Agenda Date: 1/20/10
Agenda Item: 2A

**STATE OF NEW JERSEY**
**Board of Public Utilities**
**Two Gateway Center**
**Newark, NJ 07102**
**www.nj.gov/bpu/**

ENERGY

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| IN THE MATTER OF BPU CLARIFICATION OF ACCOUNTING TREATMENT WITH REGARD TO THE REDEMPTION OF PREFERRED STOCK & AMORTIZATION OF PREMIUM | ) ) ) | ORDER OF APPROVAL<br><br>DOCKET NO. EO09120990 |

Donald S. Leibowitz Associate General Corporate Counsel PSEG Services 80 Park Plaza, Newark, NJ 07101

BY THE BOARD:

On March 20, 2009, Public Service Electric and Gas Company ("PSE&G") filed a petition in Docket No. EF09030223, requesting authorization, among other things, to sell and/or encumber its property and purchase, issue and sell debt, and to redeem its outstanding long-term debt and outstanding preferred stock. On July 1, 2009, the Board issued its Order of Approval ("Order") granting the requested authority, subject to certain conditions, through December 31, 2011.

In relevant part, the Order provides that PSE&G may purchase through tender offer, open market or negotiated transactions, redeem at a premium or defease any or all of its outstanding long-term debt and outstanding preferred stock at or above par to achieve cost savings or a more efficient management of its capital structure. PSE&G may issue new long-term debt as necessary to cover principal, premiums and expenses incurred, to refinance its outstanding long-term debt and outstanding preferred stock.

On December 4, 2009, PSE&G filed a letter with the Board requesting that the Board issue an order "confirming and/or clarifying" that PSE&G is authorized to defer and amortize over a fifteen-year period any premiums paid to redeem its outstanding preferred stock pursuant to the Order.

In its letter PSE&G states that under General Instruction 17 *Long Term Debt: Premium, Discount and Expense, and Gain or Loss on Recognition* of the FERC Uniform System of Accounts ("USOA"), as adopted by the BPU and as applicable to PSE&G, in the event that PSE&G is required to pay a premium to redeem its outstanding long-term debt, under the USOA that premium payment would be amortized over the remaining life of the long-term debt being redeemed. In contrast, if PSE&G were to redeem preferred stock, Balance Sheet Account 217 of the USOA, *Reacquired Capital Stock*, requires PSE&G to expense the full cost of any redemption premium paid in the accounting period in which the payment occurs. However, Balance Sheet Account 182.3 of the USOA, Other Regulatory Assets, permits a regulated public utility, such as PSE&G, to defer and amortize the premium over a stated period, but only if authorized to do so by its regulator.

PSE&G further states that unlike PSE&G's outstanding long-term debt, which has a fixed date of maturity, PSE&G's outstanding preferred stock, being "perpetual preferred stock," does not have a fixed or stated maturity date, and thus has no remaining life over which to apply the deferral and amortization of the redemption premium. If it were to redeem preferred stock, PSE&G would defer any preferred stock premium and amortize it over a fifteen-year period, which is slightly longer than the average maturity of approximately 12.5 years on PSE&G's outstanding long-term debt securities.

PSE&G is requesting a departure from the accounting treatment prescribed in the USOA to the extent that, if authorized by the Board, the premium to redeem preferred stock would be amortized over a 15 year period as opposed to being expensed in the period in which the preferred stock is redeemed.

According to PSE&G, ratepayer savings would result from preferred stock redemption. If PSE&G redeems preferred stock, even with the deferral and amortization of the premium the result would be a lower overall pre-tax weighted average cost of capital, compared to a scenario without redemption of the preferred stock, which would benefit PSE&G's ratepayers.

PSE&G states that it believes that it has all of the requisite authority under the Order to redeem its outstanding long-term debt and/or outstanding preferred stock at or above par in order to achieve cost-savings or a more efficient capital structure, and to fund the redemption by issuing new long-term debt. Reducing the cost of capital through redemption of either long-term debt or preferred stock would result in savings to ratepayers. PSE&G states that it seeks authority to follow the same accounting treatment for redemption of either type of security.

In a letter dated January 6, 2010, the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel") stated that it has no objections to the Company's request to defer and amortize any preferred stock redemption premium over a 15 year period, provided that the approval requested is limited solely to a specific accounting treatment. Rate Counsel requested certain conditions that are addressed in this Order, and reserves all rights to take whatever positions it deems appropriate in any current and future Board proceedings that involve PSE&G.

The Board, after investigation, having reviewed the letter submitted by PSE&G in this matter, and having considered the comments of Rate Counsel and the recommendation of the Board staff, and being satisfied that the actions proposed to be taken by PSE&G as indicated above are to be made in accordance with law, and are in the public interest, and approving the purposes thereof, HEREBY ORDERS that through December 31, 2011, PSE&G is authorized to defer and amortize over a fifteen-year period any premiums paid to redeem its outstanding preferred stock pursuant to the terms of the Order in Docket No. EF09030223.

This Order is issued subject to the following conditions:

1) The 15 year amortization is approved for this filing only and is non-precedential,

2) This is an accounting treatment authorization only, and all provisions of the Order in Docket No. EF09030223 remain in effect without modification.

3) This Order is approving only the specific accounting treatment proposed for preferred stock redemption premiums, and does not constitute pre-approval for any cost recovery from ratepayers or any specific rate making treatment.

4) PSE&G remains obligated to use a prudent mix of capital to finance its utility operations and investments, and long term debt financing should be undertaken in a manner that achieves the lowest reasonable cost of capital for its customers.

DATED: 1|21|10

BOARD OF PUBLIC UTILITIES
BY:

Elizabeth Randall
ELIZABETH RANDALL
ACTING PRESIDENT

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FREDERICK F. BUTLER
COMMISSIONER

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JEANNE M. FOX
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ATTEST:
Carmen Diaz
CARMEN DIAZ
ACTING SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities

## SERVICE LIST

**In The Matter Of BPU Clarification of Accounting Treatment With Regard To The Redemption Of Preferred Stock & Amortization Of Premium**

**Docket No. EO09120990**

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