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February 14, 2023

Via Electronic Mail

Ms. Carmen Diaz, Acting Secretary
Board of Public Utilities
44 South Clinton Avenue
Trenton, New Jersey 08625-0350

**Re: I/M/O the Petition of Middlesex Water Company for Authority to Issue and Sell up to \$300.0 Million of Principal Amount Debt Securities
BPU Docket No.: WF22110689**

Dear Acting Secretary Diaz:

Please accept for filing in the above-referenced matter the New Jersey Division of Rate Counsel's ("Rate Counsel") comments concerning Middlesex Water Company's ("Middlesex" or "the Company") November 2, 2022 petition to the New Jersey Board of Public Utilities ("Board") for authority to issue and sell up to \$300.0 million of Principal Amount Debt Securities.

A. Background

Middlesex is a regulated public utility that provides water services to approximately 61,000 retail customers, primarily in eastern Middlesex County, New Jersey.¹ In addition, Middlesex provides water under wholesale contracts to the City of Rahway, the Townships of Edison and Marlboro, the Borough of Highland Park and the Old Bridge Municipal Utilities Authority.² Middlesex also provides water service to approximately 300 customers in

¹ Petition, para. 1.

² *Ib.*

Cumberland County, New Jersey, through a separate system that is not interconnected with its main service territory.³

On November 2, 2022, Middlesex filed a petition (“Petition”) and supporting documents seeking approval from the Board to:

- a) Borrow up to an aggregate principal amount of \$300.0 million in loans from the New Jersey State Revolving Fund (“NJSRF”) Program, the New Jersey Economic Development Authority (“NJEDA”), private placement and other financial institutions as needed in one or more negotiated transactions, and to make, execute and deliver to the one or more loan agreements therefor, and to make, execute and deliver to the placement agents one or more contracts of purchase in connection therewith, if necessary, as well as such other documents as are reasonably required to perform its obligations thereunder; and
- b) Make, execute, and deliver, if necessary, such Supplemental Indentures of Mortgage to the Company’s Indenture Trustee for purpose among other things, of issuing and describing the terms and conditions of any first mortgage bonds issued in connection with borrowings under this Petition.⁴

By way of background, Middlesex for some time has been involved in a rolling five-year capital program called Water for Tomorrow and the current five-year program projects that Middlesex will spend approximately \$288.0 million through 2026 to replace aging infrastructure, remain compliant with water quality regulations and enhance service. The funding of this capital program will likely require a combination of funds generated from operations, debt financing and/or equity issuances in order to maintain a balanced capital structure to continue to attract and retain investor interest.⁵ The proceeds from the proposed debt securities financing requested in this proceeding is to provide partial financing for the Water for Tomorrow capital program and to eliminate its current short term debt balance.⁶ Middlesex plans to issue the debt securities in a series of one or more transaction offerings over a multi-year period to accommodate the Company’s construction timetable for the Water for Tomorrow capital program.⁷ The Company expects that the form of debt security that should result in the most competitively attractive terms and interest rates are first mortgage bonds issued by the Company.⁸ As of June 30, 2022,

³ Petition, para. 5. and 6.

⁴ Petition, para. 10.

⁵ Petition, para. 6 and 7.

⁶ Petition, para. 11

⁷ Petition, para. 7.

⁸ Petition, para. 8.

Middlesex had approximately \$258.6 million of long-term debt and \$27.5 million of short-term debt outstanding.⁹

B. Findings and Recommendations

Rate Counsel has carefully reviewed the Petition and discovery responses for this matter and, based on the facts and discovery responses specific to this Petition, does not object to its approval by the Board. Rate Counsel's recommendation is supported by the following findings:

- The Company's ongoing 5-year rolling Water for Tomorrow capital program has previously been investigated and approved by the Board as being in the public interest.¹⁰
- The Board has previously authorized Middlesex to issue First Mortgage Bonds of up to \$140.0 million in a series of one or more transaction offerings over a multi-year period.¹¹
- Middlesex's target capitalization ratios are 47 percent long-term debt, 0.25 percent preferred stock, and 52.75 percent common equity and these ratios have been approved in the Company's recent prior base rate proceedings. The Company's actual capitalization ratios as of June 2022 are 43.40 percent long-term debt, 0.28 percent preferred stock, and 52.57 percent common equity.¹² Middlesex's pro forma capitalization ratios with the inclusion of the proposed Debt Financing proposed in this case, as well as the Water for Tomorrow-related 1.0 million Stock Issuance currently being requested in a separate proceeding before the Board,¹³ are projected to be 47.03 percent long-term debt, 0.23 percent preferred stock, and 52.74 percent common equity.¹⁴ Therefore, the proposed debt transaction will not adversely impact Middlesex's previously authorized target capital structure.
- Standard and Poor's most recent credit analysis (dated November 9, 2022) affirmed its previous A+ rating of Middlesex's long-term debt. One of the key analytical factors stated in the credit rating is that "Middlesex first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently

⁹ Petition, Exhibits A and C.

¹⁰ *I/M/O the Application of Middlesex Water Company for Authority to Issue up to \$140.0 Million of First Mortgage Bonds – BPU Docket No. WF18121292 ("February 2019 Financing Order")*.

¹¹ *Id.*

¹² *I/M/O the Application of Middlesex Water Company for Authority to Issue and Sell up to \$1.0 Million Shares of Common Stock – BPU Docket No. WF221100625*. Middlesex response to OE-3.

¹³ *Id.*

¹⁴ *Id.*

acquired. Collateral coverage of more than 1.5x supports a recovery rating of 1+ ...” The credit report also states that Middlesex is expected to maintain its Funds From Operations (FFO) to Debt ratio at the reasonable level of 15%-16% through 2024. All of these financial indicators suggest that the proposed Debt Financing should not have an adverse impact on Middlesex’s financial health.¹⁵

- The proposed Debt Financing would appear to be reasonable as part of the Company’s overall strategy to provide safe, adequate, and reliable service to customers at the lowest possible cost.

Rate Counsel notes that approval of the Petition should not include authorization to include in rate base any specific assets that will be acquired as a result of this financing. Nor should it be construed as 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 Middlesex’s capital costs, should be addressed in a future base rate proceeding.

The Board approval should also include the following conditions:

- The authority granted by the Board in this docket should be restricted to fund utility operations and investments only, not to fund affiliated entities.
- The Company should be obligated to issue its planned Debt Financing at the lowest reasonable cost.
- The Company should be obligated 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 reserves all rights to take appropriate positions in future Board proceedings involving the Company, including any such proceeding pending before the Board at this time.

¹⁵ Middlesex response to OE-1 for Standard & Poor’s credit rating.

Approval by the Board of these recommendations will satisfy the concerns of Rate Counsel that the Board's approval is limited to the transactions as herein described, does not indicate authorization to include any specific assets or amounts in rate base, does not indicate authorization for any other ratemaking treatment, and does not establish any precedent with regard to approval of future financing petitions.

Respectfully Submitted,

Brian O. Lipman, Esquire
Director, Rate Counsel

By:

Susan E. McClure
Susan McClure, Esquire