



Agenda Date: 11/16/15
Agenda Item: 2B

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE PETITION OF PUBLIC) ORDER
SERVICE ELECTRIC AND GAS COMPANY)
PURSUANT TO N.J.S.A. 48:3-7 AND 48:3-9 FOR)
AUTHORITY, FROM JANUARY 1, 2016)
THROUGH DECEMBER 31, 2017, TO SELL)
AND/OR ENCUMBER PROPERTY AND)
PURCHASE, ISSUE AND SELL DEBT) DOCKET NO. EF15060751

Parties of Record:

M. Courtney McCormick, Esq., Deputy General Counsel, PSE&G
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:¹

By Order dated November 22, 2013 ("November 2013 Order"), the New Jersey Board of Public Utilities ("Board") granted Public Service Electric and Gas Company ("Company" or "Petitioner") the authority to issue up to \$2,100,000,000.00 in new long-term debt through December 31, 2015 as necessary to cover principal, premiums and expenses incurred for economic refinancing.² Because the Company anticipates issuing additional long term debt to implement its financial plan for 2015, the Company filed a petition on June 30, 2015 ("Petition"), requesting Board approval to do the following during the period from January 1, 2016 through December 31, 2017: (1) to execute and deliver pursuant to N.J.S.A. 48:3-7 one or more indentures or supplemental indentures and/or one or more pledges, Uniform Commercial Code ("UCC") financing statements and related agreements and instruments, creating one or more encumbrances and/or liens on the property and/or assets of Petitioner and providing for pledges, transfers or sales of assets and/or issuance of its First and Refunding Mortgage Bonds ("Mortgage Bonds") and/or Medium-Term Notes ("MTNs") and/or debenture bonds ("Debentures") and/or promissory notes ("Notes") and/or other debt instruments and/or evidences of

¹ Commissioner Upendra J. Chivukula recused himself due to a potential conflict of interest and as such took no part in the discussion or deliberation of this matter.

² I/M/O the Petition of Public Service Electric And Gas Company Pursuant to N.J.S.A. 48:3-7 And 48:3-9 For Authority, From January 1, 2014 Through December 31, 2015, to Sell and/or Encumber Property and Purchase, Issue and Sell Debt, BPU Docket No. EF13070637, Order dated November 22, 2013.

indebtedness, secured or unsecured (collectively "New Long-Term Debt"), having maturities of from one (1) to forty (40) years; (2) to purchase through tender offer, open market or negotiated transactions, redeem, including at a premium, or defease any or all of its currently outstanding debt payable more than twelve (12) months after the date of original issuance ("Outstanding Long-Term Debt Securities") at or above par to achieve cost savings or more efficient management of its capital structure; and (3) to issue and sell, pursuant to N.J.S.A. 48:3-9, New Long-Term Debt in aggregate principal amount (a) of not more than \$2,200,000,000.00 and (b) as necessary to cover principal, premiums and expenses incurred to refinance Outstanding Long-Term Debt Securities acquired as described in (2), above.

According to the Petition, the Company is requesting authority through December 31, 2017 to issue and sell not more than \$2,200,000,000.00 aggregate principal amount of its New Long-Term Debt to provide it with funds for the financing of its physical plant and facilities, construction and/or other general corporate purposes and, in connection therewith, to execute and deliver such related ancillary documents as may be necessary or desirable.

Petitioner has also requested the authority to: (a) redeem at its option, all or any part of the outstanding principal balance of any of the remaining Outstanding Long-Term Debt Securities then eligible to be redeemed at their previously approved redemption prices, including any premium, plus interest thereon to the date of redemption; or (b) purchase in the open market or in negotiated transactions or to tender for and/or to defease any of the remaining Outstanding Long-Term Debt Securities; in each case if savings may be achieved or to efficiently manage its capital structure.

To provide funds for acquisition opportunities and/or to reimburse its treasury for funds expended, Petitioner has requested authority to issue and sell, in one or more series, New Long-Term Debt in aggregate principal amount not to exceed the aggregate principal amount, plus redemption/market premium paid and expenses incurred for the Outstanding Long-Term Debt Securities so redeemed or acquired and, to execute and deliver such related ancillary documents as may be necessary or desirable.

Petitioner has requested that the Board grant the approvals in the form of a "one order" approach, meaning that, except as specifically stated otherwise, the actions necessary to effectuate the transactions authorized by this Order may be taken without any further order of this Board.

