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CASE MANAGEMENT

MAR 28 2019

BOARD OF PUBLIC UTILITIES  
TRENTON, NJ

PHIL MURPHY  
Governor

SHEILA OLIVER  
Lt. Governor



State of New Jersey  
DIVISION OF RATE COUNSEL  
140 EAST FRONT STREET, 4<sup>TH</sup> FLOOR  
P.O. BOX 003  
TRENTON, NEW JERSEY 08625

STEFANIE A. BRAND  
Director

March 28, 2019

Via Hand Delivery

Ms. Aida Camacho-Welch, Secretary  
New Jersey Board of Public Utilities  
44 South Clinton Avenue, 9<sup>th</sup> Floor  
P.O. Box 350  
Trenton, New Jersey 08625-0350

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MAIL ROOM

MAR 28 2019

BOARD OF PUBLIC UTILITIES  
TRENTON, NJ

**RE: In the Matter of the Petition of Atlantic City Electric Company for  
Authority to Issue up to \$350 Million of Long-Term Debt Securities  
Pursuant to N.J.S.A. 48:3-9 (2019-2020)**

**BPU Docket No. EF18121340**

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**

Atlantic City Electric Company ("ACE" or "the Company"), a regulated public utility with offices in Mays Landing, New Jersey, is engaged in the purchase, transmission, distribution, and sale of electric power in southern New Jersey. ACE serves approximately 550,000 customers.

On December 18, 2018, ACE filed a Verified Petition ("Petition") and supporting documents with the New Jersey Board of Public Utilities ("BPU" or "Board") requesting the following authorizations:

*Case Mgmt  
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 issue and sell in one or more series up to \$350,000,000 in aggregate of Debt Securities; and
- To take such other action as may be necessary or desirable in connection with issuing Debt Securities.<sup>1</sup>

The Company states in its Petition that it expects to utilize the net proceeds from the transaction(s) to finance a portion of its 2019-2020 construction program and to convert a portion of its short-term debt to permanent financing.<sup>2</sup> ACE requests Board authorization to accomplish the financings contemplated in the Petition at any time through December 31, 2020.<sup>3</sup>

**B. Rate Counsel Analysis**

The following table summarizes ACE's existing outstanding long-term debt as of September 30, 2018:<sup>4</sup>

<b>ATLANTIC CITY ELECTRIC COMPANY</b>			
Long-Term Debt Outstanding			
At September 30, 2018			
Issue	Coupon Rate	Maturity	Principal Amount Outstanding
(A)	(B)	(C)	(D)
<b>First Mortgage Bonds</b>			
	4.000%	10/15/2028	\$350,000,000
	4.350%	04/01/2021	\$200,000,000
	3.375%	09/01/2024	\$150,000,000
	3.500%	12/01/2025	\$150,000,000
Total First Mortgage Bonds			<u>\$850,000,000</u>

<sup>1</sup> Petition, page 7.

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

<sup>3</sup> Petition, page 7.

<sup>4</sup> ACE's response to S-ACE-1, Attachment 1, page 3 of 4.

**Senior Notes**

	5.800%	05/15/2034	\$120,000,000
	5.800%	03/01/2036	<u>\$105,000,000</u>
Total Senior Notes			<u>\$225,000,000</u>

**Tax Exempt Fixed Rate Bonds**

	6.800%	03/01/2021	\$38,865,000
	4.875%	06/01/2029	<u>\$23,150,000</u>
Total Tax Exempt Fixed Rate Bonds			<u>\$62,015,000</u>

**Total Long-Term Debt** \$1,137,015,000

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As can be seen on the table above, none of ACE's outstanding long-term debt issuances will mature during the period of time covered by the Petition.

In addition to the approximately \$1.14 billion of outstanding long-term debt, ACE also had \$145 million of short-term debt outstanding at September 30, 2018 (that amount was reduced to just \$14 million by December 31, 2018.)<sup>5</sup> ACE's short-term borrowing limit under the revolving credit facility is \$300 million.<sup>6</sup>

In the instant Petition, ACE seeks Board authorization to issue and sell up to \$350 million aggregate principal amount of indebtedness with maturities of not less than twelve months nor longer than 40 years from date of issuance.

Presently, ACE plans to issue first mortgage bonds in 2019 and 2020.<sup>7</sup> ACE has indicated that, if the Board's authorization is granted, it will use the \$350 million financing authorization as follows:

- Finance a portion of its 2019-2020 construction program; and
- To convert a portion of its short-term debt expected to be incurred associated with its capital expenditure program to permanent financing.<sup>8</sup>

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<sup>5</sup> ACE's response to DRC-RCR-9, Attachment 1.

<sup>6</sup> ACE's response to DRC-RCR-8.

<sup>7</sup> ACE's response to S-ACE-4.

