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October 17, 2024

VIA Electronic Mail

The Honorable Sherri Golden, Secretary
State of 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 New Jersey-American Water Company, Inc. for Approval of a Financing Program Involving the Refinancing of Existing Long-Term Debt and the Issuance of New Long-Term Debt Through December 31, 2027
BPU Docket No.: WF24080610**

Dear Secretary Golden:

Please accept, for filing, the Division of Rate Counsel's ("Rate Counsel") comments in connection with the above-referenced matter. Thank you for your consideration and attention to this matter.

A. Background

On August 16, 2024, New Jersey-American Water Company, Inc. ("NJAWC" or the "Company") filed a petition (the "Petition") with the New Jersey Board of Public Utilities ("BPU" or the "Board") requesting authority pursuant to N.J.S.A. 48:3-7 and N.J.A.C. 14:1-5.9 to (1) issue and sell up to \$1,082,000,000 aggregate principal amount of long-term debt consisting of one or more series of Long-Term Debt; (2) execute and deliver one or more supplemental mortgage indentures, loan agreements, notes, and such other documents; and (3) take such actions as NJAWC determines may be necessary or desirable in connection with any of the foregoing. Long-Term Debt refers to first mortgage bonds, notes, other bonds or other evidences

of indebtedness, whether secured or unsecured, fixed rate or variable, tax-exempt or taxable. The Petition requests authority through December 31, 2027. The Company's current authorization expires December 31, 2024.

The Company's Petition is similar to the Long-Term Debt authorization that was granted by the Board in the Company's previous petition for authorization of Long-Term Debt. In its previous petition to issue Long-Term Debt, the Company received authorization to issue and sell up to \$871,000,000 aggregate principal amount of long-term debt.¹ The Company is requesting an additional \$211,000,000 in this Petition, as represented by its requested amount of \$1.082 billion.

According to the Company's Petition, the net proceeds from NJAWC's issuance of Long-Term Debt will be used to (a) provide funds for NJAWC's ongoing utility plant construction program, (b) refinance outstanding Long-Term Debt of NJAWC as such debt matures or is retired or can be replaced by lower-cost issuances, (c) repay short-term debt incurred in connection with NJAWC's ongoing capital construction program, and (d) pay certain issuance costs related to the proposed financings.

The proceeds from any New Jersey Environmental Infrastructure Trust ("NJEIT") or New Jersey Economic Development Authority ("EDA") loan will be used for the purpose(s) set forth in the application(s) for such loan and as shown on the schedule setting forth the proposed

¹ I/M/O the Petition of New-Jesery American Water Company, Inc. For Approval of a Financing Program Involving the Refinancing of Existing Long-Term Debt and the Issuance of New Long-Term Debt Through December 31, 2024. BPU Docket No. WF21071020, Order, November 4, 2021.

use of proceeds from the proposed financing, which is attached to the Company’s Petition as Exhibit P-1.²

B. Assessment of the Petition

According to Exhibit P-1 from the Company’s Petition, the Company plans to apply the Long-Term Debt proceeds as follows³:

Issuance Expense	\$	16,292,988
Retirement of Bonds	\$	299,930,938
Sinking Fund Payments	\$	22,245,254
Capital Expenditures	\$	743,530,820
	\$	<u>1,082,000,000</u>

NJAWC included a list of its planned capital expenditures for 2025, 2026, and 2027. Currently, NJAWC estimates total capital expenditures of \$638,389,006 in 2025, \$679,215,569 in 2026, and \$693,276,444 in 2027.⁴

As of June 30, 2024, the amount of increase in debt that has occurred since the authorization of the Company’s last Long-Term Debt issuance request (Docket No. WF2107120) is \$697,131,065.⁵ NJAWC does not plan to issue additional Long-Term Debt for the remainder of 2024.⁶

NJAWC participates in a borrowing program that its affiliate, American Water Capital Corp. (“AWCC”) made available to each of its subsidiaries. Under this program, each AWCC subsidiary enters into an agreement with AWCC for financial services. AWCC arranges for a

² Petition at Paragraph 5.

³ Petition, Exhibit P-1.

⁴ Petition, Exhibit P-2.

⁵ NJAWC’s response to OE2.

