



Public Utilities Commission

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February 4, 2021

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

RE: *In the Matter of the Application of Aqua Ohio, Inc. for Approval of a Financial Arrangement with Essential Utilities, Inc. for \$75,000,000 in Senior Unsecured Debt, Case No. 20-1291-WW-AIS*

Dear Docketing Division:

Enclosed please find Staff's Supplemental Review and Recommendation in regard to the amended application of Aqua Ohio, Inc. for authority to issue long-term debt, Case No. 20-1291-WW-AIS.

A handwritten signature in black ink, appearing to read 'DL', written over a horizontal line.

David Lipthrott
Chief, Accounting and Finance Division
Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Aqua Ohio, Inc.)	
for Approval of a Financial Arrangement with Essential)	Case No. 20-1291-WW-AIS
Utilities, Inc. for \$75,000,000 in Senior Unsecured Debt)	

Supplemental Staff Review and Recommendation

APPLICATION DESCRIPTION

On July 21, 2020, Aqua Ohio, Inc. (“Aqua Ohio”) filed an application with exhibits (the “July Application”), pursuant to Ohio Revised Code (“R.C.”) sections 4905.40 and 4905.41, requesting Public Utilities Commission of Ohio (“Commission”) authorization to enter into a financial arrangement Promissory Notes (the “Notes”), one in the amount of \$34,954,666 for a 9-year maturity carrying interest rate of 3.566 percent and one in the amount of \$43,693,334, for a 29-year maturity carrying interest rate of 4.276 percent each payable to its parent Essential Utilities, Inc. (“Essential”). The proposed parameters of the Notes are reflective of a debt issuance achieved by Essential on April 26, 2019. One way that Essential provides debt financing for its utility subsidiaries is by pooling financing requirements to create larger and more cost-efficient debt issuances at more attractive interest rates and lower transaction costs than would otherwise be available to individual subsidiaries attempting to secure financing individually. The proceeds from the proposed issuance of the Notes would be used by Aqua Ohio to rebalance its capitalization structure.

On December 22, 2020, Aqua Ohio filed an amended application with exhibits (the “Amended Application”) pursuant to R.C. sections 4905.40 and 4905.41, seeking approval of a financial arrangement involving the issuance and sale of a series of First Mortgage Bonds (the “Bonds”) for an aggregate principal amount not to exceed \$100,000,000.

The Bonds will have maturity dates not to exceed 50 years from the issuance date and will bear interest rates not to exceed 3.75 percent. The proceeds from the issuance and sale of the Bonds will be used by Aqua Ohio to rebalance its capital structure.

On January 25, 2021, Aqua Ohio filed a letter clarifying that the Amended Application fully replaces the July Application.

REVIEW AND ANALYSIS

In the July Application, Aqua Ohio requested authority to issue Notes for an aggregate principal amount of \$75,000,000. Based upon the proposed allocation of debt between the two tranches, the proposed Notes would have a weighted average interest rate of 3.96 percent and a maturity profile of approximately 19.3 years.¹ In the Amended Application, Aqua Ohio is requesting to increase the principal amount borrowed from \$75,000,000 up to \$100,000,000 with an interest rate determined at the time of issuance based upon prevailing market conditions, but in no event shall it exceed 3.75 percent. The Bonds may be issued in one or more tranches depending upon investor demand and pricing considerations. It is anticipated by Aqua Ohio that the tenor of each tranche issued will be biased towards the long-end of the yield curve, which would result in long-lived debt at historically attractive rates that should align with the depreciable life of the plant assets of Aqua Ohio being financed.

The following table summarizes Aqua Ohio's current capitalization structure and the projected capitalization reflecting the proposed issuance of \$100,000,000 Bonds:

	Actuals as of 12/31/2020 (000's)	(%)	Pro-forma (000's)	(%)
Long Term Debt	\$115,294	36%	\$215,294*	51%
Common Equity	\$205,521	64%	\$205,521	49%
Total Capitalization	\$320,815	100%	\$420,815	100%

** reflects issuance of \$100 million of authority currently requested.*

As shown in the table above, the impact on Aqua Ohio's capitalization by issuing the proposed Bonds results in the maintenance of a balanced capital structure that is similar to its most recent base rate case, which established a capitalization of 48.05 percent debt and 51.95 percent equity.²

¹

Presumed Issuance Date	Amount	Rate	Tenor	Maturity Date	Weighting	WACD	Maturity Profile
March 1, 2021	\$ 33,333,333	3.566%	8.167	5/1/2029	44.444%	1.585%	3.63
March 1, 2021	\$ 41,666,667	4.276%	28.167	5/1/2049	55.556%	2.376%	15.65
Totals	\$ 75,000,000				100.0%	3.960%	19.28

² See *In the Matter of the Application of Aqua Ohio, Inc., to Increase its Rates and Charges for its Waterworks Service*, Case No. 16-0907-WW-AIR, Staff Report at 12 (Nov. 17, 2016).

RECOMMENDATION

Upon review of the Amended Application, Staff believes it appears to be reasonable and recommends its approval. Specifically, Staff recommends Aqua Ohio be authorized to issue the Bonds in an aggregate principal amount up to \$100,000,000 subject to the provisions presented in the Amended Application.

In addition, Staff recommends that the Commission direct Aqua Ohio to file a summary report, in this case docket, within 30 days of issuing the Bonds under the authority granted in this case. The summary report should summarize the principal amount(s), interest rate(s), type of security issued, issuance costs, premiums or discounts, redemption provisions, and other terms and full particulars of the debt issued.

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Case No(s). 20-1291-WW-AIS

Summary: Staff Review and Recommendation in regard to the amended application of Aqua Ohio, Inc. for authority to issue long-term debt electronically filed by Zee Molter on behalf of PUCO Staff