



State of New Jersey

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November 15, 2021

VIA ELECTRONIC MAIL

Hon. Aida Camacho-Welch, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th floor
P.O. Box 350
Trenton, New Jersey 08625-0350
Board.Secretary@bpu.nj.gov
Aida.Camacho@bpu.nj.gov

**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, 2024
BPU DOCKET NO. EF2107997**

Dear Secretary Camacho-Welch:

Please accept this letter as the comments of the New Jersey Division of Rate Counsel ("Rate Counsel") regarding the above-referenced matter. Consistent with the Order issued by the New Jersey Board of Public Utilities (the "Board" or "BPU") in connection with In the Matter of the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic for a Temporary Waiver of Requirements for Certain Non-Essential Obligations, BPU Docket No. EO20030254, Order dated March 19, 2020, these comments are being electronically filed with the Secretary of the Board, the Division of Law, and Atlantic City Electric Company. No paper copies will follow. Please acknowledge receipt of these comments. Thank you for your consideration and attention to this matter.

BACKGROUND

Atlantic City Electric Company's ("ACE" or "the Company") Petition is requesting authorization from the Board of Public Utilities ("Board") to issue up to \$350 million of short-term indebtedness ("short-term debt") prior to January 1, 2024.

ACE's current authorization to issue up to \$350 million of short-term debt expires December 31, 2021. On July 21, 2021, ACE filed a petition with 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, 2024. Board Order, Docket No. EF19091155, dated December 6, 2019, granted ACE's petition, with conditions, authorizing ACE to issue up to \$350 million of short-term debt prior to January 1, 2022. ACE is now seeking to receive authorization from the Board to issue \$350 million of short-term debt through December 31, 2023.

ACE's petition states, "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."¹ ACE also 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.²

DISCUSSION

ACE states it is using short-term debt for a variety of purposes: to temporarily finance construction-related expenditures, to meet its working cash requirements, and for other general corporate purposes.³ To date, ACE's 2021 highest borrowing of short-term debt in any one day

¹ Petition, at ¶ 4.

² Id., at ¶ 7.

³ In response to Board Staff Request No. 2, ACE explained that "general corporate purposes" could include, for

was \$280.5 million.⁴ Its average daily balance of short-term debt during 2021 has been \$156.3 million.⁵ It appears that the current and proposed short-term debt ceiling, i.e., \$350 million, provides ACE adequate flexibility to manage its short-term borrowings consistent with cash requirements.

A review of ACE's current financials reveal that ACE has a specific need for being able to access short-term debt, at least at some level. Internally generated funds, primarily from depreciation expense, deferred income taxes, and net income, have been insufficient in recent years to finance ACE's construction expenditures. For example, for the six-month period ended June 30, 2021, ACE generated \$70 million of net cash from operating activities. Its investment in plant and equipment for the same period, however, was \$239 million. Thus, ACE had a net cash requirement for construction expenditures alone of \$169 million.⁶ Moreover, ACE is projecting relatively high construction expenditures to continue over the next three years: \$350 million in 2021; \$350 million in 2022; and \$375 million in 2023.⁷ It is not uncommon for companies to use short-term debt to bridge a gap between refunding outstanding long-term and securing new, permanent financing. Given a relatively large construction program and potential refinancing that may occur before January 2024, it is certain that ACE will have a continuing need for external short-term 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

example, the funding of expenditures prior to being funded permanently and for funding a long-term debt maturity prior to refinancing.

⁴ ACE's response to RCR-1, Attachment 1. (Confidential)

⁵ Ibid.

⁶ ACE's response to RCR-13, SEC Report.

⁷ See Petition Exhibit A.

financing to maintain a well-balanced permanent capital structure. ACE states that its target is to maintain an equity ratio of at least 50%, in a capital structure that excludes short-term debt.⁸ 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. The following table shows ACE's annual dividend payments to PHI and equity infusions received from PHI during the years 2018 through June 30, 2021.

ATLANTIC CITY ELECTRIC COMPANY
Schedule of Dividend Payments and Equity Infusions
Between ACE and PHI⁹
2018-2021
(\$million)

	Dividends Paid to PHI	Equity Infusions from PHI
2018	\$59	\$67
2019	\$124	\$175
2020	\$114	\$117
6 months ending 6/30/2021	\$229	\$303

At June 30, 2021, ACE's permanent capital structure was 49.54% long-term debt and 50.46% common equity.¹⁰ This is in line with the capital structure that was agreed to in the settlement of ACE's last base rate case.

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 notes are A (S&P), A2 (Moody's) and A- (Fitch).¹¹ Its ratings for Senior Unsecured securities are as follows: A- (S&P), Baa1 (Moody's), and BBB+ (Fitch).¹² ACE has held these

⁸ ACE's response to RCR-10.

⁹ ACE's responses to RCR-5 and RCR-6.

¹⁰ ACE's response to RCR-11, Attachment.

¹¹ ACE's response to RCR-2.

¹² Ibid.

ratings since 2019, when Moody's upgraded its ratings for ACE's senior secured and unsecured securities by one notch.¹³

ACE forecasts that short-term debt rates will be in the range of 0.20% to 0.25% through the end of 2023.¹⁴ In addition to the interest paid on short-term borrowings, ACE currently pays a 17.5 basis points annual fixed charge on a \$300 million sublimit available credit to the primary credit facility, or up to \$525,000 annually.¹⁵ Both the interest rate and the credit facility fees appear in line with prevailing and expected market costs over the next two years.

RECOMMENDATION

Rate Counsel recommends that the Board grant the Extension of ACE's current short-term borrowing authority until January 1, 2024 and impose the same 13 conditions on ACE, as listed below, that the Board imposed on the Company in approving ACE's prior short-term debt authorization request.¹⁶

1. Within thirty (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.

¹³ Ibid.

¹⁴ ACE's response to Staff Question No. 5.

¹⁵ ACE's response to Staff Question No. 6.

¹⁶ December 6, 2019 Board Order, Docket No. EF19091155. These same conditions were referenced by ACE in the Petition as applicable in this proceeding.

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 this Board or of this 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 the 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 unsecured indebtedness within the limits established by this Order. Such submissions 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 maintain 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.

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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 costs.

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, 2024.

13. Petitioner shall file its next short-term debt petition by no later than 150 days prior to the expiration of the authorization.

Respectfully submitted,

BRIAN O. LIPMAN
DIRECTOR, DIVISION OF RATE COUNSEL

By: /s/ Bethany Rocque-Romaine
Bethany Rocque-Romaine, Esq.
Assistant Deputy Rate Counsel

cc: Service List (via Electronic Mail only)

**I/M/O the Verified 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 Jan. 1, 2024
BPU Docket No.: EF2107997
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