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

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

and…

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

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

Please explain why Dr. Booth believes that Fortis Inc.'s preferred shares are relevant to a stand-alone operating subsidiary such as Newfoundland Power.

A. Fortis finances the 45% common equity component in NP with 35% common shares and 10% preferred shares, so conceptually those are not just the correct costs but also the correct capital structure weights. Dr. Booth cannot think of a more relevant cost than the cost of the preferred shares actually used to finance NP's assets. The fact is there is double leverage of NP's assets and they can still support a "strong" investment grade bond rating even with that double leverage.