REBUTTAL TESTIMONY

of

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Commonwealth Edison Company

Proposal to implement a competitive procurement process by establishing Rider CPP, Rider PPO-MVM, Rider TS-CPP and revising Rider PPO-MI

Docket No. 05-0159

August 3, 2005

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INTRODUCTION

1. Q. Please state your name and business address.

A. My name is Rochelle Phipps. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

2. Q. By whom are you employed and in what capacity?

A. I am employed by the Illinois Commerce Commission ("Commission") as a Senior Financial Analyst with the Finance Department of the Financial Analysis Division.

3. Q. Describe your qualifications and background.

A. In May 1998, I received a Bachelor of Arts degree in Finance from Illinois College, Jacksonville, Illinois. In May 2000, I received a Master of Business Administration degree from the University of Illinois at Springfield. I have been employed by the Commission since June 2000.

4. Q. What is the purpose of your testimony in this proceeding?

A. I will be addressing the credit requirements provided in Article 6 of ComEd Exhibits 9.5, 9.6 and 9.7, which are Commonwealth Edison Company's ("ComEd" or "Company") proposed supplier forward contracts ("SFCs").

5. Q. Please summarize your conclusions and recommendations.

A. First, Section 6.1 of the Company's proposed SFCs allows the Company to unilaterally reduce its credit requirements. I recommend that the Commission reserve the right to conduct an after-the-fact review of any reduction in credit requirements allowed under Section 6.1 of the SFCs. Second, the provision in Section 6.4 of ComEd Exhibits 9.5 and 9.6 and Section 6.3 of ComEd Exhibit 9.7 that requires notching down the corporate issuer credit rating from Moody's Investors Service is unnecessary and should be eliminated from the Company's proposed SFCs. Finally, ComEd has not shown that its proposed credit requirements are based on any quantitative analysis of their impact on auction prices or the degree of protection they provide ratepayers in the event of a supplier default. This suggests the optimal credit requirements will only be determined through experience. Therefore, the Commission should not conclude that ComEd's proposed credit requirements strike the optimal balance between protection against default risk and bidder participation. Nonetheless, given the optimal credit requirements will only be determined through experience and there are no alternative proposals to consider, I recommend approval of ComEd's proposed credit requirements.

UNILATERAL REDUCTION IN CREDIT REQUIREMENTS

6. Q. Section 6.1 of the Company's SFCs state, "The Company may establish less restrictive creditworthiness standards under this

Article 6 in a non-discriminatory manner". (ComEd Exhibits 9.5, 9.6 and 9.7) Do you object to this provision?

A. No. This provision gives the Company the flexibility to respond to an industry event, or unanticipated conditions in the wholesale marketplace, which will benefit customers and suppliers. (Company response to ICC Staff data request FD 1.01) Nevertheless, as a result of the Company's reservation of a right to change the SFC credit requirements, the Commission must reserve the right to conduct an after-the-fact review of any reduction in credit requirements described in Section 6.1 of the SFCs since it would lower the level of protection against a supplier default. That is, there is no basis to currently assess the reasonableness of unspecified future changes in credit requirements. Thus, it should be made clear that the Commission has the ability to review any such changes after the fact if they do occur. Furthermore, ComEd should clarify whether the SFCs permit ComEd to restore the credit requirements to their initial level as circumstances permit.

I also recommend that in the event that the Company changes the credit requirements for any of the SFCs, it file a report with the Commission that identifies the effective date, explains the reason for the change and summarizes any facts and analyses on which the decision to change the credit requirements was based. The report should be provided to the Manager of the Finance Department and filed with the Chief Clerk of the Commission within 15 days of the changes in credit requirements.

7. Q. Are you suggesting that any increase in energy costs associated with a ComEd decision to alter its credit requirements pursuant to Section 6.1 of the SFCs would indicate that decision was imprudent?

A. No. An increase in energy costs associated with a ComEd decision to alter its credit requirements does not necessarily mean that decision was imprudent. Nevertheless, the Commission should have the opportunity to assess the Company's actions to alter its credit requirements pursuant to Section 6.1 of the SFCs, given that such actions would alter Illinois ratepayers' exposure to the potential costs of a supplier default.

8. Q. How should the Company's proposed Rider CPP be modified to incorporate the Commission's ability to conduct an after-the-fact review of any reduction in credit requirements described in Section 6.1 of the SFCs?

A. ICC Staff witness Dr. Eric Schlaf proposes adding language to the Limitations and Contingencies section of ComEd's proposed Rider CPP, through which the Commission could investigate whether the Company's decision to modify its credit requirements was prudent. (ICC Staff Exhibit 13.0)

"NOTCHING DOWN" CORPORATE ISSUER CREDIT RATINGS

9. Q. Each of the Company's proposed SFCs state the following:

> **For the … Supplier to be granted an unsecured line of credit, the … Supplier: (1) must be rated by at least two of the following rating agencies: S&P, Moody's or Fitch, and (2) must have a minimum senior unsecured debt rating (or if unavailable, a corporate issuer credit rating discounted by one notch) of at least "BBB-" from S&P, "Baa3" from Moody's, or "BBB-" from Fitch (a "Minimum Rating"). (Section 6.4 of ComEd Exhibits 9.5 and 9.6 and Section 6.3 of ComEd Exhibit 9.7)**

Please describe what is meant by "notching down" corporate issuer credit ratings.

