



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.nj.gov/bpu

WATER

IN THE MATTER OF THE APPLICATION OF)
FAYSON LAKE WATER COMPANY, A NEW) ORDER OF APPROVAL
JERSEY CORPORATION, FOR AUTHORITY TO)
EXECUTE A NOTE OR NOTES PAYABLE IN)
MORE THAN ONE YEAR FROM THE DATE)
THEREOF) DOCKET NO. WF07080593

(SERVICE LIST ATTACHED)

BY THE BOARD:

Fayson Lake Water Company ("Petitioner"), a public utility in the State of New Jersey, serving approximately 850 customers in the Borough of Kinnelon, Morris County, filed a Verified Petition with the New Jersey Board of Public Utilities ("Board") on August 3, 2007, pursuant to N.J.S.A. 48:3-9 and N.J.A.C. 14:1-5.9 requesting authority to issue two (2) Promissory Notes to Sussex Bank. The first Note will be a term loan in the amount of \$960,000.00. The second Note will be a commercial line of credit in the amount of \$100,000.00.

Petitioner was granted Board approval on September 29, 2006, in Docket No. WF06040321 to enter into financing arrangements consisting of a \$960,000 line of credit. Petitioner had the option of converting \$760,000 of the \$960,000 line of credit into permanent long-term financing when the line of credit matured (11 ½ months from date of closing). The borrower also had the option, on the date of maturity (11 ½ months from the date of closing), of converting \$200,000 of the \$960,000 line of credit into a one year operating line of credit. The proceeds of this loan were allocated as follows:

- (a) \$275,000 was allocated to direct costs already incurred for the completed project of replacement of existing well #4 with a new well (Well #7),
- (b) \$30,000 was allocated to consolidation of remaining debt service on a previously completed project involving the completion of the Cliff Trail water storage tank,

(c) \$455,000 was allocated to Fayson Lake's water main replacement, and

(d) \$200,000 was allocated to a two year operating line of credit.

The proposed loans in this Docket will convert debt issued pursuant to approval in Docket No. WF06040321 into long-term debt. However, the terms of the financing and allocation of the proceeds are different than the terms and allocations previously approved.

The purposes for which the proceeds of the \$960,000 term loan and \$100,000 commercial line of credit are to be used and the amounts allocated to each purpose are:

- (a) \$275,000.00 allocated to direct costs already incurred for the completed replacement of existing well #4 with a new well (Well #7) to produce 250 gallons per minute (GPM) flow rate at 160 Boonton Avenue, Kinnelon, NJ,
- (b) \$30,000.00 is allocated to consolidation or remaining debt service on a previously completed project involving the completion of the Cliff Trail water storage tank,
- (c) \$655,000.00 is allocated to Fayson Lakes water main replacement, and
- (d) \$100,000.00 is allocated to a two year operating line of credit.

The terms of the proposed Note for the \$960,000.00 term loan are as follows:

TERM: The term of the loan shall extend until a date, which is three hundred (300) months from the first day of the first month following the signing of the mortgage modification (the "Maturity Date") or default under the Loan Documents, or Sale or other conveyance of the project. Closing shall take place within thirty (30) days after the date of an Order of Approval for this loan issued by the Board.

INITIAL PERIOD, INTEREST RATE AND INTEREST RATE ADJUSTMENTS: The outstanding balance of the loan shall bear an initial interest rate of seven and one half percent (7.50%) fixed for the first five (5) years. Interest shall be calculated upon the daily outstanding principal balance thereof based up a 360-day year for the actual number of days elapsed.

The principal balance of the loan, and interest thereon, shall be repaid in three hundred (300) monthly installments. The first sixty (60) monthly installments shall be in the amount of \$7,164.65, which are calculated based upon a twenty-five (25) year payment schedule. During the remaining twenty (20) years of the mortgage interest rates will adjust on each fifth anniversary thereafter to a rate equal to 260 basis points above the Five Year Treasury Index. The rate shall be set thirty days in advance of the fifth, tenth, and fifteenth and twentieth year anniversary of the loan. Monthly payments of principal and interest shall commence 30 days following closing and shall continue on each calendar month thereafter during the term of the loan. The entire then-outstanding principal balance of the Loan, and all accrued and unpaid interest thereof, shall be payable in full in one (1) installment on the Maturity Date.

DEFAULT INTEREST RATE: Upon default, whether or not the Lender has accelerated payment of the Loan, the unpaid principal of all advances shall, at the option of the Lender, bear interest at a rate which is four (4) percentage points per annum greater than that which would otherwise be payable.

LATE FEE: In the event that any payment of principal or interest is not paid within fifteen (15) days of its due date, the Borrower shall pay to the Lender a late fee equal to five (5%) percent of the overdue payment. Imposition of a late fee shall be in addition to, and not in lieu of, any other remedies available to the Lender under the commitment, the Loan Documents, at law, equity of otherwise.

