

1 **Q. Page 96: Please explain in detail why Dr, Booth is recommending that 5%**
2 **common equity be replaced with preferred shares only as an interim step.**

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4 A. Dr. Booth regards changing the common equity ratio as a more fundamental
5 change than changing the allowed ROE, particularly when it is a 5% change. Further he
6 is aware that NP issues first mortgage bonds partly due to its relatively small size. He
7 would thus recommend a slow, cautious, approach to changing NP's capital structure and
8 initially replacing the common with a deemed preferred share component as debt is
9 refinanced. This would signal to the rating agencies that the Board is cognizant of the
10 impact of changes on NP's financial market access and that there is no fundamental
11 change in regulatory policy or support for NP's debt, since both common and preferred
12 shares are part of shareholder's equity and are paid after the interest on NP's debt.

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14 Dr. Booth would recommend that this change be revisited if the Board has to look into its
15 regulatory tool kit to consider how to offset rate shock if NP does in fact have to pass
16 through a much higher commodity cost of electricity from Hydro.