

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 judgement, 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...

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

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

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20 Given that (i) Newfoundland Power typically goes through a general rate hearing
21 about every 3 years and given (ii) Dr. Booth proposals regarding capital structure
22 for Newfoundland Power at this rate hearing and potentially the next, is it Dr.
23 Booth's position that the long standing capital structure for Newfoundland Power
24 could be changed two times in the next 3 years?

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26 A. If NP suffers a significant increase in the pass through of electricity commodity
27 charges from Hydro and the Board has to search for regulatory measures to mitigate rate
28 shock, then yes the Board should consider this.

29
30 In "extreme" times if significant rate shock occurs, then the Board should consider all
31 possibilities in its regulatory tool kit to ensure that rates are fair and reasonable.