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November 13, 2019

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BOARD OF PUBLIC UTILITIES
TRENTON, NJ

Via Hand Delivery
Ms. Aida Camacho-Welch, Secretary
Board of Public Utilities
44 South Clinton Ave., 9th Floor
Post Office 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, 2022
BPU Docket No. EF19091155

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 to this matter.

A. Background

On September 12, 2019, 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, 2022 (the "Petition"). Short-

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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 cover letter to the Petition requests Board approval of the request at the Board's scheduled meeting of December 6, 2019 because the current authority expires on December 31 of this year.

The Company's Petition closely mirrors the short-term debt authority granted by the Board in the Company's previous short term debt filing.[1] 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. ACE seeks to extend its current authority for two years through December 31, 2021.

According to the Company'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."[2] As for the requested authority to retain the ceiling authorization at $350 million short-term, as support ACE cites to the Board's order in the previous docket decided in December 2017.[3] However, in response to RCR – 14, ACE provides its justification as to why it believes the $350 million ceiling authority remains appropriate. In that response, ACE states that $350 million is fully adequate to meet its anticipated operational needs over the next two years. In addition, ACE contends that "[u]nder certain market conditions, many bond investors do not participate in sub-index size (less than $300 million) bond offerings. This can make permanent financing of short-term debt at these reduced levels more costly to ratepayers since interest rates associated with long-term financing typically increase as the size and the liquidity (level of interest) of

[1] I/M/O the Petition of Atlantic City Electric Company Pursuant to NJSA 48:2-13 and NJSA 48:3-9 for Authority to Issue up to $350 Million of Short-Term Indebtedness Prior to January 1, 2020, BPU Docket No. EF17080925, Order, December 19, 2017.
[2] Petition at ¶. 4.
[3] Petition at ¶5.

the transaction decrease. Maintaining the Company's short-term debt limit of $350 million will allow the ACE the flexibility to access capital markets when it is most advantageous."[4]

ACE states that it may utilize the following types of short-term debt: (1) borrowings under one or more revolving credit facilities or bank loans; (2) commercial paper; and/or (3) short-term notes.[5] However, in recent years ACE has used its commercial paper program (back stopped by its revolving credit facility participation as collateral) for the vast majority of its short-term borrowing.[6] On occasion, the Company also borrows from the PHI Money Pool.[7] ACE states that it only uses PHI Money Pool borrowings when surplus funds are available from its utility affiliates through the Money Pool and when doing so is less expensive than issuing commercial paper.[8] The Petition itself does not explicitly mention the PHI Money Pool as a source of short-term debt borrowings, but Rate Counsel interprets Paragraph 7 of the Petition as covering Money Pool borrowings. ACE's short-term interest rates during the past year have been relatively stable, averaging about 2.5 percent.[9]

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 such as temporary financing of maturing or called long-term debt.[10] Since January 2017, ACE's highest

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[4] Response to RCR-14.
[5] Petition at ¶7.
[6] Response to RCR-6, Attachment 1
[7] Ibid.
[8] Response to RCR-7.
[9] See Response to RCR-6, Attachment .
[10] Response to S-ACE-003.

borrowing of short-term debt in any one month was $150 million in May 2019.[11] Moreover, the monthly balance has averaged $38 million in 2017, $96 million in 2018 and $65 million in 2019 (through September 2019).[12] However, in evaluating ACE's requested authority, it is the maximum usage (and need for) short-term debt that matters – not the average level.

The Company explains in response to RCR-14 that the current authorized limit of $350 million will be an appropriate ceiling going forward for 2020 and 2021 given its projected capital spending during those years and expected cash flow. In addition, the Company mentions its $239 million of long-term debt redemptions during this period.[13] The Company provides information regarding its cash needs in its Response to RCR-2, which set out its cash flow projections for 2019 – 2021. This response shows projected capital spending through 2021 is expected to be in excess of $300 million on average per year, with annual funds from operations being significantly less. Hence, there likely 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 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.

[11] Response to RCR-6, Attachment 1.
[12] Ibid.
[13] Response to S-ACE-003.

ACE states that in order to maintain credit quality, its target is to maintain an equity ratio over time of about 50 percent in a capital structure that excludes short-term debt, and no less than 48 percent equity.[14] In order to achieve this target, ACE must carefully time its short-term and long-term debt financings as well as manage its equity ratio through dividend payments to, and equity infusions from, PHI.

At June 30, 2019, ACE's permanent capital structure was 50 percent long-term debt and 50 percent common equity with no short-term debt.[15] This is generally in line with the capital structure and rate of return that was agreed to in the settlement of ACE's most recent base rate case where a 49.84 percent equity ratio was approved in a Board-approved settlement.[16]

ACE's prior short-term debt financings do not appear to have had a negative impact on the Company's long-term debt credit ratings and the cost of permanent capital. ACE's credit ratings were uprated by one notch during 2019 by Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"). Ratings for Senior Secured debt are A (S&P), A2 (Moody's) and for short-term debt are A2 (S&P) and P2 (Moody's).[17]. Its ratings for Senior Unsecured debt are as follows: A- (S&P), Baa1 (Moody's), and BBB+ (FitchRatings).[18] The rating agency reports appear to regard ACE's level of liquidity as being adequate given its revolving credit facility sublimit of $300 and its current $350 million borrowing authority approved by the Board.[19]

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[14] Response to RCR-11.
[15] Response to S-ACE-004.
[16] Response to S-ACE-012.
[17] Response to RCR-2.
[18] Response to RCR-17, Attachments 1.
[19] See Response to S-ACE-007, Attachments 1 to 32.

