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October 16, 2020

Via Electronic Mail
Ms. Aida Camacho-Welch, Secretary
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Trenton, New Jersey 08625-0350

Re: In the Matter of the Petition of Atlantic City Sewerage Company for Approval of a Financing Program Involving the Issuance of Long-Term Debt through June 30, 2024
BPU Docket No. WF20080534

Dear Secretary Camacho-Welch:

Please accept for filing in the above-referenced matter the New Jersey Division of Rate Counsel's ("Rate Counsel") comments regarding Atlantic City Sewerage Company's ("ACSC" or "the Company") August 17, 2020 request to the New Jersey Board of Public Utilities ("Board") for authority to issue long-term debt through June 30, 2024.

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 ACSC. No paper copies will follow.

A. Background

On August 17, 2020, ACSC filed a petition ("Petition") and supporting documents seeking approval from the Board to: a) issue and sell up to $10,000,000 aggregate principal amount of new Long-Term Debt before June 30, 2024; b) to take such other action ACSC deems necessary or appropriate in connection with such issuances, including without limitation, the making, execution and delivery of one or more supplemental mortgage indentures and such other documents and instruments as may be necessary or desirable in connection with the issuance of any series of Long-Term Debt; and c) provide such other relief as the Board deems just, reasonable and proper.[1] The Company is requesting authorization to issue Long-term Debt either on a tax-exempt basis through issuances by the New Jersey Economic Development Authority ("EDA") or through secured bonds pursuant to a private placement using competitive bids.[2]

The Company represents that it expects to apply the net proceeds from the sale of the $7 million of Long-Term Debt to support the Company's capital improvement budget over the next three years, including $2,160,000 for the environmental remediation of the Company's Huron Avenue property containing two force mains that remove the wastewater from Atlantic City and deliver it to the Atlantic County Utilities Authority for treatment and to support the Company's other capital needs over the next three years.[3]

The Company, a regulated public utility of the State of New Jersey, is engaged in the collection and transmission of sewage within its defined service territory, including Atlantic City, New Jersey, to approximately 7,600 customers.[4] Atlantic County Utilities Authority provides ACSC sewerage treatment services pursuant to contract rates.

<u>Analysis</u>

As of December 31, 2019, ACSC had $21,471,758 of First Mortgage Bonds outstanding involving five separate issuances.[5] The maturity dates of those five issuances range from December 2021 to August 2038.[6] It had no outstanding balance of short-term debt at December 31, 2019, however.[7]

[1] Petition, para. 2.
[2] Petition, para. 3-6.
[3] ACSC's response to Staff Discovery Request OE-1.
[4] Petition, para. 1.
[5] Petition, para. 16.
[6] *Id.*
[7] *Id.*

In the instant Petition, ACSC seeks Board authorization to issue and sell up to $10,000,000 aggregate principal amount of Long-Term Debt from time to time through June 30, 2024. The Company requests that the Board allow ACSC to maintain the flexibility to sell the Long-Term Debt in one or more transactions either through private placements using competitive biddings or through issuances by the EDA.

The Company represented that it will use the net proceeds from the $7 million issuance in 2021 to support the Company capital improvement budget over the next three years, including approximately $2.2 million for the environmental remediation of the Company's Huron Avenue property.

To the extent that ACSC issues Long-Term Debt through a private placement, the price is expected to be between 98 percent and 102 percent of the principal amount of the Long-Term Debt offered for sale.[8] This spread, however, is likely to be irrelevant. Instead, ACSC is pursuing the sale of EDA bonds, rather than a private placement. EDA bonds issue at 100 percent of the amount offered for sale without premium or discount.[9] Therefore, the yield spread is not significant consideration.

ACSC's target capitalization ratios are 50 percent debt and 50 percent common equity.[10] As of December 31, 2019, ACSC's actual capitalization ratios were 48.86 percent long-term debt and 51.14 percent common equity.[11] Assuming the Company accomplishes the issuance of $7 million of long-term debt in 2021 as planned, ACSC forecasts that its capital ratios will be 51.07 percent long-term debt and 48.93 percent common equity by December 31, 2021.[12] Thereafter, assuming no major debt placements, ACSC's equity ratio should tend higher due to sinking fund payment requirements on existing long-term debt and increased retained earnings. Therefore, it is expected that ACSC's capitalization ratios will remain relatively close to its 50/50 target even after the additional debt issuance. Moreover, ACSC is currently meeting, and can reasonably be expected to continue meeting, its financial covenant requirement that restricts debt to 60 percent

[8] Petition, para. 13.
[9] ACSC's response to Rate Counsel Discovery Request RCR-9.
[10] ACSC's response to Staff Discovery Request OE-2.
[11] Petition, Exhibit D.
[12] ACSC's response to Staff Discovery Request OE-2.

of total capitalization (increased to 65 percent after the 2002 bond issue is paid in full in 2021).[13] Therefore, it does not appear that the issuance of Long-Term Debt, as proposed, will have an adverse impact on ACSC's capital structure.

ACSC's existing Long-Term Debt also has financial covenants that require the Company to maintain a minimum Interest Coverage Ratio of 2.50:1 or greater.[14] As of December 31, 2019, ACSC's Interest Coverage Ratio was 5.3:1, well above the minimum requirement.[15] ACSC estimates a 4.6:1 Interest Coverage Ratio at June 20, 2021 following the proposed $7 million Long-Term Debt issuance.[16] These coverage levels are well above the minimum requirement and indicate ACSC's likely ability to adequately meet its existing and proposed debt service requirements.

Recommendation

The Division of Rate Counsel has carefully reviewed the Petition and is not opposed to its approval. The Company supplies collection and transmission of sewage 7,600 residential and business customers in Atlantic City, 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 customers. Except for unforeseen and unanticipated circumstances, the proposed debt issue should not jeopardize ACSC's financial integrity. Based on recent financial information, it appears that ACSC has sufficient income to meet the proposed debt service payments without jeopardizing its ability to provide safe, adequate and reliable service to its customers.

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 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 ACSC's capital costs should be addressed in a future base rate proceeding.

[13] ACSC's response to Rate Counsel Discovery Request RCR-1.
[14] ACSC's response to Rate Counsel Discovery Request RCR-1, Attachment.
[15] ACSC's response to Rate Counsel Discovery Request RCR-6, Attachment.
[16] ACSC's response to Rate Counsel Discovery Request RCR-7, Attachment.

The authority granted by the Board in this docket should be restricted to fund utility operations and investments only, not to fund unregulated entities.

The Company should be obligated to issue its planned Long-term Debt at the lowest reasonable cost.

The Company should be obligated to utilize a prudent and cost-effective capital structure and mix of capital to finance its utility rate base at the lowest reasonable cost.

The authority granted by the Board in this proceeding should be null and void for any portion of the Company's Long-Term Debt financing plan that is not completed by June 30, 2024.

Finally, Rate Counsel reserves all rights to take appropriate positions in future Board proceedings involving the Company, including any such proceeding pending before the Board at this time.

Approval by the Board of these recommendations 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,

Stefanie A. Brand, Esquire
Director, Rate Counsel

By: ***/s/ Susan McClure***____________________
Susan McClure, Esquire
Assistant Deputy Rate Counsel