Q. Page 28 of the Finance and Accounting Evidence by Barry Perry states that Newfoundland Power's expert witnesses recommend a level of 2% preferred equity. Exhibit BVP-1, page 6, forecasts preferred equity to decline to 1.39% in 2004. How does Newfoundland Power plan to deal with this discrepancy and how does this impact the rate of return.

A. As is noted in the *Finance & Accounting Evidence*, page 41, preferred equity in 2003 and 2004 will remain at the current level. Preferred equity is a security which has attributes of both debt and common equity. In current markets, most preference share issues are retractable or repriced within a finite period. Such securities are treated as debt by accounting bodies and credit rating agencies. For a regulated utility such as Newfoundland Power, preferred shares currently represent relatively high cost debt capital.

Maintaining the current level of preferred equity is considered in the proposed application, and therefore, there is no impact on rate of return.

The Company maintains that the difference between 1.39% in the actual capital structure for forecast 2004 and the 2% proposed by the expert witnesses is not significant and therefore has not proposed any adjustment thereto. The targeted capital structure proposed by the Company is consistent with the range referred to in P.U. 16 (1998 99).