

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY :
Proposed general increase in electric rates : No. 07-0566
:

AFFIDAVIT OF SAMUEL C. HADAWAY

STATE OF TEXAS)
) SS.
COUNTY OF TRAVIS)

I, Samuel C. Hadaway, being first duly sworn, declare under oath as follows:

1. I am a Principal of FINANCO, Inc.
2. I provided Direct Testimony, identified as ComEd Exs. 10.0, 10.0 Appendix A, 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7, and 10.8; Rebuttal Testimony, identified as ComEd Exs. 29.0, 29.01, 29.02, 29.03, 29.04, 29.05, 29.06, 29.07, 29.08, and 29.09; and Surrebuttal Testimony, identified as ComEd Exs. 42.0, 42.1, and 42.2, on behalf of Commonwealth Edison Company in this proceeding. Those pieces of testimony, which are attached to this affidavit, were prepared by me or under my direction and control.
3. I swear and affirm that the testimony provided is true and correct, to the best of my knowledge and ability, and that there are no corrections or revisions to be made to my testimony. If I were asked the same questions today, my answers would be the same. It is my desire that my testimony be considered as evidence by the Administrative Law Judges and by the Illinois Commerce Commission in this Docket.

FURTHER AFFIANT SAYETH NOT.

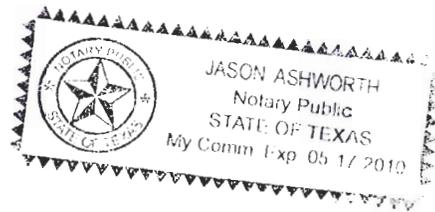
Samuel C. Hadaway

Samuel C. Hadaway

SUBSCRIBED AND SWORN to before me
this 5 day of May, 2008.

J. Ashworth

Notary Public



STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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Direct Testimony of
SAMUEL D. HADAWAY, PH.D.

Principal,
FINANCO, Inc.

On Behalf of
Commonwealth Edison Company

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1 **I. Introduction and Summary of Recommendations**

2 **A. Identification of Witness**

3 Q. Please state your name, occupation, and business address.

4 A. My name is Samuel C. Hadaway. I am a Principal in FINANCO, Inc., Financial Analysis
5 Consultants, 3520 Executive Center Drive, Austin, Texas 78731.

6 Q. On whose behalf are you testifying?

7 A. I am testifying on behalf of Commonwealth Edison Company (ComEd).

8 **B. Purpose of Testimony**

9 Q. What is the purpose of your testimony?

10 A. The purpose of my testimony is to estimate ComEd's market-required cost of equity,
11 which is also referred to as the rate of return on equity (ROE), for its regulated retail
12 assets.

13 **C. Summary of Conclusions**

14 Q. What conclusion have you reached?

15 A. A fair and reasonable estimate of ComEd's ROE is 10.75 percent. My ROE estimate is
16 supported by alternative versions of the discounted cash flow (DCF) model, by the capital
17 asset pricing model (CAPM), and by other risk premium approaches. As a further check
18 of reasonableness, I also review expected economic conditions and interest rate
19 projections for the coming year. These comparisons show that a 10.75 percent ROE
20 recommendation is well-supported by the quantitative modeling analyses and by other
21 broadly-based checks of reasonableness.

22 Q. Have you adjusted your ROE estimate upward to account for the political and financial
23 uncertainties that ComEd has faced in recent months?

24 A. No. While the uncertainties that ComEd has faced undoubtedly affected its position in
25 the financial markets and, therefore, its cost of capital, I have not made an adjustment to
26 account for those uncertainties. My ROE analysis is based on a conservative comparable
27 company group of investment grade utilities. As I will explain, the comparable group has
28 somewhat less financial risk (stronger average capital structures and higher bond ratings)
29 than ComEd. Also, generally the group has not been confronted with the level of political
30 and regulatory uncertainty that ComEd has faced. This approach insulates my analysis
31 from any unique circumstances and risks that may continue to exist.

32 Q. Should your ROE estimate be adjusted downward to reflect the recent passage of SB
33 1592 by the Illinois General Assembly?

34 A. No. Because I used a comparable company approach and did not adjust the results
35 upward for ComEd's unique circumstances, a downward adjustment for the passage of
36 SB 1592 is not necessary and would not be appropriate.

37 Q. How is your ROE analysis structured?

38 A. I first apply the DCF model to a large group of investment grade electric utilities and gas
39 local distribution companies (LDCs). The comparable company approach is required
40 because ComEd does not have publicly traded stock or other independent market data that
41 would be required for a stand-alone DCF analysis. The comparable company approach is
42 also consistent with *Bluefield* and *Hope* requirements because under this approach the
43 allowed return is based on returns expected from other utilities with risk profiles similar

44 to ComEd. I begin my DCF analysis by reviewing data for all the electric utilities and
45 LDCs included in the *Value Line Investment Survey* (Value Line). Value Line is a
46 widely-followed, reputable source of financial data often used by professional economists
47 to estimate the cost of capital. As I will discuss in more detail later in my testimony,
48 ComEd has many business and financial risk characteristics similar to other electric
49 utilities and LDCs.

50 My comparable group was restricted to investment grade companies with senior
51 secured bond ratings of at least BBB from Standard & Poor's (S&P) or Baa from
52 Moody's. The companies also were required to receive at least 70 percent of their
53 revenues from domestic regulated utility sales. As shown in ComEd Exhibit 10.1, these
54 filters resulted in a 27-company group with average bond ratings of A-/BBB+ from S&P
55 and A3/Baa1 from Moody's. The group's average S&P business risk profile is 4.5 (with 1
56 being lowest risk and 10 being highest risk). Additionally, to assure that the analytical
57 data for the comparable companies are reliable and suitable for the DCF model, the
58 companies also were required to have consistent data from Value Line with no dividend
59 cuts in the past two years and no extraordinary financial effects such as involvement in
60 current merger activities.

61 In my risk premium analysis, I used Moody's average public utility bond yields
62 and projected Baa utility bond interest rates. These rates are appropriate because they are
63 consistent with ComEd's senior secured bond ratings. As I will discuss later, long-term
64 interest rates are also projected to increase further during the coming year. Such
65 projections for higher interest rates mean that ComEd's cost of capital will likely be
66 higher while rates from this case are in effect. Under these market conditions, a

67 combination of approaches using DCF, CAPM, and other risk premium models as well as
68 forecasted interest rates is more reliable than a single model or a single method for
69 estimating ComEd's cost of equity. The data sources and the details of my cost of equity
70 studies are contained in ComEd Exhibits 10.1-10.8.

71 Q. In ComEd's prior case (ICC Docket No. 05-0597), the Commission did not accept your
72 alternative approaches to the DCF model. Have you modified your methods to reflect the
73 Commission's findings?

74 A. Yes. In this testimony I give more weight to the CAPM and other risk premium results
75 and, in addition to my long-term growth rate approaches in the DCF model, I provide an
76 additional constant growth DCF analysis based on growth rate estimates similar to those
77 the Commission used in the 2005 case. While I continue to endorse the long-term gross
78 domestic product growth rate in the DCF model, I also offer the traditional analysts'
79 growth forecast approach.

80 **D. Testimony Organization**

81 Q. How is the remainder of your testimony organized?

82 A. My testimony is divided into five additional sections. In Section II, I discuss ComEd's
83 fundamental position and risk characteristics. In Section III, I review various methods for
84 estimating the cost of capital, including comparable earnings methods, risk premium
85 methods, and DCF methods. In Section IV, I describe general capital market costs and
86 conditions and discuss recent developments in the electric utility industry. In Section V, I
87 present the details of my cost of equity studies and describe the specific results from my

88 various models. In Section VI, I provide a summary table of my results and summarize
89 my recommendations.

90 **E. Background and Experience**

91 Q. Please state your educational background and describe your professional training and
92 experience.

93 A. I have a Bachelor's degree in economics from Southern Methodist University, as well as
94 MBA and Ph.D. degrees with concentrations in finance and economics from the
95 University of Texas at Austin (UT Austin). For almost 25 years, I have been an owner
96 and full-time employee of FINANCO, Inc. FINANCO provides financial research
97 concerning the cost of capital and financial condition for regulated companies as well as
98 financial modeling and other economic studies in litigation support.

99 In addition to my work at FINANCO, I have served as an adjunct professor in the
100 McCombs School of Business at UT Austin and in what is now the McCoy College of
101 Business at Texas State University. In my prior academic work, I taught economics and
102 finance courses and I conducted research and directed graduate students in the areas of
103 investments and capital market research. I was previously Director of the Economic
104 Research Division at the Public Utility Commission of Texas where I supervised the
105 Commission's finance, economics, and accounting staff, and served as the Commission's
106 chief financial witness in electric and telephone rate cases. I have taught courses at
107 various utility conferences on cost of capital, capital structure, utility financial condition,
108 and cost allocation and rate design issues. I have made presentations before the New
109 York Society of Security Analysts, the National Rate of Return Analysts Forum, and

110 various other professional and legislative groups. I have served as a vice president and on
111 the board of directors of the Financial Management Association. A list of my
112 publications and testimony I have given before various regulatory bodies and in state and
113 federal courts is contained in my resume, and follows my narrative testimony as
114 Appendix A.

115 **II. Commonwealth Edison's Fundamental Position and Risk Characteristics**

116 Q. Please describe ComEd's structural organization and operating characteristics.

117 A. ComEd is one of three principal operating subsidiaries of Exelon Corporation (Exelon).
118 ComEd provides regulated retail energy sales, limited wholesale energy sales, and
119 transmission and distribution services to customers in northern Illinois, including the City
120 of Chicago. Headquartered in Chicago, ComEd employs over 5,000 people and serves a
121 service territory covering an area approximately the size of the Commonwealth of
122 Massachusetts and the States of Delaware and Rhode Island combined. ComEd has over
123 \$7 billion of net transmission and distribution plant assets serving its Illinois customers.
124 For 2006, ComEd's operating revenues were \$6.2 billion. ComEd's capital expenditures
125 in Illinois during 2006 were over \$900 million.

126 Q. As a delivery utility, does ComEd face significant operating, financial, and regulatory
127 risks that affect its cost of capital?

128 A. Yes. For the past several months, ComEd has faced severe concerns about its ability to
129 recover its cost of providing service. The potential for legislation to roll back and freeze
130 ComEd's rates led the credit rating agencies to downgrade all of ComEd's securities, and
131 to raise severe concerns about ComEd's financial stability. Although ComEd's financial

132 position has stabilized somewhat, it continues to receive a business position rank of 8
133 from Standard & Poor's and, as I will explain, the rating agencies remain closely focused
134 on the Illinois regulatory environment and especially the outcome of this and future
135 ComEd rate cases. Within this context, ComEd must continue to raise capital to meet
136 customer demands, to maintain its facilities and systems, and to make ongoing
137 improvements in those systems.

138 Q. What changes have occurred to ComEd's credit ratings?

139 A. During the past year, all of the major rating agencies lowered ComEd's ratings. Its
140 corporate issuer type ratings, in fact, were generally lowered to below investment grade.
141 With passage of SB 1592, ComEd's ratings have stabilized, with senior unsecured rates at
142 B+ from Standard & Poor's ("S&P"), Ba1 from Moody's Investors Service, Inc. and BBB-
143 from Fitch Ratings. Although the ratings are no longer on the agencies' credit watch lists,
144 considerable uncertainty remains and the rating agencies are placing significant emphasis
145 on the Illinois regulatory environment and particularly the outcome of the present and
146 future rate cases.

147 Q. What have been the rating agencies' most recent comments on ComEd's position?

148 A. The rating agencies are most concerned about the ComEd's prospective financial results
149 and are closely focused on the outcome of the present case as an indication of a more
150 constructive regulatory environment. In its August 29, 2007 review Moody's offered the
151 following:

152 The current below investment grade rating for ComEd's senior unsecured
153 debt reflects the fact that ComEd's standalone financial metrics for 2007
154 are expected to deteriorate from historical levels resulting in financial
155 metrics that are more in-line with a non-investment grade rating. *** This

156 change is due in part to the disappointing distribution rate case decision
157 rendered by the Illinois Commerce Commission (ICC) in 2006...ComEd's
158 ability to improve its standalone credit metrics will depend upon more
159 supportive and consistent regulatory decisions emerging in Illinois.
160 (emphasis added)

161 In its August 29, 2007 review, Fitch expressed a similar opinion:

162 Despite the rate agreement, ComEd's financial measures are expected to
163 trend downward due to the expiration of competitive transition charges as
164 of Dec. 31, 2006 and the stringent distribution rate increase approved
165 earlier this year. Financial improvement is dependent on an increase in
166 distribution rates, which is not likely before 2008. ComEd plans to file a
167 rate request later this year to be effective in the second half of 2008. The
168 outcome of that rate filing will determine the future direction of ComEd's
169 ratings. (emphasis added)

170 Q. Why is sound financial condition and access to capital on reasonable terms important?

171 A. For capital-intensive utilities like ComEd, a sound financial condition is critically
172 important because utilities must return to the capital markets year after year to finance
173 required investment in utility plant and, in many cases, operating costs. Without such
174 continuing investment, the pace of growth, maintenance, and modernization would
175 decline and issues of safety, service reliability, and inefficiency would ultimately arise. In
176 competitive capital markets, providers of capital will ultimately extract the market cost of
177 capital. Financially weak utilities pay more in terms of interest rates and have less
178 favorable financing terms. Utilities with sound financial condition receive lower
179 borrowing costs and they are often able to access capital with greater flexibility and with
180 more favorable terms and conditions. All these factors lead to a lower cost of service,
181 and often better service for customers, from financially sound utilities.

182 Q. How does ComEd's requested capital structure compare to the capital structures of the
183 companies in your investment grade comparable company group?

184 A. ComEd's requested capital structure contains more debt and less equity than the average
185 for the comparable group. As explained by Robert McDonald (ComEd Ex. 9.0),
186 ComEd's requested capital structure is based on its actual debt and equity percentages at
187 December 31, 2006. It contains 55 percent debt and 45 percent equity. The capital
188 structure percentages for the comparable companies at year-end 2006 are shown in
189 ComEd Exhibit 10.1. For the comparable group, the average common equity ratio is 50.7
190 percent; preferred equity is 0.8 percent; and long-term debt is 48.5 percent. These data
191 show that, because it is more levered than the average of the peer group, ComEd has
192 higher financial risk than the average comparable company. This feature is a further
193 indication that the 10.75 percent recommendation, based on the comparable group
194 sample, is a conservatively low estimate of ComEd's required rate of return on equity.

195 **III. Estimating the Cost of Equity Capital**

196 Q. What is the purpose of this section of your testimony?

197 A. The purpose of this section is to present a general definition of the cost of equity and to
198 compare the strengths and weaknesses of several of the most widely used methods for
199 estimating the cost of equity. Estimating the cost of equity is fundamentally a matter of
200 informed judgment. The various models provide a concrete link to actual capital market
201 data and assist with defining the various relationships that underlie the ROE estimation
202 process.

203 Q. Please define the term "cost of equity capital" and provide an overview of the cost
204 estimation process.

205 A. The cost of equity capital is the profit or rate of return that equity investors expect to
206 receive. In concept it is no different than the cost of debt or the cost of preferred stock.
207 The cost of equity is the rate of return that common stockholders expect, just as interest
208 on bonds and dividends on preferred stock are the returns that investors in those securities
209 expect. Equity investors expect a return on their capital commensurate with the risks they
210 take and consistent with returns that might be available from other similar investments.
211 Unlike returns from debt and preferred stocks, however, the equity return is not directly
212 observable in advance and, therefore, it must be estimated or inferred from capital market
213 data and trading activity.

214 An example helps to illustrate the cost of equity concept. Assume that an investor
215 buys a share of common stock for \$20. If the stock's expected dividend is \$1.00, the
216 expected dividend yield is 5.00 percent ($\$1.00 / \$20 = 5.0$ percent). If the stock price is
217 also expected to increase to \$21.25 after one year, this one dollar and twenty-five cent
218 expected gain adds an additional 6.25 percent to the expected total rate of return ($\$1.25 /$
219 $\$20 = 6.25$ percent). Therefore, buying the stock at \$20 per share, the investor expects a
220 total return of 11.25 percent: 5.0 percent dividend yield, plus 6.25 percent price
221 appreciation. In this example, the total expected rate of return at 11.25 percent is the
222 appropriate measure of the cost of equity capital, because it is this rate of return that
223 caused the investor to commit the \$20 of equity capital in the first place. If the stock
224 were riskier, or if expected returns from other investments were higher, investors would
225 have required a higher rate of return from the stock, which would have resulted in a lower
226 initial purchase price in market trading.

