JUL 18 '06 13:19 P.04

OFFICIAL FILE

ILL. C. C. DOCKET NO. 06-0070 et al

Staff Cross Exhibit No. 19

Witness

STATE OF ILLINOIS

Date 7/27/06 Reporter hlB

ILLINOIS COMMERCE COMMISSION

CERTIFICATE

Re: 99-0534

I, ELIZABETH A. ROLANDO, do hereby certify that I am Chief Clerk of the Illinois Commerce Commission of the State of Illinois and keeper of the records and seal of said Commission with respect to all matters except those governed by Chapters 18a and 18c of The Illinois Vehicle Code.

I further certify that the above and foregoing is a true, correct and complete copy of the cover page, and pages 13-14 of Direct Testimony of Alan S. Pregozen, on behalf of the Illinois Commerce Commission, which was entered as Exhibit 5 with this Commission on March 20, 2000.

Given under my hand and seal of said Illinois Commerce Commission at Springfield, Illinois, on July 18, 2006.

Elizabeth A. Rolando

Chief Clerk

Post-it™ brand fax transmittal memo 7671	# of pages ▸ 4
To Sean Brady	From Alan Pregozen
Co.	Co.
Dept.	Phone #
Fax #	Fax #

Docket No. 99-0534
Staff Exhibit 5

OFFICIAL FILE
ILL. C. C. DOCKET NO. 99-0534
Staff Exhibit No. 5
Witness
Date 3/20/00 Reporter

DIRECT TESTIMONY

OF

ALAN S. PREGOZEN, CFA

FINANCE DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

MIDAMERICAN ENERGY COMPANY

DOCKET NO. 99-0534

DECEMBER 1999

& Poor's, an obligor rated 'A' has a strong capacity to meet its financial commitments but to a lesser degree than higher-rated obligors.[16] The above suggests that MEC's capital structure is commensurate with a strong but not excessive degree of financial strength. Therefore, I conclude my proposed capital structure for MEC is reasonable for establishing rates.

Cost of Short-Term Debt

24. Q. What is the cost of short-term debt for MEC?

A. MEC issues short-term debt in the form of commercial paper that Standard & Poor's and Moody's rates A-1 and P-1, respectively.[17] The interest rate on commercial paper varies with grade and term to maturity. The Federal Reserve reports that the maturity of commercial paper averages thirty days.[18] Therefore, to estimate the cost of short-term debt, I converted the November 30, 1999 5.47% discount rate on thirty-day, "AA nonfinancial" commercial paper into an annual yield of 5.57% using the following formula:[19]

$$\textit{Annual yield} = \left(\frac{\textit{discount rate} \times \left(\frac{\textit{days to maturity}}{360} \right)}{1 - \textit{discount rate} \times \left(\frac{\textit{days to maturity}}{360} \right)} \right) \times \left(\frac{365}{\textit{days to maturity}} \right)$$

---

[16] *Standard & Poor's Utility Financial Statistics*, June 1999, p. 4.

[17] *Standard & Poor's Utilities & Perspectives*, November 29, 1999, p. 8; Moody's Investors Service, *Rating Review*, February 9, 1999.

[18] "About Commercial Paper and Rate Calculations," Federal Reserve Release, www.federalreserve.gov/Releases/CP/about.htm.

[19] "Commercial Paper," Federal Reserve Release, December 1, 1999, www.bog.frb.fed.us/releases/CP/. The Federal Reserve classifies companies with no commercial paper ratings below A-1 and P-1 levels as "AA." ("About Commercial Paper and Rate Calculations," Federal Reserve Release, www.federalreserve.gov/Releases/CP/about.htm.)

Cost of Long-Term Debt

25. Q. What is the embedded cost of long-term debt for MEC?

A. As shown on Schedule 5.03, the embedded cost of long-term debt equals 7.71%. This calculation was based on MEC Schedule D-3 with the following adjustments made to reconcile that schedule to MEC's ICC annual report: (1) $1,961 of annual amortization of the loss on the reacquired 6.5% Series Pollution Control Bond due 2003 was restored (line 45 of Schedule 5.03); (2) the amortization of debt expense for the 7.98% Debentures due 2045, 6.5% Series Medium Term Notes due 2001, 8.15% Series due 2001, 7.45% Series due 2023, 7% Series due 2005, and 7.7% Series due 2004 (lines 47, 49 and 54-57 on Schedule 5.03) was annualized as of December 31, 1998; (3) the amortization of gain on reacquired debt for the 5.05% Series due 1998 (line 60 on Schedule 5.03) was eliminated since no gain remained to be amortized on December 31, 1998; and (4) the interest rate on the adjustable rate pollution control bonds was adjusted to reflect the current rate of 3.8%.[20]

26. Q. Why did you not adopt the Company's estimate of the embedded cost of long-term debt?

A. The Company's estimate of the embedded cost of debt mismatches total interest expense for calendar year 1998 with the balance of long-term debt as of December 31, 1998. When the balance of a capital structure component is measured as of a single point in time, it should be combined with its annualized

[20] *Salomon Smith Barney Municipal Market Comment*, November 19, 1999, p. 2.