



State of New Jersey

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January 9, 2025

VIA E-MAIL

Honorable Sherri L. Golden, Secretary
State of New Jersey, Board of Public Utilities
44 South Clinton Avenue, 1st Floor
P.O. Box 350
Trenton, New Jersey 08625-0350

Re: **I/M/O Petition of Aqua New Jersey, Inc. for Authority to
Issue Evidence of Indebtedness Pursuant to the New Jersey
Infrastructure Bank Financing Program
BPU Docket No.: WF24100832**

Dear Secretary Golden:

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

A. Background

On October 25, 2024, Aqua New Jersey, Inc. ("Aqua" or the "Company") filed its petition for authority to issue evidence of indebtedness pursuant to the New Jersey Infrastructure Bank financing program ("Petition"). The Water Bank is a partnership between the New Jersey Infrastructure Bank ("IBank") and the New Jersey Department of Environmental Protection ("NJ DEP"). The Water Bank administers New Jersey's Clean Water State Revolving Fund ("CWSRF") and the Drinking Water State Revolving Fund ("DWSRF"). In State Fiscal Year ("SFY") 2025, which commenced in July 2024, the Water Bank is offering low-cost financing

packages with features such as low interest loans, interest-free loans, and principal forgiveness for projects that meet each funding category's eligibility criteria.¹

Aqua has been engaged with the Water Bank, IBank, and NJ DEP to obtain access to the DWSRF for SY25 for the following projects:²

<u>Project Description</u>	<u>Cost (in millions)</u>
Phillipsburg Lead Service Line Replacement (#2119001-002)	\$ 13.4
Blackwood Lead Service Line Replacement (#0415002-001)	\$ 6.2
Summit Lake PFAS Treatment (#1911004-001)	\$ 2.1
PFAS Treatment in Hamilton (#1103001-004)	\$ 21.0
Total	<u>\$ 42.7</u>

In its Petition, the Company seeks authority from the New Jersey Board of Public Utilities ("Board" or "BPU"), pursuant to N.J.S.A. 48:3-9 and N.J.A.C. 14:1-5.9, to participate in the IBank loan programs and to undertake the following actions: (1) to borrow up to \$42.7 million from the Water Bank/IBank (the "IBank Loans") and the State of New Jersey, acting by and through NJ DEP, for the purpose of completing the four projects; (2) to make, execute and deliver to US BANK N.A., as Trustee, one or more Supplemental Indentures to an original indenture dated as of October 1, 1957; (3) to issue and deliver to the IBank and the State of New Jersey up to \$42.7 million principal amount of First Mortgage Bonds as security for the IBank Loans; and (4) to take such actions as are necessary to effectuate the transactions described herein.³

B. Assessment of the Petition

We have reviewed the Company's Petition, along with its responses to Rate Counsel and BPU Staff's data requests. If the Board approves the Company's request, the Company is

¹ October 25, 2024 Petition, paragraphs 1-2.

² October 25, 2024 Petition, paragraph 3.

³ October 25, 2024 Petition, paragraph 4.

expecting to save approximately \$10.1 million.⁴ Exhibit J that was filed with the Company's petition shows a comparison of what the cost of financing would be if Aqua financed the projects independently versus financing the projects through the IBank loans. If Aqua finances these projects independently, the loans would have an estimated 4.301% effective interest rate. However, if Aqua finances through IBank, the loans would have an estimated 1.475% effective interest rate, thus providing significant financing cost savings.⁵

As of December 31, 2023, Aqua had approximately \$143.644 million total outstanding long-term debt with a weighted average interest rate of 4.09%.⁶ As of September 30, 2024, Aqua had approximately \$143.191 million total outstanding long-term debt with a weighted average interest rate of 4.10%.⁷ Of the \$143.191 million outstanding, approximately \$1.506 million is with the New Jersey Environmental Infrastructure Trust ("NJEIT"), which was the forerunner to the IBank.⁸ If the Company utilizes financing through IBank, Aqua anticipates the weighted average interest rate applicable to the loans will be 4.03%.⁹ The rate will not change during the term once it is finalized.¹⁰ As noted above, Aqua has estimated that the effective interest rate on the IBank financing would be 1.475%.¹¹

Aqua would carry the total debt of the financed projects on its financial statements during the lifetime of the projects.¹² However, the IBank provided financing for these projects is also eligible for principal forgiveness. Aqua states that the Phillipsburg Lead Service Line Replacement and Blackwood Lead Service Line Replacement projects are both eligible for 80%

⁴ October 25, 2024 Petition, Exhibit J.

⁵ October 25, 2024 Petition, Exhibit J.