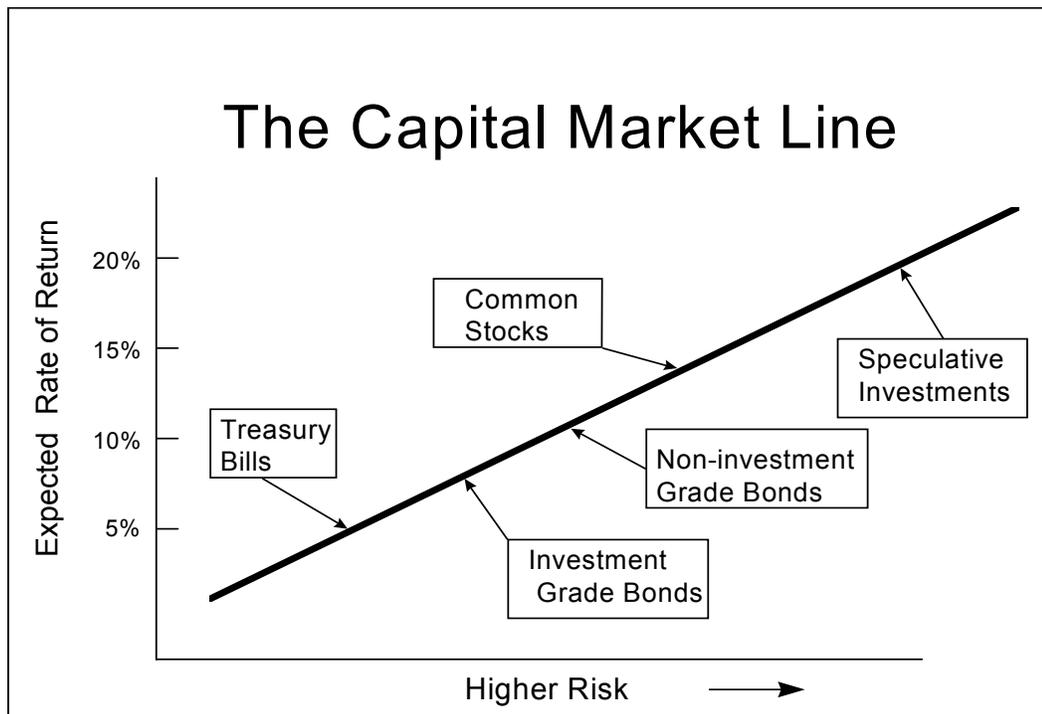
227 Market rates of return and prices change each day to reflect new investor
228 expectations and requirements. For example, when interest rates on bonds and savings
229 accounts rise, utility stock prices usually fall. This is true, at least in part, because higher
230 interest rates on these alternative investments make utility stocks relatively less attractive,
231 which causes utility stock prices to decline in market trading. This competitive market
232 adjustment process is quick and continuous, so that market prices generally reflect
233 investor expectations and the relative attractiveness of one investment versus another. In
234 this context, to estimate the cost of equity one must apply informed judgment about the
235 relative risk of the company in question and knowledge about the risk and expected rate
236 of return characteristics of other available investments as well.

237 Q. How does the market account for risk differences among the various investments?

238 A. Risk-return tradeoffs among capital market investments have been the subject of
239 extensive financial research. Literally dozens of textbooks and hundreds of academic
240 articles have addressed the issue. Generally, such research confirms the common sense
241 conclusion that investors will take additional risks only if they expect to receive a higher
242 rate of return. Empirical tests consistently show that returns from low risk securities,
243 such as U.S. Treasury bills, are the lowest; that returns from longer-term Treasury bonds
244 and corporate bonds are increasingly higher as risks increase; and generally, returns from
245 common stocks and other more risky investments are even higher. These observations
246 provide a sound theoretical foundation for both the DCF and risk premium methods for
247 estimating the cost of equity capital. These methods attempt to capture the well-founded
248 risk-return principle and explicitly measure investors' rate of return requirements.

249 Q. Can you illustrate the capital market risk-return principle that you just described?
250 A. Yes. The following graph depicts the risk-return relationship that has become widely
251 known as the Capital Market Line ("CML"). The CML offers a graphical representation
252 of the capital market risk-return principle. The graph is not meant to illustrate the actual
253 expected rate of return for any particular investment, but merely to illustrate in a general
254 way the risk-return relationship.

Risk-Return Tradeoffs



255 As a continuum, the CML can be viewed as an available opportunity set for investors.
256 Those investors with low risk tolerance or investment objectives that mandate a low risk
257 profile should invest in assets depicted in the lower left-hand portion of the graph.
258 Investments in this area, such as Treasury bills and short-maturity, high-quality corporate

259 commercial paper, offer a high degree of investor certainty. In nominal terms (before
260 considering the potential effects of inflation), such assets are virtually risk-free.

261 Investment risks increase as one moves up and to the right along the CML. A
262 higher degree of uncertainty exists about the level of investment value at any point in
263 time and about the level of income payments that may be received. Among these
264 investments, long-term bonds and preferred stocks, which offer priority claims to assets
265 and income payments, are relatively low risk, but they are not risk-free. The market value
266 of long-term bonds, even those issued by the U.S. Treasury, often fluctuates widely when
267 government policies or other factors cause interest rates to change.

268 Farther up the CML continuum, common stocks are exposed to even more risk,
269 depending on the nature of the underlying business and the financial strength of the
270 issuing corporation. Common stock risks include market-wide factors, such as general
271 changes in capital costs, as well as industry and company specific elements that may add
272 further to the volatility of a given company's performance. As I will illustrate in my risk
273 premium analysis, common stocks typically are more volatile (have higher risk) than
274 high-quality bond investments and, therefore, they reside above and to the right of bonds
275 on the CML graph. Other more speculative investments, such as stock options and
276 commodity futures contracts, offer even higher risks (and higher potential returns). The
277 CML's depiction of the risk-return tradeoffs available in the capital markets provides a
278 useful perspective for estimating investors' required rates of return.

279 Q. How is the fair rate of return in the regulatory process related to the estimated cost of
280 equity capital?

281 A. The regulatory process is guided by fair rate of return principles established in the U.S.
282 Supreme Court cases, *Bluefield* and *Hope*:

283 A public utility is entitled to such rates as will permit it to earn a return on
284 the value of the property which it employs for the convenience of the
285 public equal to that generally being made at the same time and in the same
286 general part of the country on investments in other business undertakings
287 which are attended by corresponding risks and uncertainties; but it has no
288 constitutional right to profits such as are realized or anticipated in highly
289 profitable enterprises or speculative ventures. *Bluefield Water Works &*
290 *Improvement Company v. Public Service Commission of West Virginia*,
291 262 U.S. 679, 692-693 (1923).

292 From the investor or company point of view, it is important that there be
293 enough revenue not only for operating expenses, but also for the capital
294 costs of the business. These include service on the debt and dividends on
295 the stock. By that standard the return to the equity owner should be
296 commensurate with returns on investments in other enterprises having
297 corresponding risks. That return, moreover, should be sufficient to assure
298 confidence in the financial integrity of the enterprise, so as to maintain its
299 credit and to attract capital. *Federal Power Commission v. Hope Natural*
300 *Gas Co.*, 320 U.S. 591, 603 (1944).

301 Based on these principles, the fair rate of return should closely parallel investor
302 opportunity costs as discussed above. If a utility earns its market cost of equity, neither
303 its equity investors nor its customers should be disadvantaged.

304 Q. What specific methods and capital market data are used to evaluate the cost of equity?

305 A. Techniques for estimating the cost of equity normally fall into three groups: comparable
306 earnings methods, risk premium methods, and discounted cash flow methods.

307 Q. Would you describe the first set of estimation techniques, the comparable earnings
308 methods?

309 A. Yes. The comparable earnings methods have evolved over time. The original
310 comparable earnings methods were based on book accounting returns. This approach

311 developed ROE estimates by reviewing accounting returns for unregulated companies
312 thought to have risks similar to those of the regulated company in question. These
313 methods have generally been rejected because they assume that the unregulated group is
314 earning its actual cost of capital, and that its equity book value is the same as its market
315 value. In most situations these assumptions are not valid, and, therefore, accounting-
316 based methods do not generally provide reliable cost of equity estimates.

317 More recent comparable earnings methods are based on historical stock market
318 returns rather than book accounting returns. While this approach has some merit, it too
319 has been criticized because there can be no assurance that historical returns actually
320 reflect current or future market requirements. Also, in practical application, earned
321 market returns tend to fluctuate widely from year to year. For these reasons, a current
322 cost of equity estimate (based on the DCF model or a risk premium analysis) is usually
323 required. I have not used a comparable earnings test to establish my recommendation for
324 ComEd both because of these methodological reasons and because I understand that the
325 ICC has, in the past, preferred to use the risk premium and discounted cash flow methods.

326 Q. Would you describe the second set of estimation techniques, the risk premium methods.

327 A Yes. The risk premium methods begin with currently observable market returns, such as
328 yields on government or corporate bonds, and add an increment to account for the
329 additional equity risk. The capital asset pricing model ("CAPM") and arbitrage pricing
330 theory ("APT") model are more sophisticated risk premium approaches. These methods
331 estimate the cost of equity directly by combining the "risk-free" government bond rate
332 with explicit risk measures to determine the risk premium required by the market. The

333 CAPM is the most widely used method in academic and corporate cost of capital
334 research. Consistent with the ICC Staff's approach, I will apply the CAPM as one of
335 several risk premium checks for my DCF results.

336 Q. How does the risk premium methodology work?

337 A. Risk premium methods are based on the assumption that equity securities are riskier than
338 debt and, therefore, that equity investors require a higher rate of return. This basic
339 premise is well supported by legal and economic distinctions between debt and equity
340 securities, and it is widely accepted as a fundamental capital market principle. For
341 example, debt holders' claims to the earnings and assets of the borrower have priority
342 over all claims of equity investors. The contractual interest on mortgage debt must be
343 paid in full before any dividends can be paid to shareholders, and secured mortgage
344 claims must be fully satisfied before any assets can be distributed to shareholders in
345 bankruptcy. Also, the guaranteed, fixed-income nature of interest payments makes year-
346 to-year returns from bonds typically more stable than capital gains and dividend payments
347 on stocks. All these factors demonstrate the more risky position of stockholders and
348 support the equity risk premium concept.

349 Q. Are risk premium estimates of the cost of equity consistent with other current capital
350 market costs?

351 A. Yes. The risk premium approach is especially useful because it is founded on current
352 market interest rates, which are directly observable. This feature assures that risk
353 premium estimates of the cost of equity begin with a sound basis, which is tied directly to
354 current capital market costs.

355 Q. How should risk premium data be employed?

356 A. There is often considerable debate about how risk premium data should be interpreted
357 and used. Because the analyst's basic task is to gauge investors' required returns on long-
358 term investments, some argue that the estimated equity spread should be based on the
359 longest possible time period. Others argue that market relationships between debt and
360 equity from several decades ago are irrelevant and that only recent debt-equity
361 observations should be given any weight in estimating investor requirements. There is no
362 consensus on this issue. Since analysts cannot observe or measure investors' expectations
363 directly, it is not possible to know exactly how such expectations are formed or, therefore,
364 to know exactly what time period is most appropriate in a risk premium analysis.

365 The important point is to answer the following question: "What rate of return
366 should equity investors reasonably expect relative to returns that are currently available
367 from long-term bonds?" The risk premium studies and analyses I discuss later address
368 this question. My risk premium recommendation is based on an intermediate position
369 that avoids some of the problems and concerns that have been expressed about both very
370 long and very short periods of analysis with the risk premium model.

371 Q. Would you describe the third set of estimation techniques, based on discounted cash
372 flows?

373 A. Yes. The DCF model is the most widely used regulatory cost of equity estimation
374 method. Like the risk premium approach, the DCF model has a sound basis in theory,
375 and many argue that it has the additional advantage of simplicity. I will describe the DCF
376 model in detail below, but in essence its estimate of ROE is simply the sum of the

377 expected dividend yield and the expected long-term dividend (or price) growth rate.
378 While dividend yields are typically easy to obtain, estimating long-term growth is more
379 difficult. Because the constant growth DCF model also requires very long-term growth
380 estimates (technically to infinity), some argue that its application is too speculative to
381 provide reliable results, resulting in the preference for the multistage growth DCF
382 analysis.

383 Q. Of the three estimation methods, which do you believe provides the most reliable results?

384 A. From my experience, a combination of DCF and risk premium methods provides the most
385 reliable approach. While the caveat about estimating long-term growth must be observed,
386 the DCF model's other inputs are readily obtainable, and the model's results typically are
387 consistent with capital market behavior. The risk premium methods provide a sound
388 parallel approach to the DCF model and further ensure that current market conditions are
389 accurately reflected in the cost of equity estimate.

390 Q. How does the DCF model work?

391 A. The DCF model is predicated on the concept that stock prices represent the present value
392 or discounted value of all future dividends that investors expect to receive. In the most
393 general form, the DCF model is expressed in the following formula:

$$394 \quad P_0 = D_1/(1+k) + D_2/(1+k)^2 + \dots + D_\infty/(1+k)^\infty \quad (1)$$

395 where P_0 is today's stock price; D_1 , D_2 , etc. are all future dividends and k is the discount
396 rate, or the investor's required rate of return on equity. Equation (1) is a routine present
397 value calculation based on the assumption that the stock's price is the present value of all
398 dividends expected to be paid in the future.

399 Under the additional assumption that dividends are expected to grow at a constant
400 rate "g" and that k is strictly greater than g, equation (1) can be solved for k and
401 rearranged into the simple form:

$$402 \quad k = D_1/P_0 + g \quad (2)$$

403 Equation (2) is the familiar constant growth DCF model for cost of equity estimation,
404 where D_1/P_0 is the expected dividend yield and g is the long-term expected dividend
405 growth rate.

406 Q. Are there circumstances where the constant growth model may not give reliable results?

407 A. Yes. Under circumstances when growth rates are expected to fluctuate or when future
408 growth rates are highly uncertain, the constant growth model may not give reliable
409 results. Although the DCF model itself is still valid (*i.e.*, equation (1) is mathematically
410 correct), under such circumstances the simplified form of the model must be modified to
411 capture market expectations accurately.

412 Recent events and current market conditions in the electric utility industry as
413 discussed later appear to challenge the constant growth assumption of the traditional DCF
414 model. Since the mid-1980s, dividend growth expectations for many electric utilities
415 have fluctuated widely. In fact, over one-half of the electric utilities in the United States
416 have reduced or eliminated their common dividends over this time period. Some of these
417 companies subsequently re-established their dividends, producing exceptionally high
418 growth rates. Under these circumstances, long-term growth rate estimates may be highly
419 uncertain, and estimating a reliable "constant" growth rate for many companies is often
420 difficult.

421 Q. How can the DCF model be applied when the constant growth assumption is violated?

422 A. When growth expectations are uncertain, the more general version of the model
423 represented in equation (1) should be solved explicitly over a finite "transition" period
424 while uncertainty prevails. The constant growth version of the model can then be applied
425 after the transition period, under the assumption that more stable conditions will prevail
426 in the future. There are two alternatives for dealing with the non-constant growth
427 transition period.

428 Under the "terminal price" non-constant growth approach, equation (1) is written
429 in a slightly different form:

$$430 P_0 = D_1/(1+k) + D_2/(1+k)^2 + \dots + P_T/(1+k)^T \quad (3)$$

431 where the variables are the same as in equation (1) except that P_T is the estimated stock
432 price at the end of the transition period T. Under the assumption that normal growth
433 resumes after the transition period, the price P_T is then expected to be based on constant
434 growth assumptions. With the terminal price approach, the estimated cost of equity, k, is
435 just the rate of return that investors would expect to earn if they bought the stock at
436 today's market price, held it and received dividends through the transition period (until
437 period T), and then sold it for price P_T . In this approach, the analyst's task is to estimate
438 the rate of return that investors expect to receive given the current level of market prices
439 they are willing to pay.

440 Q. What is the other alternative for dealing with the non-constant growth transition period?

441 A. Under the "multistage" non-constant growth approach, equation (1) is simply expanded to
442 incorporate two or more growth rate periods, with the assumption that a permanent
443 constant growth rate can be estimated for some point in the future:

$$444 \quad P_0 = D_0(1+g_1)/(1+k) + \dots + D_0(1+g_2)^n/(1+k)^n +$$
$$445 \quad \dots + D_0(1+g_T)^{(T+1)}/(k-g_T) \quad (4)$$

446 where the variables are the same as in equation (1), but g_1 represents the growth rate for
447 the first period, g_2 for a second period, and g_T for the period from year T (the end of the
448 transition period) to infinity. The first two growth rates are simply estimates for
449 fluctuating growth over "n" years (typically 5 or 10 years) and g_T is a constant growth rate
450 assumed to prevail forever after year T. The difficult task for analysts in the multistage
451 approach is determining the various growth rates for each period.

452 Although less convenient for exposition purposes, the non-constant growth
453 models are based on the same valid capital market assumptions as the constant growth
454 version. The non-constant growth approach simply requires more explicit data inputs and
455 more work to solve for the discount rate, k. Fortunately, the required data are available
456 from investment and economic forecasting services, and computer algorithms can easily
457 produce the required solutions. Both constant and non-constant growth DCF analyses are
458 presented in the following section.

459 Q. Many economists apply "quarterly" versions of the DCF model. Is the quarterly approach
460 technically sound?

461 A. Yes. Investors recognize that most utilities pay dividends quarterly and they reflect this
462 feature in the market price they pay for utility stocks. The present value of dividends

463 received each quarter (sooner) is higher than if all dividends were received at the end of
464 the year. In the annual DCF model, the resulting ROE is understated when this feature is
465 ignored. As I will show in Section V, the quarterly DCF estimate is 10-20 basis points
466 higher than the ROE from the annual model.

467 Q. How, then, would you summarize the proper use of cost of equity estimation techniques?

468 A. Estimating the cost of equity is one of the most controversial issues in utility ratemaking.
469 Because actual investor requirements are not directly observable, several methods have
470 been developed to assist in the estimation process. The comparable earnings method is
471 the oldest but perhaps least reliable. Its use of accounting rates of return, or even
472 historical market returns, may or may not reflect current investor requirements.
473 Differences in accounting methods among companies and issues of comparability also
474 detract from this approach.

475 The DCF and risk premium methods have become the most widely accepted in
476 regulatory practice. A combination of the DCF model and a review of risk premium data
477 provides the most reliable cost of equity estimate. While the DCF model does require
478 judgment about future growth rates, the dividend yield is straightforward, and the model's
479 results are generally consistent with actual capital market behavior. For these reasons, I
480 will rely on a combination of the DCF model and a risk premium analysis in the cost of
481 equity studies that are summarized below.

482 **IV. Fundamental Factors that Effect the Cost of Equity**

483 Q. What is the purpose of this section of your testimony?

484 A. In this section, I review recent capital market conditions and industry and company-
485 specific factors that should be reflected in a cost of capital estimate.

