



**Queensland Government**

## **Code of Practice for Government Owned Corporations' Financial Arrangements**

August 2009

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ATTACHMENT 1 Corporate Policies

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## Revision History

Version	Date	Changes
1.0	October 2004	Original Release.
2.0	April 2009	Update methodology for calculating the competitive neutrality fee, reflect changes to borrowing program arrangements and other minor updates. Revised draft released for consultation.
2.1	August 2009	Release of final revised document.

## EXECUTIVE SUMMARY

Government Owned Corporations (GOCs) need reporting and approval requirements for financial arrangements that facilitate the pursuit of commercial objectives. This Code of Practice outlines approval requirements and guidelines within which GOCs must operate in entering into financial arrangements. The Code applies to all GOCs declared under the *GOC Act* (except QIC Limited) and their subsidiaries. Major requirements include:

- The *GOC Act* provides the State **does not** guarantee any obligation incurred by a GOC, **unless** the liability is expressly undertaken on behalf of the State. This is to be reflected in all future loan documents entered into by GOCs.
- Queensland Treasury Corporation (QTC) has been established to perform a range of treasury functions, including the management of debt and the provision of financial advisory services. GOCs are required to source all debt from QTC other than non-recourse funding and overdraft facilities associated with transactional banking facilities.
- The Government requires each GOC to demonstrate that it possesses suitable expertise and has implemented appropriate management and accountability systems. Consequently, GOCs are required to submit Board-approved financial management policies to shareholding Ministers.
- Each GOC Board will be responsible to ensure that borrowing decisions are appropriately and comprehensively evaluated in a manner consistent with its financial policies.
- Each GOC is required to engage an independent credit rating agency to undertake a comprehensive stand-alone credit rating at least once every three years. This rating will be used to determine the competitive neutrality fee payable by the GOC.
- To assure the Government that adequate and effective debt monitoring is taking place, an annual credit review of each GOC will be undertaken by QTC. The credit review will comprise an analysis of a GOC's ability to sustain existing and planned levels of debt. Credit reviews will also be required in respect of significant new investments.
- GOCs are to specify to QTC their requested allocation under the State Borrowing Program (SBP). QTC will perform an annual credit review which will be taken into account when it assesses each corporation's proposed borrowing limit.
- The Treasurer will be responsible for approving applications under the SBP and GOCs will be notified by QTC of the limits that have been approved. If a GOC wishes to enter into financial arrangements that exceed its allocated SBP limit, it should seek an appropriate amendment to its approved limit via QTC. Amendments will be subject to the approval of the Treasurer.
- QTC will be responsible for determining the terms and conditions on which it lends to a GOC and monitoring a GOC's compliance with those terms and conditions.
- GOCs are required to obtain the prior written approval of the Treasurer before entering into any non-recourse or limited recourse funding arrangement. The Treasurer may seek QTC's advice as to the efficacy of any proposed arrangements. Where approval for non-recourse funding is granted, this funding must not be sourced from QTC.
- No future cross border leases are to be arranged. Existing cross border leases are to be managed in consultation with QTC.
- A Competitive Neutrality Fee is payable on all GOC borrowings and financial arrangements in the nature of debt obligations as outlined in Attachment 2.

## 1.0 Introduction

This Code of Practice has been produced to address a number of whole of government and ownership issues. In regard to the latter, private sector equity providers can readily dispose of their shareholding if the objectives of the corporation significantly diverge from their own. Further, share prices quickly adjust to reflect the adequacy and quality of decisions made by the corporation's management.

Given the Government's ownership of GOCs is not readily tradeable, a primary objective is to ensure that appropriate mechanisms are put in place in an attempt to replicate the market disciplines existing in the private sector. This needs to be balanced against the need for GOCs to be able to exercise an appropriate degree of commercial autonomy and flexibility.<sup>1</sup>

The Code defines the Government's expectations with respect to financial management and includes a requirement for the development of a full set of financial policies by each GOC. Once these policies have been established and reviewed, it will be the responsibility of the GOC's Board to ensure that decisions taken over time are consistent with these policies. Circumstances under which approval of the Government will still be required are outlined under this Code (largely pertaining to whole of government issues). The primary objective of the Code is to ensure prudent financial practices and procedures are applied by GOCs.

## 2.0 Application of the Code of Practice

The Code of Practice applies to all GOCs declared under the *GOC Act* and is to be applied to all of their subsidiaries and/or associated companies via the parent company(s).

The Code is to be applied through a statement of compliance in the parent GOC's SCI.

