

THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF
AQUA OHIO, INC. AND AQUA OHIO
WASTEWATER, INC. FOR APPROVAL OF A
FINANCIAL ARRANGEMENT WITH AQUA
AMERICA, INC. FOR \$8,000,000 IN SENIOR
UNSECURED DEBT.

CASE NO. 19-1496-WS-AIS

FINDING AND ORDER

Entered in the Journal on November 6, 2019

I. SUMMARY

{¶ 1} The Commission authorizes Aqua Ohio, Inc. and Aqua Wastewater, Inc. to issue notes in the amounts of \$3,648,000 from Aqua Ohio, Inc. and \$4,352,000 from Aqua Wastewater, Inc. in an aggregate amount not to exceed \$8,000,000.

II. DISCUSSION

{¶ 2} Aqua Ohio, Inc. (Aqua Ohio) is a public utility and a waterworks company as defined in R.C. 4905.02(A) and 4905.03(G). As such, Aqua Ohio is subject to the Commission's jurisdiction in accordance with R.C. 4905.04, 4905.05, and 4905.06. Aqua Ohio is a wholly-owned subsidiary of Aqua America, Inc. (Aqua America).

{¶ 3} Aqua Wastewater, Inc. (AWI) is a wholly-owned subsidiary of Aqua Ohio and operates as a public utility and sewage disposal system company subject to Commission jurisdiction as defined in R.C. 4905.02(A) and 4905.03(M).

{¶ 4} Pursuant to R.C. 4905.40 and 4905.41 and with Commission approval, a public utility may issue notes or other evidences of indebtedness payable at periods of more than 12 months.

{¶ 5} On November 22, 2010, the Commission authorized Aqua Ohio to issue a total of four promissory notes of \$2,000,000 each (Aqua Ohio Notes) to Aqua America in an aggregate principal amount of \$8,000,000. The four Aqua Ohio Notes have staggered maturities and will become due and payable in December 2019, June 2021, June 2024, and

June 2028. *In re Aqua Ohio, Inc.*, Case No. 10-2408-WW-AIS, Finding and Order (Nov. 22, 2010). In 2016, Aqua Ohio decided to separate its sewage disposal service in order to capture operational efficiencies and created AWI as a wholly-owned subsidiary to operate as a sewage disposal utility. Aqua Ohio and AWI filed their joint applications for the Commission's authority for a Certificate of Public Convenience and Necessity, amongst other requests. *In re Aqua Ohio Wastewater, Inc. and In re Aqua Ohio, Inc.*, Case Nos. 16-1848-ST-ACE and 16-1849-ST-ATC, Finding and Order (Nov. 8, 2017). In the November 8, 2017 Order, the Commission authorized Aqua Ohio and AWI, among other things, to execute a series of four long-term intercompany notes (Intercompany Notes) to recognize the liabilities associated with the sewer assets being contributed from Aqua Ohio to AWI. The aggregate amount of the Intercompany Notes totaled \$4,352,000, which was determined by the balance of the intercompany account reflecting the outstanding debt obligations associated with the assets being contributed as of July 31, 2017. The Intercompany Notes will mature concurrently with the Aqua Ohio Notes, which are due to mature in December 2019, June 2021, June 2024, and June 2028.

{¶ 6} On July 30, 2019, and supplemented on October 3, 2019, Aqua Ohio and AWI filed a joint application for authority to issue two promissory notes (Notes) in the principal amounts of \$3,648,000 from Aqua Ohio and \$4,352,000 from AWI, each payable to Aqua America, the parent holding company for both Aqua Ohio and AWI. Aqua Ohio and AWI propose to use the proceeds from the Notes to refinance their existing obligations to Aqua America, previously approved by the Commission in Case No. 10-2408-WW-AIS, at more favorable rates. According to the joint application, Aqua Ohio will issue one note with an aggregate principal amount of \$1,621,334 at an interest rate of 3.556 percent that will mature on May 1, 2029, and an aggregate principal amount of \$2,026,666 at an interest rate of 4.276 percent that will mature on May 1, 2049. AWI will also issue one note with an aggregate principal amount of \$1,934,222 at an interest rate of 3.556 percent that matures on May 1, 2029, and an aggregate principal amount of \$2,417,778 at an interest rate of 4.276 percent that will mature on May 1, 2049. Thus, Aqua Ohio and AWI will issue notes in the amounts

of \$3,648,000 and \$4,352,000, respectively, which results in an aggregate principal amount of \$8,000,000 of debt obligations to their parent, Aqua America, under new terms of interest and maturities. As a final matter, Aqua Ohio and AWI aver that approval of their application is necessary, just, and reasonable and that there will be no immediate effect on Aqua Ohio or AWI's current revenue requirements as a result of the approval of this financial arrangement.

