



Board of Public Utilities

JUL 06 2016

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State of New Jersey
DIVISION OF RATE COUNSEL
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P. O. Box 003
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Governor

KIM GUADAGNO
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STEFANIE A. BRAND
Director

July 6, 2016

Hand Delivery & First Class Mail

Irene Kim Asbury, Secretary
Board of Public Utilities
44 South Clinton Ave., 3rd Floor
Suite 314
P.O. Box 350
Trenton, New Jersey 08625

RE: I/M/O the Application of Middlesex Water Company for Authority to Borrow up to \$4.0 Million and to Issue Evidences of Indebtedness Pursuant to the Environment Infrastructure Trust Financing Program BPU Docket No. WF16050445

Dear Secretary Asbury:

Please accept for filing an original and ten copies of the Division of the Rate Counsel's ("Rate Counsel") comments regarding the above referenced matter. Please date stamp the additional copy as "filed" and return it in the enclosed, self-addressed, stamped envelope. Thank you for your consideration and attention to this matter.

On May 25, 2016, the Middlesex Water Company ("Middlesex" or "Company") filed a Petition with the State of New Jersey, Board of Public Utilities ("BPU" or "Board") seeking approval for authority to borrow up to \$4.0 million (the "Loans"), from the New Jersey Environmental Infrastructure Trust a public body corporate and politic constituting an instrumentality of the State of New Jersey (the "Trust"), and the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection (the "State"), and if necessary, to secure the Loans by issuing and delivering to the Trust and State the Company's First Mortgage Bonds (the "Company's Bonds") and/or other evidences of indebtedness in like amount.

Middlesex is a regulated utility of the State of New Jersey, providing water service on a retail basis to customers in South Plainfield, Metuchen, Carteret, Woodbridge, Edison, South Amboy, and portions of Clark. The Company also provides water for sale or treatment and pumping under contract to various municipalities in

*Case report
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Middlesex and Monmouth Counties. The Company owns and operates water treatment and supply systems for these purposes.

By Order dated March 18, 2016 in BPU Docket No. WF16010038, the Board authorized Middlesex to borrow up to \$16.0 million from the Trust and the State and to "Issue and deliver, if necessary to the Trust and the State up to \$16.0 million principal amount of the Company Bonds, with a final maturity twenty years from the issuance of the Company's Bonds."

The Company asserts that due to the proximity of the construction completion schedules of the projects to be financed in the aforementioned docketed matter, to the construction schedule of the project for which the Company is now seeking Board authorization to issue Company Bonds, Middlesex proposes to aggregate and consolidate the Loans into, and make it part of the parcel to, the \$16.0 million loan request previously authorized by the Board in Docket WF16010038.

Specifically, if approved, Middlesex proposes to include the \$4.0 million as part of the \$16.0 million in the issuance of Series XX Bonds and Series YY Bonds the Board previously authorized Middlesex to issue and deliver in its March 18, 2016 Order in BPU Docket No. WF16010038. The Company represents the sole propose for this request is to avoid duplicative and potentially unnecessary redundant loan transaction costs. The Company asserts, consolidating the loan closings will benefit Middlesex customers by reducing the overall cost of the various loan transactions.

Middlesex states that in the event the Trust's own transactional guidelines and schedule does not allow for the timely approval of the consolidation of the Loans, Middlesex will then issue a new series of Company Bonds. It is anticipated that such Company Bonds are to be designated "Series ZZ bonds" and "Series AAA Bonds", due twenty years from the date of issuance.

The purpose of the Loans is to finance the upgrade of the Tangley Lane Booster Station, located with the Company's service territory in Edison, New Jersey. The proceeds of the Loans will be used for project work that will commence in calendar year 2016. Attached as Exhibit I to the Petition is a full description of the Tangley Lane Booster Station project.

The Company expects that 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.

Based upon the Division of Rate Counsel's review of the Petition, the Petitioner's responses to Board Staff's data requests OE-1 through OE-11, and proposed financing arrangements, it appears that Middlesex has the financial capacity to issue the proposed debt without jeopardizing its financial integrity. In addition, it appears that Middlesex has sufficient earnings to cover the additional debt service associated with the financing.

Approval of the Petition should not include authorization to include in rate base any specific assets to be included in the Company's rate base. The determination of whether assets are appropriate for inclusion in rate base should be deferred to a future base rate case proceeding.

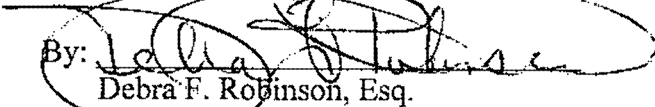
The Division of Rate Counsel proposes that any BPU Order approving Middlesex's Petition contain the following language:

1. The 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 costs.
2. 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, accounting, capitalization, depreciation, or in any other matters affecting the Petitioner.
3. The Company shall submit a schedule indicating complete details of the issuance costs no later than thirty (30) days following the closing date for this transaction.

These provisions will satisfy the concerns of Rate Counsel that BPU approval is limited to the Loans as described herein, and should not indicate authorization to include any specific assets or amounts in rate base, or indicate authorization for any other ratemaking treatment.

Very truly yours,

Stefanie A. Brand
Director, Division of Rate Counsel

By: 
Debra F. Robinson, Esq.
Deputy Rate Counsel

DFR/ddg

Cc: service list via email and regular mail

I/M/O the Application of Middlesex
Water Company for Authority to
Borrow up to \$4.0 Million and to
Issue Evidences of Indebtedness
Pursuant to the Environmental
Infrastructure Trust Financing
Program
BPU Docket No.: WF16050445

**Receives all correspondence
except discovery.*

***Receives all documents by
e-mail only.*

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