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November 12, 2024

Via Electronic Mail Only

Sherri L. Golden, Board Secretary
New Jersey Board of Public Utilities
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**RE: In the Matter of the Petition of Atlantic City Electric Company for
Authority to Issue up to \$875 Million of Long-Term Debt Securities
Pursuant to N.J.S.A. 48:3-9 (2025-2026)
BPU Docket No. EF24060466**

Dear Secretary Golden:

Please accept this revised letter on behalf of the New Jersey Division of Rate Counsel ("Rate Counsel") as our written comments regarding the above referenced petition filed by Atlantic City Electric Company ("ACE," the "Company," or "Petitioner") on June 24, 2024 with the New Jersey Board of Public Utilities (the "Board" or "BPU") (a modification was made to a date in recommendation number ten on page 11). Petitioner is seeking to expand its existing

financing authority to issue up to an additional \$875 million of long-term debt by December 31, 2026.¹

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. Paper copies will not follow this submission.

Background

ACE, a regulated public utility corporation with offices in Mays Landing, New Jersey and Newark, Delaware, is engaged in the purchase, transmission, distribution, and sale of electric power in southern New Jersey.² ACE serves approximately 572,000 residential, commercial and industrial customers.³ According to the Petitioner, its construction program for the years 2024 – 2026 has an estimated expenditure of \$1.5 billion, and is “designed to improve and extend its facilities to enable it to better serve the public.”⁴ ACE’s current long-term debt authorization, to issue up to \$700 million in long-term debt through December 31, 2024, was approved by Board Order issued on July 13, 2022.⁵ In its most recent Petition filed with the BPU on June 24, 2024, ACE included supporting documentation requesting the following relief:

¹ In the Matter of the Petition of Atlantic City Electric Company for Authority to Issue up to \$875 Million of Long-Term Debt Securities Pursuant to N.J.S.A. 48:3-9 (2025-2026), BPU Docket No. EF24060466, (June 24, 2024), ¶ 5, (hereinafter “2025-2026 Long Term Debt Petition”).

² 2025-2026 Long Term Debt Petition, p. 1 & ¶ 1.

³ Id., at ¶ 1.

⁴ Id., at ¶ 3.

⁵ 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, (July 13, 2022), (hereinafter “2022-2024 Long-Term Debt Petition”).

- To issue and sell in one or more series up to \$875,000,000 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.⁶

The Company provides in its Petition that it expects to utilize the net proceeds from issuing and selling “debt securities in the aggregate principal amount of not more than \$875 million to: (i) refund maturing debt securities; (ii) finance a portion of its 2024-2026 construction program; and (3) to convert a portion of its short-term debt expected to be incurred associated with its capital expenditure program to permanent financing.”⁷ ACE’s projected timeline to accomplish the financing proposal contemplated in the Petition is any time through December 31, 2026.⁸ ACE maintains that its overall, comprehensive plan to finance its construction costs for 2024 through 2026 is to “continue[] to utilize the commercial paper and capital markets as a principal source of financing its capital and infrastructure needs, in addition to equity contributions from the parent, and internally generated cash flow.”⁹

Rate Counsel Analysis

The table below illustrates ACE’s prior long-term debt authorizations from the Board since 2013, and includes the authorization period, the total amount of long-term debt authorized per period, and the BPU docket number for each authorization:

⁶ Id., at p. 7.

⁷ Id., at ¶ 5.

⁸ Id., at p. 7.

⁹ ACE’s Responses to 2nd Set of Long Term Debt Discovery (RCR-4 – RCR-17) Propounded on Petitioner by Rate Counsel Oct. 2, 2024, responses received Oct. 15, 2024, Response to RCR-8.

