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STEFANIE A. BRAND  
Director

November 17, 2015

**Via Hand Delivery**

Irene Kim Asbury, Secretary  
Board of Public Utilities  
44 South Clinton Ave. 9<sup>th</sup> Floor  
P.O. Box 350  
Trenton, New Jersey 08625-0350

**Re: In the Matter of the Petition of Atlantic City Electric Company  
Pursuant to N.J.S.A. 48:2-13 and N.J.S.A. 48:3-9 for Authority to  
Issue Up to \$350 Million of Short-Term Indebtedness Prior to  
January 1, 2018  
BPU Docket No. EF15091045**

Dear Secretary Asbury:

Please accept for filing an original and ten copies of these comments filed on behalf of the Division of Rate Counsel ("Rate Counsel") regarding the above-referenced matter. Enclosed is one additional copy. Please date stamp the copy as "filed" and return it to the courier. Thank you for your consideration and attention to this matter.

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### **A. Background**

On September 10, 2015, Atlantic City Electric Company (“ACE” or the “Company”) filed a petition with the New Jersey Board of Public Utilities (“BPU” or the “Board”) requesting authority pursuant to N.J.S.A. 48:2-13 and N.J.S.A. 48:3-9 to issue up to \$350 million of short-term debt prior to January 1, 2018. (“Petition”) Short-term debt refers to any instrument or loan arrangement with a term not to exceed one-year, but it is typically one day to three months.

The Company’s Petition closely mirrors the short-term debt authority granted by the Board in the Company’s previous short term debt filing.<sup>1</sup> As was the case in the Company’s last short-term debt petition docket, ACE is requesting authority for a ceiling short-term debt authority of \$350 million. The current authority expires on December 31, 2015 and ACE seeks to extend that authority for two years to December 31, 2017.

According to ACE’s Petition, “the Company anticipates that short-term external financing will be necessary to provide for (i) working capital requirements; (ii) temporary financing of construction program expenditures; and (iii) general corporate purposes.” *Petition, paragraph. 4.* As for the requested authority to retain the ceiling authorization at \$350 million short-term debt ACE merely cites to the Board’s order in the previous docket decided in December 2013. *Petition, paragraph 6.* However, in response to RCR–8, ACE provides its justification as to why it believes the \$350 million ceiling authority remains appropriate. Specifically, ACE contends that “many bond investors do not participate in sub-index size (less than \$250 million) bond offerings which can make permanent financing of short-term debt at these reduced levels more costly to ratepayers .

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<sup>1</sup> I/M/O the Petition of Atlantic City Electric Company Pursuant to N.J.S.A. 48:2-13 and N.J.S.A. 48:3-9 for Authority to Issue up to \$350 Million of Short-Term Indebtedness Prior to January 1, 2016, BPU Docket No. EF13080772, Order, December 18, 2013.

.. Maintaining ACE's short-term debt limit of \$350 million will allow the Company the flexibility to access capital markets when it is most advantageous." *Response to RCR-8.*

ACE states that it may utilize the following types of short-term debt: borrowings under one or more revolving credit facilities or bank loans, commercial paper, and/or short-term notes. *Petition, paragraph 7.* However, ACE uses its commercial paper program (back stopped by its credit facility participation) as the primary source of its short-term borrowing. *Response to RCR-2.* ACE's short-term interest rates during the past year have been extremely low, averaging well below 1.0 percent.

**B. Assessment of the Petition**

As stated in the Petition, ACE uses short-term debt for a variety of purposes. It uses short-term debt to temporarily finance construction-related expenditures, to meet its working capital requirements, and for other general corporate purposes. *Response to BPU-2.* Since January 2014, ACE's highest borrowing of short-term debt in any one month was \$236 million in August 2015. *Response to RCR-1, Attachment 1.* Moreover, the monthly balance has averaged \$142.3 million since January 2014. *Id.* However, in evaluating ACE's request, it is the maximum usage (and need for) short-term debt that matters, not the average level.

The Company explains in response to RCR-8 that the current authorized limit of \$350 million will be an appropriate ceiling going forward for 2016 and 2017 given its projected capital spending during those years and expected cash flow. The Company provides detail on this in response to RCR-11, which is its cash flow projections for 2015–2017. This response shows projected capital spending in excess of \$300 million per year as compared to internally-generated cash of about \$200 million per year. Hence,

there will be a continuing and ongoing need for large short-term debt borrowings to provide the needed interim financing.

In addition to short-term financing, ACE obtains financing from other sources as well, including medium-term and long-term debt vehicles and from equity infusions from ACE's parent company, PHI. Generally speaking, the Board does not consider a utility's short-term debt outstanding when establishing a capital structure and rate of return for ratemaking purposes. Rather, ACE must appropriately time the roll-over of its short-term debt into permanent financing to maintain a well-balanced permanent capital structure.