{¶ 7} On October 23, 2019, Staff filed its review and recommendation regarding Aqua Ohio and AWI's joint application. Staff notes that the joint applicants propose to use the proceeds from the Notes to refinance the Aqua Ohio Notes and retire the Intercompany Notes. Additionally, Staff states that the proposed refinancing will allow Aqua Ohio and AWI to realize a net annual interest cost savings of approximately \$48,000. Further, Staff represents that, since the proceeds from the Notes will be used to refinance the Aqua Ohio Notes and to retire the Intercompany Notes, there will be no significant change in the capitalization structures of Aqua Ohio and AWI after the issuance of the Notes. Staff explains that Aqua America indicated, in its Form 10-Q filing as of June 30, 2019, with the Securities and Exchange Commission, that on April 26, 2019, it issued an aggregate principal amount of \$900 million of long-term debt (Senior Notes). The Senior Notes consisted of \$400 million issued at 3.566 percent with a 10-year maturity and \$500 million issued at 4.276 percent with a 30-year maturity. A portion of the proceeds from the Senior Notes, among other things, were used to refinance outstanding debts of Aqua America that served to provide funds for previous intercompany financings for its subsidiaries, including the Aqua Ohio Notes. Staff asserts that the requested authority appears reasonable and recommends its approval. In addition, Staff recommends that the Commission direct Aqua Ohio and AWI to file, under the authority granted in this case, the following items in this case docket: (1) executed copies of the Notes within 30 days of issuing the Notes; (2) file a summary report within 30 days of issuing the Notes confirming the use of proceeds from the Notes and the annual interest cost savings realized from the transactions; and (3) a single summary

report of the issuance of the Senior Notes by Aqua America within 30 days of issuing the Notes.

{¶ 8} Having considered Aqua Ohio and AWI's joint application and Staff's review and recommendation, the Commission finds that the joint application is reasonable and should be approved. Thus, Aqua Ohio and AWI are authorized to issue the Notes in the amounts of \$3,648,000 and \$4,352,000, respectively, which results in an aggregate principal amount not to exceed \$8,000,000. In addition, the Commission directs Aqua Ohio and AWI to file, under the authority granted in this case, the following items in this case docket: (1) executed copies of the Notes within 30 days of issuing the Notes; (2) a summary report within 30 days of issuing the Notes confirming the use of proceeds from the Notes and the annual interest cost savings realized from the transactions; and (3) a single summary report of the issuance of the Senior Notes by Aqua America within 30 days of issuing the Notes. The report shall summarize the principal amounts, interest rates, type of securities issued, issuance costs, redemption, and other terms and full particulars of the Senior Notes. Lastly, the Commission finds that it is unnecessary to hold a hearing in this matter.

III. ORDER

{¶ 9} It is, therefore,

{¶ 10} ORDERED, That Aqua Ohio and AWI's joint application be approved and the parties be authorized to issue the respective Notes in the amounts of \$3,648,000 and \$4,352,000, in an aggregate amount not to exceed \$8,000,000. It is, further,

{¶ 11} ORDERED, That Aqua Ohio and AWI apply the proceeds from the Notes for purposes set forth in this Finding and Order and otherwise pursuant to the provisions of R.C. 4905.40. It is, further,

{¶ 12} ORDERED, That Aqua Ohio and AWI file, within 30 days of the issuing of the Notes, executed copies of the Notes, a summary report confirming the use of the proceeds from the Notes and the annual interest cost savings realized from the transactions, and a

summary report of the issuance of the Senior Notes by Aqua America, in accordance with Paragraph 8 of this Finding and Order. It is, further,

{¶ 13} ORDERED, That the authorization granted by this Finding and Order shall not be construed as limiting the Commission's determination of the appropriateness of Aqua Ohio and AWI's Notes for future rate-making treatment. It is, further,

{¶ 14} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation as to the Notes or the associated interest on the part of the state of Ohio. It is, further,

{¶ 15} ORDERED, That nothing in this Finding and Order be deemed to be binding upon the Commission in any future proceedings or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation of Aqua Ohio and AWI. It is, further,

{¶ 16} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

COMMISSIONERS:

Approving:

Sam Randazzo, Chairman
M. Beth Trombold
Lawrence K. Friedeman
Daniel R. Conway
Dennis P. Deters

LLA/hac

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Summary: Finding & Order that the Commission authorizes Aqua Ohio, Inc. and Aqua Wastewater, Inc. to issue notes in the amounts of \$3,648,000 from Aqua Ohio, Inc. and \$4,352,000 from Aqua Wastewater, Inc. in an aggregate amount not to exceed \$8,000,000. electronically filed by Docketing Staff on behalf of Docketing.