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BOARD OF PUBLIC UTILITIES  
TRENTON, NJ

SHEILA OLIVER  
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DIVISION OF RATE COUNSEL  
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Sept. 12, 2018*

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BOARD OF PUBLIC UTILITIES  
TRENTON, NJ

STEFANIE A. BRAND  
Director

**Via Electronic and Hand Delivery**

Hon. Aida Camacho-Welch, Secretary  
New Jersey Board of Public Utilities  
44 South Clinton Avenue  
3rd Floor, Suite 314  
P.O. Box 350  
Trenton, New Jersey 08625-0350

**Re: In the Matter of the Petition of South Jersey Gas Company for  
Authorization Through September 30, 2021, *inter alia*, to Make,  
Execute and Deliver a Second Supplemental Mortgage  
BPU Docket No. GF18070696**

Dear Secretary Camacho-Welch:

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 in this matter.

**A. Background**

South Jersey Gas Company ("SJG" or "the Company"), a regulated public utility headquartered in Folsom, New Jersey, is engaged in the transmission, distribution transportation, and sales of natural and mixed gases within its defined New Jersey service territory including Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester and Salem counties. SJG serves approximately 381,000 customers.

On July 5, 2018, SJG filed a Petition ("Petition") and supporting documents with the New Jersey Board of Public Utilities ("BPU" or "Board") requesting the following authorizations:

*CMS  
list copied*

Tel: (609) 984-1460 • Fax: (609) 292-2923 • Fax: (609) 292-4991  
<http://www.nj.gov/rpa> E-Mail: [njratepayer@rpa.nj.gov](mailto:njratepayer@rpa.nj.gov)

- To make, execute and deliver pursuant to N.J.S.A 48:3-7 a Second Supplemental Mortgage Indenture and any additional supplemental mortgage indentures providing for the issuance of a first mortgage bond or bonds, with a maturity or maturities of not more than forty (40) years from the respective dates of issuance, in an aggregate principle amount of not more than \$1,200,000,000, less the aggregate principle amount of any other indebtedness payable in more than twelve (12) months from the date or dates thereof that is to be issued.
- To make, execute and deliver pursuant to N.J.S.A. 48:3-7 such other supplemental indentures, and to issue such first mortgage bonds thereunder, as shall be necessary to complete the transactions contemplated in the Petition.
- To issue other evidence of indebtedness payable more than twelve (12) months from the date or dates thereof;
- To issue and sell medium term notes, with maturity of not more than forty (40) years from the respective dates of issuance, in an aggregate principal amount of not more than \$1,200,000,000, less the aggregate principal amount of any other indebtedness payable in more than twelve (12) months from the date or dates thereof.
- To make, execute and deliver a trust indenture, trust indentures or supplements thereto or to previous trust indentures providing for the issuance of any such medium term notes.
- To redeem, refinance or defease any or all of its outstanding long-term indebtedness or long-term securities as long as the redemption, refinancing or defeasance is financially advantageous to SJG.<sup>1</sup>

The Company states in its Petition that it expects to utilize the net proceeds from the transaction or series of transactions to retire short-term debt, to fund capital expenditure requirements, to fund gas supply acquisitions, for other general corporate purchases, and, potentially to redeem, refinance or defease any or all of the Company's indebtedness or debt securities.<sup>2</sup> SJG requests Board authorization to accomplish the financings contemplated in the Petition at any time through September 30, 2021.

#### **B. Rate Counsel Analysis**

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<sup>1</sup> Petition, pages 2-3.

<sup>2</sup> Petition, page 3.

The Company was previously granted authorization by the Board, in Orders approved in five separate dockets during the years 2005 through 2016, to issue and sell up to a \$1,100,000,000 aggregate principal amount of term loans and medium-term notes.<sup>3</sup> The following table summarizes this history:<sup>4</sup>

<u>Order Date</u>	<u>Docket No.</u>	<u>Aggregate Principal Amount</u>	<u>Authority to Sell Granted Through</u>
June 9, 2005	GF05040336	\$150,000,000	June 30, 2008
Sept. 16, 2009	GF09070557	\$150,000,000	Sept. 30, 2011
Dec. 15, 2011	GF11090573	\$200,000,000	Sept. 30, 2014
Feb. 7, 2014	GF13100994	\$200,000,000	Dec. 31, 2016
Mar. 28, 2016	GF15121424	\$400,000,000	Dec. 31, 2018

In the instant Petition, SJG seeks Board authorization to issue and sell up to \$1.2 billion aggregate principal amount of indebtedness with maturities of not less than twelve months nor longer than 40 years from date or dates of issuances. As of June 30, 2018, SJG had \$829,173,000 of long-term debt outstanding.<sup>5</sup> Of this total, \$295,727,000 of SJG's outstanding long-term debt will be maturing between now and September 30, 2021.<sup>6</sup> In addition, as of June 30, 2018, SJG had \$67,250,000 of short-term debt outstanding.<sup>7</sup>

As summarized above, SJG is presently operating under a \$400 million long-term indebtedness Board authorization, which extends through December 31, 2018. Pursuant to that authorization, SJG issued a \$200 million term loan in January 2017 and a \$200 million private placement medium-term debt also in January 2017.<sup>8</sup> Thus, since January

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<sup>3</sup> Petition, para. 6.