Petitioner maintains that to provide it with the flexibility to access the capital and credit markets under a range of market conditions while achieving the lowest attainable cost of financing, it has requested authority, as appropriate market opportunities arise, to issue and/or sell New Long-Term Debt, as described above, in one or more market/negotiated transactions (each a "Transaction"), including, but not limited to, domestic and/or non-U.S. public sales, private placement, loans, swaps, puts, calls and multi-mode programs, secured receivables financing and other asset-backed debt transactions and provide related security interests, guarantees or other credit support and create encumbrances related to the Transactions entered into directly by Petitioner or indirectly through a special purpose entity ("SPE") for the benefit of Petitioner. In connection therewith, Petitioner would utilize one or more agents, dealers, underwriters, purchasers, managers and/or institutions selected by it. Petitioner has stated that the cost to Petitioner would be determined based on the lowest market clearing level achievable given the demand received from investors and would be the lowest obtainable that, in the judgment of Petitioner, would allow for the issuance and/or sale of the New Long-Term Debt.

Petitioner has stated that MTNs, if authorized, would be issued in either institutional or retail markets in one or more series through one or more agents, dealers, underwriters, purchasers or managers with maturities of from one (1) to thirty-five (35) years and with various specified conditions including redemption provisions. MTNs will be sold at one-hundred percent (100%) of principal amount or at a premium or discount. Secured MTNs will be secured with a global bond of Petitioner that will be a series of Mortgage Bonds or a global Mortgage Bond. Secured MTNs will be issued pursuant to the Indenture of Trust dated as of July 1, 1993 between Petitioner and the Bank of New York Mellon, as successor Trustee, providing for the issuance of MTNs in one (1) or more series from time to time without limit as may be supplemented by supplemental indentures thereto ("MTN Indenture"). Unsecured MTNs will be issued pursuant to an indenture between Petitioner and a trustee to be selected by it, providing for the issuance of one (1) or more series from time to time without limit as may be supplemented by supplemental indentures thereto.

Petitioner proposes that the interest rate to be borne by MTNs would be set at a spread over applicable reference United States ("U.S.") Treasury securities, determined on the date of pricing. Petitioner also proposes that the MTNs bear interest rates set within the maximum yield spreads over U.S. Treasury securities, as provided in the Market Yield Spread Table below:

<u>Range of Maturities</u>	<u>Maximum Yield Spread (Basis Points)</u>
1 year to less than 18 months	110
18 months to less than 2 years	130
2 years to less than 3 years	140
3 years to less than 4 years	160
4 years to less than 5 years	180
5 years to less than 7 years	190
7 years to less than 10 years	200
10 years to less than 15 years	250
15 years to less than 20 years	280
20 years to less than 35 years	330

Petitioner has stated that it may subsequently file an updated MTN Spread Table with the Board for approval accompanied by a statement of the basis or rationale for the requested change.

To provide the Company with the flexibility to take advantage of opportunities to obtain tax-exempt financing, government-subsidized loans and/or government-guaranteed financing (individually and collectively, "Government Financing"), Petitioner has requested authority to issue New Long-Term Debt to federal, state, county or other financing authorities, such as to the New Jersey Economic Development Authority, the Pollution Control Financing Authority of Salem County, the U.S. Department of Energy, or to other governmental agencies (each, a "Government Authority") to service and secure and/or guarantee or provide credit-support for loans from or obligations (including guarantees) of such Government Authority on behalf of Petitioner or otherwise as necessary in connection with obtaining Government Financing. Such transactions would be made in compliance with the technical requirements of the applicable financing, tax or other law or regulations and would be evidenced by one or more loan or sale agreements to be entered into between Petitioner and the respective Government Authority and/or others. Depending on the terms of the transaction, Petitioner may pledge, transfer or sell assets to a Government Authority, an SPE or others and create liens on assets similarly as described for Asset-Backed Debt below.

As stated in the Petition, the timing and specific form of any transaction, the amount, the price to be paid to Petitioner, the rate of interest, maturity, redemption provisions and prices and the type, terms and conditions of the transactions have not yet been determined. Such determinations will depend upon the market conditions at the time of issuance and sale. Depending upon the then prevailing market conditions, such New Long-Term Debt will have maturities of up to forty (40) years, may include conventional, floating or variable rate, put, call, remarketing, swaps, options or other terms and conditions and consist of one or more of the types of securities, instruments or evidences of indebtedness and be issued and/or sold pursuant to one or more of the Transactions as described in the Petition.

