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SEP 07 2018

BOARD OF PUBLIC UTILITIES  
TRENTON, NJ

STEFANIE A. BRAND  
Director

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Lt. Governor

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SEP 06 2018

BOARD OF PUBLIC UTILITIES  
TRENTON, NJ

State of New Jersey  
DIVISION OF RATE COUNSEL  
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P.O. Box 003  
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*Inv  
September 10, 2018*

September 6, 2018

**VIA HAND DELIVERY**

Ms. Aida Camacho-Welch, Secretary  
Board of Public Utilities  
44 South Clinton Avenue, 3rd Floor, Suite 314  
P.O. Box 350  
Trenton, New Jersey 08625-0350

**Re: In the Matter of the Petition of Public Service Electric  
And Gas Company Pursuant to N.J.S.A. 48:3-9 and N.J.A.C. 14:1-5.9,  
For Authority to Issue and Sell Short-Term Obligations Not  
Exceeding \$1.0 Billion Aggregate Principal Amount at Any One  
Time Outstanding Through January 4, 2021  
BPU Docket No. EF18050524**

Dear Secretary Camacho-Welch:

Please accept for filing an original and ten copies of these comments filed on behalf of the Division of Rate Counsel ("Rate Counsel") regarding the above-referenced matter. Enclosed is one additional copy. Please stamp and date the copy as "filed" and return to our courier.

Thank you for your consideration and attention to this matter.

*Case Mgmt  
list copied*

**A. Background**

On May 11, 2018, Public Service Electric and Gas Company (“PSE&G” or “the Company”) submitted a Petition to this Board seeking authority to issue short-term debt obligations extending to January 4, 2021. Specifically, the Company seeks permission to issue short-term debt obligations not to exceed \$1.0 billion in aggregate principal at any given point in time. Short-term debt is defined as any debt instrument or loan with a term of one year or less, but for PSE&G short-term debt terms are typically one day to three months.

The Company’s instant Petition very closely mirrors the short-term debt authority granted by Board Order in November 2016 for the time period through January 2, 2019.<sup>1</sup> That Order granted authority for short-term borrowing up to a ceiling of \$1.0 billion, subject to various conditions and reservations. Rate Counsel’s comments in that docket did not oppose the Company’s Petition subject to certain conditions. In fact, the Board’s November 2016 Order approving PSE&G’s 2016 Petition included nine (9) provision or conditions for Board approval. Since the Board required those nine conditions in the past, and the Company has included each of the nine conditions in its draft order in this proceeding (Exhibit 5), Rate Counsel assumes that the Company has no objection to continuing those conditions (subject to updating) with respect to the instant petition.

The Petition seeks to maintain the currently-authorized short-term debt borrowing level for the years 2019 and 2020 citing PSE&G’s need for flexibility to meet continued cash need and to manage cash flows. *Petition, para. 3.* The Company will require access to short-term funds for working capital, purchase of energy, purchase of natural gas, payment of state income and

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<sup>1</sup> *I/M/O the Petition of Public Service Electric and Gas Company Pursuant to NJSA 48:3-9 and NJAC 14:1-5.9 For Authority to Issue and Sell Short Term Obligations Not Exceeding \$1.0 Billion Aggregate Principal Amount at Any One Time Outstanding Through January 2, 2019*, BPU Docket No. EF16070679, Order, November 30, 2016.

other taxes, interim funding of maturing long-term debt and other cash obligations. *Petition, para. 2, RCR-1.*

PSE&G commits to financing with short-term debt at the “best [interest] rate obtainable” for the transaction types involved. *Petition, para. 5.* The Company notes that short-term rates have been in the range of 1.13% and 2.36% between January 2017 and April 2018. *OE9.* Future short-term interest rates, obviously, will depend on market conditions and the maturities of commercial paper that it issues prospectively. While the Petition requests authority to employ a range of debt instruments, the Company normally utilizes commercial paper for most of its borrowing. *OE1.* PSE&G anticipates that its \$1 billion maximum short-term debt program will consist of a \$600 million Commercial Paper Program and an additional \$400 million potential additional short-term borrowing capacity. *RCR-1.*

**B. Rate Counsel Analysis**

In addition to the filed Petition, responses to discovery requests issued by Board Staff and Rate Counsel provide information on PSE&G’s financial status and recent experience with short-term debt issuances. Standard & Poor’s has assigned an “Aa3” rating to PSE&G’s Secured Long-Term Debt; Moody’s has assigned it an “A” rating. PSE&G’s Commercial Paper rates are “P1” and “A2” from Moody’s and S&P, respectively. *RCR-3.* Both agencies indicate an outlook of “Stable”. *OE7.* PSE&G reports net utility plant of \$23.1 billion as of April 30, 2018, and with its \$2.6 billion and \$3.3 billion construction plans for 2019 and 2020, respectively, this amount will significantly increase over the next two to three years. *Petition, Exhibit 1, RCR-5.* The Company also targets a 54 percent common equity ratio, which is the same amount that was

reflected in the Company's pending base rate proceeding. *RCR-6*. It targets a zero short-term debt balance for the next year in order to maintain maximum flexibility for unexpected working capital needs. *RCR-8*. Thus, under the Company's Petition, \$1.0 billion maximum short-term debt level, if issued, would be far less than ten percent of its capitalization which currently is about \$23 billion. *Petition Exhibit 1*.