ATLANTIC CITY ELECTRIC COMPANY
Long-Term Debt Authorizations
2013-2024¹⁰

Years	Amount	Docket No.
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
2023-2024	\$700 Million	EF22020044

Pursuant to these prior fiscal authorizations, ACE had an outstanding long-term debt balance of approximately \$1.92 billion as of September 30, 2024, as shown in the following table:¹¹

ATLANTIC CITY ELECTRIC COMPANY
Long-Term Debt Outstanding
At September 30, 2024

Issue	Rate	Maturity	Outstanding
(A)	(B)	(C)	(D)
First Mortgage Bonds			
	4.00%	10/15/28	350,000,000
	3.50%	5/21/29	100,000,000
	4.14%	5/21/49	50,000,000
	3.24%	6/9/50	100,000,000
	2.30%	3/15/31	350,000,000
	2.27%	2/15/32	75,000,000
	3.06%	2/15/52	150,000,000
	2.27%	2/15/32	25,000,000
	5.29%	8/28/34	75,000,000
	5.49%	8/2/39	100,000,000
	5.57%	3/15/53	75,000,000
	5.55%	3/20/54	75,000,000
Total First Mortgage Bonds			<u>\$1,525,000,000</u>

¹⁰ Response to RCR-10.

¹¹ Response to RCR-14, Attachment 1.

Senior Notes			
	3.50%	12/1/25	\$150,000,000
	5.80%	5/15/34	\$120,000,000
	5.80%	3/01/36	<u>\$105,000,000</u>
Total Senior Notes			<u>\$375,000,000</u>
Tax-Exempt Bonds	2.25%	06/01/29	<u>\$23,150,000</u>
Total Long-Term Debt Outstanding			<u>\$1,923,150,000</u>

In addition to the \$1.92 billion of outstanding long-term debt, ACE also had approximately \$169 million of short-term debt outstanding as of September 30, 2024.¹² The immediately preceding table indicates that the Company has one Senior Note of \$150 million scheduled to mature December 1, 2025, and ACE will need to refinance this long-term debt.¹³

In the Company's 2024-2026 Long-Term Debt Petition, ACE seeks Board authorization to issue and sell up to \$875 million aggregate principal amount of indebtedness with maturities of not less than 12 months nor longer than 40 years from the date of issuance.¹⁴ If the Board approves the 2024-2026 Long-Term Debt Petition, ACE plans to issue First Mortgage Bonds, Senior Notes, or unsecured Notes over the next two years.¹⁵

ACE set forth its financing objectives and the Company is committed to maintaining its current credit ratings and sustaining a minimum equity ratio of at least 50% (excluding short-term debt and securitization).¹⁶ Furthermore, ACE is obligated, pursuant to a Board Order issued October 31, 2016, to maintain a rolling 12-month average annual common equity ratio of at least 48%.¹⁷ The Merger Order prohibited ACE from paying dividends to its parent company

¹² Response to RCR-15, Attachment 1.

¹³ Response to RCR-14, Attachment 1; 2024-2026 Long Term Debt Petition at ¶ 4 and Exhibit B of Petition,

¹⁴ 2024-2026 Long-Term Debt Petition at ¶¶ 3 & 9.

¹⁵ Id., at ¶ 6.

¹⁶ Response to RCR- 9.

¹⁷ In the Matter of The Merger Of Exelon Corporation And Pepco Holdings, Inc., BPU Docket No. EM14060581, (Order issued October 31, 2016) (hereinafter "Merger Order"), ¶ 12; Response to RCR-11.

if, immediately after the dividend payment, its common equity level would fall below 48%, as equity levels are calculated under the ratemaking precedents of the Board.¹⁸ Regarding ACE's credit ratings, the major ratings agencies have assigned the following ratings to ACE's senior securities:¹⁹

Standard & Poor's	A
Moody's	A2
Fitch	A

In ACE's most recent base rate proceeding, the Board authorized the Company to maintain a capital structure consisting of approximately 50% long-term debt and 50% common equity.²⁰ ACE's capital structure on June 30, 2024 was 49.85 long-term debt and 50.15% common equity.²¹ ACE plans to increase its outstanding long-term debt by an additional \$725 million over the next two years.²² Since the Company has no plans to retire debt beyond the \$150 million that will mature in December 1, 2025, the additional debt issued pursuant to this 2024-2026 Long-Term Debt 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 by increasing its retained earnings and/or receiving additional equity contributions from its parent. The following table shows ACE's

¹⁸ Merger Order, at ¶ 12.