In addition, Petitioner requests authority to issue Long-Term Debt in the form of Mortgage Bonds, including a global Mortgage Bond issued to service and secure MTNs under the First and Refunding Mortgage dated August 1, 1924, from Petitioner to U.S. Bank National Association, as successor Trustee, as supplemented and amended and as to be supplemented by a Supplemental Indenture for each series of the Mortgage Bonds to be dated the first day of the month of issuance and sale of the Mortgage Bonds ("Mortgage"). The Mortgage is a first lien on substantially all the property and franchises of Petitioner, now owned or hereafter acquired. The terms and conditions for the Supplemental Indenture for each series will be determined prior to the issuance of each series. The MTNs would be issued under the MTN Indenture or, if necessary, a supplemental indenture, or under a new indenture to be entered into between Petitioner and a trustee to be selected by it.

According to the Petitioner, any authorized Debentures would be issued pursuant to one or more indentures and one or more supplemental indentures thereto to be entered into between the Petitioner and a trustee, and would be unsecured obligations of the Petitioner, unless such Debentures were secured obligations in connection with New Asset-Backed Debt, as described above.

The Petition also represents that any authorized Notes would be issued pursuant to one or more loan agreements and would also be unsecured obligations of the Company, unless the Notes were secured obligations in connection with Government Financing or New Asset-Backed Debt, as previously described.

In addition, Petitioner has requested authority to issue and sell New Long-Term Debt consisting of asset-backed securities and/or debt instruments secured by cash, accounts, bills receivable and/or other assets not encumbered by the lien of the Mortgage (collectively, "New Asset-Backed Debt"). New Asset-backed Debt would be issued pursuant to one or more indentures and/or agreements, and/or one or more supplemental indentures. New Asset Backed Debt would be issued directly by Petitioner or indirectly by a direct or indirect SPE subsidiary of Petitioner whose obligations may be guaranteed by Petitioner. Depending on the terms of a New Asset Backed Debt transaction, which Petitioner states will depend upon then-current market conditions and cannot be determined at this time, assets may be pledged, transferred or sold to an SPE or other party. The related indenture, pledge and/or other agreement or instrument would create a lien on the assets which would be perfected pursuant to the filing of one or more corresponding financing statements under the UCC. However, any issuance of New Asset-Backed Debt will be made only upon further order of the Board.

According to the Petition, if approved, the New Long-Term Debt will provide financing for Petitioner's physical plant and facilities, construction and/or other general corporate purposes in order to provide safe, adequate and proper public utility service to the public (and/or

reimbursement of Petitioner's Treasury for funds expended therefore), the refunding of \$171,245,000 of its MTNs maturing in 2016-2017 and the refunding, redemption, purchase or defeasance of its Outstanding Long-Term Debt Securities to achieve cost savings or more efficient management of its capital structure . Petitioner represents that the proceeds from the sale of New Long-Term Debt will be added to its general funds and will then be applied as follows: (a) to the payment, at or before maturity, of all or any portion of its indebtedness, if any, outstanding under its commercial paper program and other outstanding short-term promissory notes which were issued to pay at maturity, refund, redeem, defease or purchase the Outstanding Long-Term Debt Securities, and any required premiums and other expenses therefor; (b) to reimburse Petitioner's treasury for internally generated funds used for the payment at maturity, refunding, redemption, defeasance or purchase of the Outstanding Long-Term Debt Securities and any required premiums and other expenses therefor; (c) to provide for the retirement of the Outstanding Long-Term Debt Securities by refunding, redemption, defeasance or purchase; (d) to finance Petitioner's physical plant, facilities and construction; and/or (e) for other general corporate purposes.

By letter dated October 16, 2015, the New Jersey Division of Rate Counsel ("Rate Counsel") stated that it did not oppose the action requested by the Petitioner with certain conditions. Those conditions have been incorporated into this Order. However, Rate Counsel also raises concerns with some of the requested forms of financings referenced in Paragraph 9 of the Petition. According to Rate Counsel, this includes such items as interest rate swaps, calls and puts, sales of receivables, multi-mode programs and asset-backed securities using SPEs that would be subsidiaries of the Company, as described in paragraph 18 of the Petition. Rate Counsel finds the explanations and clarifications in the Company's responses to discovery to be helpful in resolving its concern regarding the potential use of asset-backed debt. Given this clarification, Rate Counsel does not object to the Company's identification of asset-backed debt as a possible financing scenario, subject to a formal filing and formal Board approval during 2016-2017.