<sup>4</sup> SJG's response to RCR-FIN-29.

<sup>5</sup> SJG's response to RCR-FIN-9.

<sup>6</sup> SJG's response to RCR-FIN-10.

<sup>7</sup> SJG's response to RCR-FIN-5.

<sup>8</sup> SJG's response to RCR-FIN-29.

2017, SJG has fully utilized its long-term financing authorization from the Board.<sup>9</sup>

Without additional authorization from the Board, which it now seeks, SJG does not have the ability to raise additional long-term debt.<sup>10</sup> That is, without additional authorization from the Board, SJG does not have the ability to refinance all or a portion of the nearly \$300 million of long-term debt that will be maturing over the next three years or to roll-over its existing short-term debt into long-term debt.

Accordingly, SJG has indicated that, if granted, it will use the requested \$1.2 billion financing authorization as follows:

- October 2018 – Issue \$300 million of medium term notes. Funds to be used to pay off the existing \$200 million term loan and pay down \$100 million of short-term debt.
- October 2018 – Issue \$400 term loan. Funds to be used to periodically pay down short-term debt/commercial paper in order to meet the capital structure utilized in SJG's last base rate case of \$0 short-term debt.
- September 2020 – Issue \$400 million of medium term note(s). Funds to be used to pay off the fully drawn \$400 million term loan issued in October 2018.
- September 2020 – Issue \$100 million term loan. Funds to be used to periodically pay down short-term debt/commercial paper in order to meet the capital structure utilized in SJG's last base rate case of \$0 short-term debt.<sup>11</sup>

If the above financings are completed as contemplated by SJG, the Company will have used the entire \$1.2 billion debt capacity that it seeks in the Petition. The Company's long-term debt balance, however, will not correspondingly increase by the same \$1.2 billion even though SJG seeks authority for \$1.2 billion borrowing capacity. As shown above, approximately one-half of the financings that are contemplated, on a dollar basis, are to replace either existing or planned financings. Thus, the incremental impact on the Company's long-term debt over the next three years is projected to be approximately

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<sup>9</sup> SJG's response to RCR-FIN-24.

<sup>10</sup> *Id.*

<sup>11</sup> SJG's response to Informal Discovery Request. Response dated August 31, 2018.

\$600 million.<sup>12</sup> SJG states that it will not have \$1.2 billion outstanding under the program at any time.<sup>13</sup>

As shown above, SJG's planned debt issuances over the next three years appear timed to allow the Company to maintain its approximate capital structure objective. That objective is to sustain, as closely as possible on an average basis, the capital structure that was approved for the Company by the Board in SJG's last base rate proceeding. SJG's currently authorized capital structure, for rate setting purposes, is 52.5% equity, 47.5% long-term debt, and 0% short-term debt.<sup>14</sup> If SJG accomplishes the 2018 financings as summarized above, its *pro forma* capital structure at December 31, 2018 is projected to consist of 49.3% equity, 50.7% long-term debt, and 0% short-term debt.<sup>15</sup> In order to achieve its target capitalization ratios, SJG must acquire additional equity over the next three years by receiving equity contributions from its corporate parent, South Jersey Industries, and by retained earnings generated from SJG's net income.<sup>16</sup> By year-end 2018, SJG will have increased its long-term debt balance by approximately \$213 million over its year-end 2017 level.<sup>17</sup>

Concerning SJG's credit worthiness, the Company is rated by both Moody's and Standard & Poor's ("S&P"). Moody's January 2018 credit report on SJG reaffirmed its earlier corporate credit rating of A2, but added a "negative" outlook, citing "weak credit metrics, large capital investments requiring additional debt leverage, and ...parent company's non-utility operations."<sup>18</sup> In its July 2, 2018 credit report, S&P downgraded SJI's (and subsidiaries including SJG) corporate credit rating one notch from BBB+ to BBB and offered a "stable" outlook for SJG. The rationale that was provided for the downgrade was SJI's acquisition debt that significantly increased both leverage and risks. Looking at SJG's financial capability in the near-term, there appears to be minimal risk that the Company will not be able to meet its service obligations on the newly-acquired

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<sup>12</sup> *Id.*

<sup>13</sup> SJG's response to RCR-FIN-28.

<sup>14</sup> SJG's response to RCR-FIN-14.

<sup>15</sup> SJG's responses to RCR-FIN-15 and RCR-FIN-30(b)

<sup>16</sup> SJG's responses to RCR-FIN-16 and S-SJGF-9. .

