Q. **Reference:** ***Fair Return and Capital Structure for Newfoundland Power (NP)*****, Evidence of Laurence D. Booth, April 2024, page 113, lines 9-11.**

"*My recommendation is to replace a 5% common share component with preferred shares as an interim solution, and replace them with debt if there is in fact rate shock from higher electricity prices*."

a) Please detail how credit rating agencies treat the issuance of preferred shares as compared to debt in their calculation of credit metrics.

b) Please provide examples of utilities of a comparable size to Newfoundland Power who have financed their capital investments through the issuance of preferred shares.

c) Is Dr. Booth aware of this approach having been utilized elsewhere in Canada?

A. a) Preferred shares are part of shareholders' equity, and thus lie after debt interest, and consequently they support the debt issue. They are not as supportive as common equity since they have a stated dividend, but unlike interest it is not a contractual commitment in the sense that the dividends have to first be declared by the Board of Directors.

b) Dr. Booth would judge Newfoundland Power itself to be a reasonable yardstick given that it has in the past had a preferred share component and was allowed such a component when the common equity ratio was set in a range 40-45%.

c) This question has to be more specific. If it is referring to a staged decrease in the common equity ratio to the normal level of a Canadian T&D, then the answer is no. He would prefer the Board set the ratio at 40% or the bottom of the range it has previously been allowed. However, he is also suggesting that the Board might want to adopt a staged approach as the situation around Muskrat Falls evolves.