This Code of Practice does not apply to QIC Limited, which has specialised financial powers set out in its enabling legislation.

## 3.0 Liability in Event of Default

The State **does not** guarantee any obligation incurred by a GOC, including any associated subsidiaries and/or special project vehicles, **unless** the liability is expressly undertaken on behalf of the State. The Government's position on this matter is communicated through section 130 of the *GOC Act* which specifies that:

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1 The powers of GOCs are derived from section 126(1) of the *GOC Act*, which provides that a GOC has, in addition to powers conferred on it by the Corporations Act, the power to do all things necessary or convenient to be done for, or in connection with, the performance of its functions and the powers that are conferred on it by the *GOC Act* or another Act.

The powers of GOCs are subject to restrictions expressly imposed by the *GOC Act* (including any restrictions contained in its SCI or any directions/notifications given by shareholding Ministers pursuant to the *GOC Act*) or any other Act.

*“The State is liable for the debts and other liabilities of a GOC or its subsidiaries **only if**, and to the extent that, the liability is expressly and lawfully undertaken on behalf of the State.”<sup>2</sup>*

Section 154 specifies that

*“A GOC does not represent, and has never represented, the State... does not apply to the extent an Act expressly provides, or did provide, otherwise.”*

In addition, advice from the Solicitor-General indicates that there is no guarantee of any GOC’s debts or liabilities unless expressly undertaken in accordance with the terms of the *GOC Act*. While a GOC may apply to the Treasurer for a Government guarantee of its obligations, no guarantee is taken to have been given unless the Treasurer explicitly provides it in writing.

To assist in communicating these arrangements, all future loan documents entered into by a GOC are required to acknowledge the relevant section of the *GOC Act* which disclaims the existence of any recourse to the State Government or its assets in respect of the liabilities and other obligations of a GOC. Furthermore, GOC officers are prohibited from providing any written note of comfort that could imply Government assistance would be forthcoming in support of difficulties associated with a financial arrangement.

These arrangements are not, however, sufficient to ensure that the benefits of the Queensland Government’s credit rating do not accrue to GOCs or the private sector. For example, where QTC onlends to a GOC, even where there is no explicit GOC guarantee, the ultimate financial risk remains with the Government since all QTC borrowings are Government guaranteed. Again and despite the Government’s explicit position that there is no Government guarantee of GOC obligations, private financiers may still regard (albeit inaccurately) a GOC as having full Government backing by virtue of its ownership.

These outcomes and perceptions form the basis of the Government’s policy position regarding requirements for a credit review (section 6.2).

## **4.0 Role of Queensland Treasury Corporation**

GOCs are required to source all debt from QTC other than an overdraft facility associated with transactional banking facilities, or where a GOC has approval to use non-recourse funding.

QTC has been established to perform a range of treasury functions, including the management of debt and the provision of financial advisory services. This reduces the need for each GOC to duplicate these functions within their organisation.

As part of its treasury role, QTC has been requested by the Under Treasurer to:

- accept primary responsibility for recommendations in respect of GOC borrowing approvals under the SBP based on rigorous credit assessment processes;
- liaise with GOCs in respect of lending decisions made;

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<sup>2</sup> In this regard, it should be noted that GOCs do not represent the Crown and consequently, the *Crown Proceedings Act 1980* is not applicable to GOCs.

- establish commercial terms and conditions to be attached to existing and planned lending facilities made available to GOCs;
- provide advice to the Treasurer in relation to the efficacy of any proposed non-recourse funding arrangements; and
- undertake ongoing monitoring of GOCs' compliance with the terms and conditions imposed.

## **5.0 Financial Policies of the Board**

GOCs have a charter to operate in a commercial manner and to replicate commercial and competitive management practices. A GOC's Board has a responsibility to manage financial risks by ensuring appropriate financial risk management policies are developed, maintained and implemented. The independence provided to a Board in the conduct of these duties and responsibilities must be balanced by a need for the Government to review the manner in which its substantial investment is being governed.

In this regard and as part of its prudential supervision framework, the Government requires each GOC to demonstrate that it possesses suitable expertise and has implemented appropriate management and accountability systems. The overriding priority of the Government is to ensure that the financial policies of the Board and the financial arrangements that flow from those policies are prudent and appropriate. Consequently, GOCs are required to have shareholding Minister reviewed, Board-approved policies covering the financial risks listed in Attachment 1. Where GOCs do not have an exposure, as may be the case with derivatives, there would be no requirement to submit a policy for review.