DISCUSSION AND FINDINGS

This Board, after investigation, having reviewed the Petition and exhibits submitted in this proceeding, and having considered the recommendation of Board Staff and the comments of Rate Counsel, and being satisfied that the actions proposed to be taken by Petitioner as indicated above are to be made in accordance with law, are in the public interest, and approving the purposes thereof, **HEREBY ORDERS** that Petitioner be and is **HEREBY AUTHORIZED**, from time to time from January 1, 2016 through December 31, 2017, without further order of this Board: (1) to execute and deliver pursuant to N.J.S.A. 48:3-7 one or more indentures or supplemental indentures and/or one or more pledges, UCC financing statements and related agreements and instruments creating one or more encumbrances and/or liens on the property and/or assets of Petitioner and providing for pledges, transfers or sales of assets and/or issuance of its New Long-Term Debt in one or more series, having a maturity of not greater than 40 years; (2) to purchase through tender offer, open market or negotiated transactions, redeem, including at a premium, or defease any or all of its Outstanding Long-Term Debt Securities at or above par to achieve cost savings or more efficient management of its capital structure, and (3) to issue and sell pursuant to N.J.S.A. 48:3-9, New Long-Term Debt in aggregate principal amount (a) of not more than \$2,200,000,000 and (b) as necessary to cover principal, premiums and expenses incurred to refinance Outstanding Long-Term Debt Securities acquired as described in two (2), above.

This Order is issued subject to the following provisions:

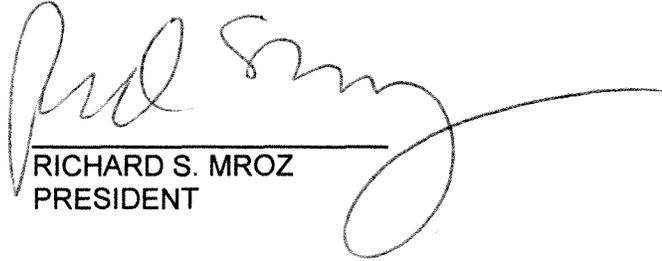
1. Subject to provision ten (10) below, Petitioner may issue the New Long-Term Debt and refinance its Outstanding Long-Term Debt Securities without further Order of this Board, provided that such issuance complies with this Order.
2. Petitioner shall issue the New Long-Term Debt solely for the purposes stated in the Petition and authorized in this Order, including as further clarified in Paragraph fifteen (15) below.
3. Petitioner shall not issue MTNs at coupon rates in excess of the MTN Spread Table set forth in this Order. In the event that market conditions change, Petitioner may file with this Board an updated MTN Spread Table for Board review and approval, accompanied by Petitioner's statement of the basis or rationale for the requested changes.
4. Petitioner shall telephonically notify the Chief Economist prior to its issuance of New Long-Term Debt, and shall furnish the following for informational purposes only: (a) principal amount or amounts of the New Long-Term Debt proposed to be issued and sold; (b) anticipated maturity ranges; (c) actual current yields of U.S. Treasury Securities; (d) range of estimated coupon spreads over U.S. Treasury Securities; (e) data, as available, with respect to recent sales of comparable debt issuances of other utilities; (f) the identity of any Government Authority to whom Petitioner issues New Long-Term Debt as described in the Petition, (g) the identity of any SPE; (h) anticipated material terms of the New Long-Term Debt, including redemption provisions; (i) any related pledges, transfers or sales of assets; (j) a summary description of the contemplated transaction and (k) such other information as Petitioner shall deem relevant to assess the reasonableness of the expected sale of the New Long-Term Debt.
5. As promptly as practicable, after the issuance and sale of any New Long-Term Debt, Petitioner will provide the Chief Economist with the information Petitioner relied on in making its decision to sell, such as market data with respect to utilities with similar credit ratings that have issued comparable debt.
6. As promptly as practicable following the issuance of New Long-Term Debt, Petitioner shall file with this Board a statement describing the Transaction concluded, including: (a) the names of the agents, dealers, underwriters, purchasers, managers, institution and/or Government Authority with respect to any Government Financing; (b) principal amount, maturity date, interest rate (and the interest rate spread over comparable U.S. Treasury Securities), redemption provisions, security interest, and other material terms, including the pledge, transfer or sale of assets, and commissions; and (c) the use of proceeds.
7. Petitioner shall furnish this Board, as promptly as practicable following the issuance of New Long-Term Debt, a copy of the following: (a) all material agreements between the Petitioner and any Government Authority; (b) any agent/dealer/underwriter/purchaser/manager agreement; (c) each Indenture and/or Supplemental Indenture; (d) any UCC financing statement, security agreement and/or pledge; (e) all documents as executed and filed with other regulatory agencies relating to the New Long-Term Debt, and (f) all material agreements related to the Transaction.

