

INSTRUCTIONS FOR FILING SECURITIES APPLICATIONS

I. General Instructions

- A) Applications must be filed with Document Control Center (DCC) either electronically or at the following mailing address.

Virginia State Corporation Commission
Document Control Center
P.O. Box 2118
Richmond, Virginia 23218

DCC must have an original application and fifteen (15) copies; however, additional copies may be requested. To expedite processing, please send an additional copy of the cover letter only to the attention of the Deputy Director - Finance at the following address.

Deputy Director - Finance
Virginia State Corporation Commission
Division of Utility Accounting and Finance
P.O. Box 1197
Richmond, Virginia 23218

- B) Pursuant to Virginia Code Section 56-75, appropriate filing fees must accompany Chapter 3 and joint applications involving Chapter 3 of Title 56. Applications which do not have appropriate filing fees will not be regarded as filed for the purposes of Virginia Code Section 56-61, and no further processing will occur. Checks for such fees should be made payable to "State Corporation Commission."
- C) Chapter 3 applications must be filed separately from Chapters 4 and 5 applications whenever possible.
- D) Each securities application, including joint applications involving Chapter 3, shall contain a Financing Summary as described in Section II below. Applications involving Chapter 3 which contain an incomplete Financing Summary will not be regarded as filed, and no further processing will occur.
- E) If an application involving Chapter 3 fails in any respect to be complete, the application will not be regarded as filed. For incomplete applications, a letter describing what is needed before the application will be considered filed will be sent to the Applicant.

- F) All applications involving Chapter 3 shall be filed so as to allow as least 25 days before a decision is needed. An amendment to an application, properly filed in accordance with the Commission's Rules of Practice and Procedure, will be deemed to be a revised application, which will restart the 25-day time period in which the Commission may issue its decision.

- G) After the proposed transaction has been completed, the company, when directed to do so by Commission Order, is expected to file information about the actual terms, costs of issuance, and effects on the company by the date specified in the Order.

II. Financing Summary to Accompany Chapter 3 Applications

- A) With each Chapter 3 application, the company shall submit a Financing Summary related to the proposed transaction. The Financing Summary shall follow a standardized format covering the questions posed and the additional instructions in the attached sample copy. The standardized Financing Summary will enable the Commission to process more efficiently your request for approval of securities transactions. Schedules supporting the responses to Item 4 of the Financing Summary shall be attached to the Summary.

- B) The Financing Summary will not be considered a substitute for an application. The application shall contain a detailed explanation of the financing issue, and the application shall expand upon the items listed in the Financing Summary, as necessary. Current financial statements for the entity raising the capital shall accompany the application.

APPLICATION FOR AUTHORITY TO ISSUE SECURITIES
FINANCING SUMMARY

Item 1: Description of Issue and Proposed Uses:

- A) Type of security.
- B) Public offering, private placement, intercompany financing arrangement, or special distribution (e.g., equity via dividend reinvestment plan, employee purchase plan, etc.).
- C) Proposed amount.
- D) Proposed date(s) of issue.
- E) Specific uses of proceeds with estimated amounts.

Item 2: Terms of Issue:

Debt and/or Preferred Stock Financing

- A) Estimated interest or dividend rate. Specify a fixed or variable rate and any minimum or maximum rates.
- B) Terms of any rate adjustment (include frequency of adjustment and the particular basis for adjustment).
- C) Timing of payments, e.g. monthly, quarterly, annually.
- D) Proposed maturity.
- E) Current security rating of each rating agency.
- F) Underwriter(s).
- G) Estimate of all costs related to issuance (including underwriting, legal, printing, etc.) presented in an itemized list.
- H) The following shall be discussed:
 - Number of shares currently authorized and issued
 - Number of shares to be issued and par value
 - Call provisions
 - Sinking fund provisions
 - Conversion privileges
 - Assets pledged, and
 - Restrictive covenants.
- I) If a parent/subsidiary intercompany financing arrangement is proposed, summarize any other relevant characteristics.

