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March 22, 2023

Via Electronic Mail

Ms. Carmen Diaz, Acting Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue
P.O. Box 350
Trenton, New Jersey 08625-0350

**Re: I/M/O the Petition of Gordon's Corner Water Company for Authority to Make, Execute and Deliver a Promissory Note, Term Loan Agreement and Such Other Instruments as May be Required by CoBank, ACB, in Connection with Said Load, Pursuant to N.J.S.A. 48:3-7, N.J.S.A. 48:3-9 and N.J.A.C. 14:1-5.9 (2022)
BPU Docket No.: WF22120732**

Dear Acting Secretary Diaz:

Please accept for filing these comments of the Division of Rate Counsel ("Rate Counsel") regarding the above-referenced matter. Consistent with the March 19, 2020, *Order of the New Jersey Board of Public Utilities ("Board") in I/M/O the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic for a Temporary Waiver of Requirements for Certain Non-Essential Obligations*, BPU Docket No. EO20030254, copies of this comment letter are being filed electronically with the Secretary of the Board and provided electronically to each person on the service list. No paper copies will follow. Please acknowledge receipt of this comment letter. Thank you for your attention and consideration in this matter.

A. Background

Gordon's Corner Water Company ("Gordon's Corner" or "the Company") is a duly organized and existing public utility in the State of New Jersey subject to the jurisdiction of the New Jersey Board of Public Utilities (the "Board"). The Company is engaged in the business of providing water for service, on a retail basis, to approximately 14,600 customers in the

townships of Marlboro and Manalapan in Monmouth County, New Jersey. The Company owns and operates certain water treatment, supply, and distribution systems for these purposes. The Company’s 2021 revenues were approximately \$12.7 million.”¹

On December 13, 2022, the Company filed a petition (“Petition”) requesting the following approvals and authorizations from the Board:

- To enter into and close a long-term (i.e., 20 years) loan of up to \$3 million from CoBank, ACB (“CoBank”) on the terms and conditions set for in CoBank’s Term Sheet dated November 28, 2022, attached to the Company’s Petition as Exhibit G,
- To make, execute, and deliver to CoBank such instruments as are required to evidence and secure the Loan, in accordance with its terms, and
- To obtain such other relief as the Board determines is just and proper.²

The Company states in the Petition that it expects to use the net proceeds from the CoBank loan to fund the construction of various capital projects including “production well rehabilitation, relocation and construction of a bulk water interconnection with one of the Company’s primary water suppliers, Veolia Water (Matchaponix), treatment plant filter rehabilitation, and various service line installations and replacements throughout the Company’s distribution system.”³ The Company requests the Board’s authorization to accomplish the financing contemplated in the Petition to occur no later than April 15, 2023.⁴

B. Rate Counsel Analysis

The Company has an established relationship with CoBank. Presently, Gordon’s Corner has four outstanding series of long-term debt borrowed from CoBank. The Company’s CoBank loans outstanding and the associated interest rates as of December 2022 are as follows:⁵

	<u>Outstanding</u>	<u>Interest</u>
CoBank 2	\$ 328,140	8.10%
CoBank 3	\$ 355,000	7.31%
CoBank 4	\$ 925,258	4.76%
CoBank 5	\$1,873,635	4.18%

¹ Gordon’s Corner Petition (“Petition”), Exhibit B.

² Petition, page 4.

³ Petition, para. 6.

⁴ Petition, Exhibit G.

⁵ Petition, Exhibit C and Petition para 10(d).

Gordon's Corner now wishes to borrow up to an additional \$3 million in long-term debt. In discovery, the Company provided its 2023-2024 construction budget, which identified \$3 million in capital projects to be completed over the next two years with funding provided by new debt financing.⁶ The Company proposes to meet its debt financing requirements by entering into a loan agreement with CoBank. CoBank is a cooperatively owned financial institution that provides credit through leases and loans within rural markets. Given the amount of debt financing sought by the Company, most financial intermediaries such as investment banks, insurance companies, mutual funds, etc. are not likely to be interested in providing financing to the Company. Such intermediaries typically prefer much larger issuances.

As of December 31, 2022, Gordon's Corner's long-term debt represented only 26.4 percent of the Company's total capitalization.⁷ Including the \$3 million of long-term debt from the proposed new loan, Gordon's Corner's *pro forma* capitalization will approximate 40 percent long-term debt and 60 percent common equity.⁸ Gordon's Corner hopes to achieve a more balanced capital structure in the next five years with additional debt financing that will lead to a 50 percent long-term debt and 50 percent common equity permanent capital structure.⁹ The proposed long-term debt financing, therefore, is the beginning step in the right direction to a more balanced capital structure.

