



Agenda Date: 11/21/14
Agenda Item: 5B

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/

IN THE MATTER OF THE PETITION OF UNITED) ORDER
WATER NEW JERSEY INC., UNITED WATER TOMS)
RIVER INC., UNITED WATER MID-ATLANTIC INC.,)
UNITED WATER ARLINGTON HILLS SEWER INC.,)
UNITED WATER WEST MILFORD SEWER INC.,)
UNITED WATER MATCHAPONIX INC., UNITED)
WATER PRINCETON MEADOWS INC., UNITED)
WATER RESOURCES INC. AND UNITED)
WATERWORKS INC. FOR APPROVAL AS NEEDED)
OF AN INTERNAL REORGANIZATION AND OTHER)
REGULATORY APPROVALS) DOCKET NO. WM14070697

Parties of Record:

Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel
Stephen B. Genzer, Esq., Saul Ewing LLP for the Petitioner

By The Board¹

On July 7, 2014, United Water Resources Inc. ("UWR") and its New Jersey regulated utility subsidiaries together with United Waterworks Inc. ("UWW") (collectively "Petitioners"), filed a petition to request New Jersey Board of Public Utilities (the "Board") approval, as necessary pursuant to N.J.S.A. 48:2-51.1, N.J.S.A. 48:3-7, N.J.S.A. 48:3-10, and N.J.A.C. 14:1-5.14, of an internal reorganization. The proposed internal reorganization consists of a two-step merger process pursuant to which UWW will become the direct corporate parent of each of the New Jersey regulated utility subsidiaries. In addition, the Petitioners request Board approval to participate in certain financing arrangements whereby the Petitioners may be guarantors or may pledge assets as security for debt financings at the UWW holding company level. The Petitioners submit that the proposed internal reorganization is in the public interest, will be

¹ Commissioner Upendra J. Chivukula recused himself due to a potential conflict of interest and as such took no part in the discussion or deliberation of this matter. Commissioner Dianne Solomon was not present at the 11/21/14 agenda meeting.

seamless and largely invisible to customers, and will facilitate the Petitioners' ability to provide safe, adequate and propel utility service at just and reasonable rates.

UWR is presently the parent company of the following entities: United Water New Jersey Inc., United Water Mid-Atlantic Inc., and UWW. These three entities either are themselves New Jersey operating utilities, or they are the direct corporate parent of a New Jersey operating utility. Those New Jersey utility entities will be collectively referred to as the "New Jersey Operating Utilities" or "Utilities". The New Jersey Operating Utilities currently serve approximately 250,000 customers in all or portions of 70 municipalities in New Jersey. UWW is also the parent company of several regulated utilities providing service in jurisdictions other than the State of New Jersey. The proposed internal reorganization will not result in a change in the ultimate ownership of the New Jersey Operating Utilities, the management and operation of the New Jersey Operating Utilities will similarly be unchanged. The internal reorganization does not involve any transfer of franchises, assets or customers, and the New Jersey Operating Utilities will retain and maintain their respective tariffs and operations in New Jersey.

The proposed internal reorganization consists of a two-step merger process pursuant to which UWW will become the direct corporate parent of each of the New Jersey regulated utility subsidiaries. Step one of the reorganization involves UWMA merging with and into UWR with UWR being the surviving corporation. Step two of the reorganization will happen immediately after the first step and will be virtually simultaneous to it. In step two, UWR will then merge with UWW with UWW being the surviving entity.

The New Jersey Operating Utilities will continue to provide service to their respective existing customers in New Jersey under the same rates, terms and conditions, and they will continue to be subject to the jurisdiction of the Board. This is an internal corporate reorganization. United Water Mid-Atlantic is the parent company of the following New Jersey operating utilities: United Water Arlington Hills Sewer, United Water West Milford Sewer, United Water Matchaponix, United Water Princeton Meadows, and United Water Sewer Services. The only New Jersey operating utility that is presently a subsidiary of UWW is United Water Toms River Inc. UWW's other subsidiaries are: United Water Owego-Nichols Inc., United Water Pennsylvania Inc., United Water New Rochelle Inc. United Water Rhode Island Inc., United Water Idaho Inc., United Water Delaware Inc., United Water Westchester Inc., United Water Bethel Inc. and South County Sewer Inc. These entities do not provide service in New Jersey, and are not subject to the Board's jurisdiction.

As part of the proposed reorganization, UWW intends to enter into certain financing arrangements, which will consist of the issuance of long-term debt to be utilized to fund the operations of the reorganized and consolidated Company. As long-term debt is issued, the petitioners believe that more favorable terms, including a lower interest rate, on said debt can be achieved and, as a result of the reorganization, should benefit each of the petitioners.

Petitioners seek approval to participate in these Financing Arrangements occurring at the UWW level based on the fact they, along with certain other affiliated companies, may be a guarantor or pledge assets with respect to the contemplated Financing Arrangements. The primary purpose of the Financing Arrangements is for the refinancing, refunding, renewal, reissuance, redemption, and rollover of any indebtedness outstanding, the incurrence or issuance of additional long-term indebtedness, and the amendment or revision of any terms or provisions relating to any long-term indebtedness.

