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June 6, 2022

Via Electronic Mail Only

Carmen Diaz, Acting Board Secretary
New Jersey Board of Public Utilities
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**In the Matter of the Petition of Atlantic City Electric Company for
Authority to Issue up to \$700 Million of Long-Term Debt Securities
Pursuant to N.J.S.A. 48:3-9 (2022-2024)
BPU Docket No. EF22020044**

Dear Secretary Diaz:

Please accept for filing in the above-referenced matter the New Jersey Division of Rate Counsel's ("Rate Counsel") comments concerning Atlantic City Electric Company's ("ACE" or "the Company") February 4, 2022 petition to the New Jersey Board of Public Utilities ("Board") to expand its existing financing authority to issue up to an additional \$700 million of long-term debt by December 31, 2024 ("Petition").

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 with ACE. No paper copies will follow.

A. Background

ACE, a regulated public utility with local 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 560,000 customers.

On February 4, 2022, ACE filed a Certified Petition (“Petition”) and supporting documents with the Board requesting the following authorizations:

- To issue and sell in one or more series up to \$700,000,000 in aggregate of Debt Securities;
- To make any renewed authorization effective from the date of issuance of the Board Order or the Effective Date established by the Board, in its discretion; and
- To take such other action as may be necessary or desirable in connection with issuing Debt Securities.¹

The Company states in its Petition that it expects to utilize the net proceeds from the transaction(s) to: (i) refund maturing debt securities; (ii) finance a portion of its 2022-2024 construction program; and (3) to convert a portion of its short-term debt to permanent financing.² ACE requests Board authorization to accomplish the financings contemplated in the Petition at any time through December 31, 2024.³

B. Rate Counsel Analysis

The table below shows ACE’s prior long-term debt authorizations from the Board since 2010:

ATLANTIC CITY ELECTRIC COMPANY Long-Term Debt Authorizations 2010-2022⁴

Years	Amount	Docket No.
2009-2011	\$250 Million	EF09040328
2011-2013	\$250 Million	EF11100637
2013-2015	\$300 Million	EF13090843
2016-2017	\$300 Million	EF15091078
2018-2019	\$350 Million	EF17080924
2019-2020	\$350 Million	EF18121340
2021-2022	\$600 Million	EF20080522

¹ Petition, at p. 7.

² Id., at ¶ 5.

³ Id., at p. 7.

⁴ Response to RCR-10.

Pursuant to these prior authorizations, ACE had an outstanding long-term debt balance of approximately \$1.57 billion as of December 31, 2021, as shown in the following table.⁵

ATLANTIC CITY ELECTRIC COMPANY
 Long-Term Debt Outstanding
 At December 31, 2021

Issue (A)	Coupon Rate (B)	Maturity (C)	Total Debt Outstanding (D)
First Mortgage Bonds			
	3.375%	09/01/24	\$150,000,000
	3.500%	05/21/29	\$100,000,000
	4.000%	10/15/28	\$350,000,000
	2.300%	03/15/31	\$350,000,000
	2.270%	02/15/32	\$75,000,000
	4.140%	05/21/49	\$50,000,000
	3.240%	06/09/50	\$100,000,000
Total First Mortgage Bonds			\$1,175,000,000
Senior Notes			
	5.800%	05/15/34	\$120,000,000
	3.500%	12/01/25	\$150,000,000
	5.800%	03/01/36	\$105,000,000
Total Senior Notes			\$375,000,000
Tax-Exempt Bonds	2.250%	06/01/29	\$23,150,000
Total Long-Term Debt Outstanding			\$1,573,150,000

ACE has issued two more First Mortgage Bonds in 2022. On February 15, 2022, ACE issued: (i) a \$25 million, ten-year bond with an interest rate of 2.27%; and (2) a \$150 million, 30-year bond with an interest rate of 3.06%.⁶

As shown in the preceding table, ACE has a long-term debt issue that will mature during the period of time covered by the Petition. That issue is a \$150 million First Mortgage Bond that will become due in September 2024.

⁵ Response to RCR-2, Attachment 1.

⁶ Ibid.

In addition to the \$1.57 billion of outstanding long-term debt, ACE also had \$70 million of short-term debt outstanding on December 31, 2021.⁷ ACE's short-term borrowing limit is currently \$350 million.⁸

In the instant Petition, ACE seeks Board authorization to issue and sell up to \$700 million aggregate principal amount of indebtedness with maturities of not less than 12 months nor longer than 40 years from date of issuance.⁹

With its new financing authority ACE plans to issue First Mortgage Bonds, Senior Notes, or unsecured Notes over the next two years.¹⁰ ACE has indicated that, if the Board's authorization is granted, it will use the \$700 million financing authorization to:

- Refund maturing debt securities,
- Finance a portion of its 2022-2024 construction program, and
- Convert a portion of its short-term debt expected to be incurred associated with its capital expenditure program to permanent financing.¹¹

ACE's financing objectives are to maintain its current credit ratings and to maintain a capital structure consisting of a common equity ratio of at least 50%.¹² ACE is also committed, by Board Order in BPU Docket No.: EM14060581, to maintaining a rolling 12-month average annual equity ratio of at least 48%.¹³ Concerning ACE's credit ratings, the major ratings agencies have assigned the following ratings to ACE's senior securities:¹⁴

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

ACE has been able to maintain its current S&P and Moody's ratings for at least the past 48 months.¹⁵ Fitch, however, recently upgraded ACE's Senior Secured rating to A from A- on January 14, 2022.¹⁶

In ACE's last base rate proceeding, BPU Docket No. ER20120746, the Company was authorized a capital structure consisting of approximately 50% long-term debt and 50% common

⁷ Response to RCR-9, Attachment 2, p. 23.