Equity Financing

- A) Number of shares currently authorized and issued.
- B) Number of shares to be issued, issue price estimate and how determined.
- C) Preemptive rights.
- D) Voting rights.
- E) Underwriter(s).

- F) Estimate of all costs related to issuance (including underwriting, legal printing, etc.) in an itemized list.
- G) If a capital transfer from parent company is proposed, summarize any other relevant characteristics.

Item 3: Brief Discussion of Reasonableness of Issue/Financing Strategy:

- A) How does the proposed issue fit in with both the company's financing plan submitted to the Commission at the beginning of the year and the company's target capital structure?
- B) If debt, compare the expected interest rate with rates on recent issues of similar quality and terms in the capital markets.
- C) If equity, show market/book ratio, price/earnings ratio, and any other relevant comparisons.
- D) If a leasing arrangement or other form of indebtedness, summarize the economic justification for choosing this alternative (e.g., leasing versus ownership), to include any analysis performed.
- E) If the purpose of the proposed financing is the refunding of obligations, provide a description of the obligations, to include the principal amounts, discounts or premiums applicable, the dates of issue, and maturities. In addition, provide cost/benefit analysis indicating a break-even refund rate. The analysis shall include all costs of refunding and indicate the rate at which it would not be beneficial to issue securities for the purpose of refunding the obligations in question.
- F) Trace the history of any, and all, amendments to the original proposal, to include a summary of costs and other justifications for the amendment(s).

Item 4: Impact on Company:

- A) Change in capital structure due to issue:
 - Show most recent actual capital structure amounts and weights (provide financial statements to support figures, to include a balance sheet, income statement, and cash flow statement for the entity raising the capital.)
 - The capital structure shall consist of year-end permanent capital and short-term debt outstanding, to include all items recorded in the capitalization section of the company's balance sheet (to also include, if applicable, capital leases, long-term debt due, and preferred stock redeemable within one year).

- Show pro forma capital structure amounts and weights to reflect both the proposed issuance of the securities and the impact, if applicable, of the uses of the funds proposed in the application on other capital structure elements (e.g., issuing long-term debt to refund short-term debt will affect both capital structure elements, not just long-term debt.)
- An explanation of all adjustments and assumptions made shall be given. The Commission Staff must be able to verify figures from actual to pro forma values.
- If a parent/subsidiary relationship exists, show capital structures for the entity raising capital and the consolidated company.
- The following example may be used.

Entity Raising Capital
Capital Structure
as of Month/Date/Year

	ACTUAL	ADJUSTMENT	PRO FORMA
	<u>Amount</u> %	<u>Amount</u>	<u>Amount</u> %
Short-term Debt			
Long-term Debt			
Preferred Stock			
Common Equity			
TOTAL	<u>100</u> %		<u>100</u> %

B) Change in interest coverage due to issue:

- If the proposed financing results in a negative change in the interest coverage ratio of 0.25X, or more, document the expected change as follows; otherwise, omit this section.
 - Show actual pre-tax interest coverage.
 - Show pro forma, pre-tax interest coverage.
 - An explanation of all adjustments and assumptions made shall be given. The Commission Staff must be able to verify figures from actual to pro forma values.
- a) Pre-tax Interest Coverage = Earnings Before Interest and Taxes / Total Interest.
 - b) Earnings Before Interest and Taxes = Net Income + Income Taxes + Total Interest - Allowance for Other Funds Used During Construction.

- c) Interest = Total Interest (which includes amortization of discounts, expenses and premiums on debt, and excludes Allowance for Borrowed Funds Used During Construction.)
- d) Income Taxes = Federal Income Taxes + State Income Taxes.
- e) The following example may be used.

Entity Raising Capital
Interest Coverage for the 12 Months
Ended Month/Date/Year

	<u>ACTUAL</u>	<u>ADJUSTMENT</u>	<u>PRO FORMA</u>
Net income			
Income taxes			
Federal			
State			
Net income before taxes			
Interest on long-term debt			
Other interest			
Total interest charges			
Income before interest and taxes			
Pre-tax interest coverage			

- For comparison, provide the most recent coverage ratio as calculated by S&P, to include the appropriate benchmark range for the company's current debt rating.