486 Q. What has been the recent experience in the U.S. capital markets?

487 A. ComEd Exhibit 10.2, page 1, provides a review of annual interest rates and rates of
488 inflation in the U.S. economy over the past ten years. During that time, inflation and
489 capital market costs have declined and, generally, have been lower than rates that
490 prevailed in the previous decade. Inflation, as measured by the Consumer Price Index,
491 until 2005 had remained at historically low levels not seen consistently since the early
492 1960s. Inflation rates for 2005 and 2006 were similar to longer-term historical averages
493 in excess of 3 percent. With improving economic conditions, since mid-2004, the
494 Federal Reserve System increased the short-term Federal Funds interest rate 17 times
495 between June 30, 2004 and June 29, 2006, raising it from 1 percent to 5.25 percent. At its
496 most recent meeting on September 18, 2007, in response to the extreme turbulence in the
497 sub-prime lending markets the Federal Reserve Open Market Committee reduced the
498 Federal Funds rate for the first time in over three years, dropping the rate to 4.75 percent.
499 Long-term interest rates, which are not directly affected by the Federal Reserve's short-
500 term rate policies, have increased slowly and remain 70 to 80 basis points above the
501 lowest levels they reached in mid-2005. Estimates for the coming year are for continued
502 economic growth and for further increases in long-term interest rates.

503 Q. How have long-term interest rates changed during the past two years?

504 A. ComEd Exhibit 10.2, page 2, provides a month-by-month summary of long-term utility
505 and government interest rates. Those monthly interest rate data are summarized in the
506 following table:

Table 1
Long-Term Interest Rate Trends

Month	Baa Utility Rates	Average Utility Rates	Long-Term Treasury Rates	10-Year Treasury Rates
Sep-05	5.83%	5.54%	4.51%	4.20%
Oct-05	6.08%	5.79%	4.74%	4.46%
Nov-05	6.19%	5.88%	4.83%	4.54%
Dec-05	6.14%	5.83%	4.73%	4.47%
Jan-06	6.06%	5.77%	4.65%	4.42%
Feb-06	6.11%	5.83%	4.73%	4.57%
Mar-06	6.25%	5.98%	4.91%	4.72%
Apr-06	6.54%	6.28%	5.22%	4.99%
May-06	6.59%	6.39%	5.35%	5.11%
Jun-06	6.63%	6.41%	5.29%	5.11%
Jul-06	6.63%	6.39%	5.25%	5.09%
Aug-06	6.43%	6.20%	5.08%	4.88%
Sep-06	6.26%	6.02%	4.93%	4.72%
Oct-06	6.24%	6.01%	4.94%	4.73%
Nov-06	6.04%	5.82%	4.78%	4.60%
Dec-06	6.05%	5.83%	4.78%	4.56%
Jan-07	6.16%	5.97%	4.95%	4.76%
Feb-07	6.10%	5.91%	4.93%	4.72%
Mar-07	6.10%	5.87%	4.81%	4.56%
Apr-07	6.24%	6.01%	4.95%	4.69%
May-07	6.23%	6.03%	4.98%	4.75%
Jun-07	6.54%	6.34%	5.29%	5.10%
Jul-07	6.49%	6.28%	5.19%	5.00%
Aug-07	6.51%	6.29%	5.00%	4.67%
Sep-07	6.45%	6.24%	4.84%	4.52%

Sources: Mergent Bond Record (Utility Rates);
www.federalreserve.gov (Treasury Rates).

507

508 As the data in Table 1 show, long-term interest rates paid by corporate utility borrowers
509 and by the U.S. Government are about 30 to 70 basis points higher than they were two
510 years ago. Borrowing costs for Baa rated utilities like ComEd increased from 5.83
511 percent to 6.45 percent during this period. Similarly, average long-term borrowing costs
512 for all utility bond ratings have increased from 5.54 percent in September 2005 to 6.24
513 percent in September 2007. These higher long-term borrowing costs should be
514 considered explicitly in estimates of the on-going cost of equity capital.

515 Q. What levels of economic activity and interest rates are forecast for the coming year?

516 A. ComEd Exhibit 10.2, page 3, provides Standard & Poor's most recent economic forecast
517 from its *Trends & Projections* publication for September 20, 2007. S&P forecasts
518 continuing, albeit slower, economic growth for 2007 and 2008. For 2007, growth in real
519 Gross Domestic Product (GDP) is projected at 2.0 percent with nominal GDP (real GDP
520 plus inflation) at 4.6 percent. For 2008, real GDP growth is projected at 2.0 percent and
521 nominal growth at 3.9 percent. These projected growth rates compare to a real rate for
522 2006 of 2.9 percent and a nominal rate of 6.1 percent. S&P also forecasts that interest
523 rates will rise from current levels. The summary interest rate data are presented in the
524 following table:

525 **Table 2**

526 **Standard & Poor's Interest Rate Forecast**

527

528

	Current	Average 2007 Est.	Average 2008 Est.
529 Treasury Bills	3.8%	4.6%	4.2%
530 10-Yr. T-Bonds	4.5%	4.8%	5.2%
531 30-Yr. T-Bonds	4.8%	5.0%	5.4%
532 Aaa Corporate Bonds	5.7%	5.7%	6.3%

533 Sources: www.yahoo.com Yahoo Finance (Current Rates);
534 Standard & Poor's *Trends & Projections*, September 20, 2007, page 8
535 (Projected Rates).

536 The data in Table 2 show that average interest rates are projected to increase further
537 during the coming year. The long-term Treasury Bond rate is projected by S&P to
538 average 5.4 percent during 2008. Relative to current levels, projected long-term rates on
539 Treasuries and corporate bonds are expected to increase by an additional 60 to 70 basis
540 points. These increasing interest rate trends offer important perspective for judging the
541 cost of capital in the present case.

542 Q. How have utility stocks performed during the past several years?

543 A. Utility stock prices have fluctuated widely. After reaching a level of 310 in April 2002,
544 the Dow Jones Utility Average (DJUA) dropped to below 180 by October 2002. Since
545 late 2002, the Average has trended upward. Its current level at around 500 is near a record
546 high level. These factors, and continuing concerns for the more competitive markets for
547 all utility services, will likely create further uncertainties and market volatility for utility
548 shares. In this environment, investors' return expectations and requirements for providing
549 capital to the utility industry remain high relative to the longer-term traditional view of the
550 utility industry.

551 Q. What is the industry's current fundamental position?

552 A. Many electric utilities are attempting to return to their core businesses and hope to see
553 more stable results over the next several years. S&P reflects this sentiment in its most
554 recent *Electric Utility Industry Survey*:

555 **Standard & Poor's Industry Surveys**

556 Although we expect the performance of both the electric utility sector
557 and the individual companies within the sector to remain volatile over
558 the next several years, we expect the stocks to become less volatile
559 than they have been in the past few years. (Standard & Poor's *Industry*
560 *Surveys*, Electric Utilities, August 9, 2007, p. 5)

561 In its most recent edition, Value Line also reflected concerns about volatility and credit
562 market responses:

563 **Value Line Investors' Service**

564 Only three of the 21 utilities in the [Eastern] group boast share-price
565 gains in the three months since our last review. What's more, a good
566 majority of the losers have posted sharper declines than the 5% selloff
567 in the benchmark S&P 500 index.

568 In June, we saw some "frothiness" in terms of the valuation with which
569 the group was being accorded. As such, the pullback isn't so
570 surprising, especially against a backdrop of rising (read: competitive)
571 yields and a credit-driven flight to quality. (*Value Line Investment*
572 *Survey*, Electric Utility (East) Industry, August 31, 2007, p. 154.)

573 Price volatility for utility shares and credit market gyrations make it all the more
574 difficult to estimate the fair, on-going cost of capital. Analysts' near-term growth
575 estimates for utilities reflect the issues described by Value Line and Value Line's current
576 three-to-five-year projections are lower than they have been in previous years. As I will
577 discuss in more detail later, the volatility in analysts' growth forecasts continues to raise
578 questions about using analysts' projections as proxies for long-term growth in the DCF
579 model.

580 Q. Is ComEd affected by market uncertainties and increasing utility capital costs?

581 A. Yes. To some extent all electric utilities are being affected by the industry's transition to
582 competition. Most all utilities' costs and other operating activities have been significantly
583 affected by transition and restructuring events around the country. In fact, the uncertainty
584 associated with the changes that are transforming the utility industry as a whole, as
585 viewed from the perspective of the investor, remains a factor in assessing any utility's
586 required ROE. ComEd's present circumstances are an outgrowth of these fundamental
587 changes in the industry and a direct reflection of the uncertainties that utility investors
588 currently face. These factors are indicative of the upward pressure on the cost of capital
589 that presently exists for most utility companies.

590 Q. How do capital market concerns and financial risk perceptions affect the cost of equity
591 capital?

592 A. As I discussed previously, equity investors respond to changing assessments of risk and
593 financial prospects by changing the price they are willing to pay for a given security.
594 When the risk perceptions increase or financial prospects decline, investors refuse to pay
595 the previously existing market price for a company's securities, and then market supply
596 and demand forces establish a new lower price. The lower market price typically
597 translates into a higher cost of capital through a higher dividend yield requirement, as
598 well as the potential for increased capital gains if prospects improve. In addition to
599 market losses for prior shareholders, the higher cost of capital is transmitted directly to
600 the company by the need to issue more shares to raise any given amount of capital for
601 future investment or otherwise attract additional equity investment. The new additional

602 shares also impose additional future dividend requirements and reduce future earnings per
603 share growth prospects.

604 **V. Cost of Equity Capital for ComEd**

605 Q. What is the purpose of this section of your testimony?

606 A. The purpose of this section is to present my quantitative studies of the cost of equity
607 capital for ComEd and to discuss the details and results of my analysis.

608 Q. Why do you believe the long-term GDP growth rate should be used to estimate the long-
609 term growth expectations in the second version of the DCF model?

610 A. Growth in nominal GDP (*i.e.*, real GDP plus inflation) is the most general measure of
611 long-term economic growth in the U.S. economy. For long time periods, such as those
612 used in the Ibbotson Associates rate of return data, GDP growth has averaged between 5
613 percent and 8 percent per year. From this observation, Professors Brigham and Houston
614 offer the following observation concerning the appropriate long-term growth rate in the
615 DCF Model:

616 Expected growth rates vary somewhat among companies, but dividends
617 for mature firms are often expected to grow in the future at about the same
618 rate as nominal gross domestic product (real GDP plus inflation). On this
619 basis, one might expect the dividend of an average, or “normal,” company
620 to grow at a rate of 5 to 8 percent a year. (Eugene F. Brigham and Joel F.
621 Houston, *Fundamentals of Financial Management*, 11th Ed. 2007, page
622 298.)

623 Other academic research on corporate growth rates offers similar conclusions
624 about GDP growth as well as concerns about the long-term adequacy of analysts'
625 forecasts:

626 Our estimated median growth rate is reasonable when compared to the
627 overall economy's growth rate. On average over the sample period, the
628 median growth rate over 10 years for income before extraordinary items is

629 about 10 percent for all firms. ... After deducting the dividend yield (the
630 median yield is 2.5 percent per year), as well as inflation (which averages
631 4 percent per year over the sample period), the growth in real income
632 before extraordinary items is roughly 3.5 percent per year. This is
633 consistent with the historical growth rate in real gross domestic product,
634 which has averaged about 3.4 percent per year over the period 1950-1998.
635 (Louis K. C. Chan, Jason Karceski, and Josef Lakonishok, "The Level and
636 Persistence of Growth Rates," The Journal of Finance, April 2003, p. 649)

637 IBES long-term growth estimates are associated with realized growth in the
638 immediate short-term future. Over long horizons, however, there is little
639 forecastability in earnings, and analysts' estimates tend to be overly optimistic. ...
640 On the whole, the absence of predictability in growth fits in with the economic
641 intuition that competitive pressures ultimately work to correct excessively high or
642 excessively low profitability growth. (Ibid, page 683)

643 These findings support the notion that long-term growth expectations are more closely
644 predicted by broader measures of economic growth than by near-term analysts' estimates.
645 Especially for the very long-term growth rate requirements of the DCF model, the growth
646 in nominal GDP should be considered an important input.

647 Q. In its Order in ComEd's 2005 case (ICC Docket No. 05-0597), the Commission found
648 that using the GDP growth rate in the DCF model caused the estimate of ROE to be
649 inflated. Why should the Commission accept your use of GDP for the purpose it is
650 employed in your current model?

651 A. The Commission should consider GDP as a stable growth rate proxy because under
652 current market and utility industry conditions some of the traditional growth rate sources
653 are not consistent with the DCF model's underlying assumptions and requirements. For
654 example, current DCF estimates based on Value Line's traditional growth rates appear to
655 significantly understate the cost of capital. Value Line estimates produce ROEs that are
656 much lower than CAPM estimates and estimates from other risk premium methods. I
657 will demonstrate this point by comparing Value Line's estimates based on widely-used 3-

658 to-5 year earnings growth projections and so-called sustainable growth projections from
659 the "b times r" model (earnings retention rate as a percentage "b" times percentage return
660 on net book value "r").

661 Volatile ROE estimates from the DCF model result from the underlying nature of
662 the model itself. The DCF model is particularly difficult to apply to companies that have
663 volatile growth rates or companies for which dividend yields are a relatively small part of
664 total expected returns. This is one of the reasons why the DCF model is not used and the
665 CAPM is the preferred method applied by Wall Street analysts in most non-regulatory
666 applications. The DCF model traditionally has been favored in utility regulation because,
667 traditionally, it has "fit" utilities' more stable fundamental characteristics. Utilities'
668 relatively large dividend yields and relatively stable growth rates made DCF applications
669 straightforward and, when more stable conditions prevailed, the DCF model produced
670 ROE estimates consistent with other capital market data.

671 Recent market conditions and changes in the utility industry have made utility
672 DCF applications much more difficult. Dividend payment policies for many utilities,
673 including ComEd, have changed and utility growth rates have become much more
674 volatile. Recent dividend yields have been at historically low levels and for the past
675 several years analysts' growth rate forecasts have fluctuated widely. Under these
676 circumstances, other approaches in the DCF model are required. Regardless of the
677 Commission's conclusion concerning a more general use of GDP growth rates in Docket
678 No. 05-0597, the Commission should at least accept their use for the more focused
679 purpose of estimating the required long-term growth rate in the DCF model, which
680 especially under current conditions, cannot otherwise be fairly estimated.

681 Q. How have Value Line's three-to-five year growth projections changed over the past five
682 years?

683 A. Value Line's growth projections are much lower than they were five years ago. For the
684 comparable company group shown in ComEd Exhibit 10.3, in 2002 Value Line's
685 projected three-to-five year earnings growth rate was 6.11 percent per year. In the current
686 editions covering electric utilities, the average projected earnings growth rate is only 5.19
687 percent. Similarly, the more conservative "b times r" sustainable growth rate based on
688 Value Line's projections for 2002 was 5.50 percent and is currently only 3.71 percent.
689 Such a dramatic drop in the traditional DCF growth projections raises serious questions
690 about the use of such estimates in the *constant growth* version of the DCF model. The
691 ICC has considered the "b times r" approach in the past, stating in the October 11, 1994
692 GTE North order in Docket Nos. 93-0301, 94-0041 that it "specifically rejects [the] 'b x r'
693 growth rate calculation" for use in a DCF analysis, and referring to the "b times r" method
694 as "unsound" in Commonwealth Edison Docket 94-0065 (January 9, 1995).

695 Q. How did you estimate the expected long-run GDP growth rate?

696 A. I developed my long-term GDP growth forecast from nominal GDP data contained in the
697 St. Louis Federal Reserve Bank data base. That data for the period 1947 through 2006 is
698 summarized in ComEd Exhibit 10.4. As shown at the bottom of that exhibit, the overall
699 average for the period was 7.0 percent. The data also show, however, that in the more
700 recent years since 1980, lower inflation has resulted in lower overall GDP growth. For
701 this reason I gave more weight to the more recent years in my GDP forecast. This
702 approach is consistent with the concept that more recent data should have a greater effect

703 on expectations and with generally lower near- and intermediate-term growth rate
704 forecasts that presently exist. Based on this approach, my overall forecast for long-term
705 GDP growth is 6.6 percent.

706 Q. Please summarize the results of your DCF analyses.

707 A. My DCF results are presented in ComEd Exhibit 10.5. As shown in the first column of
708 page 1 of that exhibit, the constant growth DCF model based on an average growth rate
709 from the four analysts' sources produces an ROE range of 9.6 percent to 10.5 percent.
710 The second column of page 1 of ComEd Exhibit 10.5 shows the results of a constant
711 growth model using a long-term growth rate calculated based on forecasted growth in
712 GDP. With the higher long-term growth rate, the constant growth model indicates an
713 ROE range of 11.0 percent to 11.1 percent. The third column of page 1 of ComEd
714 Exhibit 10.5, presents the results from the multistage DCF model. The multistage model
715 indicates an ROE range of 10.6 percent to 10.7 percent.

716 Q. What are the results of your analysis when you apply the quarterly dividend version of the
717 DCF model?

718 A. The results of my application of the quarterly dividend version of the analysts' growth
719 rate DCF model are presented in ComEd Exhibit 10.6. The comparable group ROE from
720 that analysis, based on the projected analysts' growth rate, is in a range of 9.8 percent to
721 10.6 percent. This analysis, in combination with the annual DCF results discussed above,
722 indicates that the appropriate DCF range for the comparable group, based on the range of
723 average results, is 10.5 percent to 11.1 percent.

