

1 Q. Reference: *Fair Return and Capital Structure for Transénergic*, Evidence of  
2 Laurence D. Booth and Michael K. Berkowitz before the Régie de l'énergie du  
3 Québec, November 2000, Page 2, Lines 22-24

4  
5 *“In our judgment, capital structures should be long lived as they are primarily a*  
6 *function of the business risk of the firm. In particular, it is not standard practice to*  
7 *change equity ratios on an ongoing basis.”*

8  
9 and...

10  
11 Reference: Dr. Booth Evidence, Page 3, Lines 17-22

12 *“As a short term measure I recommend the 5% equity reduction be deemed using*  
13 *Fortis’ cost of preferred shares until the next rate hearing. At that time, it will be*  
14 *clearer whether or not there is any power cost rate shock. If there is, I would*  
15 *recommend the 5% be replaced with long term debt to lower NP’s cost of capital,*  
16 *which, together with other regulatory techniques, can minimize the impact of any rate*  
17 *shock.”*

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19 Please state whether or not Dr. Booth’s proposal that the 5% equity reduction be  
20 deemed using Fortis’ cost of preferred shares until the next rate hearing would be a  
21 considered a short term, interim change to a long standing capital structure for  
22 Newfoundland Power. If not, why not?

23  
24 A. Dr. Booth would not regard it as such. His recommendation is to replace 5%  
25 common equity with 5% preferred shares. Please see Dr. Booth’s answer to PUB-CA-017  
26 on why this is not an immediate recommendation to replace with debt.