



Agenda Date: 1/19/11
Agenda Item: 2H

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center, Suite 801
Newark, NJ 07102
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE PETITION OF ATLANTIC) ORDER
CITY ELECTRIC COMPANY FOR AUTHORITY AND)
PERMISSION TO RETIRE PREFERRED STOCK)
) DOCKET NO. EF10090692

Phillip J. Passanante, Esq. Wilmington, Delaware 19899, on behalf of Atlantic City Electric Company

BY THE BOARD:

On September 24, 2010, Atlantic City Electric Company ("ACE"), a subsidiary of Pepco Holdings, Inc., and a public utility of the State of New Jersey, filed a petition with the New Jersey Board of Public Utilities ("Board") requesting authority to repurchase five (5) series of preferred stock (the "Preferred Stock") at a premium of \$167,231. The premium would be charged to the Company's retained earnings account. The aggregate face value of the Preferred Stock is \$6,214,500.

The Preferred Stock was issued many decades ago and is currently less than 0.5% of ACE's capital structure. ACE maintains that it can reduce its cost of capital by replacing the Preferred Stock with long-term debt which carries a lower interest rate which is tax deductible, unlike the current dividends which are not. Additionally, ACE maintains that eliminating the Preferred Stock will also eliminate annual administrative costs.

On November 9, 2010 ACE filed an amended petition requesting that the Board approve certain accounting treatment of the premium paid as part of the redemption, including that it be recorded as a regulatory asset, and as such be amortized over a 15 year period. According to ACE, this regulatory asset treatment is consistent with the treatment that the Board approved for Public Service Electric and Gas Company in BPU Docket No. EO09120990, and if adopted by the Board for this transaction, will result in a minimal financial impact on ratepayers.

The Division of Rate Counsel ("Rate Counsel") has reviewed this matter and by a letter dated January 7, 2011 stated that it has no objection to the proposed redemption and to the accounting and amortization treatment requested by the Company provided that the amortization commences upon the payment by ACE of the premium and is not delayed until the next base rate case. Additionally, since the premium is an expense, the unamortized balance should not be given rate base treatment. Given the modest size of the premium, Rate Counsel agrees that a fifteen year amortization is not unreasonable. However, the fifteen year period is specific to this transaction and should be deemed non-precedential.

The Board, after investigation, having considered the exhibits submitted in this matter along with the recommendations of Staff and Rate Counsel, and being satisfied that the repurchase of Preferred Stock as proposed by ACE is to be made in accordance with law, and is in the public interest and approving the purposes thereof, HEREBY AUTHORIZES ACE to repurchase the Preferred Stock, including the payment of redemption premiums not to exceed \$167,231.

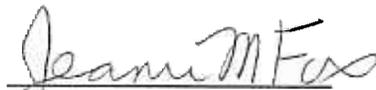
This Order is issued subject to the following provisions:

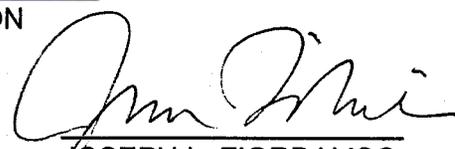
1. This Order shall not affect or in any way limit the exercise of the authority of this Board or of this State, in any future petition or in any proceeding with respect to rates, franchises, services, financing, accounting, capitalization, depreciation or in any other matter affecting ACE
2. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by ACE.
3. ACE shall notify the Board within 30 days after the closing of the transactions authorized by the Board in this matter.
4. The authority granted in this Order shall become null and void and of no effect with respect to any portion which is not exercised prior to December 31, 2012.
5. This Order is approving only the redemption of the Preferred Stock and the specific accounting treatment proposed for the Preferred Stock redemption premiums provided that the amortization period commences with the payment of the premiums. This authorization does not constitute pre-approval for any cost recovery from ratepayers or any specific rate making treatment.
6. ACE 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: 1/19/11

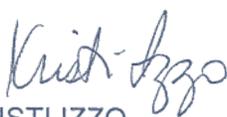
BOARD OF PUBLIC UTILITIES
BY:


LEE A. SOLOMON
PRESIDENT

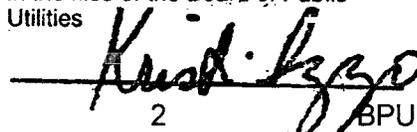

JEANNE M. FOX
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER


NICHOLAS ASSELTA
COMMISSIONER

ATTEST: 
KRISTI IZZO
SECRETARY

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


2

BPU DOCKET NO. EF10090692

**In The Matter Of The Petition Of Atlantic City Electric Company For Authority And
Permission To Retire Preferred Stock
Docket No. EF10090692**

SERVICE LIST

Kristi Izzo,
Secretary of the Board
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Stefanie A. Brand, Esq.,
Director
Division of Rate Counsel
31 Clinton Street - 11th Floor
P.O. Box 46005
Newark, New Jersey 07101

Phillip J. Passanante, Esq.
Assistant General Counsel
89KS42
Atlantic City Electric Company
800 King Street 5th Floor
P.O. Box 231
Wilmington, DE 19899

Mark Beyer, Chief Economist
Office of the Economist
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Ami Morita, Esq.
The Division of Rate Counsel
31 Clinton Street, 11th Floor
PO Box 46005
Newark, NJ 07101

Jeffrey E. Snyder
Assistant Treasurer
89KS33
Atlantic City Electric Company
800 King Street 5th Floor
P.O. Box 231
Wilmington, DE 19899

Robert Wojciak
Office of the Economist
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Kurt Lewandowski, Esq.
The Division of Rate Counsel
31 Clinton Street, 11th Floor
PO Box 46005
Newark, NJ 07101

Jerome May, Director
Division of Energy
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Babette Tenzer, DAG
Division of Law
124 Halsey Street
P.O. Box 45029
Newark, NJ 07101

Robert Schultheis
Division of Energy
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102