⁶ NJAWC’s response to RCR-19.

syndicated bank credit line to provide for short-term loans and register its own debt securities for sale in the public market by shelf registration with the Securities and Exchange Commission.⁷

NJAWC obtains financing from its parent company, American Water Works Company, Inc. (“AWWC”). From time-to-time NJAWC may receive equity capital contributions from AWWC. NJAWC received common equity capital infusions from AWWC in 2022, 2023, and 2024. NJAWC received \$140,000,000 in 2022, \$160,000,000 in 2023, and \$134,000,000 in 2024.⁸ NJAWC plans to continue receiving common equity capital infusions from AWWC in 2025, 2026, and 2027. Currently, NJAWC projects that it will receive \$170,000,000 in 2025, \$160,000,000 in 2026, and \$120,000,000 in 2027 from AWWC.⁹

NJAWC’s current capital structure reflects a long-term debt ratio of 45%, with an effective cost rate of 4.16%, and an equity ratio of 55%, with an effective cost rate of 9.6%, as provided in the Company’s most recent base rate proceeding.¹⁰ NJAWC is targeting a similar capital structure ratio for 2025 through 2027 with approximately 45% long-term debt and 55% common equity. In order to achieve its capital structure target, the Company may periodically request infusions of common equity from AWWC, as discussed above.¹¹

In order to determine which method of debt issuance will result in the lowest cost of debt and most favorable terms, NJAWC continuously monitors the debt capital markets and bank loan markets through its relationships with its banking partners and underwriters. The Company considers its overall financing needs and its ability to obtain the necessary financing through the

⁷ NJAWC’s response to RCR-25.

⁸ NJAWC’s response to RCR-12.

⁹ NJAWC’s response to RCR-14.

¹⁰ NJAWC’s response to RCR-1.

¹¹ NJAWC’s response to OE7 and Petition, Exhibit P-13.

debt capital markets, bank loan markets, state revolving funds, etc. at the lowest cost possible depending upon interest rate market conditions at the time of financing.¹²

NJAWC's prior long-term debt issuances do not appear to have had a negative impact on the Company's long-term debt credit ratings or on the cost of NJAWC's permanent capital.

NJAWC has credit ratings from two of the major rating agencies, Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"). NJAWC has an S&P Issuer Credit Rating of A (upper medium investment grade). Moody's ratings for NJAWC's Senior Secured and Underlying Senior Secured debt are both A1 (upper medium investment grade). Moody's Issuer Rating for NJAWC is A3 (also upper medium investment grade). Both S&P and Moody's show NJAWC as having a "stable" outlook.¹³

C. Rate Counsel Conclusion

It appears that the Company's proposed authorization of \$1,082,000,000 would be enough long-term debt to meet its needs.

Rate Counsel recommends that the Board grant NJAWC's Long-Term Debt issuance authority until December 31, 2027 and impose the same 16 conditions on NJAWC, as listed below, that the Board imposed on the Company in approving NJAWC's most recent previous Long-Term Debt authorization request:¹⁴

- 1) Petitioner may issue Long-Term Debt in compliance with this Order. No further Order of this Board shall be necessary for Petitioner to complete the financing or financings of the Long-Term Debt proposed by the Petitioner if the conditions of this Order are met.

¹² NJAWC's response to OE5.

¹³ NJAWC's response to OE1 and RCR-15.

¹⁴ November 4, 2021 Board Order, Docket No. WF21071020.

