



Agenda Date: 1/27/21
Agenda Item: VA

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 PETITION OF SHORE)
WATER COMPANY FOR AUTHORITY TO ENTER) ORDER
INTO \$540,000.00 PRINCIPAL AMOUNT OF DEBT)
WITH MANASQUAN BANK, AND FOR APPROVAL TO)
IMPLEMENT ITS FINANCIAL PLAN CONTAINING)
SEVERAL INTERCONNECTING ASPECTS) DOCKET NO. WF20100662

Parties of Record:

Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel
Stephen B. Genzer, Esq. and Shane Simon, Esq., Saul Ewing Arnstein and Lehr LLP, for
Petitioners

BY THE BOARD:

Petitioner, Shore Water Company (“Shore”, “Company”, or “Petitioner”), filed a Petition with the New Jersey Board of Public Utilities (the “Board”) on October 19, 2020 seeking: (1) Board approval pursuant to N.J.S.A. 48:3-9(a)(1) and N.J.A.C. 14:1-5.9 to enter into \$540,000.00 principal amount of debt with Manasquan Bank to finance infrastructure improvements, and (2) to the extent the Board believes Board approval is necessary pursuant to N.J.S.A. 48:2-51.1(a), N.J.A.C. 14:1-5.14(c), and/or other statutes, the Board’s approval for the various aspects of the Company’s Financial Plan, set forth in detail in the Petition and herein.

PETITIONER AND BACKGROUND:

Shore is a family-owned and operated public water utility of the State of New Jersey, subject to the jurisdiction of the Board, with offices at 105 23rd Avenue, South Seaside Park, New Jersey 08752. Shore has provided service to the South Seaside Park section of Berkeley Township, New Jersey since 1952. Shore filed the Petition in this matter to obtain Board approval for \$540,000.00 principal amount of debt with Manasquan Bank. Shore states that this debt is required to finance infrastructure improvements the Company is implementing in furtherance of its obligation to continue to provide safe, adequate, and proper service to its customers, including adhering to the goals of the New Jersey Water Quality and Accountability Act (“WQAA”), N.J.S.A. 58:31-1 to -7.

Shore has developed a comprehensive Asset Management Plan (“AMP”) to assess and evaluate the Company’s infrastructure and identify various assets in need of replacement or repair. The AMP is attached as Exhibit “A” to the Petition. Shore states that the loan from Manasquan Bank is the first phase of a Financial Plan necessary to accomplish the first phase of its AMP. Thus, Shore also seeks the Board’s approval for its Financial Plan, which involves a stock purchase agreement between the Company’s shareholders that would result in the Shore’s President, Gloria F. Stuart, becoming the majority shareholder. Shore explains in its Petition that this aspect of the Financial Plan is necessary because the Company’s prior ownership structure – in which several trusts also owned shares – hindered its ability to obtain financing as a result of potential lenders’ concerns that trustees of the Trusts would, in fact, refuse to pledge their shares as collateral.

PROPOSED \$540,000.00 PRINCIPAL AMOUNT OF DEBT:

Shore seeks approval for an “Infrastructure Improvement Loan” (“Loan”) from Manasquan Bank in the principal amount of \$540,000.00. The Loan’s maturity date will be June 25, 2036. The initial interest rate will be 3.900% for five years. After five years the interest rate will reset for another five years. The loan principal will amortize over 15 years. A copy of the Note Agreement is attached as Exhibit “B” to Shore’s Petition.

Pending approval of the Loan, Shore is currently proceeding under an interim construction loan to accomplish Phase 1 of the AMP. Shore’s Petition explains that the Board’s approval of the Loan would convert the interim construction loan into permanent financing and, therefore, consummation of the interim construction loan (of less than one year while construction takes place) into a permanent Infrastructure Improvement Loan is contingent upon Board approval.

In Exhibit “A” to its Petition, Shore’s Consulting Engineer, Eric Olsen, describes the Company’s AMP in detail, including the primary goal of replacing undersized water mains, and explains that one reason why the interim construction loan was needed in order to accomplish Phase 1 of the AMP was to avoid inconveniencing some of Shore’s customers since Phase 1 involves a specific section of Shore’s service area which is a summer community. Those residences therefore would be less impacted by work that commenced in October, 2020 and ran through the winter months.

PROPOSED FINANCIAL PLAN:

Shore’s Petition explains, as noted above, that the Company had difficulty securing financing to implement its AMP due to its previously existing ownership structure. In response, Shore seeks approval for what it labels its “Financial Plan”, which includes a Stock Purchase Agreement as set forth in more detail in the Petition and described below. According to the Petition, before September 24, 2020, four (4) separate trusts (“Citta Trusts”) each owned 34.1665 shares of the Company’s stock. Thus, in aggregate, the Citta Trusts owned 136.666 shares of Shore’s stock. Shore states that potential lenders expressed concern that the Citta Trusts’ trustees would be reluctant to pledge shares to act as collateral for the Loan.

