owned utilities solely on the basis of debt and common equity, in order to identify a reasonable debt/equity range for a utility with no access to the preferred share market.

For purposes of calculating “adjusted debt ratios”, DBRS accords the following equity treatment to different types of preferred shares:

Retractable/Term	0
Preferred Securities	60%
Perpetual Preferred Shares	70%

However, the term “equity treatment” does not translate into <u>common equity</u> equivalence, since preferred shares rank ahead of common equity in terms of access to the firm’s net income. The reduction of DBRS’ “equity treatment” of preferreds to 50/50 debt/equity recognizes that difference.

Since the typical utility preferred share component of the capital structure is quite small (2-3%), the exact treatment of preferred shares as between debt and common equity is not material to establishing an appropriate debt/common equity capital structure for a utility with no access to the preferred market.