- 2) Petitioner may, without further Order of the Board, issue and sell Long-Term Debt in accordance with the terms and conditions contained in such accepted bid if the interest rate set forth in the bid is within maximum coupon spreads over U.S. Treasury Securities as provided in the Market Yield Spread Table set forth above and the price to be paid to Petitioner for such bid is not less than 98% of principal amount or no more than 102% of principal amount.
- 3) Petitioner shall not issue Long-Term Debt at coupon rates in excess of those that would result from the Market Yield Spread Table set forth in this Order unless authorized by the Office of the Chief Economist of this Board upon submission by Petitioner of a request to amend this Order so as to permit Petitioner to issue Long-Term Debt at coupon rates in excess of those that would result from the current Market Yield Spread Table, accompanied by Petitioner's statement of the basis or the rationale therefore.
- 4) In the event that Petitioner sells Long-Term Debt through a negotiated sale, Petitioner shall notify the Chief Economist prior to its issuance of Long-Term Debt and will supply the following for informational purposes only: (i) principal amount or amounts of the Long-Term Debt proposed to be sold; (ii) anticipated maturity ranges; (iii) actual current yields of United States Treasury securities; (iv) range of estimated coupon spreads over United States Treasury securities; (v) data, as available, with respect to recent sale of comparable Long-Term Debt of other utilities; and (vi) such other information as Petitioner shall deem relevant to assess the reasonableness of the expected sale of the Long-Term Debt. Further, within seven (7) business days after the issuance and sale of any Long-Term Debt, Petitioner will provide the Chief Economist such information as was available at the time of sale upon which Petitioner based its decision to sell, such as market data with respect to utilities with similar credit ratings that have issued comparable securities.
- 5) In the event that Petitioner sells Long-Term Debt through a competitive bidding process, Petitioner shall provide this Board with the following material for informational purposes, as soon as it is available, and in no event later than 24 hours prior to the time for the receipt of bids (which materials may be provided by mail or by facsimile transmission and confirmed by mail): (a) a statement with respect of bidding for the Long-Term Debt which shall specify (i) the date and time for receipt of bids for the Long-Term Debt, (ii) the principal amount of the Long-Term Debt, (iii) the series designation of the Long-Term Debt, (iv) the minimum and maximum percentage of principal amount which may be specified in the bid as the purchase price for the Long-Term Debt, (v) the term of the Long-Term Debt, (vi) the terms and conditions, if any, upon which the Long-Term Debt may be redeemed, whether at the option of the Petitioner, pursuant to any sinking fund or improvement fund for the Long-Term Debt, or otherwise, and (vii) such other provisions as may be established by Petitioner with respect to the terms and conditions of the Long-Term Debt and the bidding thereof and (b) an assessment of the then current financial markets applicable to the Long-Term Debt

which shall include (i) data with respect to recent sales of comparable securities of other utilities, (ii) interest rate spreads between United States Treasury Bonds and utility securities comparable to the Long-Term Debt, (iii) the anticipated number of bidders for the Long-Term Debt, (iv) the anticipated range of the yield of the Long-Term Debt based upon current market conditions, and (v) such other information as Petitioner shall deem relevant to assess the expected sale of the Long-Term Debt and the reasonableness of the annual cost of money.

- 6) Petitioner shall notify the Board 14 days prior to the issuance of Long-Term Debt at coupon rates in excess of 10%.
- 7) Petitioner shall, as promptly as is practicable following the end of each month during which the Long-Term Debt is sold, file with the Board a statement which shall set forth the Long-Term Debt transactions concluded during such month including the names of the agents and details of the transactions with the agents. Such statement shall also set forth (a) the principal amount, maturity date, redemption provisions, commissions and the interest rate spread over comparable United State Treasury securities for any Long-Term debt sold, and (b) the principal amount of the Long-Term Debt remaining authorized for issuance and sale in this Docket.
- 8) Petitioner shall issue the Long-Term Debt solely as provided for in this Order.
- 9) Petitioner shall furnish the Board with copies of each indenture, trust agreement, supplemental indenture, and similar instrument as executed.
- 10) Petitioner shall furnish this Board with copies of all final and complete documents as executed and filed with other regulatory agencies, if any.
- 11) Semi-annually, Petitioner shall file with this Board, a statement setting forth: (a) the amount of Long-Term Debt issued pursuant to this Order; and (b) details with respect to the disbursement of proceeds from such issuances.
- 12) This Order shall not be construed as a certification that the securities authorized to be offered for sale will be represented by tangible or intangible assets of commensurate value or investment costs.
- 13) This Order shall not effect nor in any way limit the exercise or authority of this Board, or this State, in any future petition or in any proceeding with respect to rates, franchises, services, financing, capitalization, depreciation, or any other matters affecting the Petitioner.

- 14) 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.
- 15) Petitioner should undertake financing in a manner that achieves the lowest reasonable cost of capital to customers.
- 16) The authority granted in this Order shall become null and void and of no effect with respect to any portion thereof which is not exercised by December 31, 2027.

Respectfully submitted,

BRIAN O. LIPMAN, ESQ.
Director, Rate Counsel

By: *Susan E. McClure*

Susan E. McClure, Esq.
Deputy Rate Counsel

cc: Service List *via e-mail*

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BPU Docket. No. WF24080610**

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