If the above financings are completed as contemplated by ACE, the Company will use the entire \$350 million debt capacity that it seeks in the Petition. Also, ACE has no plans at this time to refund or to redeem early any long-term debt that is presently outstanding.<sup>9</sup> Thus, the Company's long-term debt balance also will increase by \$350 million, since none of ACE's currently outstanding long-term debt issuances will mature before the end of the authorization period sought in ACE's Petition.

ACE has stated that its capital structure objectives are to maintain its current credit ratings and to maintain a capital structure consisting of 50% long-term debt and 50% common equity.<sup>10</sup> Presently, the major ratings agencies have assigned the following ratings to ACE's senior securities:<sup>11</sup>

Standard & Poor's	A
Moody's	A3
Fitch	A-

ACE has been able to maintain these credit ratings for at least the past 48 months.<sup>12</sup>

As for ACE's capital structure, the Stipulation in the Company's 2018 base rate case includes a regulated capital structure consisting of approximately 50% long-term debt and 50% common equity.<sup>13</sup> ACE plans to increase its outstanding long-term debt by an additional \$350 million over the next two years. Since the Company has no plans to retire debt during that same period, the additional debt issued pursuant to this Petition will likely skew the existing balance between debt and equity in ACE's capital structure. To remedy this, ACE must increase common equity by a similar amount. ACE can

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<sup>8</sup> Petition, page 2.

<sup>9</sup> ACE's response to DRC-RCR-6.

<sup>10</sup> ACE's response to DRC-RCR-10.

<sup>11</sup> ACE's response to DRC-RCR-2.

<sup>12</sup> ACE's response to DRC-RCR-4.

<sup>13</sup> ACE's response to S-ACE-1 and Attachment 1, page 1 of 4.

increase its equity holdings either through retained earnings or through equity contributions from its corporate parent.<sup>14</sup>

Looking at ACE'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 long-term debt. ACE's credit agreement requires it to maintain a 2.0 times interest coverage ratio, where earnings must be at least twice the Company's interest expense. Presently, ACE's interest coverage ratio is 5.30 times.<sup>15</sup> Thus, barring any unforeseen financial disaster, it is unlikely that the obligations associated with the additional long-term debt contemplated in the Petition will dilute earnings to a point where ACE cannot meet its minimum coverage requirement.

**C. Rate Counsel Recommendation**

Rate Counsel has carefully reviewed the Petition and is not opposed to its approval. The Company is engaged in the purchase, transmission, distribution, and sale of electric power to approximately 550,000 customers in southern New Jersey. The proposed financing is necessary and appropriate as part of the Company's overall strategy to provide safe, adequate, and reliable service to its New Jersey customers. Barring unforeseen and unanticipated circumstances, the proposed debt issue should not jeopardize ACE's financial integrity. Moreover, the Company's ongoing capital structure objectives are consistent with the capital structure approved in ACE's 2018 base rate case. It is likely, however, that ACE will need equity infusions from its corporate parent over the next two years to offset the additional \$350 million of long-term debt to be issued in order to maintain a 50 percent debt ratio. Based on recent financial information, it appears that ACE 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.

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<sup>14</sup> ACE's responses to DRC-RCR-15 and DRC-RCR-16.

<sup>15</sup> ACE's response to S-ACE-2, Attachment 1.

Approval of the Petition should not include an authorization to include in rate base any specific assets that will be acquired as a result of this financing. Nor should the Board's authorization in this Petition 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 impact of the transaction(s) on ACE's capital costs will be addressed in a future base rate proceedings.

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

1. With respect to each debt issuance, ACE 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:
  - a. 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 ACE, pursuant to any mandatory provisions, or otherwise, and
    - iv. such other provisions as may be established by ACE with respect to the terms and conditions of the new issuance and the pricing therefore;
  - b. 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 ACE,
    - 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 ACE 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 Exhibit C 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, ACE 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. ACE 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. ACE 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. The approval by the Board of ACE's Petition shall not constitute pre-approval for any costs or authorization for rate recovery. All capital costs should be subject to review in the Company's next base rate proceeding.
7. The approval by the Board of ACE's Petition shall not be construed as a 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. ACE shall furnish the Board with copies of all executed amendments and/or supplements to the Senior Note Indenture.
9. The Board's Order in this proceeding 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 ACE proceedings with respect to rates, franchise, service,



financing (including method of sale of securities), accounting, capitalization or any other matters affecting the Petitioner.

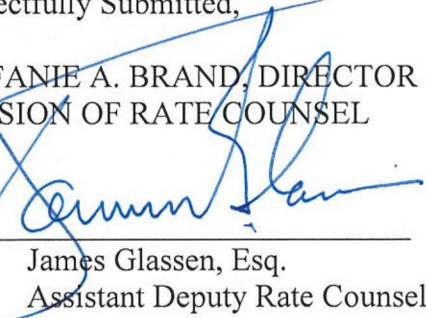
10. The approval by the Board of ACE's Petition shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter owned by the Petitioner.
11. The debt issuance authority granted by the Board in this docket is to be used to fund utility operations and investments only, not to fund unregulated entities.
12. ACE shall endeavor to issue its planned long-term debt at lowest reasonable cost.
13. ACE should utilize a prudent and cost-effective capital structure and mix of capital to finance its utility rate base at the lowest reasonable cost.
14. The authority granted in the Board's Order in this proceeding shall become null and void and of no effect with respect to any portion thereof that is not exercised by December 31, 2020.

