



STATE OF DELAWARE

PUBLIC SERVICE COMMISSION
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MEMORANDUM TO FILE

TO: Connie S. McDowell, Senior Regulatory Policy Administrator
Kevin Neilson, Regulatory Policy Administrator

FROM: Lisa B. Driggins, Public Utilities Analyst 

DATE: December 3, 2015

SUBJECT: IN THE MATTER OF THE APPLICATION OF TIDEWATER UTILITIES, INC. FOR APPROVAL PURSUANT TO 26 DEL. C. § 215 TO ENTER INTO A LONG-TERM DEBT OBLIGATION (FILED NOVEMBER 30, 2015) – PSC DOCKET NO. 15-1597

Application:

On November 30, 2015, Tidewater Utilities, Inc. (“Tidewater” or the “Company”) filed an application (“Application”) requesting approval for the issuance of up to \$1,200,000 of long-term debt with a fixed interest rate from the Delaware Drinking Water State Revolving Fund (the “SRF Loan”). If this application is approved, the Company anticipates using the proceeds to be used to fund capital improvements.

Tidewater will enter into a long-term debt obligation to the Delaware Drinking Water State Revolving Fund (by and through the Delaware Department of Health and Social Services). During the project, Tidewater will pay semi-annual interest only payments at the 2% interest rate. After project completion, Tidewater shall pay the loan for a maximum of 20 years with even monthly principal payments, together with interest, over the life of the loan. Tidewater has indicated in its Application that the purpose of the Loan would be to fund capital improvements, specifically the replacement of the existing water distribution system and the installation of a fire system at the Camelot Mobile Home Park located in Rehoboth Beach. The Application states these improvements are pursuant to an order issued by the local Fire Marshall.

The Company provided a copy of a unanimous written consent of the Board of Directors dated November 24, 2015, which authorized and directed certain officers of the Company to obtain the 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 Delaware Drinking Water State Revolving Fund dated November 2, 2015 and executed by Tidewater on November 9, 2015.

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.¹

	Before Secured Loan	After Secured Loan
Long-Term Debt Percentage	44%	45%
Short-Term Debt Percentage	0%	0%
Equity Percentage	56%	55%

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's Recommendation:

Based on Staff’s review, the Application complies with 26 *Del. C.* §215 because the issuance of long-term debt is made 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 Loan, the Company must file copies of its fully-executed Loan Commitment Agreement 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.

¹ See Schedule 1 which has been attached to this memorandum.

Schedule No. 1
 Tidewater Utilities, Inc.
 Capitalization Ratios Actual
 And Pro Forma as of September 30, 2015

<u>Line No.</u>	<u>Type Of Capital</u>	<u>Before Issuance</u>		<u>Pro Forma Adjustment \$</u>	<u>After Issuance</u>	
		<u>Amount Outstanding</u>	<u>% of Total</u>		<u>Amount Outstanding</u>	<u>% of Total</u>
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	\$ 37,131,331		\$ -	\$ 37,131,331	
5.	Total Common Equity	\$ 65,587,552	56%	\$ -	\$ 65,587,552	55%
6.	<u>Preferred Stock</u>	\$ -	0%	\$ -	\$ -	0%
7.	<u>Long Term Debt</u>					
8.	First Mortgage Bonds	\$ -		\$ -	\$ -	
9.	Long-Term Notes-CoBank	\$ 44,121,783		\$ -	\$ 44,121,783	
10.	Long Term Notes-SRF	\$ 8,236,626		\$ 1,200,000	\$ 9,436,626	
11.	Total Long Term Debt	\$ 52,358,409	44%	\$ 1,200,000	\$ 53,558,409	45%
12.	Total Permanent Capital	\$ 117,945,961	100%	\$ 1,200,000	\$ 119,145,961	100%
13.	<u>Short-Term Debt</u>	\$ 162,174	0%		\$ 162,174	0%
14.	Total Capitalization	\$ 118,108,135	100%	\$ 1,200,000	\$ 119,308,135	100%