⁸ Response to RCR-8.

⁹ Petition at ¶¶ 5 and 9.

¹⁰ Petition at ¶¶ 5-6.

¹¹ *Id.*, at ¶ 5.

¹² Response to RCR-11.

¹³ *Ibid.*

¹⁴ Response to RCR-4.

¹⁵ Response to RCR-5.

¹⁶ *Ibid.*

equity.¹⁷ ACE's capital structure at December 31, 2021 was approximately the same 50% long-term debt and 50% common equity.¹⁸ ACE plans to increase its outstanding long-term debt by an additional \$550 million over the next two years.¹⁹ Since the Company has no plans to retire debt beyond the \$150 million that will mature in September, 2024, 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 will need to increase common equity by a similar amount. ACE can increase its equity balance either through retained earnings or through equity contributions from its corporate parent.²⁰ The following table shows ACE's receipt of equity contributions from its corporate parent and dividends paid by it to its corporate parent over the past 48 months.²¹

ATLANTIC CITY ELECTRIC COMPANY

Equity Infusions from and Dividends Paid to Corporate Parent

Transaction Date	Equity Infusions	Dividends Paid
March 8, 2018		\$8,900,000
June 7, 2018		\$9,800,000
December 7, 2018	\$65,890,000	\$12,800,000
September 7, 2018		\$27,700,000
December 9, 2018		\$3,300,000
March 7, 2019	\$4,900,000	\$11,100,000
June 7, 2019	\$149,800,000	\$12,300,000
September 9, 2019		\$76,700,000
December 9, 2019	\$13,600,000	\$23,500,000
December 20, 2019	\$7,200,000	
March 9, 2020		\$23,600,000
March 12, 2020	\$302,600,000	
June 9, 2020	\$114,700,000	\$11,200,000
September 9, 2020		\$76,600,000
December 9, 2020		\$3,300,000
March 12, 2021	\$302,600,000	\$13,300,000
June 9, 2021		\$215,300,000
September 9, 2021		\$50,900,000
December 9, 2021	\$15,800,000	\$8,400,000
TOTAL	\$676,962,000	\$585,400,000

The net equity infusions shown above have allowed ACE to maintain its 50% debt and 50% equity capital structure.

¹⁷ Response to RCR-12 Attachment 1, p. 1 of 4.

¹⁸ Response to RCR-12, Attachment 3, p. 1 of 4.

¹⁹ \$700 million less \$150 Million to refinance First Mortgage Bonds due Sept. 1, 2022.

²⁰ Responses to RCR-17.

²¹ Response to RCR-19, Attachment 1

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 mortgage indenture requires it to maintain a 2.0 times interest coverage ratio, where earnings must be at least twice the Company's interest expense, including interest on newly issued debt.²² As of December 31, 2021, ACE's interest coverage ratio was 6.34x, which is well above the minimum 2.0x required by the mortgage indenture.²³ Thus, barring an 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 560,000 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 contained in ACE's most recent base rate proceeding in BPU Docket No. ER20120746. It is certain, however, in order to protect ratepayers from unnecessary risk, that ACE may require additional equity infusions from its corporate parent over the next two years to offset the additional \$700 million of new long-term debt (or \$550 million of net additions to long-term debt) to be issued in order to maintain a 48% to 50% equity ratio. Based on ACE's recent financial performance, however, it appears that the Company has sufficient income to meet additional debt service interest requirements without jeopardizing its ability to provide safe, adequate and reliable service to its New Jersey customers.

Even though Rate Counsel is generally supportive of the authorizations sought in the Petition, 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 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: (1) a statement with respect to

²² Response to RCR-25.

²³ Response to RCR-16.

- 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; (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 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 Board's 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. ACE shall furnish the Board with copies of all executed amendments and/or supplements, if any, of the ACE's Mortgage and Deed of Trust, or any successor mortgage thereto.

7. ACE shall furnish the Board with copies of all final documents as executed and filed with other regulatory agencies, including the SEC, if any, relating to the new issuances.
8. The Board's Order in this proceeding 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.
9. The Board's Order in this proceeding 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 ACE.
10. 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 Petition.
11. 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, 2024.
12. The Board's Order in this proceeding shall not constitute pre-approval of any cost or authorization for rate recovery. All capital costs are subject to review in ACE's next base rate proceeding.

These provisions will satisfy Rate Counsel's concern that the Board's approval is limited to the transactions as described herein, does not imply authorization to include any specific assets or amounts in rate base, does not imply 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, DIRECTOR
DIVISION OF RATE COUNSEL

By: /s/ Bethany Rocque-Romaine
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BR/dl

cc: Service List (*via electronic mail*)

**I/M/O the Petition of
ACE Co. for Authority to Issue Up
to \$700 million of Long-Term Debt
Securities Pursuant to
N.J.S.A. 48:3-9 (2022-2024)**

**BPU Docket No.: EF22020044
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