A. Credit ratings are assigned different notations to reflect the relative creditworthiness of companies or securities that have the same credit rating. Standard & Poor's ("S&P") and Fitch Ratings ("Fitch") use a "+" or "-" to distinguish the relative creditworthiness of companies or securities in the same credit rating category whereas Moody's Investors Service ("Moody's") uses numbers (i.e., 1, 2 or 3). For example, S&P may assign an entity a BBB+, BBB or BBB- credit rating or Moody's may assign an entity a Baa1, Baa2 or Baa3 credit rating. Notching down a corporate issuer rating refers to discounting a corporate issuer rating by one "degree." That is, if S&P has assigned an entity a corporate issuer credit rating of BBB but no senior unsecured credit rating, then under the Company's proposed SFCs, the BBB issuer credit rating would be "notched down" to BBB- to establish that entity's allowable credit limit. Similarly, for a supplier that has a Baa2 corporate issuer rating from Moody's but no senior unsecured credit rating, then under the Company's proposed SFCs, that Baa2 issuer credit rating would be notched down to a Baa3 credit rating to establish that entity's allowable credit limit.

10. Q. In direct testimony, Staff witness Dr. David Salant stated, “ComEd should explain why it is necessary to ‘notch down’ corporate issuer credit ratings from Moody’s Investor’s Service, Inc. to determine suppliers’ (and guarantors’) creditworthiness under Article 6 of its supplier forward contracts”. (ICC Staff Exhibit 1.0, Appendix 2.0, p. 7, lines 133-135) Did the Company explain why it is necessary to “notch down” corporate issuer credit ratings from Moody’s?

A. No. ComEd Exhibit 12.4 incorrectly states that the Company provided clarification on this issue in response to ICC Staff data request FD 1.04. To the contrary, the Company’s response to that data request did not address Moody’s issuer credit ratings; it only provided a reason for notching down S&P’s corporate issuer credit ratings.[1]

11. Q. Why do you disagree with the Company’s proposal to “notch down” corporate issuer credit ratings from Moody’s?

A. According to Moody’s, “[i]ssuer credit ratings are opinions of the ability of entities to honor senior <u>unsecured</u> financial obligations and contracts”. (*emphasis added,* Moody’s Investors Service, “Moody’s Rating Symbols & Definitions,” August 2003, p. 8) That is, Moody’s issuer ratings are already equivalent to unsecured credit ratings. Consequently, the Company’s SFCs should be modified to eliminate the notching requirement with respect to Moody’s issuer credit rating.

[1] Staff does not object to “notching down” either S&P’s or Fitch’s issuer credit ratings for the purpose of establishing the amount of suppliers’ unsecured credit lines.

CREDIT REQUIREMENTS

12. Q. In Direct Testimony, Staff requested that the Company provide calculations justifying its choices with respect to its proposed credit requirements in rebuttal testimony. (ICC Staff Exhibit 1.0, pp. 96-97, lines 2186-2188) Did the Company provide those calculations?

A. No. The Company has not shown that its proposed credit requirements are based on any quantitative analysis of their impact on auction prices or the degree of protection they provide ratepayers in the event of a supplier default. This suggests the optimal credit requirements will only be determined through a trial and error process.

13. Q. ComEd's proposed credit requirements differ from those proposed by Ameren in Docket Nos. 05-0160/0161/0162 Consolidated ("Ameren proceeding"). (ComEd Exhibit 10.5) Do the credit requirements proposed by ComEd in this proceeding need to be identical to those proposed by Ameren in Docket Nos. 05-0160/0161/0162?

A. No. Currently the precise level of credit requirements that would strike the optimal balance between providing adequate protection against default risk and adversely affecting participation by qualified bidders is unknown. Consequently, there may be an advantage to ComEd proposing different requirements for unsecured lines of credit than proposed in the Ameren proceeding in that the Commission will have the opportunity to simultaneously evaluate the impact of two variations of credit limit proposals – those proposed by ComEd in this proceeding and those proposed by Ameren in the Ameren proceeding.

The credit requirements included in ComEd's proposed SFCs and those proposed in the Ameren proceeding are more alike than different. Similar to Ameren, ComEd proposes to only offer unsecured lines of credit to investment grade suppliers and suppliers with investment grade guarantors. Similar to the Ameren, ComEd proposes to offer unsecured credit lines that equal the lesser of a percentage of tangible net worth or a dollar cap, based on a sliding scale according to the supplier's (or guarantor's) credit rating. The difference between ComEd's and Ameren's proposals is in the amount of the dollar caps. The dollar cap for an unsecured line of credit for suppliers with the lowest investment grade rating (*i.e.*, BBB-/Baa3) is capped at $15 million under ComEd's proposal and $20 million in the Ameren proceeding whereas the dollar cap for suppliers that fall within the highest credit rating category (*i.e.*, A- and above/A3 and above) is $60 million under ComEd's proposal and $80 million in the Ameren proceeding. Given the similarity between ComEd's and Ameren's proposed credit requirements and the fact that the optimal level of credit requirements is unknown at this point in time, I do not object to ComEd's proposed credit requirements differing from those proposed in the Ameren proceeding.

14. Q. Does this conclude your rebuttal testimony?

A. Yes.