CoBank will establish the interest rate for the 20-year loan to the Company at the time of the transaction based on then-current market conditions. CoBank's proposed terms and conditions for the loan, however, describe two interest rate options that are available to Gordon's Corner, a Weekly Quoted Variable Rate Option and a Quoted Rate Option-Fixed. In the Company's prior financing with CoBank, Gordon's Corner selected fixed interest rates. The Company has not yet determined which option it will choose this time, however.¹⁰

CoBank's Terms and Conditions also require the Company to meet and maintain certain financial covenants to secure a loan.¹¹ Specifically, CoBank requires the Company to have a Debt Service Coverage Ratio of greater than 1.50 times at each fiscal year end that the loan is outstanding and to maintain a Total Debt to Capitalization Ratio of not greater than 65 percent

⁶ Gordon's Corner response to Staff OE-3

⁷ Gordon's Corner response to RCR-11.

⁸ Gordon's Corner response to RCR-10.

⁹ *Ib.*

¹⁰ Gordon's Corner response to RCR-5.

¹¹ Petition Exhibit G.

at each fiscal year end.¹² Following are the Company's Debt Service Coverage Ratios and Total Debt to Capitalization ratios for the years 2017 through 2021.¹³

	Coverage	Capitalization
2017	1.88	32%
2018	1.55	30%
2019	2.83	26%
2020	3.64	33%
2021	2.61	30%

These figures show that historically the Company's debt service coverage and capital structures have been sufficient to satisfy CoBank's financial covenants. Thus, in the near term at least there appears to be minimal risk that the Company will not be able to meet its service obligations on the newly acquired long-term debt.

C. Rate Counsel Recommendation

Rate Counsel has carefully reviewed the Petition and is not opposed to its approval. The Company is engaged in the distribution of water to 14,600 customers in its New Jersey service territory. The proposed financing is necessary and appropriate as part of the Company's overall strategy to provide safe, adequate, and reliable service to its New Jersey customers. Barring unforeseen and unanticipated circumstances, the proposed debt issue should not jeopardize the Company's financial integrity. Based on the Company's recent financial performance, it appears that the Company has sufficient income to meet additional debt service interest requirements without jeopardizing its ability to provide safe, adequate, and reliable service to its New Jersey customers.

Even though Rate Counsel is generally supportive of the authorizations sought in the Petition, approval of the Petition should not include an authorization to include in rate base any specific assets that will be acquired as a result of this financing. Nor should the Board's authorization in this Petition be construed as acceptance for future ratemaking purposes of the resulting capital structure and capital costs. The determination of any assets to be included in

¹² Gordon's Corner response to RCR-6.

¹³ Pinelands response to RCR-PW-9.

rate base and the ratemaking impact of serving customers, including the impact of the transaction(s) on the Company's capital costs will be addressed in a future base rate proceeding.

Rate Counsel recommends that the Petition be approved with the following conditions:

1. The Board's approval is expressly limited to the loan described in the Petition. In the event the loan transaction with CoBank is not consummated, for any reason, the Company may not obtain financing from any other lender until the approval by the Board has been obtained.
2. No franchise rights will be capitalized directly or indirectly by the issuance of the bonds.
3. Approval by the Board shall not be construed as directly or indirectly fixing, for any purpose, any value of the tangible or intangible assets now owned or hereafter to be used by Gordon's Corner; 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. The Board's approval shall not indicate authorization to include in rate base the specific assets that will be constructed or acquired as a result of the Petition. The determination of any assets to be included in rate base and the rate making impact thereof shall be addressed in a future base rate proceeding.
5. Approval by the Board shall not affect or in any way limit the exercise of the authority of the Board or of the State of New Jersey in any future petition or in any proceeding with respect to rates, franchises, services, financing, accounting, capitalization, depreciation, or in any other rate matters affecting Gordon's Corner.
6. Gordon's Corner shall submit a schedule indicating complete details of the issuance costs no later than sixty (60) days following the closing date for this transaction.
7. Gordon's Corner shall furnish the Board with copies of the executed indentures.
8. The authority granted by the Board shall become null and void and of no effect if not exercised by April 15, 2024.

These provisions will satisfy Rate Counsel's concern that the Board's approval is limited to the transactions as described herein, does not imply authorization to include any specific

assets or amounts in rate base, does not imply 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 E. McClure, Esquire

C: Service List via e-mail