¹⁹ Response to RCR-1.

²⁰ In The Matter Of The Petition Of Atlantic City Electric Company For Approval Of Amendments To Its Tariff To Provide For An Increase In Rates And Charges For Electric Service Pursuant To N.J.S.A. 48:2-21 And N.J.S.A. 48:2-21.1, And For Other Appropriate Relief (2023), BPU Docket No. ER23020091, Base Rate Case Order issued November 17, 2023.

²¹ Response to RCR-12, Attachment 3, p. 1 of 4.

²² \$875 million less \$150 Million to refinance First Mortgage Bonds due Dec. 1, 2025.

receipt of quarterly equity contributions from its corporate parent, dividends paid to its corporate parent and ACE's after-tax earnings over the past 16 quarters.²³

ATLANTIC CITY ELECTRIC COMPANY

Equity Infusions from and Dividends Paid to Corporate Parent

Quarter	After-Tax Earnings, Millions	Dividends Paid to Parent Millions	Parent Equity Contributions, Millions
Q3 2020	75	(77)	0
Q4 2020	6	(3)	0
Q1 2021	14	(14)	303
Q2 2021	37	(215)	0
Q3 2021	90	(51)	0
Q4 2021	5	(8)	16
Q1 2022	26	(19)	173
Q2 2022	11	(19)	0
Q3 2022	94	(90)	2
Q4 2022	17	(17)	0
Q1 2023	33	(21)	63
Q2 2023	18	(15)	0
Q3 2023	71	(75)	2
Q4 2023	(2)	(15)	0
Q1 2024	29	(22)	81
Q2 2024	21	(22)	0
TOTAL	545	(683)	640

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

ACE's financial capability in the near term appears stable. Based on a review of the documentation provided, the Company should meet its service obligations on the newly acquired

²³ Response to RCR-17, Attachment 1

long-term debt. The “A” ratings by Moody’s, S&P, and Fitch indicate these agencies’ professional opinions of ACE is that the Company is on solid financial ground. As a result, there is minimal risk extending the additional financial support sought in the 2024-2026 Long-Term Debt Petition.

Rate Counsel Recommendation

Rate Counsel has carefully reviewed the Petition and is in support of the application with a few concerns that can easily be addressed with the language suggested below. The Company is engaged in the purchase, transmission, distribution, and sale of electric power to approximately 572,000 customers in southern New Jersey. 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. Barring unforeseen and unanticipated circumstances, the proposed debt issuances should not jeopardize ACE’s financial integrity. Moreover, the Company’s ongoing capital structure objectives are consistent with the capital structure contained in the Order issued in ACE’s most recent base rate proceeding.²⁴ It is certain, however, that in order to protect ratepayers from unnecessary risk ACE may require additional equity infusions from its corporate parent over the next two years to offset the additional \$875 million of new long-term debt (or \$725 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.

²⁴ Base Rate Case Order issued November 17, 2023.

Rate Counsel is supportive of the authorizations sought in the 2024-2026 Long-Term Debt Petition. Approval of the 2024-2026 Long-Term Debt Petition, however, 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 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 the Order issued by the Board in this proceeding contain the following conditions and customer protections:

1. 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.
2. 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.
3. ACE shall furnish the Board with copies of executed documents filed with other regulatory agencies, if any, relating to the new issuance.
 4. 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.
 5. 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.
 6. 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.

7. 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.
8. 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.
9. 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.
10. 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, 2026.
11. 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.

Sherri L, Golden Board Secretary

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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. Rate Counsel reserves all rights to take appropriate positions in current and future Board proceedings involving the Petitioner.

Respectfully Submitted,

By: /s/ Brian O. Lipman
Brian O. Lipman, Director
Division of Rate Counsel

BOL/ac

cc: Service List (*via electronic mail*)

**I/M/O ACE 2025 Long Term Debt
Petition
BPU Docket No: EF24060466**

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