



Agenda Date: 11/30/11
Agenda Item: 5A

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/WASTEWATER

IN THE MATTER OF THE PETITION OF NEW)
JERSEY-AMERICAN WATER COMPANY, INC. FOR)
APPROVAL OF A FINANCING INVOLVING THE)
REFINANCING OF EXISTING LONG-TERM DEBT AND)
THE ISSUANCE OF NEW LONG-TERM DEBT)
THROUGH DECEMBER 31, 2013)

ORDER

DOCKET NO. WF11090542

Parties of Record:

Jordan S. Mersky, Deputy General Counsel, New Jersey-American Water Company, Inc.
Stefanie A. Brand, Director, New Jersey Division of Rate Counsel

BY THE BOARD:

On September 14, 2011, New Jersey-American Water Company, Inc. ("NJAWC" or "Petitioner") filed a petition with the New Jersey Board of Public Utilities ("Board") seeking authority pursuant to N.J.S.A. 48:3-7 and 48:3-9 and N.J.A.C. §14:1-5.9 to do the following:

- (1) Issue and sell up to \$275,000,000 in aggregate principal amount of long-term debt consisting of one or more series of Long-Term Debt;
- (2) Execute and deliver one or more series of supplemental mortgage indentures, loan agreements, notes, and such other documents; and
- (3) Take such other actions as Petitioner determines may be necessary or desirable in connection with any of the foregoing. This Decision and Order addresses outstanding issues in this proceeding.

NJAWC is a regulated public utility corporation, engaged in the production, treatment and distribution of water and collection of sewage within its defined service territory within the State of New Jersey. NJAWC's service territory includes portions of the following counties: Atlantic, Burlington, Camden, Cape May, Essex, Gloucester, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Salem, Somerset, Union and Warren. Within its service

territory, NJAWC serves approximately 614,000 water customers and approximately 34,000 sewer customers in 189 municipalities.

Petitioner seeks authorization to engage in a transaction or a series of transactions at any time through December 31, 2013, the net results of which will be the issuance of up to \$275,000,000 aggregate principal amount of long-term debt consisting of one or more series of first mortgage bonds, notes, other bonds or other evidences of indebtedness, whether secured or unsecured, fixed rate or variable rate, tax-exempt or taxable (collectively, the "Long-Term Debt").

The net proceeds of this transaction or series of transactions will be utilized to (a) provide funds for Petitioner's ongoing utility plant construction program; (b) refinance outstanding long-term debt of the Petitioner as such debt matures or is retired or can be replaced by lower-cost issues; (c) repay short-term debt previously incurred to finance Petitioner's ongoing capital construction program; (d) provide capital for certain acquisitions, and (e) pay certain issuance costs related to the proposed financings.

The issuance of the Long-Term Debt that the Petitioner contemplates may fall into several categories:

- (a) secured or unsecured, tax-exempt or taxable securities issuances in conjunction with issuances by the New Jersey Economic Development Authority ("EDA") to the extent that Petitioner has qualifying projects and such loans are approved by the EDA;
- (b) secured or unsecured low interest loans obtained through the New Jersey Environmental Infrastructure Trust Financing Program (the "Trust Fund") to the extent that Petitioner has qualifying projects and such loans are approved by the Trust Fund;
- (c) secured or unsecured, taxable issuances in conjunction with issuances by American Water Capital Corp. ("AWCC"), a wholly-owned subsidiary of Petitioner's parent, American Water Works Company, the proceeds of which are loaned to the Petitioner; or
- (d) secured or unsecured, tax-exempt or taxable issuances, either directly by the Petitioner or indirectly through and in conjunction with AWWC, with proceeds then loaned to the Petitioner.

The Long-Term Debt issued in conjunction with EDA may be secured and issued under one or more supplemental indentures (the "Supplemental Indentures") to NJAWC's original Indenture of Mortgage dated as of May 1, 1968, as heretofore amended and supplemented (collectively, the "Mortgage Indenture"). The Long-Term Debt issued in conjunction with the Trust Fund loans will be issued under loan documents required by the Trust Fund. The Trust Fund makes loans available to local government units and public utilities for qualifying projects designed to improve the quality of the State's water and water and wastewater infrastructure. The tax-exempt or taxable Long-Term Debt issuances through and in conjunction with AWCC, if unsecured, will not be issued under the Mortgage Indenture. Any tax-exempt Long-Term Debt issuances involving AWCC for the benefit of Petitioner will be issued in conjunction with the EDA, and such involvement would not result in increased financing costs to Petitioner.