⁶ October 25, 2024 Petition, paragraph 5 and Company's response to RC-Aqua-9.

⁷ Company's response to RC-Aqua-9.

⁸ Company's responses to RC-Aqua-1 and RC-Aqua-9.

⁹ October 25, 2024 Petition, paragraph 5, Company's responses to RC-Aqua-10 and S-Aqua-1. The Company notes that this interest rate was provided by IBank.

¹⁰ Company's response to S-Aqua-2.

¹¹ October 25, 2024 Petition, Exhibit J.

¹² October 25, 2024 Petition, paragraph 13.

forgiveness under the IBank loans.¹³ Aqua states that the Summit Lake PFAS Treatment and Hamilton PFAS Treatment projects are both eligible for 100% forgiveness under the IBank loans.¹⁴ For these IBank loans, the principal forgiveness feature is subject to the availability of funds.¹⁵ The principal forgiveness feature, if Aqua is able to utilize it, would result in grant-like funding.¹⁶

While construction on these four projects has not yet begun, Aqua states that, due to state and federal laws, the two lead service line replacement projects and the two PFAS projects would need to proceed with or without the IBank financing.¹⁷ Because these four projects appear to be needed for compliance with New Jersey laws and regulations, and Aqua has stated that it will need to proceed with these projects with or without the IBank financing, it would be beneficial for Aqua and the Company's ratepayers to utilize financing that will yield lower interest rates and potential principal forgiveness.

C. Accounting and Journal Entries

Aqua provided the journal entries that would be recorded should the Petition be approved and the IBank financing be obtained. According to Aqua, upon approval of the \$42.7 million IBank financing, the Company would debit Restricted Cash and credit Long-Term Debt. When Aqua uses the proceeds from IBank to complete each project, the Company would debit UPIS/CWIP for Project Costs and credit Restricted Cash.¹⁸ It is not clear how Aqua would record the principal forgiveness should Aqua receive any. However, since the principal

¹³ October 25, 2024 Petition, paragraphs 9 and 10 and Company's response to RC-Aqua-20.

¹⁴ October 25, 2024 Petition, paragraphs 11 and 12 and Company's response to RC-Aqua-20.

¹⁵ Company's response to RC-Aqua-20.

¹⁶ October 25, 2024 Petition, paragraph 13.

¹⁷ Company responses to RC-Aqua-5, RC-Aqua-6, and RC-Aqua-7.

¹⁸ Company's response to S-Aqua-8.

forgiveness would be similar to grant-line funding,¹⁹ we recommend that the plant in service amounts that have been funded with the grant-like funding should not receive a rate base return. As a hypothetical illustration, if \$19.7 million²⁰ of the \$42.7 million estimated utility plant in service cost for the four projects were to be effectively grant-funded, once the grant-like funding takes effect, the amounts otherwise includable in the rate base should be offset to reflect the impact of the grant-like funding.

D. Rate Counsel Conclusion

Based on our review, we have determined that there would likely be significant financing cost savings if the Company utilizes the IBank loans for the four projects that have been identified by Aqua, and recommend approval of the Petition. The combination of lower interest rates and potential principal forgiveness are the main features of the IBank loans that would provide the financing cost savings. Other features of the IBank loans, such as advantageous loan repayment terms, could also be beneficial in comparison with using conventional financing for these projects.

We also recommend certain documentation and reporting requirements related to Aqua's obtaining and accounting for the IBank loans, and for documenting whether, and how much, actual cost savings have been realized. Specifically, we recommend that the Board also require Aqua to notify the parties when the IBank financing is obtained, as well as providing the terms and amounts of that IBank financing. We recommend that the Board also require Aqua to track the financing costs associated with this IBank financing, and the amounts and dates of IBank loan forgiveness. The Board should also put Aqua on notice that Aqua will be expected to be

¹⁹ October 25, 2024 Petition, paragraph 13.


²⁰ October 25, 2024 Petition, paragraphs 9-12 provide Aqua's expectations that the loan forgiveness could be as much as \$19.680 million for the four projects: (\$10,720,000 + \$4,960,000 + \$2,000,000 + \$2,000,000 = \$19,680,000).

able to explain and document IBank-related cost savings as well as deviations between the Company's current expectations of the IBank financing benefits that are shown in the Company's Exhibit J, and the resultant actual financing costs that result from the IBank financing that Aqua is able to obtain. This information should be required to be maintained by Aqua and to be made available in Aqua's subsequent base rate cases in which costs for any of the four IBank shared projects are proposed for rate base inclusion by Aqua.

Very truly yours,

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By:


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