Should a new policy requirement be identified by shareholding Ministers, GOCs are required to develop an appropriate Board-approved policy and submit it for shareholding Minister review within six months of the policy being added to the Code.

Where a new GOC is created, it is expected that the GOC will develop Board-approved policies covering the financial risks listed in Attachment 1 and submit them for shareholding Minister review within six months of the creation of the GOC.

Compliance with these policies over time is to be captured as part of each GOC's audit process. It is also expected that the adequacy of these policies would be reviewed and updated by each GOC on a regular basis. Any documentation flowing from an external review of the adequacy of these policies should also be submitted to shareholding Ministers.

Shareholding Ministers should be advised of any significant changes in a GOC's financial risk management policies. OGOC may undertake periodic review of a GOC's financial risk management policies.

In developing and reviewing the individual policies, the GOCs should take account of the following guiding principles and requirements.

### *Derivative Policy*

- GOCs will not be permitted to take speculative positions in derivatives. That is:
  - derivative transactions may only be entered into for the purposes of hedging exposures that arise in the normal course of a GOC's business (eg. interest rate, foreign currency and commodity price risks); and
  - the value of any derivative transactions entered into should not exceed the value of the underlying physical exposure being hedged.
- to the extent that electricity GOCs enter into derivative transactions that are not necessarily hedging arrangements, such transactions should only be entered into in accordance with its risk management policies;
- a financial risk management committee of the Board should be established where derivative risks or the volume of derivative transactions are substantial; and
- to enable the Treasurer to monitor the State's overall derivative exposure, the quarterly reporting process, required under the GOC Act, must be used to inform shareholding Ministers of:
  - the level of new and outstanding transactions undertaken, including details of any realised or unrealised gains or losses; and
  - the GOC's exposure to individual counterparties.

### *Credit Risk Policy*

GOCs should have in place a credit risk policy that requires credit assessments are undertaken for contractual counterparties. A broad assessment should take account of both financial and qualitative factors such the macro economy, the industry in which the business operates and the business' positioning within that industry.

Consideration of a counterparty's credit risk profile should enable appropriate risk mitigation strategies to be determined and clearly specified in tender documents.

## **6.0 Credit Assessment Requirements**

### **6.1 Requirement for an Independent Credit Rating Agency Assessment**

Each GOC is required to engage an independent credit rating agency and undertake a comprehensive stand-alone credit rating at least once every three years. An interim comprehensive rating may also be required, at the request of the Treasurer, if warranted by a material change in operating conditions and/or balance sheet of the GOC. The cost of these ratings will be borne by the GOC in line with other such normal business expenses.

The comprehensive credit rating must be undertaken by an independent body that shareholding Ministers have agreed to in advance. Bodies that would be acceptable to shareholding Ministers include, but are not confined to, Fitch Ratings Limited, Standard & Poor's and Moody's Investors Service Pty Limited.

The ratings assigned by the rating agency will be used for the purpose of determining the competitive neutrality fee payable by the GOC.

## **6.2 Credit Review Requirement**

Private sector firms are subject to scrutiny by both debt and equity providers (financiers and shareholders respectively). To parallel these practices, the Government requires debt-monitoring systems be put in place that complement existing equity monitoring systems.

While private sector equity providers have been known to incur significant losses despite the presence of debt market monitoring, the frequency and significance of such losses are minimised by having firms subject to independent assessment. Consequently, it is not deemed satisfactory for the Government to have both debt and equity monitoring performed jointly by a single agency.

To assure the Government, as owner of GOCs, that adequate and effective debt monitoring is taking place, an annual credit review of each GOC will be undertaken by QTC's Credit Unit. The credit review will focus on a GOC's ability to sustain existing and planned levels of debt. The review will also inform QTC's recommendations to the Executive Director, OGOC on each GOC's proposed borrowing limit under the State Borrowing Program.

A credit review may also be required, as a prerequisite for obtaining debt finance in relation to a major investment proposal. This credit review will form part of a recommendation by QTC whether or not to lend to the GOC and form part of shareholding Ministers' consideration whether or not to approve that investment. Factors affecting the decision to require such a credit assessment include consideration of the project's relative size, risk and significance to the GOC. For significant investments it would be expected that a credit review will be required and GOCs are encouraged to involve QTC at an early stage of their project evaluation and assessment processes.

In situations where QTC declines to lend to a GOC, the GOC can apply to shareholding Ministers' for equity funding. Applications for equity funding that are supported by shareholding Ministers will need to be considered by the Cabinet Budget Review Committee.