724 Q. Did you also apply the CAPM to estimate ComEd's cost of equity?

725 A. Yes. I applied the CAPM to my comparable group companies using two approaches. In
726 both approaches, I used Value Line's betas. In the first approach, I used the recent
727 average 30-year Treasury bond as the risk-free asset and an average of Ibbotson's
728 arithmetic and geometric mean equity risk premiums relative to Treasury bonds as the
729 market risk premium. The results of that analysis are shown in the upper panel of ComEd
730 Exhibit 10.7. The CAPM estimate of ROE based on Treasury bonds is 10.26 percent. In
731 the second part of my analysis, I used the recent average 90-day Treasury bill rate as the
732 risk-free rate and an average of Ibbotson's arithmetic and geometric mean equity risk
733 premiums relative to Treasury bills as the market risk premium. The results of that
734 analysis are shown in the lower panel of ComEd Exhibit 10.7. The CAPM estimated
735 ROE based on Treasury bills is 11.38 percent. The midpoint of my two CAPM estimates
736 is 10.82 percent.

737 Q. Did you apply a basic bond yield plus equity risk premium analysis to estimate ComEd's
738 cost of equity?

739 A. Yes. The details and results of my risk premium studies are shown in ComEd Exhibit
740 10.8.

741 Q. What are the results of your risk premium analysis?

742 A. My analysis indicates an ROE range of 10.85 percent to 10.95 percent.

743 Q. How are your risk premium studies structured?

744 A. My risk premium studies are divided into two parts. First, I compare electric utility and
745 LDC authorized ROEs for the period 1980-2006 to contemporaneous long-term utility
746 interest rates. The differences between the average authorized ROEs and the average

747 interest rate for the year is the indicated equity risk premium. I then add the indicated
748 equity risk premium to the forecasted Baa utility bond interest rate to estimate ROE.
749 Because there is a strong inverse relationship between risk premiums and interest rates
750 (when interest rates are high, risk premiums are low and vice versa), further analysis is
751 required to estimate the current risk premium level.

752 The inverse relationship between risk premiums and interest rate levels is well
753 documented in numerous, well-respected academic studies. These studies typically use
754 regression analysis or other statistical methods to predict or measure the risk premium
755 relationship under varying interest rate conditions. In ComEd Exhibit 10.8, I apply
756 regression analyses to the allowed annual equity risk premiums relative to interest rate
757 levels. The negative and statistically significant regression coefficients confirm the
758 inverse relationship between risk premiums and interest rates. This means that when
759 interest rates rise by one percentage point, the cost of equity increases, but by a smaller
760 amount. Similarly, when interest rates decline by one percentage point, the cost of equity
761 declines by less than one percentage point. I use this negative interest rate change
762 coefficient in conjunction with current interest rates to establish the appropriate current
763 equity risk premium.

764 Q. How do the results of your risk premium study compare to levels found in other published
765 risk premium studies?

766 A. Based on my risk premium studies, I am conservatively recommending a lower risk
767 premium than is often found in other published risk premium studies. While I do not
768 recommend these alternative studies as independent estimates of the current cost of equity

769 for ComEd, they provide a more general perspective for ComEd's requested ROE. For
770 example, the most widely followed risk premium data are provided in studies published
771 annually by Morningstar, Inc.¹ (Morningstar, Inc., Stocks, Bonds, Bills and Inflation 2007
772 Yearbook). These data, for the period 1926-2006, indicate an arithmetic mean risk
773 premium of 6.1 percent for common stocks versus long-term corporate bonds. Under the
774 assumption of geometric mean compounding, the Morningstar risk premium for common
775 stocks versus corporate bonds is 4.5 percent. Based on the more conservative geometric
776 mean risk premium, the Morningstar data indicate a cost of equity of 11.2 percent (6.7%
777 forecasted debt cost + 4.5% risk premium = 11.2%). Based on the arithmetic risk
778 premium, the Morningstar data indicate a cost of equity of 12.8 percent (6.7% forecasted
779 debt cost + 6.1% risk premium = 12.8%).

780 Harris and Marston (H&M) also provide specific equity risk premium estimates.²
781 Using analysts' growth estimates to estimate equity returns, H&M found equity risk
782 premiums of 6.47 percent relative to U.S. Government bonds and 5.13 percent relative to
783 yields on corporate debt. H&M's equity risk premium relative to corporate debt indicates
784 a current cost of equity of 11.8 percent (6.7% debt cost + 5.13% risk premium = 11.83%).
785 Although the Ibbotson and Harris and Marston results should not be extrapolated directly
786 as stand-alone estimates of the cost of equity for regulated utilities, their results provide a
787 reasonable long-term perspective on capital market expectations for debt and equity rates
788 of return.

¹ Formerly Ibbotson Associates and therefore referred to as "Ibbotson" above.

² Robert S. Harris and Felicia C. Marston, "Estimating Shareholder Risk Premia Using Analysts' Growth Forecasts," *Financial Management*, Summer 1992.

789 **VI. Summary and Conclusions**

790 Q. Please summarize the results of your cost of equity analysis.

791 A. My quantitative results are summarized in the following table:

792 **Summary of Cost of Equity Estimates**

<u>Electric DCF Analysis</u>	<u>Indicated Cost</u>
793 Constant Growth (Analysts' Growth)	9.6%-10.5%
794 Constant Growth (GDP Growth)	11.0%-11.1%
795 Quarterly DCF (Analysts' Growth)	9.8%-10.6%
796 Multistage Growth Model	10.6%-10.7%
797 Reasonable DCF Range	<u>10.5%-11.1%</u>
<u>CAPM Analysis</u>	<u>Indicated Cost</u>
799 Long-term (5.08% + 0.90 x 5.75%)	10.26%
800 Short-term (4.54% + 0.90 x 7.60%)	11.38%
801 CAPM Midpoint	<u>10.82%</u>
<u>Risk Premium Analysis</u>	<u>Indicated Cost</u>
803 Utility Debt + Electric Risk Premium	
804 Risk Premium (6.7% + 4.25%)	10.95%
805 Utility Debt + Gas LDC Risk Premium	
806 Risk Premium (6.7% + 4.15%)	10.85%
807 Ibbotson Risk Premium Analysis	
808 Risk Premium (6.7% + 4.5%)	11.20%
809 Harris-Marston Risk Premium	
810 Risk Premium (6.7% + 5.13%)	11.83%
811	
812	
<hr/>	
813 Recommended ROE	<u>10.75%</u>
814	
<hr/>	

815 Q. How should these results be interpreted in setting the fair cost of equity for ComEd?

816 A. My comparable group ROE estimate at 10.75 percent is near the middle of the DCF and
817 risk premium ranges. My recommended DCF range is 10.5 percent to 11.1 percent, with
818 a midpoint of 10.8 percent. I recommend this range because it is most consistent with the
819 results of my DCF, CAPM, and electric and gas utility risk premium results. My CAPM
820 analysis indicates a wider ROE range of 10.26 percent to 11.38 percent, with a midpoint

821 of 10.82 percent. My LDC and electric utility risk premium range is 10.85 percent to
822 10.95 percent, with a midpoint of 10.9 percent. Other risk premium data, which are
823 offered for purposes of comparison, indicate ROEs above 11 percent. While I do not rely
824 on these other risk premium results to establish my ROE recommended range, they
825 provide perspective for my primary analytical results. Based on these data, my 10.75
826 percent base ROE estimate is well within the reasonable range. In this context, the fair
827 and reasonable rate of return on equity for ComEd is 10.75 percent.

828 Q. Does this conclude your testimony?

829 A. Yes, it does.

SAMUEL C. HADAWAY**FINANCO, Inc.
Financial Analysis Consultants****3520 Executive Center Drive, Suite 124
Austin, Texas 78731
(512) 346-9317****SUMMARY OF QUALIFICATIONS**

- Principal, Financial Analysis Consultants (FINANCO, Inc.).
- Ph.D. in Finance and Econometrics.
- Extensive expert witness testimony in court and before regulatory agencies.
- Management of professional research staff in academic and regulatory organizations.
- Professional presentations before executive development groups, the National Rate of Return Analysts' Forum, and the New York Society of Security Analysts.
- Financial Management Association, Vice President for Practitioner Services.

EDUCATION**The University of Texas at Austin
Ph.D., Finance and Econometrics
January 1975***Dissertation: An Evaluation of the
Original and Recent Variants of the
Capital Asset Pricing Model.***The University of Texas at Austin
MBA, Finance
June 1973***Thesis: The Pricing of Risk on the
New York Stock Exchange.***Southern Methodist University
BA, Economics
June 1969**Honors program. Departmental
distinction.**OTHER EXPERIENCE****University of Texas at Austin
Adjunct Associate Professor
1985-1988, 2004-Present**Corporate Financial Management,
Investments, and Integrative Finance
Cases.**Texas State University San Marcos
Associate Professor of Finance
1983-1984, 2003-2004**Graduate and undergraduate courses
in Financial Management, Managerial
Economics, and Investment Analysis.**Public Utility Commission of Texas
Chief Economist and Director of
Economic Research Division
August 1980-August 1983**Lead financial witness. Supervised
Commission staff in research and
testimony on rate of return, financial
condition, and economic analysis.**Assistant Professor of Finance
Texas Tech University
July 1978-July 1980
University of Alabama
January 1975-June 1978**Member of graduate faculty. Conducted
Ph.D. seminars and directed doctoral
dissertations in capital market theory.
Served as consultant to industry,
church and governmental organizations.

FINANCIAL AND ECONOMIC TESTIMONY IN REGULATORY PROCEEDINGS (Client in parenthesis)**Cost of Money Testimony:**

- Texas Public Utility Commission, Docket No. 34800, September 26, 2007, (Entergy Gulf States, Inc.)
- Texas Public Utility Commission, Docket No. 34040, August 28, 2007, (Oncor/TXU Electric Delivery Company)
- Massachusetts Department of Public Utilities, D.P.U. 07-71, August 17, 2007, (Fitchburg Gas and Electric Light Company d/b/a/ Unutil)
- Arizona Corporation Commission, Docket No. E-01933A-07-0402, July 2, 2007, (Tucson Electric Power Company).
- Wyoming Public Service Commission, Docket No. 20000-277-ER-07, June 29, 2007 (Rocky Mountain Power dba/PacifiCorp).
- Idaho Public Utilities Commission, Case No. PAC-E-05-1, June 8, 2007 (Rocky Mountain Power dba/PacifiCorp).
- Kansas Corporation Commission, Docket No. 07-KCPE-905-RTS, March 1, 2007 (Kansas City Power & Light Company).
- New Mexico Public Regulation Commission, Case No. 07-00077-UT, February 21, 2007, (Public Service Company of New Mexico).
- Missouri Public Service Commission, Case No. ER-2006-0291, February 1, 2007 (Kansas City Power & Light Company).
- Texas PUC Docket Nos. 33734, January 22, 2007 (Electric Transmission Texas, LLC).
- Texas PUC Docket Nos. 33309 and 33310, November 2006, (AEP Texas Central Company and AEP Texas North Company).
- Louisiana Public Service Commission, Docket No. U-23327, October 2006 and January 2005 (Southwestern Electric Power Company, American Electric Power Company)
- Missouri Public Service Commission, Case No. ER-2007-0004, July 3, 2006 (Aquila, Inc.).
- New Mexico Public Regulation Commission, Case No. 06-00258-UT, June 30, 2006 (El Paso Electric Company).
- New Mexico Public Regulation Commission, Case No. 06-00210-UT, May 30, 2006 (Public Service Company of New Mexico).
- Texas Public Utility Commission, Docket No. 32093, April 14, 2006 (CenterPoint Energy-Houston Electric, LLC).
- Utah Public Service Commission, Docket No. 06-035-21, March 7, 2006 (PacifiCorp).
- Oregon Public Utility Commission, Case No. UE-179, February 23, 2006 (PacifiCorp).
- Kansas Corporation Commission, Docket No. 06-KCPE-828-RTS, January 31, 2006 (Kansas City Power & Light Company).
- Missouri Public Service Commission, Case No. ER-2006-0314, January 27, 2006 (Kansas City Power & Light Company).
- California Public Utilities Commission, Docket No. 05-11-022, November 29, 2005 (PacifiCorp).
- Texas Public Utility Commission, Docket No. 31994, November 5, 2005 (Texas-New Mexico Power Company).
- New Hampshire Public Utilities Commission, Docket No. DE 05-178, November 4, 2005 (Unitil Energy Systems).
- Wyoming Public Service Commission, Docket No. 20000-ER-05-230, October 14, 2005 (PacifiCorp).

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- Minnesota Public Utilities Commission, Docket. No. G-008/GR-05-1380, October 2005 (CenterPoint Energy Minnegasco).
- Texas Railroad Commission, Gas Utilities Division No. 9625, September 2005 (CenterPoint Energy Entex).
- Illinois Commerce Commission, Docket No. 05-0597, August 31, 2005 (Commonwealth Edison Company).
- Washington Utilities and Transportation Commission, Docket ,UE-050684/General Rate Case, May 2005 (PacifiCorp).
- Missouri Public Service Commission, Case No. ER-2005-0436, May 2005 (Aquila, Inc.).
- Idaho Public Utilities Commission, Case No. PAC-E-05-1, January 14, 2005 (PacifiCorp).
- Arkansas Public Service Commission, Docket No. 04-121-U, December 3, 2004 (CenterPoint Energy Arkla).
- Oregon Public Utility Commission, Case No. UE-170, November 12, 2004 (PacifiCorp).
- Texas Public Utility Commission, Docket No. 29206, November 8, 2004 (Texas-New Mexico Power Company).
- Texas Railroad Commission, Gas Utilities Division Nos. 9533 and 9534, October 13, 2004 (CenterPoint Energy Entex).
- Texas Public Utility Commission, Docket No. 29526, August 18 and September 2, 2004 (CenterPoint Energy Houston Electric).
- Utah Public Service Commission, Docket No. 04-2035-, August 4, 2004 (PacifiCorp).
- Oklahoma Corporation Commission, Cause No. PUD-200400187, July 2, 2004, (CenterPoint Energy Arkla).
- Minnesota Public Utilities Commission, Docket No. G-008/GR-04-901, July 2004, (CenterPoint Energy Minnegasco).
- Washington Utilities and Transportation Commission, Docket ,UE-032065/General Rate Case, December 2003 (PacifiCorp).
- Washington Utilities and Transportation Commission, Docket ,UG-031885, November 2003 (Northwest Natural Gas Company.).
- Wyoming Public Service Commission, Docket No. 20000-ER-03-198, May 2003 (PacifiCorp).
- Public Service Commission of Utah, Docket No. 03-2035-02, May 2003 (PacifiCorp).
- Public Utility Commission of Oregon, Case. UE-147, March 2003 (PacifiCorp).
- Wyoming Public Service Commission, Docket No. 20000-ER-00-162, May 2002 (PacifiCorp).
- Public Utility Commission of Oregon, UG-152, November 2002 (Northwest Natural).
- Massachusetts Department of Telecommunications and Energy, D.T.E. 02-24/24, May 2002 (Fitchburg Gas and Electric Light Company).
- New Hampshire Public Utilities Commission, Docket No. DE 01-247, January 2002 (Unitil Corporation).
- Washington Utilities and Transportation Commission, Docket UE-011569,70,UG-011571, November 2001 (Puget Sound Energy, Inc.).
- California Public Utilities Commission, Docket No. 01-03-026, September and December 2001 (PacifiCorp).
- New Mexico Public Regulation Commission, Docket No. 3643, July 2001 (Texas-New Mexico Power Company).
- Texas Natural Resources Conservation Commission, Docket No. 2001-1074/5-URC, May 2001 (AquaSource Utility, Inc.).
- Massachusetts Department of Telecommunications and Energy, Docket No. 99-118, May 2001 (Fitchburg Gas and Electric Light Company).

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- Public Service Commission of Utah, Docket No. 01-035-01, January 2001 (PacifiCorp)
- Federal Energy Regulatory Commission, Docket No. ER-01-651, January 2001 (Southwestern Electric Power Company).
- Wyoming Public Service Commission, Docket No. 20000-ER-00-162, December 2000 (PacifiCorp).
- Public Utility Commission of Oregon, Case. UE-116, November 2000, (PacifiCorp)
- Public Utility Commission of Texas, Docket No. 22344, September 2000, (AEP Texas Companies, Entergy Gulf States, Inc., Reliant Energy HL&P, Texas-New Mexico Power Company, TXU Electric Company)
- Public Utility Commission of Oregon, Case UE-111, August 2000, (PacifiCorp)
- Texas Public Utility Commission, Docket Nos. 22352,3,4, March 2000 (Central Power and Light Co., Southwestern Electric Power Co., West Texas Utilities Co.).
- Texas Public Utility Commission, Docket No. 22355, March 2000 (Reliant Energy, Inc.).
- Texas Public Utility Commission, Docket No. 22349, March 2000 (Texas-New Mexico Power Co.).
- Texas Public Utility Commission, Docket No. 22350, March 2000 (TXU Electric).
- Washington Utilities and Transportation Commission, Docket UE-991831, November 1999 (PacifiCorp).
- Public Service Commission of Utah, Docket No. 99-035-10, September 1999 (PacifiCorp)
- Louisiana Public Service Commission Docket No. U-23029, August 1999 (Southwestern Electric Power Company)
- Wyoming Public Service Commission, Docket No. 2000-ER-99-145, July 1999, January 2000 (PacifiCorp, dba Pacific Power and Light Company).
- Texas PUC Docket No. 20150, March 1999 (Entergy Gulf States, Inc.)
- Federal Energy Regulatory Commission Docket No. ER-98-3177-00, May and December 1998 (Southwestern Electric Power Company).
- Public Service Commission of Utah, Docket No. 97-035-01, June 1998 (PacifiCorp, dba Utah Power and Light Company).
- Massachusetts Dept. of Telecommunications and Energy, Docket No. DTE 98-51, May 1998, (Fitchburg Gas and Electric Light Company, a subsidiary of Unitol Corp.)
- Texas PUC, Docket No. 18490, March 1998, (Texas Utilities Electric Company)
- Texas PUC Docket No. 17751, March 1998 and July 1997 (Texas-New Mexico Power Company).
- Federal Energy Regulatory Commission Docket No. RP-97, February 1998 and May 1997 (Koch Gateway Pipeline Company).
- Federal Energy Regulatory Commission Docket No. ER-97-4468-000, December 1997 (Puget Sound Power & Light).
- Oklahoma Corporation Commission, Cause No. PUD 960000214, August 1997 (Public Service Company of Oklahoma).
- Oregon Public Utility Commission Docket No. UE-94, April 1996, (PacifiCorp).
- Texas PUC Docket No. 15643, May and September 1996, (Central Power and Light and West Texas Utilities Company).
- Federal Energy Regulatory Commission Docket No. ER-96, April 1996 (Puget Sound Power & Light).
- Federal Energy Regulatory Commission Docket No. ER96, February 1996, (Central and South West Corporation).
- Washington Utilities & Transportation Commission Docket No. UE-951270, November 1995 (Puget Sound Power & Light).
- Texas PUC Docket No. 14965, November 1995, (Central Power and Light).
- Texas PUC Docket No. 13369, February 1995 (West Texas Utilities).

