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November 15, 2023

VIA ELECTRONIC MAIL

Hon. Sherri Golden, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 1st floor
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**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, 2026 (2023)
BPU DOCKET NO. EF23070447**

Dear Secretary Golden:

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

On July 14, 2023, 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 continue to issue, renew, or extend, up to \$350 million of short-term debt prior to January 1, 2026 (the “Petition”). Short-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 Petition at the Board’s scheduled meeting of December 6, 2023 because the Company’s current short-term debt authority expires on December 31, 2023.

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, 2025.

According to the Petition, “the Company anticipates that short-term external financing will be necessary to provide for: (i) working capital requirements; (ii) temporary financing 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, 2024, BPU Docket No. EF21070997, Order, December 1, 2021.

construction program expenditures; and (iii) general corporate purposes”.² As for the requested authority to retain the short-term debt ceiling authorization at \$350 million, as support ACE cites to the Board’s order in the previous docket decided in December 2021.³ ACE 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.⁴

DISCUSSION

ACE states it is using short-term debt for a variety of purposes. It uses short-term debt to meet its working capital requirements, temporarily finance its construction program expenditures, and for other general corporate purposes. The term “general corporate purposes” covers occurrences pursuant to which ACE would need to finance an expenditure on a short-term basis, typically before being funded permanently, such as construction expenditures or the timing of working capital. On occasion, general corporate purposes could include the funding of a long-term debt maturity prior to refinancing, the purchase of tax-exempt debt at the call date, or any other unforeseen event.⁵

To date, the highest amount of short-term debt ACE has borrowed since January 2022 is approximately \$180 million.⁶ It appears that the current and proposed debt ceiling (\$350 million) provides ACE adequate capacity and flexibility to manage its short-term debt borrowings consistent with ACE’s cash requirements.

² Petition, paragraph 4.

³ Ibid., paragraph 5.

⁴ Ibid., paragraph 7.

⁵ ACE response to S-ACE-STD-2.

⁶ ACE response to RCR-2.

ACE's current financials reveal that ACE has a continuing need to access short-term debt. For the six-month period ended June 30, 2023, ACE generated \$41 million in net cash from operating activities. Its investment in capital expenditures was \$275 million. Therefore, ACE had a net cash requirement of \$234 million for capital expenditures.⁷

ACE projects that, in 2024 and 2025, it will incur a total of approximately \$925 million in capital expenditures.⁸ ACE has stated that it plans to fund these capital expenditures with a combination of cash from operations, long-term debt, short-term debt, and equity. ACE may fund a long-term debt maturity or repurchase other long-term debt prior to maturity with proceeds from a long-term capital market issuance. However, should the capital markets become unattractive or inaccessible, ACE would temporarily fund the long-term debt maturity or repurchase long-term bonds prior to maturity with short-term proceeds until the capital markets can be accessed on acceptable terms.⁹

In addition to short-term financing, ACE obtains financing from other sources such as from its parent company, Pepco Holdings LLC ("PHLLC").¹⁰ Based on ACE's need to finance capital expenditures and for flexibility in responding to capital market conditions in 2024 and 2025, it is likely that ACE will have a continuing need for access to external short-term financing.

Generally speaking, the Board does not consider a utility's outstanding short-term debt when establishing a capital structure and rate of return for ratemaking purposes. Rather, ACE

⁷ ACE response to RCR-6, SEC Report, p. 46.

⁸ Petition, Exhibit A.

⁹ ACE response to RCR-4.

¹⁰ ACE response to RCR-7.

must appropriately time the roll-over of its short-term debt into permanent financing to maintain a well-balanced permanent capital structure. In order to maintain an equity ratio of at least 50%, 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 PHLLC. ACE states that, to the extent that long-term debt increases on the Company's books, PHLLC will make equity infusions into ACE to maintain an ACE equity ratio of at least 50%.¹¹

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 or the cost of ACE's permanent capital. ACE has credit ratings from all three of the major rating agencies, Standard & Poor's ("S&P"), Moody's Investors Service ("Moody's"), and FitchRatings ("Fitch"). Ratings for ACE's Senior Secured debt are upper medium investment grade: A (S&P)¹², A2 (Moody's)¹³, and A (Fitch)¹⁴. According to Exelon's 2022 10-K report, Fitch upgraded ACE's rating for Senior Secured debt from an A- to A.¹⁵ ACE's ratings for Senior Unsecured debt are as follows: A- (S&P)¹⁶, Baa1 (Moody's)¹⁷, and A- (Fitch)¹⁸. Ratings for short-term debt are A2 (S&P)¹⁹, P2 (Moody's)²⁰, and F2 (Fitch)²¹. The rating agency reports appear to regard ACE's level of liquidity as being

¹¹ ACE response to RCR-4.

¹² ACE response to S-ACE-STD-7, Attachment 3.

¹³ ACE response to S-ACE-STD-7, Attachment 8.

¹⁴ ACE response to S-ACE-STD-7, Attachment 15.

¹⁵ Exelon's 2022 10-K Report, p. 91.

¹⁶ ACE response to S-ACE-STD-7, Attachment 3.

¹⁷ ACE response to S-ACE-STD-7, Attachment 8.

¹⁸ ACE response to S-ACE-STD-7, Attachment 15.

¹⁹ ACE response to S-ACE-STD-7, Attachment 3.

²⁰ ACE response to S-ACE-STD-7, Attachment 8.

²¹ ACE response to S-ACE-STD-7, Attachment 15.

adequate given its revolving credit facility sublimit of \$300 million and the current \$350 million short-term borrowing authority that has been approved by the Board through 2023.²²

ACE anticipates that its short-term debt interest rates will be 4.90% and 3.75% in 2024 and 2025, respectively.²³ In addition to the interest paid on short-term borrowings, ACE currently pays a 12.5 basis points annual fixed charge on a \$300 million sublimit on available credit from the primary credit facility, or up to \$375,000 annually.²⁴ Both the interest rate and the credit facility fees appear to be in line with prevailing and expected market costs over the next two years.

RECOMMENDATIONS

Rate Counsel recommends that the Board grant the extension of ACE's current short-term borrowing authority of up to \$350 million until January 1, 2026 and impose the same 13 conditions on ACE, as listed below, that the Board imposed on the Company in approving ACE's most recent previous short-term debt authorization request.²⁵

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 securities proposed to be issued will be represented by tangible or intangible assets of commensurate value or investment costs.

²² ACE response to S-ACE-STD-7, Attachments 1 through 15.

²³ ACE response to S-ACE-STD-5.

²⁴ ACE response to S-ACE-STD-6.

²⁵ 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, 2024, BPU Docket No. EF21070997, Order, December 1, 2021.

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 Economist and to Division of Energy 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 submittals shall be for informational purposes only and shall be made within 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 debt 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 and 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 settling.
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, 2026.

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13. Petitioner shall file its next Short-Term Debt petition by no later than 150 days prior to the expiration of the authorization granted in this Order.

Respectfully submitted,

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DIRECTOR, DIVISION OF RATE COUNSEL

By: /s/ *Bethany Rocque-Romaine*
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Assistant Deputy Rate Counsel

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Enc.

cc: Service List (via Electronic Mail only)

**Atlantic City Electric
Short-Term Debt Filing**

BPU Docket No. EF23070447

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