

BOARD OF PUBLIC UTILITIES

JAN 05 2017

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State of New Jersey
DIVISION OF RATE COUNSEL
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CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

STEFANIE A. BRAND
Director

January 4, 2017

Via E-Mail & First Class Mail

Irene Kim Asbury, Secretary
State of New Jersey, Board of Public Utilities
44 South Clinton Street, - 9th Floor
P.O. Box 350
Trenton, New Jersey 08665-0350

RE: I/M/O the Application of Middlesex Water Company for Authority to Borrow up to \$37.0 Million and to Issue Evidences of Indebtedness Pursuant to the Environment Infrastructure Trust Financing Program
BPU DOCKET NO. WF16111107

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 November 21, 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 \$37.0 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 services to approximately 60,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts to The City of Rahway, Townships of Edison and Marlboro, the Borough of Highland Park and the Old Bridge Municipal Utilities Authority. Middlesex treats stores and distributes water for residential, commercial, industrial and fire protection purposes. Middlesex also provides water treatment and pumping services to the Township of East Brunswick under contract.

CMS
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The proceeds of the Loans will be used by the Company to finance the construction of a second large-diameter redundant pipeline (the "Western Transmission Main") that will run from the Company's Carl J. Olsen water treatment plant in the Township of Edison to an interconnection with a 30-inch peripheral transmission main located in the Borough of Metuchen. The Western Transmission Main will consist of approximately 4.6 miles of new 48-inch diameter pre-stressed concrete cylinder pipe and will serve as a redundant delivery system of water supply for the Company's retail service area in northeast Middlesex County when the single 4.3 mile long transmission main currently serving this area needs to be taken out of service for any reason, whether routine maintenance or failure caused by a pipeline breach. The proceeds of the Loans will be used for project work for the calendar years 2017 and 2018.

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. It is anticipated that such Company Bonds are to be designated "Series DDD Bonds" and "Series EEE Bonds," due twenty years from date of issuance.

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:

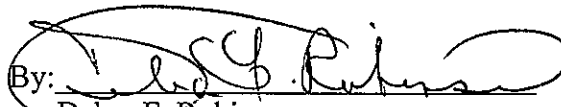
1. The Order shall not be construed as directly or indirectly fixing for any purposes whatsoever any value of the tangible or intangible assets now owned or hereafter to be owned by the Petitioner; nor as certifying that the securities authorized to be issued and sold will be represented by tangible 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 E. Robinson
Deputy Rate Counsel

**In the Matter of the Application of
Middlesex Water Company for
Authority to Borrow up to \$37.0
Million and to Issue Evidences of
Indebtedness Pursuant to the
Environment Infrastructure Trust
Financing Program
BPU Docket No.: WF16111107**

*Receives all correspondence except
discovery.

**Receives all documents by
e-mail only.

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