



FILED

02-28-12

04:59 PM

Utility Long-Term Debt Financing Rule

(Proposed by the Joint Utilities on January 20, 2012)

1. Public utility long-term debt issues shall be conducted in a prudent manner consistent with market standards that encompass competition and transparency, with the goal of achieving the lowest long-term cost of capital for ratepayers.
2. Public utilities shall determine the financing terms of their debt issues with due regard for their financial condition and requirements and current and anticipated market conditions.
3. Utilities with \$25 million or more of California operations annual operating revenues, requesting financing authority, shall use their best efforts to encourage, assist, and recruit Women Minority Disabled Veteran Owned Business Enterprises (WMDVBE)¹ in being appointed as lead underwriter, co-manager, or in other roles in debt securities offerings.

¹ Pursuant to General Order 156 and Decision 11-05-019, definitions of Women, Minority, and Disabled Veterans Owned Business Enterprises are as follows:

1.3.2. "Women-owned business" means (1) a business enterprise (a) that is at least 51% owned by a woman or women or (b) if a publicly owned business, at least 51% of the stock of which is owned by one or more women; and (2) whose management and daily business operations are controlled by one or more of those individuals.

1.3.3. "Minority-owned business" means (1) a business enterprise (a) that is at least 51% owned by a minority individual or group(s) or (b) if a publicly owned business, at least 51 % of the stock of which is owned by one or more minority groups, and (2) whose management and daily business operations are controlled by one or more of those individuals. The contracting utility shall presume that minority includes, but is not limited to, Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, and other groups, as defined herein.

1.3.4. "WMBE" means a women-owned or minority-owned business enterprise; under these rules, the women and/or minorities owning such an enterprise must be either U.S. citizens or legal aliens with permanent residence status in the United States.

1.3.5. Black Americans-persons having origins in any black racial groups of Africa.

1.3.6. Hispanic Americans-all persons of Mexican, Puerto Rican, Cuban, South or Central American, Caribbean, and other Spanish culture or origin.

1.3.7. Native Americans-persons having origin in any of the original peoples of North America or the Hawaiian Is-lands, in particular, American Indians, Eskimos, Aleuts, and Native Hawaiians.

1.3.8. Asian Pacific Americans-persons having origins in Asia or the Indian subcontinent, including, but not limited to, persons from Japan, China, the Philippines, Vietnam, Korea, Samoa, Guam, the U.S. Trust Territories of the Pacific, Northern Marianas, Laos, Cambodia, Taiwan, India, Pakistan, and Bangladesh.

1.3.9. Other groups, or individuals, found to be disadvantaged by the Small Business Administration pursuant to Section 8(a) of Small Business Act as amended (15 U.S.C. 637 (a)), or the Secretary of Commerce pursuant to Section 5 of Executive Order 11625.

1.3.10. Disabled Veteran-a veteran of the military, naval or air service of the United States with a service-connected disability who is a resident of the State of California.

- a. Utilities shall report on their efforts in their General Order (G.O.) 156 Annual Reports, including but not limited to:
 - i. Number of WMDVBE firms that have been appointed as lead underwriter, co-manager, or other roles in debt securities offerings within the reporting period.
 1. The position(s) held by the WMDVBE firms.
 2. The percentage of each debt issue allocated to each WMDVBE firm.
 3. The dollar amount of these debt securities issuances.
 - b. Appointment of WMDVBE as lead underwriter, co-manager, or other role shall be cost effective, so as not to increase financing costs to the ratepayers.
 - c. Consistent with Section 6 of G.O. 156, utilities shall retain the authority to use their legitimate business judgment in selecting firms for a particular debt securities offering.
4. Debt Enhancement Features shall only be used in connection with debt securities financings, and may include but are not limited to: put options, call options, sinking funds, swaptions, caps, collars, currency swaps, credit enhancements, capital replacement, interest deferral, special-purpose entity transactions, delayed drawdown, treasury lock, treasury options, and interest rate swaps.
- a. For each Debt Enhancement Feature requested in a financing application, the utility shall provide a brief description and rationale for the potential use of a debt enhancement or the risk management properties associated with the potential use of a derivative instrument to hedge risk exposures.
 - b. Debt Enhancement Features are not considered as separate debt for purposes of calculating a financing authorization.
 - c. Swap and hedging transactions are restricted as follows:
 - i. Utilities shall separately report any interest income and expense arising from all swaps and hedging transactions in their quarterly G.O. 24-B reports to the Commission.
 - ii. Swap and hedging transactions shall not exceed 20% at any time of a utility's total long-term debt outstanding.

- iii. All costs associated with hedging transactions are subject to review in a utility's next regulatory proceeding addressing its cost of capital.
- iv. Hedging transactions carrying potential counterparty risk must have counterparties with investment grade credit ratings.
- v. If a utility elects to terminate a swap or hedging transaction before the original maturity or the swap or hedging partner terminates the agreement, all costs associated with the termination are subject to review in a utility's next regulatory proceeding addressing its cost of capital.
- vi. Utilities shall provide the following to Commission Staff within 30 days of receiving any written request: (i) all terms, conditions, and other details of swap and hedge transactions; (ii) rationale(s) for the swap and hedge transactions; (iii) estimated costs for the "alternative" or un-hedged transactions; and (iv) copy of the swap and hedge agreements and associated documentation.