Notwithstanding our recommendations, Rate Counsel reserves all rights to take appropriate positions in current and future Board proceedings that involve the Petitioner. 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, DIRECTOR  
DIVISION OF RATE COUNSEL

By:

  
James Glassen, Esq.  
Assistant Deputy Rate Counsel

c: Service List (via e-mail and regular mail)



**I/M/O the Petition of Atlantic City  
Electric Company for Authority to  
Issue Up to \$350,000,000 of Long  
Term Debt Securities Pursuant to  
N.J.S.A. 48:3-9 (2019-2020)  
BPU Dkt. No.: EF18121340**

Aida Camacho-Welch, Secretary  
NJ Board of Public Utilities  
44 South Clinton Avenue  
P.O. Box 350  
Trenton, NJ 08625-0350

Paul Flanagan, Exec. Director  
NJ Board of Public Utilities  
44 South Clinton Avenue  
P.O. Box 350  
Trenton, NJ 08625-0350

Noreen Giblin, Chief Counsel  
NJ Board of Public Utilities  
44 South Clinton Avenue  
P.O. Box 350  
Trenton, NJ 08625

Stacy Peterson, Director  
NJ Board of Public Utilities  
44 South Clinton Avenue  
P.O. Box 350  
Trenton, NJ 08625

Benjamin Witherell, PhD  
NJ Board of Public Utilities  
44 South Clinton Avenue  
P.O. Box 350  
Trenton, NJ 08625

Grace Strom-Power, Esq.  
NJ Board of Public Utilities  
44 South Clinton Avenue  
P.O. Box 350  
Trenton, NJ 08625

Bethany Rocque-Romaine, Esq.  
NJ Board of Public Utilities  
44 S. Clinton Avenue, 10th fl.  
Trenton, NJ 08625-0350

Christine Lin  
NJ Board of Public Utilities  
44 South Clinton Avenue  
P.O. Box 350  
Trenton, NJ 08625

Alex Moreau, DAG  
Dept of Law and Public Safety  
124 Halsey Street- 5th Floor  
P.O. Box 45029  
Newark, NJ 07101

Caroline Vachier, DAG  
Dept of Law and Public Safety  
124 Halsey Street- 5th Floor  
P.O. Box 45029  
Newark, NJ 07101

Peter Van Brunt, DAG  
Dept of Law and Public Safety  
124 Halsey Street- 5th Floor  
P.O. Box 45029  
Newark, NJ 07101

Geoffrey Gersten, Esq.  
Dept of Law and Public Safety  
124 Halsey Street- 5th Floor  
P.O. Box 45029  
Newark, NJ 07101

Stefanie A. Brand, Esq., Director  
Division of Rate Counsel  
140 East Front Street, 4<sup>th</sup> Fl.  
Trenton, NJ 08625

Brian O. Lipman, Esq.  
Division of Rate Counsel  
140 East Front Street, 4<sup>th</sup> Fl.  
Trenton, NJ 08625

Ami Morita, Esq.  
Division of Rate Counsel  
140 East Front Street, 4<sup>th</sup> Fl.  
Trenton, NJ 08625

Diane Schulze, Esq.  
Division of Rate Counsel  
140 East Front Street, 4<sup>th</sup> Fl.  
Trenton, NJ 08625

James Glassen, Esq.  
Division of Rate Counsel  
140 East Front Street, 4<sup>th</sup> Fl.  
Trenton, NJ 08625

Lisa Gurkas  
Division of Rate Counsel  
140 East Front Street, 4<sup>th</sup> Fl.  
Trenton, NJ 08625

Debora Layugan  
Division of Rate Counsel  
140 East Front Street, 4<sup>th</sup> Fl.  
Trenton, NJ 08625

Celeste Clark  
Division of Rate Counsel  
140 East Front Street, 4<sup>th</sup> Fl.  
Trenton, NJ 08625

Philip Passanante, Esq.  
Atlantic City Electric Company  
500 N. Wakefield Drive  
P.O. Box 6066  
Newark, DE 19714-6066

Elisabeth Graham  
Atlantic City Electric Company  
10 South Dearborn St., 52<sup>nd</sup> Floor  
Chicago, IL 60603

Morgan O'Donnell  
Pepco Holdings LLC  
701 Ninth Street, NW  
Washington, DC 20068

Heather Hall  
New Jersey Regulatory Affairs  
93DC56  
Pepco Holdings, LLC  
500 No. Wakefield Dr.  
Newark, DE 19714

David Peterson  
Chesapeake Regulatory Consultants  
10351 Southern Maryland Blvd.  
Suite 202  
Dunkirk, MD 20754-9500