

THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF
AQUA OHIO, INC. FOR APPROVAL OF A
FINANCIAL ARRANGEMENT WITH
ESSENTIAL UTILITIES, INC.

CASE NO. 20-1291-WW-AIS

FINDING AND ORDER

Entered in the Journal on February 24, 2021

I. SUMMARY

{¶ 1} The Commission approves the application of Aqua Ohio, Inc. seeking approval of the issuance of private placement debt in an aggregate principal amount of up to \$100,000,000.

II. DISCUSSION

A. Procedural History

{¶ 2} Aqua Ohio, Inc. (Aqua) is a water-works company as defined by R.C. 4905.03 and a public utility as defined by R.C. 4905.02. As such, Aqua is subject to the Commission's jurisdiction in accordance with R.C. 4905.04, 4905.05, and 4905.06.

{¶ 3} R.C. 4905.40 permits a public utility to issue stocks, bonds, notes, and other evidences of indebtedness, payable at periods of more than 12 months, when authorized by the Commission. Pursuant to R.C. 4905.40(A)(1), the public utility may issue notes or other evidences of indebtedness when it is necessary for, among other things, the construction, completion, extension, renewal, or improvement of its facilities and, under R.C. 4905.40(A)(2), for reorganization or readjustment of its indebtedness and capitalization, among other purposes. The application process for obtaining Commission authorization is outlined in R.C. 4905.41. The application must include the amount, purpose, and terms of the financial arrangement, as well as the total assets and liabilities of the public utility.

{¶ 4} On July 21, 2020, Aqua filed an application with exhibits (July Application) in the above-captioned case requesting Commission authorization to enter into a financial

arrangement with its parent company, Essential Utilities, Inc., for the issuance of \$75 million in senior unsecured debt. The debt was proposed to be issued in the form of two promissory notes with a weighted average interest rate of 3.96 percent and maturity of approximately 19.3 years.

{¶ 5} On October 1, 2020, Staff issued its review and recommendation of the July Application. Based upon the interest rates of the proposed promissory notes, Staff recommended that the July Application not be approved by the Commission.

{¶ 6} On December 22, 2020, Aqua filed an amended application with exhibits (Amended Application) seeking approval of a financial arrangement involving the issuance and sale of a series of First Mortgage Bonds (Bonds) in an aggregate principal amount not to exceed \$100,000,000. As outlined in the Amended Application, the Bonds would have maturity dates not to exceed 50 years from the issuance date and would bear interest rates not to exceed 3.75 percent. Aqua intends to issue and sell the Bonds pursuant to the terms and conditions set forth in a form Bond Purchase Agreement and Summary of Terms and Conditions which is attached to the Amended Application as Exhibit A. Aqua states that the proceeds from the issuance and sale of the Bonds will be used to rebalance Aqua's capital structure.

{¶ 7} On January 25, 2021, Aqua filed correspondence clarifying that the Amended Application fully replaces the July Application.

{¶ 8} On February 4, 2021, Staff filed its supplemental review and recommendation of the Amended Application.

B. Summary of the Staff Report

{¶ 9} In its supplemental review and recommendation, Staff notes that the proposed Bonds would be issued in one or more tranches depending upon investor demand and pricing considerations. Staff further notes that it is anticipated by Aqua that each tranche

issued will be biased towards the long-end of the yield curve, which would result in long-lived debt at historically attractive interest rates that should align with the depreciable life of the plant assets being financed. Staff provides a table summarizing Aqua's current capitalization structure and the projected capitalization reflecting the proposed \$100,000,000 issuance of the Bonds. Staff states that this summary demonstrates that the impact on Aqua's capitalization by issuing the proposed Bonds results in the maintenance of a balanced capital structure that is similar to Aqua's most recent base rate case, which established a capitalization of 48.05 percent debt and 51.95 percent equity. *See In the Matter of the Application of Aqua Ohio, Inc., to Increase its Rates and Charges for its Waterworks Service*, Case No. 16-907-WW-AIR, Staff Report at 12 (Nov. 17, 2016).

{¶ 10} Based upon its review of the Amended Application, Staff believes the request to be reasonable and recommends that Aqua be authorized to issue the Bonds in the aggregate principal amount of up to \$100,000,000, subject to the provisions presented in the Amended Application. Staff further recommends that the Commission direct Aqua to file a summary report in this case docket within 30 days of issuing the Bonds, detailing 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.

C. Commission Conclusion

{¶ 11} Upon consideration of the Amended Application and Staff's supplemental review and recommendation, the Commission finds that the Amended Application is reasonable and should be approved. Thus, Aqua is authorized to issue the proposed Bonds in an aggregate principal amount of up to \$100,000,000, subject to the provisions presented in the Amended Application. The Commission further concludes that Aqua shall file a summary report in this case docket, within 30 days of issuing the Bonds under the authority granted herein, summarizing 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.

III. ORDER

{¶ 12} It is, therefore,

{¶ 13} ORDERED, That Aqua's Amended Application be approved and that Aqua be authorized to issue Bonds in an aggregate principal amount of up to \$100,000,000, subject to the provisions presented in the Amended Application. It is, further,

{¶ 14} 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's future long-term security offerings. It is, further,

{¶ 15} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation by the Commission or the state of Ohio as to any debts or financial arrangements of Aqua. It is, further,

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

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

COMMISSIONERS:

Approving:

M. Beth Trombold
Lawrence K. Friedeman
Daniel R. Conway
Dennis P. Deters

DMH/kck

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

Summary: Finding & Order approving the application of Aqua Ohio, Inc. seeking approval of the issuance of private placement debt in an aggregate principal amount of up to \$100,000,000. electronically filed by Ms. Mary E Fischer on behalf of Public Utilities Commission of Ohio