GOCs must ensure that reasonable information is made available to QTC for the credit review, such as copies of draft Statements of Corporate Intent and Corporate Plans and business cases in support of significant investments.

## **7.0 Borrowing Arrangements**

### **7.1 State Borrowing Program Limits**

The State Borrowing Program (SBP) is the vehicle by which the State coordinates and manages the debt funding arrangements of all its GOCs. Under the Program, GOCs and their subsidiaries are required to ensure that any borrowings or similar debt funding arrangements (including leasing, deferred payment arrangements, etc) are accounted for within a borrowing limit approved under the SBP.

GOCs are required to specify their requested allocation under the SBP covering a specified period of time. This figure should be consistent with that outlined in each GOC's SCI and Corporate Plan when they are submitted in April of each year. The request should also include borrowings proposed by all entities in which the GOC has an ownership stake and which are covered by this Code (refer section 2). The reasonableness of the request will be assessed on a

whole of GOC basis. This assessment will take into account the appropriateness of the proposed aggregate capital expenditure program, together with the implications of the borrowings for key financial and performance related indicators and aggregate borrowings at a state level. The annual QTC credit review of each GOC (outlined in Section 6.2) will also be taken into account when assessing each GOC's proposed borrowing limit.

The Treasurer will consider the SBP limits requested on a timely basis. Individual GOCs will be notified by QTC of the limits that have been approved. Each GOC should ensure that the limit approved is correctly reflected in its SCI and Corporate Plan.

If a GOC wishes to enter into financial arrangements that exceed its allocated SBP limit, it should seek an appropriate amendment to its approved limit via QTC. Increases to the approved SBP limit also require the approval of the Treasurer. If approved, the revised limit should be reflected in the SCI (and Corporate Plan) the next time that it is amended.

## **7.2 Non-Recourse Financing**

There has been an increasing utilisation of project financing by GOCs. This has particularly involved project vehicles, such as joint ventures and special purpose companies, which have been used to separate the project from the GOC's balance sheet. These structures are typically based on a non-recourse or limited recourse structure, where the lender primarily relies on the cash flows generated by the funded asset for repayment. Non-recourse funding is achieved by limiting the lender's recourse to the assets and income of a limited liability special purpose company that is not guaranteed by its shareholders.

The main advantage of limited recourse funding arises from the ability of a project sponsor to transfer risk by removing a debt obligation from its balance sheet. However, the perception of a moral or commercial obligation of the State to support its GOCs limits the ability of a GOC to transfer this risk. Furthermore, during the credit assessment process, a rating agency is likely to consider that a materially significant project is intrinsically tied to the business of the GOC. On this basis, limited recourse debt cannot be ignored in the rating determination. These constraints extend to any joint venture arrangements entered into by GOCs and the financial obligations of the joint venture project vehicles of which the GOCs have an interest.

The premium charged to GOCs for the use of non-recourse funding may not be warranted since limited project risk transfer is likely to occur. Hence, to the extent that GOCs wish to enter into a limited recourse funding arrangement, the prior approval of the Treasurer will be required.

The funding arrangements for such projects will be considered by Treasury on a case by case basis. As part of this process, Treasury will consult QTC. As a general guideline, a GOC's share of debt in a project vehicle should not exceed the GOC's equity or ownership share of the project. The debt is to be maintained separately from any other funding obtained for the project.

If the Treasurer grants approval for a GOC to enter into a limited recourse funding arrangement, this funding is not to be sourced from QTC.

## **8.0 Cross Border Leases**

Cross border leases are extremely complex arrangements and necessarily involve considerable advisory and contracting costs.

Given the current international environment for cross border leases, GOCs are not to enter into any new cross border leases.

In regard to existing cross border leases, GOCs are to obtain regular advice from QTC on the ongoing management of these leases. GOCs must obtain the Treasurer's approval for any significant activity associated with existing cross border leases (such as lease buy-outs).

## **9.0 Competitive Neutrality Fee**

In accordance with the National Competition Policy principles, GOCs are expected to operate on the basis that they do not experience significant advantages or disadvantages by virtue of their Government ownership. One of the most significant advantages GOCs enjoy is the ability to borrow funds at a lower rate than private sector competitors on the basis of the State Government's credit strength. That is, the interest rate at which GOCs could borrow funds may reflect the creditworthiness of the State of Queensland rather than the stand-alone credit of the individual GOC. To the extent this results in a lower cost of capital, GOCs will derive a competitive advantage over private sector competitors.

