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January 26, 2022

Via Electronic Delivery

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

**Re: In the Matter of the Petition of South Jersey Gas Company to
Issue Long-Term Debt and Security Therefor and for
Authority to Issue and Sell Short-Term Indebtedness, All
Through September 30, 2024
BPU Docket No. GF21081066**

Dear Secretary Camacho-Welch:

Please accept for filing in the above-referenced matter the New Jersey Division of Rate Counsel's ("Rate Counsel") comments concerning South Jersey Gas Company's ("SJG" or "the Company") petition ("Petition") for authority to issue and sell long-term debt and short-term debt through September 30, 2024 which was filed with the New Jersey Board of Public Utilities ("Board") on August 13, 2021.

Consistent with the Order issued by the Board 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 the Requirements for Certain Non-Essential Obligations*, BPU Docket No EO20030254, dated March 19, 2020, these documents are being electronically filed with the Secretary of the Board and SJG. No paper copies will follow.

Background

South Jersey Gas Company, a regulated public utility headquartered in Atlantic City, New Jersey, is engaged in the transmission, distribution transportation, and sales of natural and mixed gases within its defined New Jersey service territory, which includes all or portions of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester and Salem counties. SJG is a subsidiary of South Jersey Industries (“SJI”) and serves more than 400,000 customers.¹

By way of its Petition, SJG requests the following authorizations:

- (i) To make, execute and deliver pursuant to N.J.S.A 48:3-7 a Supplemental Mortgage Indenture and any such additional Supplemental Mortgage Indentures as may be advisable providing for the issuance of a First Mortgage Bond or First Mortgage 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 \$300,000,000 (the “Financing Cap”) less the aggregate principle amount of any other long-term indebtedness issued pursuant to this Petition payable in more than twelve (12) months from the date or dates thereof that is issued pursuant to (iii) below.
- (ii) To issue and sell Bonds (whether First Mortgage Bonds or unsecured Bonds) with a maturity of not more than forty (4) years from the respective date of issuance, in an aggregate principal amount of not more than the Financing Cap less the aggregate principal amount of any other indebtedness payable in more than twelve (12) months from the date or dates thereof that is issued pursuant to (iii) below.
- (iii) To issue other evidence of indebtedness, including credit agreements or notes, payable more than twelve (12) months from the date of dates thereof; and
- (iv) To redeem, refinance (without regard to and unaffected by the Financing Cap), or defease any or all of its outstanding long-term indebtedness or long-term debt securities as long as the redemption, refinancing or defeasance is financially advantageous to SJG.
- (v) To issue, renew or extend, prior to September 30, 2024, unsecured notes and/or other evidence of indebtedness payable not more than 12 months after the date(s) thereof (“Short-Term Debt”) with an aggregate principal amount

¹ Petition, p. 2.

of Short-Term Debt obligations outstanding at any one time not to exceed \$300,000,000.²

The Company proposes to utilize the net proceeds from the transaction or series of transactions contemplated in the Petition 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.³ SJG requests Board authorization to accomplish the financings contemplated in the Petition at any time through September 30, 2024.⁴

Rate Counsel Analysis

In the instant Petition, SJG seeks Board authorization to issue and sell up to \$300,000,000 principal amount of additional indebtedness with maturities of not less than twelve months nor longer than 40 years from date or dates of issuances. As of September 30, 2021, SJG had \$1.239 billion of long-term debt outstanding.⁵ Of this total, \$50,000,000 of SJG's outstanding long-term debt will be maturing between now and September 30, 2024.⁶ As of September 2021, SJG had an average balance of short-term debt outstanding of approximately \$63 million.⁷

Most recently, the Company was granted authorization by the Board in 2018 to issue and sell up to a \$1,200,000,000 aggregate principal amount of term loans and medium-term notes.⁸ Pursuant to the authorization granted in 2018, SJG issued \$1,116,900 of long-term indebtedness

² Petition, pp. 1-2.

³ Petition, pp. 2-3.

⁴ Petition, p. 13.

⁵ SJG's response to RCR-9.

⁶ Petition, p. 9.

⁷ SJG's response to RCR-7.