- Texas PUC Docket No. 12065, July and December 1994, (Houston Lighting & Power).
- Texas PUC, Docket No. 12820, July and November 1994, (Central Power and Light).
- Texas PUC Docket No. 12900, March 1994, and New Mexico PUC Case No. 2531, August 1993, (TNP Enterprises).
- Texas PUC, Docket No. 12815, March 1994, (Pedernales Electric Cooperative).
- Florida Public Service Commission, Docket No. 930987-EI, December 1993, (TECO Energy).
- Iowa Department of Commerce, Docket No. RPU-93-9, December 1993, (US West Communications).
- Texas PUC Dkt. No. 11735, May and September 1993, (Texas Utilities Electric Company)
- Oklahoma Corporation Commission, Cause No. PUD 001342, October 1992 (Public Service Company of Oklahoma).
- Texas PUC Dkt. No. 9983, November 1991, (Southwest Texas Telephone Company).
- Texas PUC Dkt. No. 9850, November 1990, Houston Lighting & Power Company).
- Texas PUC Dkt. Nos. 8480/8482, January 1989; City of Austin Dkt. No. 1, August 1988 and July 1987, (City of Austin Electric Department).
- Missouri Public Service Commission Case No. ER-90-101, July 1990 (UtiliCorp).
- Texas PUC Dkt. No. 9945, December 1990; Texas PUC Dkt. No. 9165, November 1989, (El Paso Electric Company).
- Texas PUC Dkt. No. 9427, July 1990, (Lower Colorado River Authority Association of Wholesale Customers).
- Oregon Public Utility Commission, March 1990, (Pacific Power & Light Company).
- Utah Public Service Commission, November 1989, (Utah Power & Light Company).
- Texas PUC Dkt. No. 5610, September 1988, (GTE Southwest).
- Iowa State Utilities Board, September 1988, (Northwestern Bell Telephone Company).
- Texas Water Commission, Dkt. Nos. RC-022 and RC-023, November 1986, (City of Houston Water Department).
- Pennsylvania PUC Dkt. Nos. R-842770 and R-842771, May 1985, (Bethlehem Steel).

Capital Structure Testimony:

- Federal Energy Regulatory Commission Docket No. RP-97, May 1997 (Koch Gateway Pipeline Company).
- Illinois Commerce Commission Dkt. No. 93-0252 Remand, July 1996, (Sprint).
- California PUC (Appl. No. 92-05-004) April 1993 and May 1993, (Pacific Telesis).
- Montana PSC, Dkt. No. 90.12.86, November 1991, (US West Communications).
- Massachusetts PUC Dkt. No. 86-33, June 1987, (New England Telephone Company).
- Maine PUC Dkt. No. 85-159, February 1987, (New England Telephone Company).
- New Hampshire PUC Dkt. No. 85-181, September 1986, (New England Telephone Company).
- Maine PUC Dkt. No. 83-213, March 1984, (New England Telephone Company).

Regulatory Policy and Other Regulatory Issues:

- Texas PUC Docket No.31056, September 16, 2005, (AEP Texas Central Company).
- New Hampshire PUC Docket No. DE 03-086, May 2003, (Unitil Corporation).
- Texas PUC Docket No. 26194, May 2003 (El Paso Electric Company)
- Texas PUC Docket No. 22622, June 15, 2001 (TXU Electric)
- Texas PUC Docket No. 20125, November 1999 (Entergy Gulf States, Inc.)

- Texas PUC Docket No. 21112, July 1999 and New Mexico Public Regulation Commission Case No. 3103, July 1999 (Texas-New Mexico Power Company)
- Texas PUC Docket No. 20292, May 1999 (Central Power and Light Co.)
- Texas PUC Docket No. 20150, November 1998 (Entergy Gulf States, Inc.)
- New Mexico PUC Case No. 2769, May 1997, (Texas-New Mexico Power Company).
- Texas PUC Dkt. No. 15296, September 1996, (City of College Station, Texas).
- Texas PUC Dkt. No. 14965 Competitive Issues Phase, August 1996 (Central Power and Light Company).
- Texas PUC Dkt. No. 12456, May 1994, (Texas Utilities Electric Company).
- Texas PUC, Dkt. No. 12700/12701 and Federal Energy Regulatory Commission, Docket No. EC94-000, January 1994, (El Paso Electric Company).
- Florida Public Service Commission Generic Purchased Power Proceedings, October 1993 (TECO Energy).
- Texas PUC, Docket No. 11248, December 1992 (Barbara Faskins).
- Texas PUC Dkt. No. 10894, January and June 1992, (Gulf States Utilities Company).
- State Corporation Commission of Kansas, Dkt. No. 175,456-U, August 1991, (UtiliCorp United).
- Texas PUC Dkt. No. 9561, May 1990; Texas PUC Dkt. Nos. 6668/8646, July 1989 and February 1990, (Central Power and Light Company).
- Texas PUC Dkt. No. 9300, April 1990 and June 1990, (Texas Utilities Electric Co.).
- Texas PUC Dkt. No. 10200, August 1991, (Texas-New Mexico Power Company).
- Texas PUC Dkt. No. 7289, May 1987, (West Texas Utilities Company).
- Texas PUC Dkt. No. 7195, January 1987, (North Star Steel Texas).
- New Mexico PSC Case No. 1916, April 1986, (Public Service Company of New Mexico).
- Texas PUC Dkt. No. 6525, March 1986, (North Star Steel Texas).
- Texas PUC Dkt. No. 6375, November 1985, (Valley Industrial Council).
- Texas PUC Dkt. No. 6220, April 1985, (North Star Steel Texas).
- Texas PUC Dkt. No. 5940, March 1985, (West Texas Municipal Power Agency).
- Texas PUC Dkt. No. 5820, October 1984, (North Star Steel Texas).
- Texas PUC Dkt. No. 5779, September 1984, (Texas Industrial Energy Consumers).
- Texas PUC Dkt. No. 5560, April 1984, (North Star Steel Texas).
- Arizona PSC Dkt. No. U-1345-83-155, January 1984 and May 1984 (Arizona Public Service Company Shareholders Association).

Insurance Rate Testimony:

- Texas Department of Insurance, Docket No. 2601, December 2006, (Texas Land Title Association).
- Texas Department of Insurance, Docket No. 2394, November 1999, (Texas Title Insurance Agents).
- Senate Interim Committee on Title Insurance of the Texas Legislature, February 6, 1998
- Texas Department of Insurance, Docket No. 2279, October 1997, (Texas Title Insurance Agents).
- Texas Department of Insurance, January 1996, (Independent Metropolitan Title Insurance Agents of Texas).
- Texas Insurance Board, January 1992, (Texas Land Title Association).
- Texas Insurance Board, December 1990, (Texas Land Title Association).
- Texas Insurance Board, November 1989, (Texas Land Title Association).
- Texas Insurance Board, December 1987, (Texas Land Title Association).

Testimony On Behalf Of Texas PUC Staff:

- Texland Electric Cooperative, Dkt. No. 3896, February 1983
- El Paso Electric Company, Dkt. No. 4620, September 1982.
- Southwestern Bell Telephone Company, Dkt. No. 4545, August 1982.
- Central Power and Light Company, Dkt. No. 4400, May 1982.
- Texas-New Mexico Power Company, Dkt. 4240, March 1982.
- Texas Power and Light Company, Dkt. No. 3780, May 1981.
- General Telephone Company of the Southwest, Dkt. No. 3690, April 1981.
- Mid-South Electric Cooperative, Dkt. No. 3656, March 1981.
- West Texas Utilities Company, Dkt. No. 3473, December 1980.
- Houston Lighting & Power Company, Dkt. No. 3320, September 1980.

ECONOMIC ANALYSIS AND TESTIMONY**Antitrust Litigation:**

- Marginal Cost Analysis of Concrete Production/Predatory Pricing (Stiles)
- Analysis of Lost Business Opportunity due to denial of Waste Disposal Site Permit (Browning-Ferris Industries, Inc.).
- Analysis of Electric Power Transmission Costs in Purchased Power Dispute (City of College Station, Texas).

Contract Litigation:

- Analysis of Cogeneration Contract/Economic Viability Issues(Texas-New Mexico Power Company)
- Definition of Electric Sales/Franchise Fee Contract Dispute (Reliant Energy HL&P)
- Analysis of Purchased Power Agreement/Breach of Contract (Texas-New Mexico Power Company)
- Regulatory Commission Provisions in Franchise Fee Ordinance Dispute (Central Power & Light Company)
- Analysis of Economic Damages resulting from attempted Acquisition of Highway Construction Company (Dillingham Construction Corporation).
- Analysis of Economic Damages due to Contract Interference in Acquisition of Electric Utility Cooperative (PacifiCorp).
- Analysis of Economic Damages due to Patent Infringement of Boiler Cleaning Process (Dowell-Schlumberger/The Dow Chemical Company).

Lender Liability/Securities Litigation:

- ERISA Valuation of Retail Drug Store Chain (Sommers Drug Stores Company).
- Analysis of Lost Business Opportunities in Failed Businesses where Lenders Refused to Extend or Foreclosed Loans (FirstCity Bank Texas, McAllen State Bank, General Electric Credit Corporation).
- Usury and Punitive Damages Analysis based on Property Valuation in Failed Real Estate Venture (Tomen America, Inc.).

Personal Injury/Wrongful Death/Lost Earnings Capacity Litigation:

- Analysis of Lost Earnings Capacity and Punitive Damages due to Industrial Accident (Worsham, Forsythe and Wooldridge).

- Analysis of Lost Earnings Capacity due to Improper Termination (Lloyd Gosselink, Ryan & Fowler).
- Present Value Analysis of Lost Earnings and Future Medical Costs due to Medical Malpractice (Sierra Medical Center).

Product Warranty/Liability Litigation:

- Analysis of Lost Profits due to Equipment Failure in Cogeneration Facility (WF Energy/Travelers Insurance Company).
- Analysis of Economic Damages due to Grain Elevator Explosion (Degesch Chemical Company).
- Analysis of Economic Damages due to failure of Plastic Pipe Water Lines (Western Plastics, Inc.)
- Analysis of Rail Car Repair and Maintenance Costs in Product Warranty Dispute (Youngstown Steel Door Company).

Property Tax Litigation:

- Evaluation of Electric Utility Distribution System (Jasper-Newton Electric Cooperative).
- Evaluations of Electric Utility Generating Plants (West Texas Utilities Company).

Various Valuations of Closely Held Businesses in Domestic Affairs Proceedings and for Federal Estate Tax Planning Purposes.

PROFESSIONAL PRESENTATIONS

"Fundamentals of Financial Management and Reporting for Non-Financial Managers," Austin Energy, July 2000.

"Fundamentals of Finance and Accounting," the IC² Institute, University of Texas at Austin, December 1996 and 1997.

"Fundamentals of Financial Analysis and Project Evaluation," Central and South West Companies, April, May, and June 1997.

"Fundamentals of Financial Management and Valuation," West Texas Utilities Company, November 1995.

"Financial Modeling: Testing the Reasonableness of Regulatory Results," University of Texas Center for Legal and Regulatory Studies Conference, June 1991.

"Estimating the Cost of Equity Capital," University of Texas at Austin Utilities Conference, June 1989, June 1990.

"Regulation: The Bottom Line," Texas Society of Certified Public Accountants, Annual Utilities Conference, Austin, Texas, April 1990.

"Alternative Treatments of Large Plant Additions -- Modeling the Alternatives," University of Texas at Dallas Public Utilities Conference, July 1989.

"Industrial Customer Electrical Requirements," Edison Electric Institute Financial Conference, Scottsdale, Arizona, October 1988.

"Acquisitions and Consolidations in the Electric Power Industry," Conference on Emerging Issues of Competition in the Electric Utility Industry, University of Texas at Austin, May 1988.

"The General Fund Transfer - Is It A Tax? Is It A Dividend Payout? Is It Fair?" The Texas Public Power Association Annual Meeting, Austin, May 1984.

"Avoiding 'Rate Shock' - Preoperational Phase-In Through CWIP in Rate Base," Edison Electric Institute, Finance Committee Annual Meeting, May 1983.

"A Cost-Benefit Analysis of Alternative Bond Ratings Among Electric Utility Companies in Texas," (with B.L. Heidebrecht and J.L. Nash), Texas Senate Subcommittee on Consumer Affairs, December 1982.

"Texas PUC Rate of Return and Construction Work in Progress Methods," New York Society of Security Analysts, New York, August 1982.

"In Support of Debt Service Requirements as a Guide to Setting Rates of Return for Subsidiaries," Financial Forum, National Society of Rate of Return Analysts, Washington, D.C., May 1982.

PUBLICATIONS

"Institutional Constraints on Public Fund Performance," (with B.L. Hadaway) *Journal of Portfolio Management*, Winter 1989.

"Implications of Savings and Loan Conversions in a Deregulated World," (with B.L. Hadaway) *Journal of Bank Research*, Spring 1984.

"Regulatory Treatment of Construction Work in Progress," abstract, (with B.L. Heidebrecht and J. L. Nash), *Rate & Regulation Review*, Edison Electric Institute, December 20, 1982.

"Financial Integrity and Market-to-Book Ratios in an Efficient Market," (with W. L. Beedles), *Gas Pricing & Ratemaking*, December 7, 1982.

"An Analysis of the Performance Characteristics of Converted Savings and Loan Associations," (with B.L. Hadaway) *Journal of Financial Research*, Fall 1981.

"Inflation Protection from Multi-Asset Sector Investments: A Long-Run Examination of Correlation Relationships with Inflation Rates," (with B.L. Hadaway), *Review of Business and Economic Research*, Spring 1981.

"Converting to a Stock Company-Association Characteristics Before and After Conversion," (with B.L. Hadaway), *Federal Home Loan Bank Board Journal*, October 1980.

"A Large-Sample Comparative Test for Seasonality in Individual Common Stocks," (with D.P. Rochester), *Journal of Economics and Business*, Fall 1980.

"Diversification Possibilities in Agricultural Land Investments," *Appraisal Journal*, October 1978.

"Further Evidence on Seasonality in Common Stocks," (with D.P. Rochester), *Journal of Financial and Quantitative Analysis*, March 1978.

**Commonwealth Edison Co.
Comparable Company Fundamental Characteristics**

No.	Company	(1)	(2)		(3)	(4)		(5)		
		% Regulated Revenue	Credit Rating		S&P Business Profile	Value Line Data		Capital Structure (2006)		
			S&P	Moody's		Beta	10-12 Earned ROE	Common Equity Ratio	Long-Term Debt Ratio	Preferred Stock Ratio
1	ALLETE	83.3%	A-	Baa1	6	0.90	12.0%	64.9%	35.1%	0.0%
2	Alliant Energy Co.	91.6%	A-	A2	5	0.95	10.5%	62.9%	31.4%	5.7%
3	Ameren	100.0%	BBB-	Baa2	7	0.75	9.0%	54.6%	43.8%	1.0%
4	American Elec. Pwr.	94.9%	BBB	Baa1	5	1.35	12.5%	43.0%	56.7%	0.3%
5	Cent. Vermont P.S.	100.0%	BBB	NR	5	0.85	7.5%	57.3%	39.2%	3.5%
6	Cleco Corporation	96.3%	BBB+	Baa1	6	1.30	9.5%	57.8%	40.9%	1.5%
7	Con. Edison	78.1%	A	A1	2	0.70	9.0%	48.5%	50.2%	1.3%
8	DTE Energy Co.	73.0%	BBB+	A3	6	0.75	9.0%	43.9%	56.1%	0.0%
9	Empire District	99.1%	BBB+	Baa1	6	0.85	11.0%	50.3%	49.7%	0.0%
10	Energy East Corp.	90.2%	BBB+	A3	3	0.85	9.0%	43.3%	56.3%	0.4%
11	FirstEnergy	87.0%	BBB	Baa2	7	0.90	13.5%	51.4%	48.6%	0.0%
12	Hawaiian Electric	83.5%	BBB	Baa2	5	0.75	11.0%	48.6%	49.9%	1.5%
13	MGE Energy, Inc.	99.3%	AA	Aa2	4	0.80	10.5%	61.3%	38.7%	0.0%
14	N.W. Nat'l Gas	96.2%	AA-	A2	1	0.80	11.5%	53.7%	46.3%	0.0%
15	NICOR, Inc.	82.8%	AA	A1	3	1.05	13.0%	63.7%	36.3%	0.0%
16	NiSource Inc.	73.3%	BBB	Baa2	4	0.95	7.5%	49.3%	50.7%	0.0%
17	NSTAR	95.9%	A+	A1	1	0.75	15.0%	39.7%	59.2%	1.1%
18	Piedmont Nat'l	100.0%	A	A3	2	0.80	12.5%	51.7%	48.3%	0.0%
19	PNM Resources	100.0%	BBB	Baa2	6	0.95	7.5%	48.8%	50.9%	0.3%
20	Pinnacle West	77.5%	BBB-	Baa2	6	1.00	8.0%	51.6%	48.4%	0.0%
21	Progress Energy	91.1%	BBB+	A2	5	0.95	9.5%	48.1%	51.3%	0.6%
22	Puget Energy, Inc.	99.7%	BBB	Baa2	4	0.85	9.0%	44.4%	55.5%	0.1%
23	Southern Co.	82.2%	A	A1	4	0.75	13.0%	46.2%	50.8%	3.0%
24	Teco Energy, Inc.	77.2%	BBB-	Baa2	5	1.10	11.0%	35.0%	65.0%	0.0%
25	UIL Holdings Co.	100.0%	NR	Baa2	n/a	0.90	10.5%	53.0%	47.0%	0.0%
26	Vectren Corp.	81.0%	A	A3	4	0.95	10.5%	49.3%	50.7%	0.0%
27	Xcel Energy Inc.	99.2%	BBB+	A3	5	0.90	10.0%	47.0%	52.1%	0.9%
Average		90.1%	A-/BBB+	A3/Baa1	4.5	0.90	10.5%	50.7%	48.5%	0.8%

Column Sources:

- (1) Most recent company 10-Ks.
- (2) AUS Utility Reports, September 2007.
- (3) "U.S. Integrated and Merchant Power Companies, Strongest to Weakest," Standard & Poor's, August 30, 2007 and www.standardandpoors.com.
- (4)-(5) Value Line Investment Survey, Electric Utility (East), Aug 31, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007; Natural Gas Utility, Sep 14, 2007.