<sup>17</sup> *Id.*

<sup>18</sup> SJG's responses to RCR-FIN-19 and S-SJGF-1.

long-term debt. Following its anticipated financings in 2018, SJG projects that its fixed charge coverage ratio will be approximately the same as it was for 2017.<sup>19</sup>

**C. Rate Counsel Recommendation**

Rate Counsel has reviewed the Petition and is not opposed to granting the requested authorization, subject to certain conditions, as set forth below. The Company supplies natural gas transmission, distribution and transportation services to 381,000 homes and businesses in its New Jersey service territory. Based on the information supplied by SJG, the proposed financing appears necessary to provide safe, adequate, and reliable service to its New Jersey customers. Barring unforeseen and unanticipated circumstances, the proposed debt issue does not appear to jeopardize SJG's financial integrity. Based on recent financial information, it appears that SJG has sufficient income to meet the proposed debt service payments without jeopardizing its ability to provide safe, adequate and reliable service to its New Jersey customers.

However, approval of the Petition should not include authorization to include in rate base any specific assets that will be acquired as a result of this financing. Nor should Board approval be construed as acceptance for future ratemaking purposes of the resulting capital structure and capital costs. The determination of any assets to be included in rate base and the ratemaking impact of serving customers, including the effect of the proposed financial transaction(s) on SJG's capital costs will be addressed in a future base rate proceeding.

Rate Counsel recommends that any Board Order approving the Company's Petition contain the following language:

1. With respect to each debt issuance, SJG shall provide the following material for information purposes as soon as it is available and in no event later than twenty-four (24) hours prior to the anticipated time for the pricing: (1) a statement with respect to the indicative pricing for the debt issuance and the terms thereof which shall specify (i) the anticipated date and timing for the pricing of the new issuance, (ii) the aggregate principal amount of the new issuance, (iii) the terms and conditions upon which the new issuance may be redeemed, whether at the option of SJG, pursuant to any mandatory

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<sup>19</sup> SJG's response to S-SJGF-8.

provisions, or otherwise, and (iv) such other provisions as may be established by SJG with respect to the terms and conditions of the new issuance and the pricing therefore; (2) an assessment of the then current financial markets applicable to the issuance, including, (i) data with respect to recent sales of comparable securities of other utilities, if any, (ii) data with respect to current yields on certain outstanding long-term notes of SJG, (iii) anticipated compensation to and the names of the underwriters for the new issuance, (iv) the anticipated range of the yield of the new issuance based upon current market conditions, and (v) such other information SJG deems relevant to assess the expected new issuance and the reasonableness of the effective cost of money rate thereof.

2. If (1) the interest rate of any series of new issuance, in relation to U.S. Treasury securities, does not exceed the range set forth in the table on page & of the Petition, and (2) the compensation to the underwriters with respect to any series does not exceed 1.0% of the aggregate principal amount of the new issuance, SJG may effect new issuance transactions without further Order of the Board. If either the interest rate or the compensation to the underwriters exceeds such amount, the proposed issuance shall not be consummated until a further Order of the Board authorizing such new issuance transactions have been entered.
3. SJG shall, as promptly as is practical after acceptance of an offer for, and the pricing of, any new issuance, notify the Office of the Chief Economist and Rate Counsel in writing of the action to be taken and include a statement setting forth the compensation to and the names of the underwriters, and, as applicable, the aggregate principal amount of new issuance, the interest rate of the new issuance, and any other material provision with respect to the terms and conditions of the new issuance.
4. SJG shall furnish the Board with copies of executed documents filed with other regulatory agencies, if any, relating to the new issuance.
5. The new issuances authorized herein shall not be redeemed at a premium prior to maturity without further Board approval, unless the estimated present value savings derived from the difference between interest or dividend payments on a new issue of comparable securities and those securities refunded is on an after-tax basis greater than the estimated present value of all redemption, tendering and issuing costs, assuming an appropriate discount rate.
6. SGJ shall furnish the Board with copies of all executed amendments and/or supplements, if any, of the SJG's Mortgage Indenture.



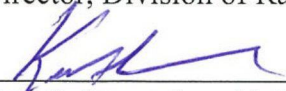
7. The Order shall not be construed as certification that the securities authorized to be offered for sale will be represented by tangible or intangible assets of commensurate value or investment costs.
8. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of any tangible or intangible assets now owned or hereafter to be owned by SJG.
9. This Order shall not affect nor in any way limit the exercise of the authority of the Board, Rate Counsel, or the State of New Jersey, in any future SJG proceedings with respect to rates, franchise, service, financing (including method of sale of securities), accounting, capitalization or any other matters affecting the Petition.
10. The authority granted in the Order shall become null and void and of no effect with respect to any portion thereof that is not exercised by September 30, 2021.
11. This Order shall not constitute pre-approval of any cost or authorization for rate recovery. All capital costs are subject to review in SJG's next base rate proceeding.

These provisions will satisfy the concerns of Rate Counsel that the Board approval is limited to the transactions as herein described, 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, Esq.  
Director, Division of Rate Counsel

By:

  
Kurt S. Lewandowski, Esq.  
Assistant Deputy Rate Counsel

cc: Service List (via electronic and regular mail)



In the Matter of the Petition of South  
Jersey Gas Company for Authorization  
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to Make, Execute and Deliver a Second  
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BPU Docket No. GF18070696

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