SECURITY: The Loan is to be secured at all times by (i) a first priority mortgage lien on a tract of land having an address of 160 Boonton Avenue, Kinnelon, New Jersey, consisting of approximately 2 acres of land upon which Fayson Lake Water Company office, wells and equipment, a parking lot and other improvements (defined by the lender as the "Project") are located, (ii) a first priority lien and/or security interest on all fixtures and personal property used in the construction, management, maintenance and operation of the premises the Project, including but not limited to, building materials and heating apparatus, air conditioners and equipment, and other property of a similar nature, and (iii) a UCC-1 / Financing statement on inventory and accounts receivable.

The terms of the proposed Note for the \$100,000.00 Commercial Line of Credit are as follows:

TERM: The term of the loan shall extend until the earlier of (i) a date which is twenty-four (24) months from the date of the closing, or (ii) a default under the Loan Documents, or (iii) Sale or other conveyance of The Property. Closing shall take place within thirty (30) days after the date of an Order of Approval for this loan issued by the Board.

REPAYMENT: The outstanding balance of the loan shall bear an initial interest rate of 9.25% floating for two (2) years. Interest shall be calculated upon the daily outstanding principal balance thereof based upon a 360 day year for the actual number of days elapsed. The principal balance of the loan, and interest thereon, shall be repaid in twenty-four (24) monthly installments. Monthly payments of interest only on the amount advanced shall commence thirty (30) days following the initial advance and shall continue on each calendar month thereafter during the term of the interest thereof, shall be payable in full in one (1) installment on a date which is twenty-four (24) months from the date of the closing.

LATE CHARGES: A late charge of five percent (5%) of the payment due shall be charged for any payment which is not received within fifteen (15) days of the payment due date.

SECURITY: The second Note will be for a commercial line of credit in the amount of \$100,000.00. It will be secured by a second mortgage of the Project.

The Division of the Rate Counsel has reviewed the Petition and, by letter dated February 13, 2008, recommends Board approval of this matter so long as the Board approval is limited to the proposed financing and does not indicate authorization to include any specific assets on amounts in rate base.

Staff reviewed the information submitted relating to the systems improvements. These improvements are necessary and the associated costs are reasonable. In addition, Staff is of the opinion that the terms of the Promissory Notes appear reasonable considering the size of the utility, its financial condition and the current markets.

The Board, after investigation, having considered the petition and exhibits submitted in this proceeding, FINDS that the proposed transaction is in accordance with law, is not contrary to the public interest, and approving the purposes thereof, HEREBY ORDERS that Petitioner be and is HEREBY AUTHORIZED to issue two (2) Promissory Notes to the Sussex Bank, one for a term loan in the amount of \$960,000.00, and the other for a commercial line of credit in the amount of \$100,000.00, both as hereinabove described.

This Order is issued subject to the following provisions:

1. Board approval is expressly limited to the financing transactions described herein and as more fully described in the Petition and supporting documents.
2. This Order shall not be construed as directly or indirectly fixing, for any purposes whatsoever, any value of any tangible or intangible assets now owned or hereafter to be owned by the Company.
3. This Order shall not be construed as certification that the Notes proposed to be issued hereunder will be represented by tangible or intangible assets of commensurate value or investment cost.
4. This Order shall not affect nor 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 proceedings with respect to rates, franchises, services, financing (including the method of sale of securities), accounting, capitalization, depreciation, or any other matters affecting the Company.
5. This Order is for the sole purpose of approving the financing and does not approve or indicate approval of the project or projects as herein described for ratemaking purposes.
6. Board approval is expressly limited to the financing and does not indicate authorization to include any specific amounts or assets in rate base.
7. The Company shall submit to the Board a copy of the Notes issued by the Lender and all other material documents executed or to be executed.

8. The authority granted in this Order shall become effective only upon compliance with all of the stated provisions and shall become null and void and of no effect with respect to any portion thereof that is not exercised by December 31, 2008.

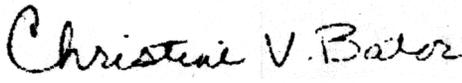
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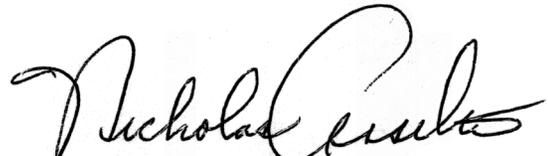
BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT

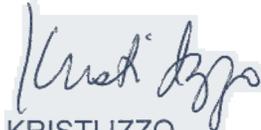

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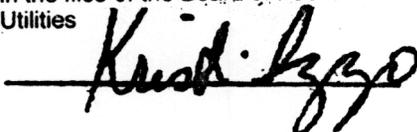

CHRISTINE V. BATOR
COMMISSIONER


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



SERVICE LIST

In the Matter of the Application of Fayson Lake Water Company, a New Jersey Corporation, for Authority to Execute a Note or Notes Payable in More than One Year from the Date Thereof

Docket No. WF07080593

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