**Commonwealth Edison Co.
Historical Capital Market Costs**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Prime Rate	8.4%	8.0%	9.2%	6.9%	4.7%	4.1%	4.3%	6.2%	8.0%	8.3%
Consumer Price Index	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.3%	2.6%
Long-Term Treasuries	5.6%	5.9%	5.9%	5.5%	5.4%	5.0%	5.1%	4.7%	5.0%	5.0%
Moody's Avg Utility Debt	7.0%	7.6%	8.1%	7.7%	7.5%	6.6%	6.2%	5.7%	6.1%	6.0%
Moody's Baa Utility Debt	7.3%	7.9%	8.4%	8.0%	8.0%	6.8%	6.4%	5.9%	6.3%	6.2%

*Data through June 2007.

SOURCES:

Prime Interest Rate - Federal Reserve Bank of St. Louis website
Consumer Price Index - Federal Reserve Bank of St. Louis website
Long-Term Treasuries - Federal Reserve Bank of St. Louis website
Moody's Average Utility Debt - Moody's (Mergent) Bond Record
Moody's Baa Utility Debt - Moody's (Mergent) Bond Record

Commonwealth Edison Co. Long-Term Interest Rate Trends

Month	Baa Utility Rates	Average Utility Rates	Long-Term Treasury Rates	10-Year Treasury Rates
Sep-05	5.83%	5.54%	4.51%	4.20%
Oct-05	6.08%	5.79%	4.74%	4.46%
Nov-05	6.19%	5.88%	4.83%	4.54%
Dec-05	6.14%	5.83%	4.73%	4.47%
Jan-06	6.06%	5.77%	4.65%	4.42%
Feb-06	6.11%	5.83%	4.73%	4.57%
Mar-06	6.26%	5.98%	4.91%	4.72%
Apr-06	6.54%	6.28%	5.22%	4.99%
May-06	6.59%	6.39%	5.35%	5.11%
Jun-06	6.61%	6.39%	5.29%	5.11%
Jul-06	6.61%	6.37%	5.25%	5.09%
Aug-06	6.43%	6.20%	5.08%	4.88%
Sep-06	6.26%	6.03%	4.93%	4.72%
Oct-06	6.24%	6.01%	4.94%	4.73%
Nov-06	6.04%	5.82%	4.78%	4.60%
Dec-06	6.05%	5.83%	4.78%	4.56%
Jan-07	6.16%	5.97%	4.95%	4.76%
Feb-07	6.10%	5.91%	4.93%	4.72%
Mar-07	6.10%	5.87%	4.81%	4.56%
Apr-07	6.24%	6.01%	4.95%	4.69%
May-07	6.24%	6.03%	4.98%	4.75%
Jun-07	6.55%	6.35%	5.29%	5.10%
Jul-07	6.49%	6.28%	5.19%	5.00%
Aug-07	6.51%	6.29%	5.00%	4.67%
Sep-07	6.45%	6.24%	4.84%	4.52%

Sources: Mergent Bond Record (Utility Rates);
 www.federalreserve.gov (Treasury Rates).

Economic Indicators

Seasonally Adjusted Annual Rates — Dollar Figures in Billions

	Annual % Change				E2008										
	2006	E2007	E2008	2006	E2007	E2008	1Q	P2Q	E3Q	E4Q	10	20	30	4Q	
Gross Domestic Product															
GDP (current dollars)	\$13,195.0	\$13,802.0	\$14,333.0	6.1	4.6	3.9	\$13,552.0	\$13,775.0	\$13,887.0	\$13,994.0	\$14,119.0	\$14,248.0	\$14,402.0	\$14,562.0	
Annual rate of increase (%)	6.1	4.6	3.9	-	-	-	4.9	6.7	3.3	3.1	3.6	3.7	4.4	4.5	
Annual rate of increase—real GDP (%)	2.9	2.0	2.0	-	-	-	0.6	4.0	2.3	1.8	1.5	1.7	2.5	2.8	
Annual rate of increase—GDP deflator (%)	3.2	2.6	1.8	-	-	-	4.2	2.7	1.0	1.3	2.1	2.0	1.9	1.7	
*Components of Real GDP															
Personal consumption expenditures	\$8,044.0	\$8,277.0	\$8,468.0	3.1	2.9	2.3	\$8,216.0	\$8,245.0	\$8,299.0	\$8,347.0	\$8,394.0	\$8,441.0	\$8,493.0	\$8,544.0	
% change	3.1	2.9	2.3	-	-	-	3.7	1.4	2.6	2.3	2.3	2.3	2.5	2.4	
Durable goods	1,180.5	1,233.0	1,244.1	3.8	4.5	0.9	1,223.2	1,228.4	1,240.0	1,240.4	1,236.6	1,237.7	1,249.0	1,253.2	
Non-durable goods	2,337.6	2,396.8	2,460.0	3.7	2.5	2.6	2,386.6	2,394.5	2,399.8	2,416.4	2,434.8	2,452.2	2,468.6	2,484.2	
Services	4,545.5	4,671.6	4,784.3	2.7	2.8	2.4	4,630.7	4,656.7	4,685.0	4,714.1	4,743.3	4,770.4	4,796.6	4,826.8	
Nonresidential fixed investment	1,306.8	1,355.8	1,400.6	6.6	3.8	3.3	1,321.7	1,356.9	1,366.7	1,378.1	1,386.3	1,393.7	1,403.5	1,418.9	
% change	6.6	3.8	3.3	-	-	-	2.1	11.1	2.9	3.4	2.4	2.2	2.8	4.5	
Producers durable equipment	1,050.6	1,061.6	1,102.5	5.9	1.0	3.9	1,045.3	1,056.2	1,066.0	1,078.7	1,089.9	1,095.1	1,104.2	1,121.0	
Residential fixed investment	560.0	466.8	380.3	(4.7)	(16.6)	(18.5)	497.1	481.9	459.9	428.4	396.9	378.8	373.3	372.4	
% change	(4.7)	(16.6)	(18.5)	-	-	-	(16.6)	(11.6)	(17.1)	(24.6)	(26.4)	(17.0)	(5.7)	(0.9)	
Net change in business inventories	40.3	7.0	14.2	-	-	-	0.1	5.4	10.3	12.3	14.7	11.8	12.5	17.7	
Gov't purchases of goods & services	1,981.4	2,018.1	2,060.4	1.8	1.9	2.1	1,994.7	2,014.7	2,024.6	2,038.5	2,050.7	2,058.2	2,063.6	2,069.3	
Federal	742.3	752.2	775.4	2.2	1.3	3.1	740.2	750.8	755.0	762.8	770.4	774.7	777.2	779.4	
State & local	1,239.0	1,265.7	1,285.1	1.6	2.2	1.5	1,254.2	1,263.7	1,269.4	1,275.6	1,280.4	1,283.6	1,286.5	1,290.0	
Net exports	(624.5)	(571.5)	(516.7)	-	-	-	(612.1)	(571.1)	(568.4)	(544.4)	(533.3)	(521.7)	(509.5)	(502.4)	
Exports	1,304.1	1,395.6	1,519.8	8.4	7.0	8.9	1,354.7	1,379.6	1,408.5	1,439.4	1,473.0	1,504.2	1,534.7	1,567.1	
Imports	1,928.6	1,967.0	2,036.5	5.9	2.0	3.5	1,966.8	1,950.7	1,966.9	1,983.8	2,006.2	2,025.9	2,044.2	2,069.5	
**Income & Profits															
Personal income	\$10,983.0	\$11,689.0	\$12,256.0	6.6	6.4	4.9	\$11,469.0	\$11,605.0	\$11,770.0	\$11,910.0	\$12,056.0	\$12,187.0	\$12,317.0	\$12,463.0	
Disposable personal income	9,629.0	10,199.0	10,701.0	5.9	5.9	4.9	10,015.0	10,122.0	10,268.0	10,390.0	10,511.0	10,641.0	10,760.0	10,893.0	
Savings rate (%)	0.4	0.9	1.5	-	-	-	1.0	0.5	0.9	1.2	1.3	1.5	1.5	1.7	
Corporate profits before taxes	1,805.8	1,845.9	1,822.7	14.3	2.2	(1.3)	1,815.8	1,935.8	1,836.1	1,795.9	1,807.6	1,805.9	1,828.3	1,849.2	
Corporate profits after taxes	1,351.9	1,383.2	1,374.3	13.9	2.3	(0.6)	1,363.3	1,443.9	1,375.6	1,350.0	1,361.0	1,362.1	1,379.3	1,394.8	
‡Earnings per share (S&P 500)	81.50	86.10	90.30	16.6	5.6	4.9	83.10	85.10	85.30	86.10	88.10	89.10	89.90	90.30	
†Prices & Interest Rates															
Consumer price index	3.2	2.6	1.9	-	-	-	3.8	6.0	1.6	0.5	2.0	1.9	1.7	1.7	
Treasury bills	4.7	4.6	4.2	-	-	-	5.0	4.8	4.6	4.2	4.2	4.2	4.2	4.3	
10-yr notes	4.8	4.8	5.2	-	-	-	4.7	4.9	4.8	4.8	5.0	5.1	5.3	5.4	
30-yr bonds	4.9	5.0	5.4	-	-	-	4.8	5.0	5.0	5.0	5.2	5.3	5.4	5.6	
New issue rate—corporate bonds	5.6	5.7	6.3	-	-	-	5.4	5.6	5.7	5.9	6.1	6.3	6.4	6.5	
New issue rate—corporate bonds	5.6	5.7	6.3	-	-	-	5.4	5.6	5.7	5.9	6.1	6.3	6.4	6.5	
Other Key Indicators															
Housing starts (1,000 units SAAR)	1,810.0	1,360.0	1,130.0	(12.6)	(25.2)	(16.6)	1,460.0	1,470.0	1,320.0	1,170.0	1,090.0	1,100.0	1,130.0	1,200.0	
Auto & truck sales (1,000,000 units)	16.5	16.1	16.1	(2.6)	(2.3)	(0.1)	16.4	16.0	15.8	16.2	16.1	16.1	16.1	16.1	
Unemployment rate (%)	4.6	4.6	5.0	-	-	-	4.5	4.5	4.7	4.8	4.9	5.0	5.0	5.0	
\$U.S. dollar	(1.5)	(4.7)	(5.8)	-	-	-	1.6	(11.9)	(9.5)	(7.6)	(8.4)	0.8	(0.9)	(3.3)	

Note: Annual changes are from prior year and quarterly changes are from prior quarter. Figures may not add to totals because of rounding. A—Advance data. P—Preliminary. E—Estimated. R—Revised. *1996 Chain-weighted dollars. **Current dollars. †Trailing 4 quarters. ‡Average for period. §Quarterly % changes at quarterly rates. This forecast prepared by Standard & Poor's.

Commonwealth Edison Co.
Comparison of Analysts' Growth Rates
2002 to 2007

No.	Company	Value Line Earnings				
		2002	2007			
1	ALLETE	10.5%	10.5%			
2	Alliant Energy Co.	6.0%	5.0%			
3	Ameren	3.0%	2.5%			
4	American Elec. Pwr.	8.0%	6.5%			
5	Cent. Vermont P.S.	12.0%	9.0%			
6	Cleco Corporation	6.5%	4.0%			
7	Con. Edison	2.5%	3.5%			
8	DTE Energy Co.	8.5%	4.0%			
9	Empire District	9.5%	11.0%			
10	Energy East Corp.	3.0%	2.5%			
11	FirstEnergy	NA	9.0%			
12	Hawaiian Electric	3.5%	1.5%			
13	MGE Energy, Inc.	NA	6.0%			
14	N.W. Nat'l Gas	7.5%	7.0%			
15	NICOR, Inc.	8.0%	4.5%			
16	NiSource Inc.	NA	2.5%			
17	NSTAR	4.5%	8.5%			
18	Piedmont Nat'l	6.5%	4.5%			
19	PNM Resources	2.5%	4.5%			
20	Pinnacle West	4.0%	1.5%			
21	Progress Energy	NA	3.5%			
22	Puget Energy, Inc.	2.0%	6.0%			
23	Southern Co.	7.0%	3.0%			
24	Teco Energy, Inc.	6.0%	4.5%			
25	UIL Holdings Co.	2.5%	5.5%			
26	Vectren Corp.	11.5%	4.0%			
27	Xcel Energy Inc.	5.5%	5.5%			
	Average	6.11%	5.19%	<table border="1"> <tr><td>% Points Decline</td></tr> <tr><td>0.92%</td></tr> </table>	% Points Decline	0.92%
% Points Decline						
0.92%						

No.	Company	Value Line "br"				
		2002	2007			
1	ALLETE	8.7%	6.2%			
2	Alliant Energy Co.	3.1%	4.5%			
3	Ameren	3.4%	2.2%			
4	American Elec. Pwr.	6.6%	5.7%			
5	Cent. Vermont P.S.	5.4%	3.4%			
6	Cleco Corporation	6.6%	3.0%			
7	Con. Edison	3.7%	2.6%			
8	DTE Energy Co.	6.8%	2.9%			
9	Empire District	3.0%	3.3%			
10	Energy East Corp.	6.0%	2.5%			
11	FirstEnergy	7.3%	7.1%			
12	Hawaiian Electric	3.0%	1.9%			
13	MGE Energy, Inc.	NA	5.8%			
14	N.W. Nat'l Gas	5.2%	5.1%			
15	NICOR, Inc.	10.4%	4.5%			
16	NiSource Inc.	5.8%	2.4%			
17	NSTAR	5.4%	6.3%			
18	Piedmont Nat'l	4.8%	4.0%			
19	PNM Resources	5.7%	3.6%			
20	Pinnacle West	5.6%	1.6%			
21	Progress Energy	6.9%	2.2%			
22	Puget Energy, Inc.	4.1%	3.6%			
23	Southern Co.	4.7%	3.3%			
24	Teco Energy, Inc.	5.6%	3.6%			
25	UIL Holdings Co.	3.6%	2.1%			
26	Vectren Corp.	6.5%	3.0%			
27	Xcel Energy Inc.	5.3%	3.8%			
	Average	5.50%	3.71%	<table border="1"> <tr><td>% Points Decline</td></tr> <tr><td>1.79%</td></tr> </table>	% Points Decline	1.79%
% Points Decline						
1.79%						

Data Sources:

Electric: Value Line Investment Survey, Electric Utility (East), Aug 31, 2007 & Mar 8, 2002;
(Central), Jun 29, 2007 & Apr 5, 2002; (West), Aug 10, 2007 & May 17, 2002.

Gas : Value Line Investment Survey, Natural Gas Utility, Sep 14, 2007 & Mar 22, 2002.