To alleviate this problem and to secure the Loan, Shore entered a Stock Redemption Agreement with the Citta Trusts, purchasing each individual trust’s shares – an aggregate purchase of the 136.666 shares collectively owned by the Citta Trusts. Next, to secure a majority interest in the Company, its President, Gloria Stuart, proposed to purchase 37.58 shares of treasury stock from the Company (“Share Purchase Agreement”). Shore states that Ms. Stuart securing a majority interest is a prerequisite for the Loan because it will enable Shore

to pledge the collateral necessary to satisfy Manasquan Bank. Accordingly, Shore seeks Board approval pursuant to N.J.S.A. 48:2-51.1(a) and N.J.A.C. 14:1-5.14(c) for Ms. Stuart's purchase of the treasury stock.

In support of its request, Shore explains that the Share Purchase satisfies both the "no harm" standard in N.J.S.A. 48:2-51.1(a), as well as the "positive benefits" standard under N.J.A.C. 14:1-5.14(c). Shore further states that the Share Purchase will not have an adverse impact on the provision of safe, adequate and proper utility service and, in fact, will assist in the provision of safe, adequate and proper service because it will enable the Company to secure the Loan and so improve its existing infrastructure.

Shore states that it has a long history of providing safe, adequate and proper utility service, and the Share Purchase will not diminish this commitment in any way. Shore states that its Financial Plan, including the Share Purchase, will neither adversely impact customer rates nor will negatively affect the Company's operations because no changes will occur with respect to employment levels, responsibilities, or compensation. Similarly, there will be no impact on competition since these changes are to continue to provide safe, adequate and proper service to its current customers. Finally, the Company states the Share Purchase will not have an adverse impact on competition in the water industry because Shore will retain its discrete service territory.

RATE COUNSEL'S COMMENTS:

The Division of Rate Counsel has reviewed this matter and by letter dated January 13, 2021 does not object to the approval of the Petition. Rate Counsel argues that the Board's approval of the Petition should not include authorization to include in rate base any specific assets that will be acquired from the proceeds of this financing. Nor should the prudence of the expenditures resulting from the proposed financing be addressed and approved in this proceeding, instead prudence of Shore's expenditures should be addressed in its next base rate case. Rate Counsel additionally notes that the approval of Shore's financing plan also should not be construed as the Board's acceptance for ratemaking purposes of the resulting capital structure and capital costs. The determination of any assets to be included in rate base and the ratemaking impact of serving customers, including the impact of the transaction(s) on Shore's capital costs, should be addressed in a future base rate proceeding.

In addition, Rate Counsel notes that Shore should be required to issue its planned long-term debt at the lowest reasonable cost, and should be required to utilize a prudent and cost-effective capital structure and mix of capital to finance its utility rate base at the lowest reasonable cost. Finally, Rate Counsel asks that the authority granted by the Board in this proceeding should be null and void for any portion of the Company's long-term debt financing plan that is not completed by December 31, 2021.

After review, the Board **FINDS** that the authority requested is consistent with applicable law and the Board **HEREBY AUTHORIZES** Petitioner to enter into an agreement for \$540,000.00 principal amount of debt with Manasquan Bank. The Board **FURTHER AUTHORIZES** Petitioner's Financial Plan as more fully set forth in the Petition.

This Order is issued subject to the following provisions:

1. This Order is based upon the specific and particular facts of the Petition in this matter and shall not have precedential value in future transactions that may come before the Board and shall not be relied on as such.
2. The Company's Infrastructure Improvement Loan, as described in the Petition, is approved in conformance with N.J.S.A. 48:3-9(a)(1) and N.J.A.C. 14:1-5.9.
3. The Company's Financial Plan, including the Share Purchase Agreement and its resultant change in control of the Company, as described in the Petition in conformance with, inter alia, N.J.S.A. 48:2-51.1(a) and N.J.A.C. 14:1-5.14(c), is approved.
4. This Order shall not affect or in any way limit the exercise of the authority of the Board or the State of New Jersey in any future petition or in any proceeding regarding rates, costs of service, franchises, service, financing, accounting, capitalization, depreciation or any other matters affecting Petitioner.
5. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioner.

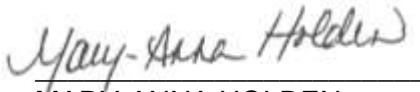
This Order shall become effective on February 6, 2021.

DATED: January 27, 2021

BOARD OF PUBLIC UTILITIES
BY:



JOSEPH L. FIORDALISO
PRESIDENT



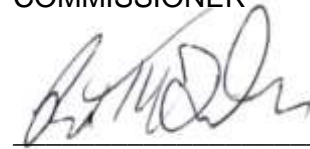
MARY-ANNA HOLDEN
COMMISSIONER



DIANNE SOLOMON
COMMISSIONER

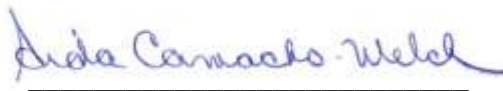


UPENDRA J. CHIVUKULA
COMMISSIONER



ROBERT M. GORDON
COMMISSIONER

ATTEST:



AIDA CAMACHO-WELCH
SECRETARY

IN THE MATTER OF THE PETITION OF SHORE WATER COMPANY FOR AUTHORITY TO ENTER INTO \$540,000.00 PRINCIPAL AMOUNT OF DEBT WITH MANASQUAN BANK, AND FOR APPROVAL TO IMPLEMENT ITS FINANCIAL PLAN CONTAINING SEVERAL INTERCONNECTING ASPECTS – DOCKET NO. WF20100662

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