Petitioners submit that the proposed reorganization and financing arrangements will not have any adverse impact on competition or on the rates, customers, or operations of the New Jersey Operating Utilities. To the contrary, the New Jersey Operating Utilities and their customers will benefit from the reorganization and financing arrangements in various ways. First, the elimination of duplicative holding companies will result in modest administrative savings of approximately \$30,000 per year, largely due to elimination of labor costs and audit fees. Second, participation in the financing arrangements should allow the New Jersey Operating Utilities greater access to capital markets, with better terms and conditions than presently exist.

Petitioners state that the internal reorganization described herein will not have a detrimental impact on competition. The entities to be eliminated, UWMA and UWR, are holding companies and do not themselves provide utility service in New Jersey or elsewhere. Therefore, the number of participants in the market for the provision of these services will be unchanged as a result of the proposed internal reorganization.

The Division of Rate Counsel has reviewed this matter and by letter dated October 28, 2014 does not object to approval of the Joint Petitioners' petition conditioned on the following language encompassing the agreement of the parties is included in this Board Order.

The Division of Rate Counsel stipulates its approval on the condition that, if the Joint Petitioners file a base rate case for United Water New Jersey with rates effective within three years following the closing of the internal reorganization, the Company will use for purposes of setting rates in that case a long-term debt rate of either 5.31%, or the test-year combined long-term debt rate, whichever is lower.

By letter dated October 29, 2014, the Joint Petitioner's "accepted the recommendations noted in Rate Counsel's letter."

The Board, after investigation, having considered the record and exhibits submitted in this proceeding, is satisfied that the proposed reorganization and related financings to be undertaken by Petitioner, as presented above, is in accordance with law, and in the public interest. The Board therefore **AUTHORIZES** Petitioner to complete the internal reorganization and financing arrangements as described above. As Petitioners did not seek the Board's review or approval of any specific financing transactions in its petition, the Board is not reviewing or approving any such transaction. Financing transactions between the holding company and the utilities are subject to Board approval in accordance with N.J.S.A. 48:3-9 and N.J.A.C. 14:1-5.9.

This Order is issued subject to the following provisions:

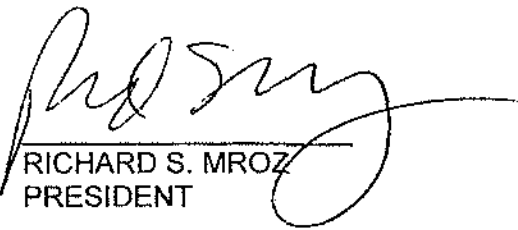
- (1) Petitioner shall inform the Board in writing upon Petitioner's completion of the reorganization described herein.
- (2) This Order shall not affect or in any way limit the exercise of the authority of this Board or of the State in any future petition or in any proceeding with respect to rates, franchises, services, accounting, financing, capitalization, depreciation or any other matter affecting Petitioner.
- (3) 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.

- (4) If the Joint Petitioners file a base rate case for United Water New Jersey with rates effective within three years following the closing of the internal reorganization, the Company will use for purposes of setting rates in that case a long-term debt rate of either 5.31%, or the test-year combined long-term debt rate, whichever is lower.
- (6) Financing transactions between the holding company and the utilities are subject to Board approval in accordance with N.J.S.A. 48:3-9 and N.J.A.C. 14:1-5.9. This Order in no way approves any such transaction or limits the Board's authority to approve such transactions in the future.
- (5) The authority granted herein by the Order, shall become null and void if the transaction is not completed within 365 days of the date of receipt of all required approvals.

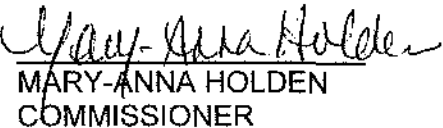
This Order will be effective December 1, 2014.

DATED: 11/21/14

BOARD OF PUBLIC UTILITIES
BY:


RICHARD S. MROZ
PRESIDENT

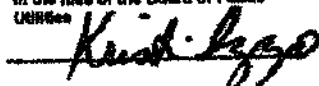

JOSEPH L. FIORDALISO
COMMISSIONER


MARY-ANNA HOLDEN
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



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WATER TOMS RIVER INC., UNITED WATER MID-ATLANTIC INC., UNITED WATER
ARLINGTON HILLS SEWER INC., UNITED WATER WEST MILFORD SEWER INC., UNITED
WATER MATCHAPONIX INC., UNITED WATER PRINCETON MEADOWS INC., UNITED
WATER RESOURCES INC. AND UNITED WATERWORKS INC. FOR APPROVAL AS
NEEDED OF AN INTERNAL REORGANIZATION AND OTHER REGULATORY APPROVALS
DOCKET NO. WM14070697

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