Commonwealth Edison Co. GDP Growth Rate Forecast

	Nominal GDP	% Change	GDP Price Deflator	% Change	CPI	% Change
1947	244.2		15.5		22.3	
1948	269.2	10.2%	16.4	5.6%	24.1	7.7%
1949	267.3	-0.7%	16.4	-0.2%	23.8	-1.0%
1950	293.8	9.9%	16.5	1.0%	24.1	1.1%
1951	339.3	15.5%	17.7	7.2%	26.0	7.9%
1952	358.4	5.6%	18.0	1.7%	26.6	2.3%
1953	379.4	5.9%	18.2	1.2%	26.8	0.8%
1954	380.4	0.3%	18.4	1.0%	26.9	0.3%
1955	414.8	9.0%	18.7	1.8%	26.8	-0.2%
1956	437.5	5.5%	19.4	3.5%	27.2	1.4%
1957	461.1	5.4%	20.0	3.3%	28.1	3.4%
1958	467.2	1.3%	20.5	2.3%	28.9	2.7%
1959	506.6	8.4%	20.8	1.2%	29.2	1.0%
1960	526.4	3.9%	21.0	1.4%	29.6	1.5%
1961	544.7	3.5%	21.3	1.1%	29.9	1.0%
1962	585.6	7.5%	21.6	1.4%	30.3	1.2%
1963	617.8	5.5%	21.8	1.1%	30.6	1.3%
1964	663.6	7.4%	22.1	1.5%	31.0	1.3%
1965	719.1	8.4%	22.5	1.8%	31.6	1.6%
1966	787.8	9.5%	23.2	2.8%	32.5	3.0%
1967	832.6	5.7%	23.9	3.1%	33.4	2.7%
1968	910.0	9.3%	24.9	4.3%	34.8	4.2%
1969	984.6	8.2%	26.1	5.0%	36.7	5.4%
1970	1038.5	5.5%	27.5	5.3%	38.8	5.9%
1971	1127.1	8.5%	28.9	5.0%	40.5	4.2%
1972	1238.3	9.9%	30.2	4.3%	41.8	3.3%
1973	1382.7	11.7%	31.8	5.6%	44.4	6.3%
1974	1500.0	8.5%	34.7	9.1%	49.3	11.0%
1975	1638.3	9.2%	38.0	9.4%	53.8	9.1%
1976	1825.3	11.4%	40.2	5.8%	56.9	5.8%
1977	2030.9	11.3%	42.7	6.3%	60.6	6.5%
1978	2294.7	13.0%	45.7	7.0%	65.2	7.6%
1979	2563.3	11.7%	49.5	8.3%	72.6	11.3%
1980	2789.5	8.8%	54.0	9.1%	82.4	13.5%
1981	3128.4	12.1%	59.1	9.4%	90.9	10.4%
1982	3255.0	4.0%	62.7	6.1%	96.5	6.2%
1983	3536.7	8.7%	65.2	3.9%	99.6	3.2%
1984	3933.2	11.2%	67.6	3.8%	103.9	4.4%
1985	4220.3	7.3%	69.7	3.0%	107.6	3.5%
1986	4462.8	5.7%	71.2	2.2%	109.7	1.9%
1987	4739.5	6.2%	73.2	2.7%	113.6	3.6%
1988	5103.8	7.7%	75.7	3.4%	118.3	4.1%
1989	5484.4	7.5%	78.6	3.8%	123.9	4.8%
1990	5803.1	5.8%	81.6	3.9%	130.7	5.4%
1991	5995.9	3.3%	84.4	3.5%	136.2	4.2%
1992	6337.8	5.7%	86.4	2.3%	140.3	3.0%
1993	6657.4	5.0%	88.4	2.3%	144.5	3.0%
1994	7072.2	6.2%	90.3	2.1%	148.2	2.6%
1995	7397.7	4.6%	92.1	2.0%	152.4	2.8%
1996	7816.8	5.7%	93.8	1.9%	156.9	2.9%
1997	8304.3	6.2%	95.4	1.7%	160.5	2.3%
1998	8747.0	5.3%	96.5	1.1%	163.0	1.5%
1999	9268.4	6.0%	97.9	1.4%	166.6	2.2%
2000	9817.0	5.9%	100.0	2.2%	172.2	3.4%
2001	10128.0	3.2%	102.4	2.4%	177.0	2.8%
2002	10469.6	3.4%	104.2	1.7%	179.9	1.6%
2003	10960.8	4.7%	106.4	2.1%	184.0	2.3%
2004	11712.5	6.9%	109.4	2.8%	188.9	2.7%
2005	12455.8	6.3%	112.7	3.0%	195.3	3.4%
2006	13246.6	6.3%	116.0	2.9%	201.6	3.2%
10-Year Average		5.4%		2.1%		2.5%
20-Year Average		5.6%		2.5%		3.1%
30-Year Average		6.9%		3.6%		4.3%
40-Year Average		7.3%		4.1%		4.7%
50-Year Average		7.1%		3.7%		4.1%
59-Year Average		7.0%		3.5%		3.8%
Average of Periods		6.6%		3.3%		3.8%

**Commonwealth Edison Co.
Discounted Cash Flow Analysis
Summary Of DCF Model Results**

Company	Constant Growth DCF Model Analysts' Growth Rates	Constant Growth DCF Model Long-Term GDP Growth	Low Near-Term Growth Two-Stage Growth DCF Model
1 ALLETE	9.0%	10.6%	10.6%
2 Alliant Energy Co.	9.0%	10.1%	9.7%
3 Ameren	11.9%	11.6%	10.8%
4 American Elec. Pwr.	9.1%	10.4%	10.6%
5 Cent. Vermont P.S.	12.5%	9.1%	8.6%
6 Cleco Corporation	16.3%	10.3%	10.6%
7 Con. Edison	8.6%	11.7%	11.0%
8 DTE Energy Co.	9.6%	11.1%	10.7%
9 Empire District	13.8%	12.2%	11.7%
10 Energy East Corp.	9.1%	11.5%	11.3%
11 FirstEnergy	11.1%	10.0%	9.8%
12 Hawaiian Electric	8.6%	12.0%	11.1%
13 MGE Energy, Inc.	NA	11.0%	10.4%
14 N.W. Nat'l Gas	8.5%	9.9%	9.9%
15 NICOR, Inc.	8.9%	11.0%	10.3%
16 NiSource Inc.	8.2%	11.1%	10.7%
17 NSTAR	10.8%	11.0%	11.0%
18 Piedmont Nat'l	8.8%	10.5%	10.2%
19 PNM Resources	13.8%	10.2%	9.9%
20 Pinnacle West	12.0%	12.1%	11.4%
21 Progress Energy	9.8%	11.9%	11.1%
22 Puget Energy, Inc.	9.5%	10.7%	10.7%
23 Southern Co.	9.5%	11.4%	11.0%
24 Teco Energy, Inc.	9.7%	11.4%	10.9%
25 UIL Holdings Co.	15.5%	12.1%	11.2%
26 Vectren Corp.	9.0%	11.5%	11.0%
27 Xcel Energy Inc.	9.7%	11.1%	10.9%
GROUP AVERAGE	10.5%	11.0%	10.6%
GROUP MEDIAN	9.6%	11.1%	10.7%

Sources: Value Line Investment Survey, Electric Utility (East), Aug 31, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007; Natural Gas Utility, Sep 14, 2007.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Commonwealth Edison Co.
Constant Growth DCF Model
Analysts' Growth Rates

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Company	Recent Price(P0)	Next Year's Div(D1)	Dividend Yield	Analysts' Estimated Growth				Average Growth (Cols 4-7)	ROE K=Div Yld+G (Cols 3+8)
				Thomson					
				Zacks	IBES	Reuters	SNL		
1 ALLETE	44.98	1.80	4.00%	5.00%	5.00%	5.00%	5.00%	5.00%	9.0%
2 Alliant Energy Co.	38.93	1.37	3.52%	6.00%	5.67%	5.67%	4.50%	5.46%	9.0%
3 Ameren	50.30	2.54	5.05%	7.00%	6.42%	7.92%	6.00%	6.84%	11.9%
4 American Elec. Pwr.	45.50	1.72	3.78%	4.70%	5.72%	5.04%	6.00%	5.37%	9.1%
5 Cent. Vermont P.S.	36.60	0.92	2.51%	NA	10.00%	10.00%	NA	10.00%	12.5%
6 Cleco Corporation	24.58	0.90	3.66%	12.00%	12.00%	12.00%	14.60%	12.65%	16.3%
7 Con. Edison	45.90	2.34	5.10%	3.50%	3.45%	3.95%	3.00%	3.48%	8.6%
8 DTE Energy Co.	49.03	2.20	4.49%	5.70%	5.75%	6.00%	3.00%	5.11%	9.6%
9 Empire District	22.73	1.28	5.63%	3.00%	NA	3.00%	18.50%	8.17%	13.8%
10 Energy East Corp.	25.47	1.26	4.95%	3.50%	5.00%	4.00%	4.00%	4.13%	9.1%
11 FirstEnergy	64.00	2.15	3.36%	7.60%	8.29%	8.00%	7.00%	7.72%	11.1%
12 Hawaiian Electric	23.01	1.24	5.39%	4.90%	2.38%	3.10%	2.50%	3.22%	8.6%
13 MGE Energy, Inc.	32.34	1.43	4.42%	NA	NA	NA	NA	NA	NA
14 N.W. Nat'l Gas	46.07	1.52	3.30%	5.30%	4.83%	5.50%	5.00%	5.16%	8.5%
15 NICOR, Inc.	42.08	1.86	4.42%	4.00%	2.00%	3.75%	8.30%	4.51%	8.9%
16 NiSource Inc.	20.28	0.92	4.54%	3.50%	3.62%	3.62%	4.00%	3.69%	8.2%
17 NSTAR	32.63	1.43	4.38%	6.30%	6.67%	5.75%	7.00%	6.43%	10.8%
18 Piedmont Nat'l	26.46	1.04	3.93%	5.30%	4.63%	4.58%	4.80%	4.83%	8.8%
19 PNM Resources	26.49	0.95	3.59%	8.80%	10.47%	9.80%	11.90%	10.24%	13.8%
20 Pinnacle West	40.52	2.21	5.45%	6.70%	5.73%	7.80%	6.00%	6.56%	12.0%
21 Progress Energy	46.45	2.46	5.30%	4.30%	4.21%	4.50%	5.00%	4.50%	9.8%
22 Puget Energy, Inc.	24.15	1.00	4.14%	5.50%	5.25%	5.20%	5.50%	5.36%	9.5%
23 Southern Co.	34.90	1.66	4.76%	4.40%	5.03%	4.69%	5.00%	4.78%	9.5%
24 Teco Energy, Inc.	16.62	0.80	4.81%	6.70%	3.00%	6.25%	3.50%	4.86%	9.7%
25 UIL Holdings Co.	31.33	1.73	5.52%	N/A	10.00%	12.00%	8.00%	10.00%	15.5%
26 Vectren Corp.	26.95	1.31	4.86%	4.30%	3.87%	4.33%	4.00%	4.13%	9.0%
27 Xcel Energy Inc.	20.91	0.95	4.54%	4.80%	5.67%	5.29%	5.00%	5.19%	9.7%
GROUP AVERAGE	34.78	1.52	4.42%	5.53%	5.79%	6.03%	6.28%	6.05%	10.5%
GROUP MEDIAN			4.49%						9.6%

Sources: Value Line Investment Survey, Electric Utility (East), Aug 31, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007; Natural Gas Utility, Sep 14, 2007.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Commonwealth Edison Co.
Constant Growth DCF Model
Long-Term GDP Growth

	(10)	(11)	(12)	(13)	(14)
Company	Next			GDP Growth	ROE K=Div Yld+G (Cols 12+13)
	Recent Price(P0)	Year's Div(D1)	Dividend Yield		
1 ALLETE	44.98	1.80	4.00%	6.60%	10.6%
2 Alliant Energy Co.	38.93	1.37	3.52%	6.60%	10.1%
3 Ameren	50.30	2.54	5.05%	6.60%	11.6%
4 American Elec. Pwr.	45.50	1.72	3.78%	6.60%	10.4%
5 Cent. Vermont P.S.	36.60	0.92	2.51%	6.60%	9.1%
6 Cleco Corporation	24.58	0.90	3.66%	6.60%	10.3%
7 Con. Edison	45.90	2.34	5.10%	6.60%	11.7%
8 DTE Energy Co.	49.03	2.20	4.49%	6.60%	11.1%
9 Empire District	22.73	1.28	5.63%	6.60%	12.2%
10 Energy East Corp.	25.47	1.26	4.95%	6.60%	11.5%
11 FirstEnergy	64.00	2.15	3.36%	6.60%	10.0%
12 Hawaiian Electric	23.01	1.24	5.39%	6.60%	12.0%
13 MGE Energy, Inc.	32.34	1.43	4.42%	6.60%	11.0%
14 N.W. Nat'l Gas	46.07	1.52	3.30%	6.60%	9.9%
15 NICOR, Inc.	42.08	1.86	4.42%	6.60%	11.0%
16 NiSource Inc.	20.28	0.92	4.54%	6.60%	11.1%
17 NSTAR	32.63	1.43	4.38%	6.60%	11.0%
18 Piedmont Nat'l	26.46	1.04	3.93%	6.60%	10.5%
19 PNM Resources	26.49	0.95	3.59%	6.60%	10.2%
20 Pinnacle West	40.52	2.21	5.45%	6.60%	12.1%
21 Progress Energy	46.45	2.46	5.30%	6.60%	11.9%
22 Puget Energy, Inc.	24.15	1.00	4.14%	6.60%	10.7%
23 Southern Co.	34.90	1.66	4.76%	6.60%	11.4%
24 Teco Energy, Inc.	16.62	0.80	4.81%	6.60%	11.4%
25 UIL Holdings Co.	31.33	1.73	5.52%	6.60%	12.1%
26 Vectren Corp.	26.95	1.31	4.86%	6.60%	11.5%
27 Xcel Energy Inc.	20.91	0.95	4.54%	6.60%	11.1%
GROUP AVERAGE	34.78	1.52	4.42%	6.60%	11.0%
GROUP MEDIAN			4.49%		11.1%

Sources: Value Line Investment Survey, Electric Utility (East), Aug 31, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007; Natural Gas Utility, Sep 14, 2007.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Commonwealth Edison Co.
Low Near-Term Growth
Two-Stage Growth DCF Model

	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
Company	Next	Annual	Change to 2011	CASH FLOWS							ROE=Internal Rate of Return (Yrs 0-150)
	Year's Div	2011 Div		Recent Price	Year 1 Div	Year 2 Div	Year 3 Div	Year 4 Div	Year 5 Div	Year 5-150 Div Growth	
1 ALLETE	1.80	2.20	0.13	-44.98	1.80	1.93	2.07	2.20	2.35	6.60%	10.6%
2 Alliant Energy Co.	1.37	1.49	0.04	-38.93	1.37	1.41	1.45	1.49	1.59	6.60%	9.7%
3 Ameren	2.54	2.54	0.00	-50.30	2.54	2.54	2.54	2.54	2.71	6.60%	10.8%
4 American Elec. Pwr.	1.72	2.20	0.16	-45.50	1.72	1.88	2.04	2.20	2.35	6.60%	10.6%
5 Cent. Vermont P.S.	0.92	0.92	0.00	-36.60	0.92	0.92	0.92	0.92	0.98	6.60%	8.6%
6 Cleco Corporation	0.90	1.20	0.10	-24.58	0.90	1.00	1.10	1.20	1.28	6.60%	10.6%
7 Con. Edison	2.34	2.40	0.02	-45.90	2.34	2.36	2.38	2.40	2.56	6.60%	11.0%
8 DTE Energy Co.	2.20	2.40	0.07	-49.03	2.20	2.27	2.33	2.40	2.56	6.60%	10.7%
9 Empire District	1.28	1.40	0.04	-22.73	1.28	1.32	1.36	1.40	1.49	6.60%	11.7%
10 Energy East Corp.	1.26	1.45	0.06	-25.47	1.26	1.32	1.39	1.45	1.55	6.60%	11.3%
11 FirstEnergy	2.15	2.50	0.12	-64.00	2.15	2.27	2.38	2.50	2.67	6.60%	9.8%
12 Hawaiian Electric	1.24	1.24	0.00	-23.01	1.24	1.24	1.24	1.24	1.32	6.60%	11.1%
13 MGE Energy, Inc.	1.43	1.47	0.01	-32.34	1.43	1.44	1.46	1.47	1.57	6.60%	10.4%
14 N.W. Nat'l Gas	1.52	1.86	0.11	-46.07	1.52	1.63	1.75	1.86	1.98	6.60%	9.9%
15 NICOR, Inc.	1.86	1.86	0.00	-42.08	1.86	1.86	1.86	1.86	1.98	6.60%	10.3%
16 NiSource Inc.	0.92	1.00	0.03	-20.28	0.92	0.95	0.97	1.00	1.07	6.60%	10.7%
17 NSTAR	1.43	1.75	0.11	-32.63	1.43	1.54	1.64	1.75	1.87	6.60%	11.0%
18 Piedmont Nat'l	1.04	1.16	0.04	-26.46	1.04	1.08	1.12	1.16	1.24	6.60%	10.2%
19 PNM Resources	0.95	1.07	0.04	-26.49	0.95	0.99	1.03	1.07	1.14	6.60%	9.9%
20 Pinnacle West	2.21	2.31	0.03	-40.52	2.21	2.24	2.28	2.31	2.46	6.60%	11.4%
21 Progress Energy	2.46	2.52	0.02	-46.45	2.46	2.48	2.50	2.52	2.69	6.60%	11.1%
22 Puget Energy, Inc.	1.00	1.20	0.07	-24.15	1.00	1.07	1.13	1.20	1.28	6.60%	10.7%
23 Southern Co.	1.66	1.85	0.06	-34.90	1.66	1.72	1.79	1.85	1.97	6.60%	11.0%
24 Teco Energy, Inc.	0.80	0.86	0.02	-16.62	0.80	0.82	0.84	0.86	0.92	6.60%	10.9%
25 UIL Holdings Co.	1.73	1.73	0.00	-31.33	1.73	1.73	1.73	1.73	1.84	6.60%	11.2%
26 Vectren Corp.	1.31	1.43	0.04	-26.95	1.31	1.35	1.39	1.43	1.52	6.60%	11.0%
27 Xcel Energy Inc.	0.95	1.10	0.05	-20.91	0.95	1.00	1.05	1.10	1.17	6.60%	10.9%
GROUP AVERAGE											10.6%
GROUP MEDIAN											10.7%

Sources: Value Line Investment Survey, Electric Utility (East), Aug 31, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007; Natural Gas Utility, Sep 14, 2007.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

**Commonwealth Edison Co.
Discounted Cash Flow Analysis
Column Descriptions**

Column 1: Three-month Average Price per Share (Jun-Aug 2007) for Electric Companies; Value Line "Recent Price" for LDCs

Column 2: Estimated 2008 Dividends per Share from Value Line

Column 3: Column 2 Divided by Column 1

Column 4: "Next 5 Years" Company Growth Estimate as Reported by Zacks.com

Column 5: Thomson First Call/IBES 5-yr Earnings Growth Rate Forecast

Column 6: Mean Estimate of "LT Growth Rate (%)" Reported by Reuters.com

Column 7: Median Long-Term Growth Rates Reported by SNL

Column 8: Average of Columns 4-7

Column 9: Column 3 Plus Column 8

Column 10: See Column 1

Column 11: See Column 2

Column 12: Column 11 Divided by Column 10

Column 13: Average of GDP Growth During the Last 10 year, 20 year, 30 year, 40 year, 50 year, and 59 year growth periods. See Exhibit 8.4.