ACE anticipates that its short-term debt interest rates will be in the range of 1.75 percent to 2.00 percent through the end of 2021.[20] In addition to the interest expense paid on its commercial paper short-term borrowings, ACE currently pays a fixed annual fee on its $300 million revolving credit facility sublimit that totals $0.5 million per year.[21] Both the interest rate outlook and the credit facility fees appear to be 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 2019, despite increases compared to earlier years, has been about 2.5 percent, and the Company estimates that during 2020 to 2021 short-term interest rates will be roughly in the range of about 1.75 to 2.0 percent.[22] ACE's primary source of short-term debt has been from the issuance of low-cost commercial paper, backed up by its revolving credit facility with occasional borrowings from the PHI Money Pool.[23] To the extent feasible, ACE should continue to minimize its short-term debt borrowing costs through the use of its commercial paper program, except when Money Pool borrowings are available at a lower cost. 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

[20]Response to S-ACE-005.
[21] Response to S-ACE-006. It should also be noted that ACE participates in a Revolving Credit Facility jointly with its two PHI affiliate utilities, Delmarva Power & Light Company and Potomac Electric Power Company. The term on that agreement extends to May 26, 2023. See Response to RCR-10.
[22] Response to S-ACE-005.
[23] See Response to RCR-6, Attachment 1.

less than its full short-term borrowing authority, and there is no indication of credit rating agency concern over excessive leverage or inadequate liquidity. For example, in 2019 its maximum monthly short-term borrowing was about $150 million compared to more than $2.0 billion in permanent capital.[24]

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 on average per year along with substantial long-term debt maturities. This level of investment cannot be entirely financed with internally-generated cash, according to Company cash flow projections.[25] 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 ensure that ACE has adequate flexibility to appropriately and efficiently 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 December 2017 Board Order that approved the current $350 million ceiling level of short-term debt. Rate Counsel notes that the Company stated in discovery that it would agree to all of these conditions,

[24] Responses to RCR-6, Attachment 1 and RCR-12.
[25] Response to RCR-2.

requirements or reservations.[26] The Company requests an Order "substantially in the form of the existing [December 2017] Order".[27]

In addition to these twelve standard and accepted conditions of approval, Rate Counsel notes that in this docket the Company did not actually file its Petition until September 12, 2019 and requests Board approval by December 6, 2019 – less than three months after filing. This is a very compressed time period for review by Rate Counsel and Board Staff. While this Petition essentially replicates the previous short-term debt Petition and is not controversial, that may not be the case in future petitions. Such a petition on an unduly compressed time schedule would make a proper review of the Company's petition potentially problematic. We further note in this case that the Company obtained its Board of Directors resolution authorizing the filing of its Petition on August 12, 2019, a full month prior to when the actual filing took place.[28] In order to avoid this problem for future filings, Rate Counsel requests that the Company to file its next and all future short-term debt petitions at least 150 days prior to the target approval date. If the Company in the next case requests a Board approval date of early December 2021, then it should file its next petition no later than June, 2021. This requested scheduling accommodation will not impose an unreasonable burden on the Company, and it will ensure the Board that there will be adequate time for proper review.

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[26] See Response to RCR-4.
[27] See Petition at Page 5.
[28] Petition, Exhibit C.

Consistent with the Board's December 19, 2017 Order , the Order in this docket should include the following thirteen requirements:

1. Within 30 days after the close of each fiscal quarter, Petitioner shall file with the Board a statement setting forth in reasonable detail the amounts of its unsecured indebtedness outstanding, the dates of issue and maturity, and the rates of interest thereon.
2. This Order shall not be construed as a certification that the securities proposed to be issued will be represented by tangible or intangible assets of commensurate value or investment costs.
3. This Order 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 to be owned by Petitioner.
4. This Order shall not affect or in any way limit the exercise of the authority of the Board or of the State, in any future petition or in any proceeding with respect to rates, franchises, service, financing, accounting, capitalization, depreciation or in any other matter affecting Petitioner.
5. Petitioner shall submit to the Office of the Economist and to Board Staff copies of all resolutions that shall be adopted by the Board of Directors of Petitioner during the term of this Order, which shall have the effect of changing the amount of the unsecured indebtedness within the limits established by this Order. Such submittals shall be for informational purposes only, and shall be made within ten (10) days following the taking of such action by Petitioner's Board of Directors.
6. On each day where the Petitioner determines that it requires short-term funds in the form of commercial paper, Petitioner shall first use commercially reasonable

efforts to obtain competitive bids from at least three (3) commercial paper dealers. Petitioner shall then select the bid that offers the best terms at the lowest rate to Petitioner and to its New Jersey ratepayers. Petitioner shall maintain documentation as to such efforts to obtain competitive bids from at least three (3) commercial paper dealers. Such documentation shall be supplied to Board Staff or Rate Counsel upon request.

7. Petitioner is obligated to conduct its short-term borrowing at the lowest reasonable cost.
8. All Short-Term Debt issued pursuant to the authority granted by this Order is to be used to fund utility operations and investments only, not to fund unregulated affiliates.
9. The Board's approval of the Petition does not constitute pre-approval of any cost recovery from customers or rate setting.
10. Petitioner retains the obligation to use a prudent mix of capital to finance its utility operations and investments to provide service at lowest reasonable cost.
11. Rate Counsel reserves all rights to take appropriate positions in any future Board proceedings involving Petitioner.
12. The authority granted in this Order shall become null and void and of no effect with respect to any portion which is not exercised prior to January 1, 2022.
13. Petitioner shall file its next short-term debt petition by no later than June of 2021.

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: ______________________
T. David Wand
Assistant Deputy Rate Counsel

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

I/M/O the Petition of Atlantic City Electric Company for Authority to Issue up to $350 Million of Short-Term Indebtedness Prior to January1, 2022
BPU Docket No. EF19091155

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