ACE states that its target is to maintain a 49% - 50% equity ratio in a capital structure that excludes short-term debt. *Response to RCR-7*. In order to achieve this target, ACE must carefully time its short-term and long-term debt financings as well as manipulate its equity ratio through dividend payments to, and equity infusions from, PHI parent.

At June 30, 2015, ACE's permanent capital structure was 50.4% long-term debt and 49.6% common equity. *Response to BPU-4*. This is in line with the capital structure and rate of return that was agreed to in the settlement of ACE's last base rate case.

*Response to BPU-12*.

ACE's prior short-term debt financings do not appear to have had a negative impact on the Company's long-term debt rating and the cost of permanent capital. ACE's ratings for Senior Secured debt are A (S&P), A3 (Moody's) and A- (Fitch). Its ratings for Senior Unsecured securities are as follows: BBB+ (S&P), Baa2 (Moody's), and BBB+ (Fitch). *Response to BPU-7*. The rating agency reports appear to regard ACE's level of liquidity as being adequate given its credit facility sublimit and its current \$350 million borrowing authority approved by the Board. *Id.*

ACE forecasts that short-term debt rates will be in the range of 0.45% to 1.50% through the end of 2017. *Response to BPU-5.* In addition to the interest paid on its commercial paper short-term borrowings, ACE currently pays fees on its credit facility sublimit that total \$532,000 per year. *Response to BPU-6.* Both the interest rate outlook and the credit facility fees appear in line with prevailing and expected market costs over the next two years.

### **C. Rate Counsel Conclusion**

The use of short-term debt is an important tool for the Company in managing its cash flows, day-to-day business operations and even the scheduling of permanent financing. It is also the utility's lowest cost source of investor-supplied capital. ACE's interest rate on short-term debt in 2015 has been about 0.5 percent, and ACE estimates that during 2016 to 2017 short-term interest rates will be about 0.45 to 1.5 percent.

*Response to RCR-1 and BPU-5.* To the extent feasible, ACE should continue to minimize its short-term debt borrowing costs through the use of its commercial paper program. While excessive use of short-term debt has the potential to be problematic and could even weaken a utility's credit rating, this has not been the case with ACE.

Historically, ACE has made use of substantially less than its full short-term borrowing authority, and there is no indication of credit rating agency concern over excessive leverage or loss of liquidity. For example, in 2015 its maximum short-term borrowing was \$236 million compared to about \$1.8 billion in permanent capital. *Response to RCR -1.*

While ACE has not provided a specific calculation showing the need to retain the current \$350 million authority, it would seem prudent to provide management with the requested financial flexibility. As noted above, in addition to normal day-to-day cash

flow needs, the Company is projecting relatively high construction expenditures to continue over the next two years, more than \$300 million per year. This level of investment can be only partly financed with internally-generated cash, according to Company projections. *Response to RCR-11.* Short term debt plays an important role in funding construction outlays on an interim basis, pending the scheduling of permanent financing. Having \$350 million in short-term borrowing authority will provide the flexibility to appropriately schedule new long-term debt issuances both for construction and to replace maturing debt.

As stated above, Rate Counsel does not oppose ACE's request for short-term debt authority, including maintaining the current ceiling of \$350 million. Nonetheless, several caveats or conditions should accompany the Board's granting of this authority. The Board should include in any Order granting the Company's requested authority in this docket the twelve provisions set forth in the previous 2013 Board Order that approved the \$350 million ceiling level of short-term debt. Rate Counsel notes that the Company has agreed to these conditions or reservations (*Response to RC-5*) and has included all twelve provisions in its proposed form of Order attached to the Petition as Exhibit D. ACE has further acknowledged that none of the requested \$350 million in short-term borrowing authority will be used to finance in any way the pending parent PHI and Exelon Corporation merger. *Response to RCR-9.* These provisions will satisfy the concerns of Rate Counsel that the Company's ratepayers are not harmed by the requested authority and that BPU approval is limited to the transactions described herein, does not

indicate authorization to include any specific assets or amounts in rate base, does not indicate authorization for any other ratemaking treatment, and does not establish any precedent with regard to approval of future financing petitions.

Respectfully submitted,

STEFANIE A. BRAND  
DIRECTOR, DIVISION OF RATE COUNSEL

By:



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Diane Schulze  
Assistant Deputy Rate Counsel

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C: Service List (via electronic and USPS regular mail)

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Authority to Issue \$350 Million of  
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BPU Docket No. ER15091045**

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