In order to account for this advantage, the Competition Principles Agreement requires a notional charge to be applied to a GOC's cost of debt. As a party to the Agreement, the Queensland Government has previously notified its GOCs of the application of a Competitive Neutrality Fee to all borrowings and financial arrangements in the nature of debt obligations. Non-recourse funding is excluded from these arrangements.

Attachment 2 outlines the revised competitive neutrality fee methodology.

### Financial Policies

#### Corporate Finance

- Capital structure policy
- Dividend policy

#### Financial Arrangements

- Procurement of funding
- Structured finance arrangements policy
- Leasing policy

#### Financial Risk Management<sup>3</sup>

- Operational Risks: - Settlement risk policy
  - Fraud risk management policy
  - Compliance risk management policy
  - Technological risk policy
- Funding risk policy
- Liquidity risk policy
- Credit risk policy<sup>4</sup>
- Interest rate risk management policy<sup>5</sup>
- Foreign exchange and commodity price risk policy
- Derivatives policy

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3 As a general guide, risk management policies should demonstrate consideration of the following:

- definition, identification and quantification of the risk;
- evaluation and management of the risk; and
- performance monitoring and reporting.

4 The Government requires that the credit risk position of the State be monitored on a global basis. It is important to ensure that no GOC assumes a credit exposure on a counterparty which the State would consider unacceptable, as well as ensuring that appropriate diversification of credit risk occurs over time. This policy should also provide that risk assessments be undertaken for contractual counterparties, with the outcome of the assessment to determine the implementation of appropriate risk mitigation strategies.

5 This policy is to demonstrate a prudent and sound approach to the management of debt, including the definition of a liability management framework which is appropriate to the business risk of the organisation. Debt management performance should be measured and reported against a benchmark which is based on this profile.

### Competitive Neutrality Fee Calculation Methodology

The application of the competitive neutrality fee (CNF) requires four steps outlined broadly below.

1. Determine the liabilities subject to CNF payments.
2. Establish the value of these liabilities using book value.
3. Establish a credit margin based on the difference between a GOC's stand-alone cost of funds and the cost of funds that apply under Government ownership.
4. Apply the credit margin to the value of liabilities determined in 2 above.

#### 1. Liabilities subject to the CNF

For the purpose of calculating the CNF obligation of a GOC, "liabilities" are defined to include:

- all debt and other obligations in the nature of debt,
- securitised transactions,
- derivatives other than electricity derivatives and those used by QTC in managing a GOC's core debt,
- finance leases where the aggregate NPV of all finance lease obligations exceeds 5% of non-current liabilities, and
- deferred payment arrangements.

In most instances, these obligations will be carried with QTC. In the event that they are not, the GOC will need to provide QTC with sufficient information to enable it to calculate the corresponding CNF payment, based on the modified duration of the cashflows of the instruments.

Where a GOC enters into a liability that is commercially priced no CNF will apply. Other obligations for which no CNF will apply are:

- operating leases; and
- rental obligations associated with cross-border leases where they are defeased.

#### 2. Valuing the Liabilities

The CNF will be calculated on the book value of liabilities for all customers and will be calculated on the daily balances during the relevant period.

The CNF will be calculated based on the net liabilities (ie. gross debt net of offset and redraw facilities, but not net of other balances with QTC such as Cash Fund or working capital deposits).

### 3. Establishing a Credit Margin

The beneficial margin accruing to a GOC by virtue of its government ownership will reflect the difference between the following two items:

- (1) the cost of funds that would apply to the GOC if it were required to borrow funds in its own right, without the benefit of Government ownership; and
- (2) the cost of funds that does apply on the basis of the GOC's Government ownership.

Measurement of the first item requires reference to the notional yield curve for each GOC based on its stand-alone credit rating. For example, if the GOC is assigned an 'A' rating, the yield curve that would apply to an A rated corporate in Australia must be estimated. Measurement of the second item will be based on the Queensland Government yield curve (that is, QTC).

Measurement of the stand-alone cost of funds requires the assignment of credit ratings to all GOCs. Treasury or the GOC retain a capacity to request an interim notional stand-alone credit rating if it is felt that this will materially affect the size of the neutrality fee. Costs associated with this additional rating will be borne by the party instigating the request.

To appropriately capture the cost of funds across the yield curve, a matrix of margins for set time periods will be sourced by QTC from at least three banks and preferably four as at the end of each quarter (31 March, 30 June etc). The lowest margin of the four quoted will be adopted for each quoted point on the yield curve time period. QTC will request these margins in such a way as to ensure, to the greatest extent possible, that no liquidity impacts are being priced into the margins.

