



Agenda Date: 12/17/14
Agenda Item: 5C

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

WATER

IN THE MATTER OF THE APPLICATION OF)
MIDDLESEX WATER COMPANY FOR AUTHORITY TO) ORDER
BORROW UP TO \$5.0 MILLION AND TO ISSUE)
EVIDENCES OF INDEBTEDNESS PURSUANT TO THE)
ENVIRONMENTAL INFRASTRUCTURE TRUST)
FINANCING PROGRAM) DOCKET NO. WF14101084

Parties of Record:

Jay L. Kooper, Esq., Vice President, General Counsel & Secretary, Middlesex Water Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

Middlesex Water Company (Middlesex or Petitioner), a public utility of the State of New Jersey, by petition filed with the Board of Public Utilities (Board) on October 1, 2014, pursuant to N.J.S.A. 48:3-7, 48:3-9 and N.J.A.C. 14: 1-5.9, requests authority to:

- a) Borrow up to \$5.0 million (Loans) from the New Jersey Environmental Infrastructure Trust (Trust) and the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection (State) and make, execute and deliver to the Trust and the State documents required in connection therewith;
- b) Make, execute and deliver, if necessary, one or more Supplemental Indentures of Mortgage to US Bank National Association, as Trustee, for the purpose among other things, of describing the terms of Petitioner's First Mortgage Bonds (hereinafter called the Company's Bonds), or to make such guarantee or guarantees as are required by State and the Trust to secure the Loans; and
- c) Issue and deliver, if necessary, to the Trust and the State up to \$5.0 million principal amount of the Company's Bonds, with a final maturity in 2035. Petitioner's Bonds will bear interest at approximately one-quarter of the interest rate of the Trust's Bonds which are intended to be sold by competitive bidding.

Petitioner requests that the relief set forth in Paragraphs a through c above be granted by the Board without further Board Order.

The Trust will issue and sell its tax-exempt bonds and the proceeds together with other State monies will be used to create a fund available for loans to qualified borrowers, all pursuant to the 2015 New Jersey Environmental Infrastructure Trust Financing Program. Loans to various entities, including the Loans to the Petitioner, will be made from the loan fund. Petitioner proposes to issue and deliver its Bonds to the Trust and the State as security for the Loans from the Trust and the State to Petitioner of up to \$5.0 million. The Trust Bonds will be sold through one or more underwriters with a fixed rate of interest, under circumstances where competitive conditions will be maintained throughout.

The structure of the Loans will be such that approximately one-quarter of the Loans will be from the Trust at a rate equal to the rate on the Trust's Bonds. The other approximately three quarters of the Loan is to be from the State, through the Department of Environmental Protection, without interest. In effect, therefore, the rate of interest on the Company's Bonds will be approximately one-quarter of the rate of the Trust's Bonds since the Loan's rate will be a blend of the zero rate of interest from the State and the actual rate of interest on the Trust's Bonds.

To evidence and secure the Loans to the Company by the Trust and the State, the Company proposes to execute and deliver to the Trust and the State, the Company's Bonds and/or other evidences of indebtedness, in a principal amount equal to the amount of the loans, having an interest rate, as described above, and maturity dates and redemption provisions designed to service the Trust's Bonds and the State's loan. It is anticipated that such Company Bonds are to be designated "Series XX Bonds" and "Series YY Bonds," due 2035.

The Company expects that the interest on the Trust's Bonds will be exempt from federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended. As a result of this exemption, the zero rate of interest on the State loan and the favorable bond rating anticipated for the Trust's Bonds, the interest rate on the Company Bonds, issued as security for the Loans, will be substantially less than the interest rate the Company otherwise would pay to investors on conventional debt financing.

The proceeds of the Loans will be used by the Company to finance a project for rehabilitating its cast-iron transmission and distribution mains, referred to as "Cleaning and Lining", under the Company's continuing RENEW program. The Cleaning and Lining project is an annual program and the proceeds of the Loans will be used for the project work for the calendar year 2015. Petitioner has stated that no franchise or right will be capitalized directly or indirectly by the issuance of its Bonds. The Board, after investigation, having considered the record and exhibits submitted in this proceeding, **FINDS** that the proposed transactions to be taken by Petitioner, as indicated above, are in accordance with law, and are in the public interest.