⁸ Petition, p. 6.

consisting of Bond issuances and Term Loan Facilities.⁹ The authorization granted in 2018, however, expired on September 30, 2021.¹⁰ Thus, without additional authorization from the Board, which it now seeks, SJG does not have the ability to issue additional long-term debt.

SJG utilizes a combination of internally generated cash flows, short-term debt, long-term debt, and equity to finance its capital requirements. Typically, the Company will use short-term debt on a temporary basis during the construction phase, which will then be retired and replaced by either long-term debt or equity. The decision to finance with either long-term debt or equity is based on the Company's capital structure position at the time relative to its overall capital structure objective.

SJG's stated capital structure objective is to target a mix of debt and equity that is in line with the capital structure utilized to set rates in the Company's last base rate case.¹¹ In SJG's most recent base rate case, the Board approved a capital structure consisting of 46% long-term debt and 54% common equity.¹² More recently, SJG's actual capital structure is 42% long-term debt, 55% common equity, and 3% short-term debt.¹³ If SJG accomplishes the financings that are anticipated in this Petition, its *pro forma* capital structure is projected to consist of 51% equity, 44% long-term debt, and 5% short-term debt.¹⁴

In order to achieve its target capitalization ratios, SJG might 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. Over the past 48

⁹ Petition, p. 6.

¹⁰ Petition, p. 6.

¹¹ SJG's response to RCR-8.

¹² Petition, p.

¹³ SJG's response to RCR-8.

¹⁴ *Ib.*

months, SJI contributed \$149.5 million to SJG's equity base.¹⁵ This equity infusion was offset somewhat by \$20 million in dividend payments that SJG made to parent SJI during the same time period.¹⁶

Prospectively, the Company anticipates that SJI will contribute an additional \$90 million to SJG equity base over the next twelve months.¹⁷ Thus, given new long-term debt issuances made possible by the financing authority being requested in the Petition, SJG should be able to maintain a capital structure consistent with the Company's stated objective if SJI continues to contribute additional equity capital on a timely basis.

Concerning SJG's credit worthiness, the Company is rated by both Moody's and Standard & Poor's ("S&P"). Moody's February 2021 credit report on SJG reaffirmed its earlier corporate credit rating of A3 and revised its outlook to "stable" from "negative".¹⁸ In its March 2021 credit report, S&P affirmed SJI's (and subsidiaries including SJG) corporate BBB credit rating and revised its outlook from "negative" to "stable".¹⁹ Based on information supplied by SJG regarding its 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 newly-acquired debt. SJG projects that its fixed charge coverage ratios over the period 2022 through 2024 will be greater than 4.0.²⁰

Rate Counsel Recommendation

Rate Counsel has carefully reviewed the Petition and does not oppose its approval. The Company supplies natural gas transmission, distribution, and transportation services to over

¹⁵ SJG's response to RCR-16.

¹⁶ SJG's response to RCR-17.

¹⁷ SJG's response to RCR-14.

¹⁸ SJG's response to S-1, Attachment S-1.1.

¹⁹ SJG's response to S-1, Attachment S-1.2.

²⁰ SJG's response to S-8.

400,000 homes and businesses in its New Jersey service territory. Based on information supplied by SJG, the proposed financing appears necessary and appropriate as part of the Company's overall strategy to provide safe, adequate, and reliable service to its New Jersey customers. Further, the resulting capital structure would maintain the capital structure that the Board authorized in SJG's most recent base rate case.²¹ Based on recent financial information supplied by SJG, it appears that the Company projects that it will have 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, Rate Counsel recommends that 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 it 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 contemplated issuance(s) on SJG's capital costs will be addressed in future base rate proceedings.

Further, 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 provisions, or otherwise, and (iv) such other provisions as may be established by SJG with respect to the terms and

²¹ SJG's response to RCR-8 and -11.

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 pages 4-5 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, 2024.

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,

Brian O. Lipman, Esq.
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By: */s/ Kurt S. Lewandowski*
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Assistant Deputy Rate Counsel

c: Service List

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Jersey Gas Company to Issue Long-Term
Debt and Security Therefore and for
Authority to Issue and Sell Short Term
Indebtedness, All Through
September 30, 2024
BPU Docket No. GF21081066

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