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November 6, 2020

VIA ELECTRONIC MAIL

Ms. Aida Camacho-Welch, Secretary
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**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 3, 2023
BPU Docket No. EF20060400**

Dear Secretary Camacho-Welch:

Please accept for filing these comments filed on behalf of the Division of Rate Counsel ("Rate Counsel") regarding the above-referenced matter. Consistent with the March 19, 2020 Order of the Board of Public Utilities ("Board") in *I/M/O 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, copies of this comment letter are being filed with each person on the service list by electronic mail. No paper copies will follow. **Please acknowledge receipt of this comment letter.** Thank you for your consideration and attention to this matter.

A. Background

On June 15, 2020, 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 3, 2023. 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 September 2018 for the time period through January 4, 2021.¹ 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 September 2018 Order approving PSE&G’s 2018 Petition includes nine (9) provisions 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 proposed draft order in this proceeding attached to its Petition as Exhibit 5. The Company further confirms its acceptance of these conditions in response to Rate Counsel data requests. Specifically, in response to RCR-11, the Company indicates that it is not seeking any changes to the 2018 Board order provisions other than those associated with updating the time period for approval (i.e., through January 3, 2023 in this docket). In response

¹ *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 4, 2021*, BPU Docket No. EF16070679, Order, September 17, 2018.

to RCR-12, the Company states its acceptance to all Board requirements and reservations of rights from the September 2018 order.

The Petition seeks to maintain the currently-authorized short-term debt borrowing level for the years 2021 and 2022 citing PSE&G's need for flexibility to meet continued cash need and to manage cash flows. *Petition, para. 2 and 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 other taxes, interim funding of maturing long-term debt and other cash obligations. *Petition, para. 2, RCR-2.*

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 1.78% and 2.78% between January 2019 and June 2020. *OE9.* Future short-term interest rates, obviously, will depend on market conditions, and the Company has not provided projections.² *Id.* While the Petition requests authority to employ a range of debt instruments, the Company normally utilizes commercial paper as its source for short-term funds. *OE1 and Petition Exhibit 3.* PSE&G anticipates that its \$1 billion maximum short-term debt program will consist of up to \$600 million from its Commercial Paper Program and an additional \$400 million potential additional short-term borrowing capacity in the event that it exceeds its commercial paper borrowing capability. *RCR-2.*

² While the Company has declined to provide projections of its short-term borrowing rates, in recent months the short-term borrowing rates for PSE&G (and other highly rated corporations) has declined to less than 0.5 percent. Moreover, based on monetary policy statements from the Federal Reserve's Open Market Committee, there is reason to believe that short-term rates will remain at this extremely low level for an extended period into the future, including the time period covered by the current Petition, in order to support credit markets and U.S. economic recovery from the current very severe recession.

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. Moody's Investors Service in its May 2020 report assigned an "Aa3" rating to PSE&G's Secured Long-Term Debt and a long-term corporate rating of A2; Standard & Poor's in its August 2020 report assigned it an "A" rating for secured debt and a corporate rating of A-. PSE&G's Commercial Paper rates are "P1" and "A2" from Moody's and S&P, respectively. *OE-7* and *RCR-3*. Both agencies indicate an outlook of "Stable". *Id.* PSE&G reports net utility plant of \$27.6 billion as of December 31, 2019 and \$3.0 billion and \$3.1 billion construction spending plans for 2021 and 2022, respectively. *Petition, Exhibit 1, RCR-9*. The Company states that it seeks to achieve a capital structure that maintains its strong credit ratings, but does not define specific numerical targets. *RCR-6*. It does not have a specific target for short-term debt as a percentage of total capital as its use is temporary and used to manage cash flow fluctuations. *Id.* The Company's most recent financial statements (i.e., as of June 30, 2020) indicate nearly \$11 billion of long-term debt outstanding and about \$12.5 million of common equity, or a total permanent capital of about \$23 billion. *RC-5*. Thus, under the Company's Petition, \$1.0 billion maximum short-term debt level, if that maximum were to be reached, issued, would be less than five percent of its current capitalization of about \$23 billion. Thus, even the maximum \$1 billion of short-term debt would not be large relative to PSE&G's total size and capital.

The Company's response to *RCR-7* provides PSE&G's experience with short-term debt issuance each month January 2018 through June 2020. This response demonstrates that the

Company routinely accesses the short-term debt market in most months, with its borrowings taking the form of commercial paper issuances. There were only about a half dozen months during this time period when the Company did not need to utilize short-term debt. Moreover, the information provided (which lists both monthly average and maximum short-term debt outstanding) indicates that maximum short-term debt balances never exceeded \$500 million in more than two months out of the past 30 months. These occasional borrowings of more than \$400 million, while large, represent only about 2 to 3 percent of the Company's total capital. From the information proved in response to RCR-7 we can conclude that PSE&G's use of short-term debt was relatively conservative over the past two and a half years and that the Company has utilized far less than half of its \$1 billion ceiling authorization. Moreover, the Company's commercial paper program, which is backed by its revolving credit facility, has a ceiling of \$600 million. Hence, the borrowing levels provided in response to RCR-7 indicate that the Company was able to accommodate all short-term borrowings from commercial paper, without the need to tap other potential sources.

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 in recent years of less than 3.00 percent and today and for the foreseeable future of less than 0.5 percent. Based on the current market outlook, the Company's commercial paper rates are expected to remain at this relatively low level. 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 than half of its short-term debt authority and even that level on limited occasions. There is no indication of credit rating agency

concern regarding excessive leverage or loss of liquidity and the Company's commercial paper has received very high ratings. *RCR-3 and OE-7*.

Based on past recent experience, it seems unlikely that the Company will utilize its maximum \$1.0 billion short-term borrowing authority or anything close to it 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 and permanent capitalization in excess of \$23 billion, a temporary short-term balance as high as \$1.0 billion would not be considered excessive or compromise the Company's financial capability.³ 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 of that short-term debt to construction work in progress) in the Allowance for Funds Used During Construction (AFUDC) rate formula under the Uniform System of Accounts.⁴ 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 3, 2023, 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.

³ The Company does not provide a specific quantitative analysis of how the \$1 billion maximum level of borrowing was selected for the Petition. *RCR-2*. Instead, the Company provides its past experience with short-term borrowing and argues that the \$1 billion maximum is appropriate to ensure needed financial flexibility.

⁴ In response to *RCR-4*, the Company confirms that it follows Federal Energy Regulatory Commission Order 561 which specifies that for AFUDC purposes short-term debt is assigned to construction work in progress. This procedure helps ensure that ratepayers obtain the benefit of low-cost short-term debt financing through AFUDC accruals.

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. EF18050524 and those that are contained in PSE&G's proposed 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 3, 2023.
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 must 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 must 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 does not constitute pre-approval of any cost recovery from customers or the setting of rates.
7. The Board's approval of the Petition does 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,

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cc: Service List (*via electronic mail*)

**In the Matter of the Petition of Public
Service Electric and Gas Company to
Issue and Sell Short Term
Obligations**

BPU Docket No. EF20060400

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