The New Jersey Division of Rate Counsel ("Rate Counsel") has reviewed this matter and by letter dated November 13, 2014 does not object to Board approval of the Company's petition. Following its review, Rate Counsel mentioned that it appeared the Company had the financial capability to issue the proposed debt and had sufficient earnings to cover additional debt service. Rate Counsel further stated that approval of the Petition should not incorporate an authorization to include any specific assets in the Company's rate base because the determination on whether assets are appropriate to include in rate base should be deferred to a future base rate proceeding. Rate Counsel has proposed certain conditions to the approval of the petition which have been included herein.

The Board therefore **AUTHORIZES** Petitioner to:

- a) Borrow up to \$5.0 million from the New Jersey Environmental Infrastructure Trust (Trust) and the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection (State), and make, execute and deliver Loan Agreements therefor and to make, execute and deliver to the Trust and the State documents required in connection therewith;
- b) Make, execute and deliver, if necessary, one or more Supplemental Indentures of Mortgage to US Bank National Association, as Trustee, for the purpose, among other things, of describing the terms of Petitioner's First Mortgage Bonds (hereinafter called the Company Bonds), or make such guarantee or guarantees as are required by the State and the Trust to secure the loans; and
- c) Issue and deliver, if necessary, to the Trust and the State up to \$5.0 million principal amount of the Company's Bonds, with a final maturity in 2035. Petitioner's Bonds will bear interest at approximately one-quarter of the interest rate of the Trust's Bonds which are intended to be sold by competitive bidding.

This Order is issued subject to the following provisions:

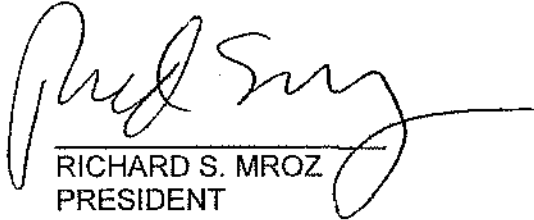
- 1) This Board's approval is expressly limited to the Loans described herein and as more fully described in the Petition and supporting documents.
- 2) No franchise rights will be capitalized directly or indirectly by the issuance of the Bonds.
- 3) This Order shall not be construed as directly or indirectly fixing for any purposes whatsoever any value of the tangible or intangible assets now owned or hereafter to be owned by the Petitioner; nor as certifying that the securities authorized to be issued and sold will be represented by tangible or intangible assets of commensurate value or investment cost.
- 4) This Order shall not affect nor in any way limit the exercise of the authority of this Board or of this State, in any future petition or in any proceedings with respect to rates, franchises, service, financing (including method of sale of securities), accounting, capitalization, depreciation, or in any other matters affecting the Petitioner.
- 5) Petitioner shall submit a schedule indicating complete details of the issuance costs no later than thirty (30) days following the closing date for this transaction.
- 6) Petitioner shall furnish the Board with copies of the executed Supplemental Indentures.
- 7) The Bonds herein authorized to be issued shall not be redeemed at a premium, prior to maturity, without further Board approval.

- 8) The authority granted in this Order shall become null and void and of no effect with respect to any portion which is not exercised on or before December 31, 2015.

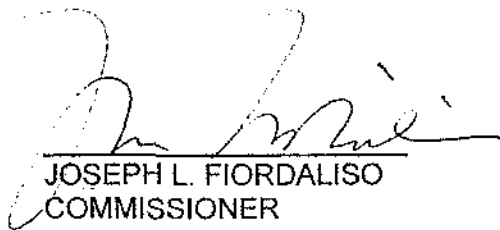
This Order shall be effective December 26, 2014.

DATED: 12/17/14

BOARD OF PUBLIC UTILITIES
BY:



RICHARD S. MROZ
PRESIDENT



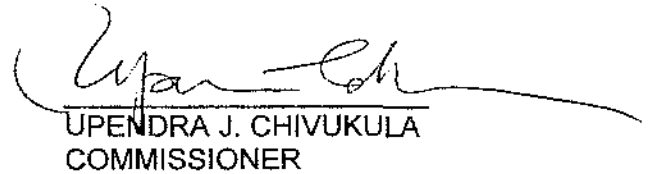
JOSEPH L. FIORDALISO
COMMISSIONER



MARY-ANNA HOLDEN
COMMISSIONER



DIANNE SOLOMON
COMMISSIONER



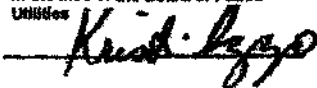
UPENDRA J. CHIVUKULA
COMMISSIONER

ATTEST:



KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



In The Matter of The Application of Middlesex Water Company for Authority to Borrow Up to \$5.0 Million and to Issue Evidences of Indebtedness Pursuant to the Environmental Infrastructure Trust Financing Program

DOCKET NO. WF14101084

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