



STATE OF DELAWARE

**PUBLIC SERVICE COMMISSION**  
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September 4, 2014

**TO:** The Chair and Members of the Commission

**FROM:** Malika Davis, Public Utility Analyst *MD*

**SUBJECT:** IN THE MATTER OF THE APPLICATION OF TIDEWATER UTILITIES, INC. FOR APPROVAL OF LONG-TERM DEBT (AUGUST 20, 2014) – PSC DOCKET NO. 14-0288

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**Application:**

On August 20, 2014, Tidewater Utilities, Inc. ("Tidewater" or the "Company") filed an application requesting approval to enter into a secured amortizing term loan for an amount up to \$15,000,000 (the "Secured Loan"). If this application is approved, the Company anticipates using the proceeds to retire all of its short-term debt, retire all of its intercompany debt, and fund capital improvement in 2014 and 2015. Tidewater expects to invest \$9.7 million in utility plant over the next 18 months.

The Secured Loan would be with CoBank, ACB ("CoBank") for a maximum of 25 years with even monthly principal payments, together with interest, over the life of the loan. Tidewater has indicated in its application that it intends to draw down approximately \$7.1 million against the loan to retire \$7.1 million of short-term loans with CoBank. The remaining \$7.9 million would be available for draw down by the Company up to and until April 30, 2015. These funds would be used to fund a portion of Tidewater's 2014 and/or 2015 capital program. Tidewater's financing strategy is to obtain long-term financing with a minimum final maturity of 20 years at a favorable interest rate. The current interest rate for this type of CoBank loan is 4.80% as stated in Tidewater's application. The Secured Loan is available for draw up to and including April 30, 2015, and is secured by a first priority lien in all stock and other equity which Tidewater "may acquire in CoBank" as well as on all real and personal property of Tidewater. The Company provided a copy of a unanimous written consent of the Board of Directors dated July 15, 2014, which authorized and directed certain officers of the Company to obtain the Secured Loan, to encumber the Company's assets, and to enter into any necessary document to accomplish same transaction. The Company also provided a fully-executed Commitment Letter from CoBank dated August 15, 2014 and executed by Tidewater on August 21, 2014.

**Staff's Review:**

Staff performed a review of the application and additional supporting documents provided by the Company for accuracy and completeness. The mathematical calculations of the schedules provided in the application were also reviewed. The Company provided a schedule showing the debt-to-equity

rates both before entering into the Secured Loan and after entering into the Secured Loan and summarized the percentages in the chart below.<sup>1</sup>

	Before Secured Loan	After Secured Loan
Long-Term Debt Percentage	38.74%	48.81%
Short-Term Debt Percentage	6.46%	0%
Equity Percentage	54.81%	51.19%

26 Del. Admin C. §1002 contains the Minimum Filing Requirements for All Regulated Companies Subject to the Jurisdiction of the Public Service Commission (“MFRs”). Part D of the MFRs provides the requirements for “Issuance of Securities.” Section 3.1.9 requires an Opinion of Counsel with respect to the legality of the proposed issuance of long-term debt. The Company’s application included a draft third-party opinion letter from Richards, Layton & Finger, P.A. This law firm also sent correspondence which stated that it will issue a formal opinion regarding the financing transaction at closing and that this letter will be filed with the Commission. Staff advised the Company that it could postpone sending this required third-party legal opinion letter until after the transaction closed. Staff also requested that the Company provide this opinion letter within fifteen days of the date of the closing.

**Staff’s Recommendation:**

Staff’s review indicates that the Company has complied with the requirements of 26 Del. C. §§215(a)(1) and (a)(1) to enter into the Secured Loan and to encumber its assets. Staff believes that the Company has presented evidence that entering into the Secured Loan and encumbering assets will be done in accordance with law, for a proper purpose, and consistent with the public interest. Therefore, Staff respectfully recommends that the Commission approve Tidewater’s application for the reasons stated above and subject to the conditions that (i) Tidewater may not construe this approval as a ratemaking treatment for future filings; (ii) within 30 days of the date of the closing of the Secured Loan, the Company must file copies of its fully-executed Binding Commitment Letter with CoBank and any other related documents necessary to complete this transaction, and (iii) Tidewater must provide the third-party legal opinion letter within 15 days of the date of the closing.

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<sup>1</sup> See Schedule 1 which has been attached to this memorandum.

Schedule No. 1  
Tidewater Utilities, Inc.  
Capitalization Ratios Actual  
And Pro Forma as of June 30, 2014

Line No.	Type Of Capital	Before Issuance		Pro Forma Adjustment \$	After Issuance	
		Amount Outstanding	% of Total		Amount Outstanding	% of Total
1.	<u>Common Equity</u>					
2.	Common Stock	\$ 66,639		\$ -	\$ 66,639	
3.	Paid In Capital	\$ 28,389,582		\$ -	\$ 28,389,582	
4.	Retained Earnings	\$ 32,331,196		\$ -	\$ 32,331,196	
5.	Total Common Equity	<u>\$ 60,787,417</u>	54.81%	<u>\$ -</u>	<u>\$ 60,787,417</u>	51.19%
6.	<u>Preferred Stock</u>	\$ -	0%	\$ -	\$ -	0%
7.	<u>Long Term Debt</u>					
8.	First Mortgage Bonds	\$ -		\$ -	\$ -	
9.	Long-Term Notes-CoBank	\$ 34,156,729		\$ 15,000,000	\$ 49,156,729	
10.	Long Term Notes-SRF	\$ 8,805,651		\$ -	\$ 8,805,651	
11.	Total Long Term Debt	<u>\$ 42,962,381</u>	38.74%	<u>\$ 15,000,000</u>	<u>\$ 57,962,381</u>	48.81%
12.	Total Permanent Capital	\$ 103,749,798	93.54%	\$ 15,000,000	\$ 118,749,798	100.00%
13.	<u>Short-Term Debt</u>	\$ 7,162,174	6.46%	\$ (7,162,174)	\$ -	0.00%
14.	Total Capitalization	<u>\$ 110,911,972</u>	100%	<u>\$ 7,837,826</u>	<u>\$ 118,749,798</u>	100%