The Long-Term Debt may be issued as fixed rate debt or variable rate debt. The sale of Long-Term Debt may be conducted by a private sale or public offering. In connection with the issuance of Long-Term Debt, Petitioner may deem that it is in its best interest to enter into one or more swap, hedge or other derivative agreements or arrangements with respect to such Long-Term Debt.

The interest rate and other terms of any loans for any Long-Term Debt issuances with the EDA and/or the Trust Fund will be determined through an offering of EDA bonds and/or Trust Fund bonds, as the case may be, that would include the amounts requested by Petitioner in application approved by the EDA or the Trust Fund, respectively. For Long-Term Debt issuances in conjunction with AWCC, such terms and conditions will be as agreed between Petitioner and AWCC, based on the yields and terms and conditions of other utility debt securities in the private/public market having such credit ratings as Petitioner at the time of the AWCC issuance.

Petitioner also seeks authority, without further Order of the Board, to issue and sell Long-Term Debt as described above 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 below 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.

MARKET YIELD SPREAD TABLE

Tenure	Maximum Coupon Spread Over U.S. Treasury Securities (Basis Points)
1-Year	305
2-Year	310
3-Year	305
4-Year	310
5-Year	300
7-Year	300
10-Year	310
15-Year	300
20-Year	305
25-Year	300
30-Year	300

~~Petitioner further proposes that in the event market conditions change, Petitioner will file a petition with the Board requesting approval of an updated Market Yield Spread Table before issuing Long-Term Debt at coupon rates that are not within the Market Yield Spread Table set forth above.~~

In a letter dated November 1, 2011 the Division of Rate Counsel does not object to the approval of this matter.

The Board, after investigation, having considered the record and exhibits submitted in this proceeding, is satisfied that the proposed transactions to be taken by Petitioner, as indicated above and subject to the conditions described below, are in accordance with law and are in

the public interest. The Board therefore AUTHORIZES Petitioner to do the following, through December 31, 2013:

- 1) To make, execute and deliver pursuant to N.J.S.A. 48:3-7 such Supplemental Indentures to the Mortgage Indenture providing for the issuance of up to \$275,000,000 aggregate principal amount of Long-Term Debt with a maturity or maturities of not more than forty (40) years;
- 2) To make, execute and deliver one or more underwriting agreements, official statements, bond purchase agreements, reoffering agreements, remarketing agreements and repurchase agreements (in the case of variable rate securities), loan and security agreements and indentures or trust agreements in connection with tax-exempt or taxable financings and such other documents, agreements, instruments and indentures as may be necessary or appropriate for any of the proposed financings;
- 3) To hire a financial advisor in connection with one or more of the offerings of Long-Term Debt as it deems necessary or appropriate;
- 4) To redeem, refinance, convert and/or defease any or all of its outstanding long-term debt securities so long as the redemption, refinancing, conversion and/or defeasance is accomplished on a cost saving basis; and/or
- 5) To take such action as Petitioner deems necessary or desirable in connection with any of the foregoing.

This Order is issued subject to the following conditions:

- 1) Petitioner may issue Long-Term Debt as set forth above in compliance with this Order. No further Order of this Board shall be necessary for the Petitioner to complete the financing or financings of the Long-Term Debt proposed by the Petitioner if the conditions of this Order are met.
- 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 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 the 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) Petitioner shall semi-annually 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 Petitioner will be required to adhere to all notification and reporting requirements outlined in the Petition. In addition, for all debt issuances made on the Company's behalf by AWCC or made directly by the Company, NJAWC will be required to state why EDA and/or Trust Fund financing is not being used.


17) 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, 2013.

This Order shall be effective on December 10, 2011

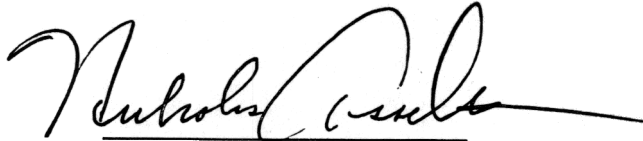
DATED: 11/30/11

BOARD OF PUBLIC UTILITIES
BY:


LEE A. SOLOMON
PRESIDENT


JEANNE M. FOX
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER


NICHOLAS ASSELTA
COMMISSIONER

ATTEST:

KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities.



**In the Matter of the Petition Of New Jersey-American Water Company, Inc. for Approval of
a Financing Involving the Refinancing of Existing Long-Term Debt and the
Issuance of New Long-Term Debt Through December 31, 2013**

WF11090542

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