The Company response to OE6 provides PSE&G's experience with short-term debt issuance each month January 2017 through April 2018. From this response it appears that PSE&G accessed its short-term debt borrowing capacity in only five months. In all but one of those months, April 2018, the Company had a zero balance by the end of the month. The \$464.6 million that was outstanding at the end of April 2018 was paid down to \$0 on May 8, 2018. From the information proved in response to OE6 we can conclude that PSE&G's use of short-term debt was relatively conservative over the past two years and that the Company has utilized far less than half of its \$1 billion ceiling authorization.

Short-term debt is an important tool in managing cash flows and day-to-day business operations for PSE&G. It is also the Company's lowest cost source of investor-supplied capital, with a cost rate of less than 3.00%. Based on the current market outlook, the Company's commercial paper rates are expected to remain relatively low over the next two years, although the cost rates could be subject to upward pressure if the Federal Reserve increases short-term interest rates. While excessive reliance on short-term debt could be problematic under distressed market or business conditions, this has not been the case for PSE&G. The Company has only needed to use less half of its short-term debt authority and only in a few months. There is no indication of credit rating agency concern regarding excessive leverage or loss of liquidity.

Moody's described the Company's financial profile as "adequate" despite PSE&G's large construction program. *OE-7*.

Based on past recent experience, it seems unlikely that the Company will utilize its maximum \$1.0 billion short-term borrowing authority as requested in the requested in the Petition. Nevertheless, it is beneficial for the Company to have the financial flexibility to issue such an amount to cope with unexpected contingencies such as natural disasters. Given the Company's net plant in excess of \$23 billion, a temporary short-term balance as high as \$1.0 billion would not be excessive or compromise the Company's financial capability. Moreover, in the event the Company unexpectedly carries a high short-term debt balance, ratepayers should enjoy the benefits of inexpensive short-term debt through its inclusion (and direct assignment to CWIP) in the Allowance for Funds Used During Construction (AFUDC) rate formula. Based on the forgoing analysis of PSE&G's current and prospective financial condition and its explanation of its usage of short-term debt, Rate Counsel does not object to the Company's Petition to extend the current \$1.0 billion borrowing authority through January 4, 2021, subject to the conditions and reservations of rights discussed in these Comments. In addition, Rate Counsel's non-opposition should not be interpreted as its concurrence with PSE&G's capital structure targets, financing plans or planned capital spending presented in the Petition or data responses.

**C. Rate Counsel Recommended Conditions**

Rate Counsel does not oppose PSE&G's request for \$1.0 billion of maximum short-term debt borrowing authority subject to certain conditions that protect the Company's customers and the Board's regulatory authority. These conditions largely parallel those adopted by the Board in

BPU Docket No. EF16070679 and those that are contained in PSE&G's draft order in this proceeding in Exhibit 5.

1. Board authorization of this Petition should not be construed as directly or indirectly fixing for any purpose any value of tangible or intangible assets now owned or hereafter to be owned by the Company.
2. Board authorization of this Petition should not affect or in any way limit the exercise of any rights or powers of the Board, or of the State, in any future petition or in any proceeding with respect to rates, franchises, service financing, accounting, capitalization, depreciation, or in any other matters affecting the Petitioner.
3. The Board's authorization shall be null and void and of no effect with respect to any portion which is not exercised by January 4, 2021.
4. PSE&G shall be obligated to conduct its short-term borrowing at the lowest reasonable cost, in accordance with its commitment in Paragraph 5 of its Petition.
5. Short-term issuance authority should be used to fund the Company's regulated utility operations and investments only, and not to fund its unregulated corporate affiliates. In addition, the Company should conduct short-term borrowing on a stand-alone basis and not in conjunction with its parent or corporate affiliates.
6. The Board's approval of the Petition should not constitute pre-approval of any cost recovery from customers or the setting of rates.

7. The Board's approval of the Petition should not constitute pre-approval of any capital structure targets, financing plans or capital spending plans.
8. PSE&G retains an affirmative obligation to use a prudent mix of capital to finance its utility operations and investments to provide utility service at lowest reasonable cost.
9. Rate Counsel reserves all rights to take appropriate positions in all future Board proceedings involving PSE&G.

These provisions will satisfy the concerns of Rate Counsel that the PSE&G's ratepayers are not harmed by the requested authority and that 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,

STEFANIE A. BRAND  
DIRECTOR, DIVISION OF RATE COUNSEL

By:



Diane Schulze  
Assistant Deputy Rate Counsel

C: Service List

IMO THE PETITION OF PSE&G Co.  
PURSUANT TO N.J.S.A. 48:3-9 and N.J.A.C.  
14:1-5,9, FOR AUTHORITY TO ISSUE AND  
PETITION SELL SHORT TERM OBLIGATIONS  
NOT EXCEEDING \$1.0 BILLION AGGREGATE  
PRINCIPAL AMOUNT AT ANY ONE TIME  
OUTSTANDING THROUGH JANUARY 4, 2021  
BPU Dkt. EF18050524

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