8. With regard to refinancing to achieve cost savings or more efficient capital structure, Petitioner will, as promptly as practicable following the financing, provide to the Chief Economist a statement of the rationale and, if applicable, detailed analysis of savings realized from such financing.
9. The New Long-Term Debt authorized herein shall not be redeemed at a premium prior to maturity without further Board approval unless to achieve cost savings or more efficient capital structure. Petitioner shall maintain the records and documentation necessary to demonstrate the prudence of any such redemption.
10. New Asset-Backed Debt shall not be issued except pursuant to further Order of this Board.
11. This Order shall not be construed as a certification that the securities authorized to be offered for sale will be represented by tangible or intangible assets of commensurate value or investment costs.
12. This Order shall not affect nor 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, capitalization, depreciation or any other matters affecting the Petitioner.
13. 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 Petitioner.
14. Petitioner shall undertake long-term debt financings in a manner that achieves the lowest reasonable cost of capital for customers. This shall include an obligation by Petitioner to review from time to time opportunities for economic refinancing of outstanding Long-Term Debt.
15. The proceeds of the long-term debt issuance should be used for the purposes identified in the Petition and not to fund unregulated operations or affiliates.
16. The Board's approval of the authority requested by the Petition does not constitute pre-approval of any cost recovery from customers or set ratemaking. Petitioner's regulated capital structure and capital costs are subject to review in Petitioner's next base rate case or other appropriate proceeding.
17. Petitioner is obligated to use a prudent mix of capital to finance its utility operations and investments.
18. Petitioner should undertake financing in a manner that achieves the lowest reasonable cost of capital to its customers.
19. The authority granted in this Order shall become null and void and of no effect with respect to any portion thereof which is not exercised by December 31, 2017.

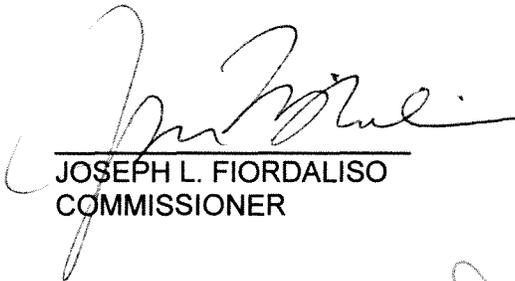
This Order shall become effective on November 26, 2015.

DATED: 11-16-15

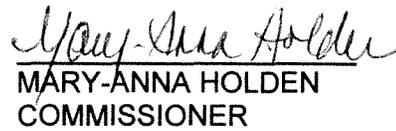
BOARD OF PUBLIC UTILITIES
BY:



RICHARD S. MROZ
PRESIDENT



JOSEPH L. FIORDALISO
COMMISSIONER

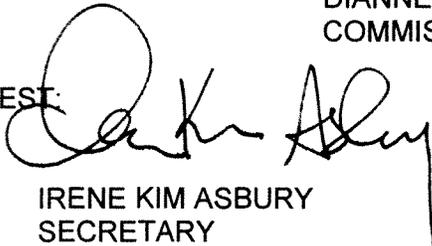


MARY-ANNA HOLDEN
COMMISSIONER



DIANNE SOLOMON
COMMISSIONER

ATTEST:



IRENE KIM ASBURY
SECRETARY

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



**IN THE MATTER OF THE PETITION OF PUBLIC SERVICE ELECTRIC AND GAS COMPANY
PURSUANT TO N.J.S.A. 48:3-7 AND 48:3-9 FOR AUTHORITY, FROM JANUARY 1, 2016
THROUGH DECEMBER 31, 2017, TO SELL AND/OR ENCUMBER PROPERTY AND
PURCHASE, ISSUE AND SELL DEBT**

DOCKET NO. EF15060751

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