Each GOC that holds debt will need to have at least one margin calculated. Where a GOC has a number of separate debt facilities, separate margins can be determined if the GOC considers this necessary. An additional margin based on the margin for three month debt may apply to any floating rate debt that the GOC holds separately as a source of short term funding. It is not intended that floating rate debt held within a client specific debt pool will be ascribed a separate margin.

A credit margin for each GOC's term debt will be calculated by QTC having regard to the GOC's notional stand-alone rating and the single benchmark modified duration of three years.

In the event that the credit margin as defined in a regulatory decision, is less than the CNF derived by QTC's survey, QTC may review the margin to be applied to a regulated entity. In this regard, consideration will be had to the source of information used in the regulatory decision.

#### Non-Regulated Businesses

The CNF margin will be calculated quarterly to ensure that it moves over time with current market conditions. The CNF rate for each GOC will be reset annually.

A weighted average approach will be used to calculate the CNF margin using a five year period of quarterly historical data, with weightings based on the new drawdowns and notional re-financings undertaken each quarter to rebalance the customer's debt portfolio. New borrowings will be incorporated using the CNF survey for the prior quarter and QTC will advise customers at the beginning of each period of this CNF margin.

Long term floating rate funding, including where the customer has used interest rate swaps to convert short term floating rate funding to longer term fixed funding, will be subject to CNF in the same way as long term debt arrangements.

A CNF margin will be charged on floating rate 'come and go' facilities (ie. funding must be utilised in accordance with the nature of the facility provided) consistent with the rate which applies to three month instruments. This rate will vary each quarter.

No CNF margin will be applied to working capital facilities. However, these are to be used as a source of temporary short term funding only (ie. to assist with liquidity management). Where GOCs are using the working capital facility as a source of longer term funding a CNF margin will be applied.

### Regulated Business Type Activities

Alternative CNF arrangements are available to regulated business units, non-regulated business units which carry on a business subject to regulatory pricing and which have assigned a debt pool to that business, and non-regulated business units which have negotiated a pricing contract that has features that emulate a regulatory environment with such transaction characteristics agreed with QTC. These arrangements are as follows:

- A regulated entity may elect to fix its CNF margin at the commencement only of a regulatory period for the term of the regulatory period. The CNF margin which applies is the relevant margin from the survey which is closest to the regulatory rate setting period.
- A non-regulated entity which
  - carries on a business subject to regulatory pricing; or
  - negotiates a pricing contract that has features that emulate regulatory environment with such transaction characteristics agreed with QTC,

may elect to fix the CNF margin at the commencement of the regulatory period or contract term for the term of the regulatory period or contract term for any debt pool established to fund that transaction.

- The average modified duration over the term of the regulatory period will be used to determine the appropriate CNF margin where the debt term is less than five years. Where the term of the debt is for five to ten years the CNF will be calculated having regard to market rates and the tenor of the debt proposed.
- If a regulated entity does not elect to fix its CNF margin at the commencement of the regulatory period for the term of the regulatory period, the CNF for non-regulated businesses will apply for the term of the regulatory period.

However, where a GOC wishes to maintain flexibility to either fix its CNF within the regulatory period or leave it variable this will be permitted on the following basis:

- Where the CNF is not fixed, it will be based upon market rates and reset every quarter based upon an average duration of the regulatory period; and
- If the option is exercised to fix the CNF, it will be fixed for the remainder of the regulatory period. The CNF will be based upon an average duration of the regulatory period regardless of the term it is fixed, with any fixed term not to mature beyond the end of the regulatory period during which the CNF is fixed.

### Financing for Specific Projects

Where a GOC has structured debt to achieve a fixed interest rate for a specific project, the GOC may elect to obtain a fixed CNF for such a transaction at the commencement of the project. The CNF will be fixed at current market rates for the duration of the debt with the maximum duration, (ie, the debt term) being ten years.

This provision will apply to transactions for non-regulated activities of regulated businesses and unregulated businesses.

#### **4. Application of the margins to the value of liabilities**

By the 15<sup>th</sup> day following the end of each quarter (ie. 15 April, 15 July etc) the CNF will be charged by QTC for each GOC. The fixed margin will be applied to the daily book balances of the debt during the quarter (as determined by the GOC). Where applicable, the margin for short term floating rate debt as calculated for that quarter will be applied to the daily book balance of floating rate debt that is held separately.