Column 14: Column 12 Plus Column 13

Column 15: See Column 2

Column 16: Estimated 2011 Dividends per Share from Value Line

Column 17: (Column 16 Minus Column 15) Divided by Three

Column 18: See Column 1

Column 19: See Column 15

Column 20: Column 19 Plus Column 17

Column 21: Column 20 Plus Column 17

Column 22: Column 21 Plus Column 17

Column 23: Column 22 Increased by the Growth Rate Shown in Column 24

Column 24: See Column 13

Column 25: The Internal Rate of Return of the Cash Flows in Columns 18-23 along with the Dividends for the Years 6-150 Implied by the Growth Rates shown in Column 24

Commonwealth Edison Co.
Quarterly Dividend DCF Model

No.	Company	Value Line					Dividend Yield	Analysts'		
		Stock Prices	Compounded Quarterly Dividends			"D ₁ "		Growth Rate	ROE	
1	ALLETE	47.19	0.438	0.429	0.461	0.452	1.781	3.77%	5.00%	8.8%
2	Alliant Energy Co.	39.59	0.341	0.334	0.353	0.345	1.372	3.47%	5.46%	8.9%
3	Ameren	49.97	0.711	0.690	0.671	0.652	2.724	5.45%	6.84%	12.3%
4	American Elec. Pwr.	45.57	0.433	0.424	0.440	0.431	1.729	3.79%	5.37%	9.2%
5	Cent. Vermont P.S.	36.48	0.252	0.245	0.238	0.231	0.966	2.65%	10.00%	12.6%
6	Cleco Corporation	25.55	0.256	0.246	0.237	0.228	0.967	3.79%	12.65%	16.4%
7	Con. Edison	46.78	0.628	0.615	0.607	0.595	2.445	5.23%	3.48%	8.7%
8	DTE Energy Co.	50.89	0.588	0.575	0.572	0.559	2.294	4.51%	5.11%	9.6%
9	Empire District	22.69	0.354	0.342	0.331	0.320	1.347	5.94%	8.17%	14.1%
10	Energy East Corp.	26.12	0.321	0.325	0.323	0.316	1.284	4.92%	4.13%	9.0%
11	FirstEnergy	62.45	0.556	0.574	0.566	0.551	2.248	3.60%	7.72%	11.3%
12	Hawaiian Electric	22.81	0.334	0.327	0.320	0.314	1.295	5.68%	3.22%	8.9%
13	MGE Energy, Inc.	32.92	0.390	0.380	0.371	0.361	1.502	4.56%	NA	NA
14	N.W. Nat'l Gas	46.07	0.401	0.392	0.390	0.382	1.564	3.40%	5.16%	8.6%
15	NICOR, Inc.	42.08	0.500	0.490	0.479	0.469	1.938	4.60%	4.51%	9.1%
16	NiSource Inc.	21.32	0.245	0.241	0.236	0.231	0.954	4.47%	3.69%	8.2%
17	NSTAR	33.21	0.354	0.398	0.370	0.360	1.481	4.46%	6.43%	10.9%
18	Piedmont Nat'l	26.46	0.270	0.264	0.269	0.263	1.065	4.03%	4.83%	8.9%
19	PNM Resources	25.83	0.261	0.252	0.252	0.244	1.010	3.91%	10.24%	14.2%
20	Pinnacle West	37.48	0.602	0.584	0.580	0.563	2.329	6.21%	6.56%	12.8%
21	Progress Energy	46.84	0.660	0.644	0.634	0.619	2.557	5.46%	4.50%	10.0%
22	Puget Energy, Inc.	23.15	0.274	0.267	0.261	0.255	1.057	4.57%	5.36%	9.9%
23	Southern Co.	36.25	0.442	0.432	0.433	0.424	1.731	4.78%	4.78%	9.6%
24	Teco Energy, Inc.	15.88	0.215	0.215	0.210	0.205	0.845	5.32%	4.86%	10.2%
25	UIL Holdings Co.	32.26	0.493	0.478	0.459	0.443	1.873	5.81%	10.00%	15.8%
26	Vectren Corp.	27.55	0.343	0.335	0.336	0.329	1.343	4.87%	4.13%	9.0%
27	Xcel Energy Inc.	20.30	0.248	0.246	0.244	0.238	0.976	4.81%	5.19%	10.0%
Average										10.6%
Median										9.8%

Sources: Company websites and Value Line Investment Survey: Electric Utility (East), Aug 31, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007; Natural Gas Utility, Sep 14, 2007.

Commonwealth Edison Co. Capital Asset Pricing Model Analysis

Panel 1: Long-Term CAPM Analysis

Risk-free Rate ¹	Value Line Beta ²		Long-Term Ibbotson Risk Premium ³	Cost of Common Equity
5.08%	+	0.90	x	5.75%
				= <u>10.26%</u>

Panel 2: Short-Term CAPM Analysis

Risk-free Rate ¹	Value Line Beta ²		Short-Term Ibbotson Risk Premium ³	Cost of Common Equity
4.54%	+	0.90	x	7.60%
				= <u>11.38%</u>

Summary of Results

Long-Term CAPM Result	10.26%
Short-Term CAPM Result	11.38%
Midpoint CAPM Result	<u>10.82%</u>

Notes:

¹ Federal Reserve Bank of St. Louis website Jun-Aug 2007 Average Rates; Long-Term rate is "30-Year Treasury Constant Maturity Rate;" Short-Term rate is "3-Month Treasury Bill: Secondary Market Rate."

² See ComEd Exhibit 10.1.

³ Ibbotson Associates 2007 Yearbook, page 31, average of Geometric and Arithmetic risk premiums; Long-Term risk premium is difference between "Large Company Stocks" and "Long-Term Government;" Short-Term risk premium is difference between "Large Company Stocks" and "U.S. Treasury Bills."

Commonwealth Edison Co.
Risk Premium Analysis (Electric)

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED ELECTRIC RETURNS (2)	INDICATED RISK PREMIUM
1980	13.15%	14.23%	1.08%
1981	15.62%	15.22%	-0.40%
1982	15.33%	15.78%	0.45%
1983	13.31%	15.36%	2.05%
1984	14.03%	15.32%	1.29%
1985	12.29%	15.20%	2.91%
1986	9.46%	13.93%	4.47%
1987	9.98%	12.99%	3.01%
1988	10.45%	12.79%	2.34%
1989	9.66%	12.97%	3.31%
1990	9.76%	12.70%	2.94%
1991	9.21%	12.55%	3.34%
1992	8.57%	12.09%	3.52%
1993	7.56%	11.41%	3.85%
1994	8.30%	11.34%	3.04%
1995	7.91%	11.55%	3.64%
1996	7.74%	11.39%	3.65%
1997	7.63%	11.40%	3.77%
1998	7.00%	11.66%	4.66%
1999	7.55%	10.77%	3.22%
2000	8.14%	11.43%	3.29%
2001	7.72%	11.09%	3.37%
2002	7.53%	11.16%	3.63%
2003	6.61%	10.97%	4.36%
2004	6.20%	10.75%	4.55%
2005	5.67%	10.54%	4.87%
2006	6.08%	10.36%	4.28%
AVERAGE	9.35%	12.48%	3.13%

INDICATED COST OF EQUITY

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.70%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.35%
INTEREST RATE DIFFERENCE	<u>-2.65%</u>

INTEREST RATE CHANGE COEFFICIENT	-42.18%
ADJUSTMENT TO AVG RISK PREMIUM	<u>1.12%</u>

BASIC RISK PREMIUM	3.13%
INTEREST RATE ADJUSTMENT	1.12%
EQUITY RISK PREMIUM	<u>4.25%</u>

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.70%
INDICATED EQUITY RETURN	<u>10.95%</u>

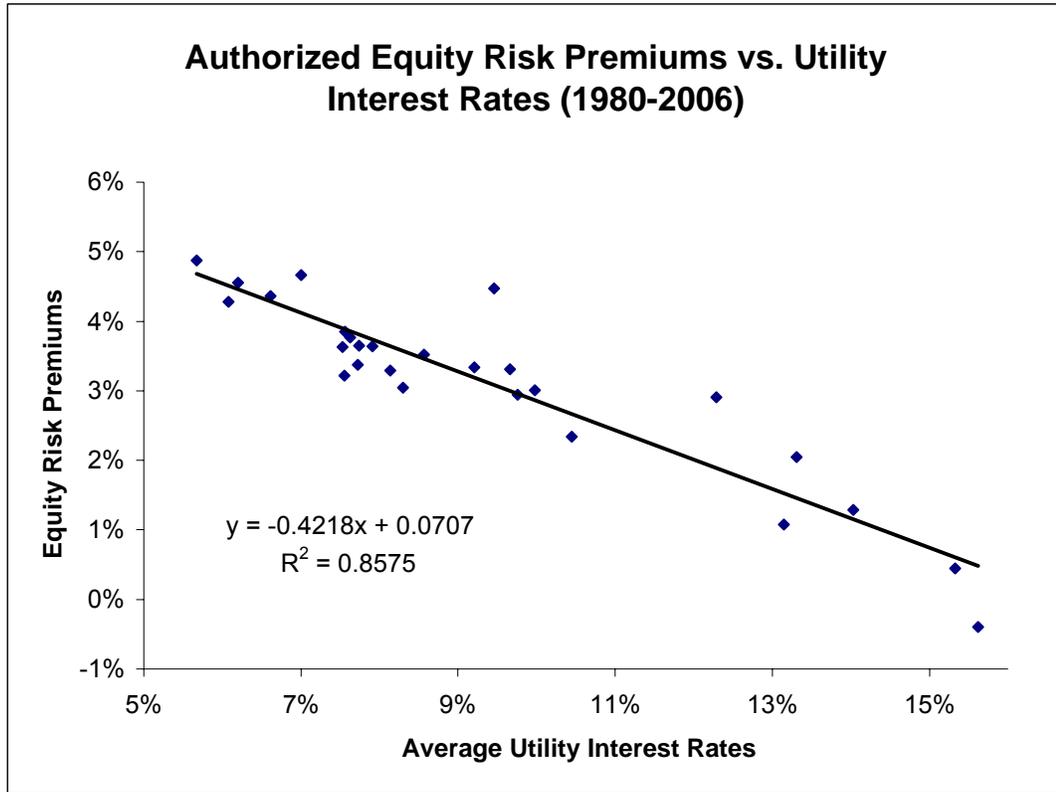
Sources:

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*The projected triple-B bond yield is equal to the projected 30-year Treasury bond rate (5.4 percent) from S&P's Trends & Projections (Exhibit 10.2, p. 3) plus 130 basis points. The average triple-B spread over Treasuries for 2006 was 133 basis points.

Commonwealth Edison Co.
Risk Premium Analysis (Electric)



Commonwealth Edison Co.
Risk Premium Analysis (LDC)

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED GAS COMPANY RETURNS (2)	INDICATED RISK PREMIUM
1980	13.15%	14.05%	0.90%
1981	15.62%	15.11%	-0.51%
1982	15.33%	15.62%	0.29%
1983	13.31%	15.25%	1.94%
1984	14.03%	15.31%	1.28%
1985	12.29%	14.75%	2.46%
1986	9.46%	13.46%	4.00%
1987	9.98%	12.74%	2.76%
1988	10.45%	12.85%	2.40%
1989	9.66%	12.88%	3.22%
1990	9.76%	12.67%	2.91%
1991	9.21%	12.46%	3.25%
1992	8.57%	12.01%	3.44%
1993	7.56%	11.35%	3.79%
1994	8.30%	11.35%	3.05%
1995	7.91%	11.43%	3.52%
1996	7.74%	11.19%	3.45%
1997	7.63%	11.29%	3.66%
1998	7.00%	11.51%	4.51%
1999	7.55%	10.66%	3.11%
2000	8.14%	11.39%	3.25%
2001	7.72%	10.95%	3.23%
2002	7.53%	11.03%	3.50%
2003	6.61%	10.99%	4.38%
2004	6.20%	10.59%	4.39%
2005	5.67%	10.46%	4.79%
2006	6.08%	10.44%	4.36%
AVERAGE	9.35%	12.36%	3.01%

INDICATED COST OF EQUITY

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.70%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.35%
INTEREST RATE DIFFERENCE	<u>-2.65%</u>

INTEREST RATE CHANGE COEFFICIENT	-43.11%
ADJUSTMENT TO AVG RISK PREMIUM	<u>1.14%</u>

BASIC RISK PREMIUM	3.01%
INTEREST RATE ADJUSTMENT	1.14%
EQUITY RISK PREMIUM	<u>4.15%</u>

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.70%
INDICATED EQUITY RETURN	<u><u>10.85%</u></u>

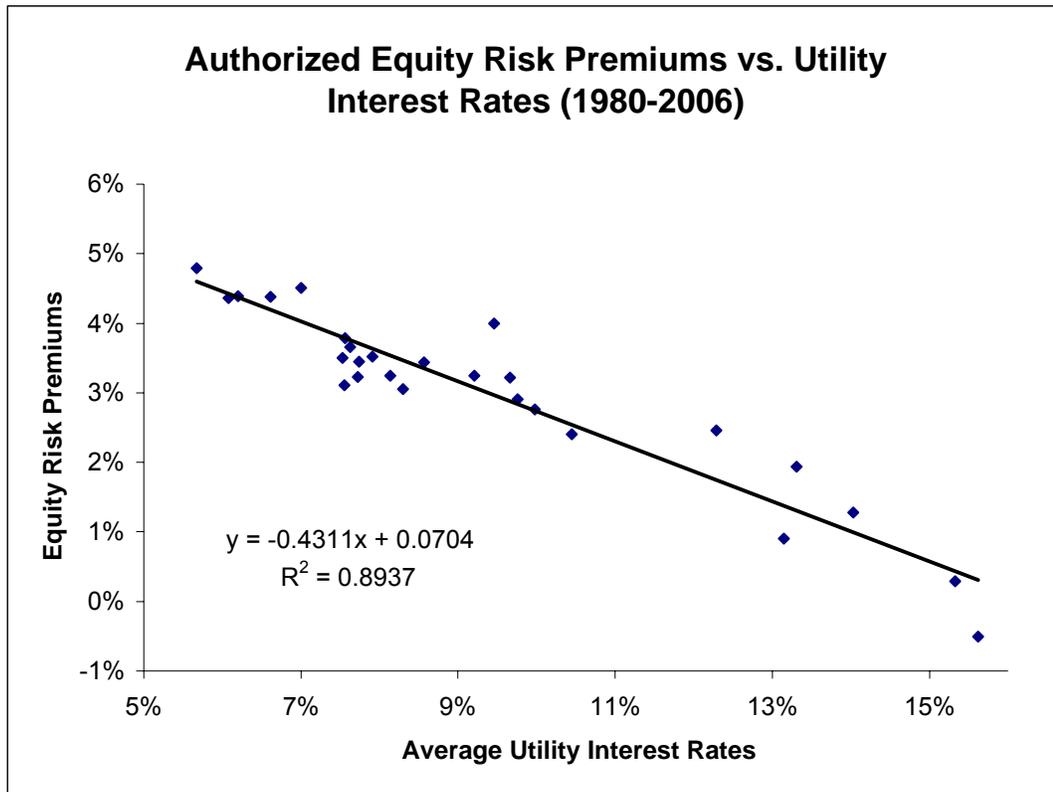
Sources:

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*The projected triple-B bond yield is equal to the projected 30-year Treasury bond rate (5.4 percent) from S&P's Trends & Projections (Exhibit 10.2, p. 3) plus 130 basis points. The average triple-B spread over Treasuries for 2006 was 133 basis points.

Commonwealth Edison Co.
Risk Premium Analysis (LDC)



STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY :
: :
Proposed general increase in electric rates : No. 07-0566
:

Rebuttal Testimony of
SAMUEL C. HADAWAY, PH.D.
Principal,
FINANCO, Inc.

On Behalf of
Commonwealth Edison Company

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1 **I. Introduction and Summary of Rebuttal Testimony**

2 Q. Please state your name and affiliation.

3 A. My name is Samuel C. Hadaway. I previously filed Direct Testimony on behalf
4 of Commonwealth Edison Company ("ComEd" or the "Company") in this
5 proceeding (ComEd Exhibits 10.0-10.9).

6 **A. Purpose of Testimony**

7 Q. What is the purpose of your rebuttal testimony?

8 A. The purpose of my testimony is to rebut the return on equity ("ROE")
9 recommendations of Illinois Commerce Commission Staff ("Staff") witness
10 Michael McNally, Illinois Industrial Energy Consumers ("IIEC") witness Michael
11 P. Gorman, and Citizens' Utility Board ("CUB") witness Christopher C. Thomas.
12 In my analysis, I will respond to their rate of return recommendations and
13 demonstrate that their recommendations are not consistent with current market
14 turmoil or the higher capital costs that corporate borrowers like ComEd are
15 currently required to pay. I will also respond to these witnesses' comments on the
16 methodology I used in my direct testimony to estimate ComEd's cost of equity
17 and I will update my ROE analysis for current market costs and conditions.
18 Finally, I will responded to the contention by IIEC and AG/CUB that a downward
19 adjustment to ComEd's return on equity is required if the Commission approves
20 Riders SMP and SEA. My rebuttal analysis continues to indicate that ComEd's
21 market-required ROE is 10.75 percent.

22 **B. Summary of Positions**

23 Q. What are the parties' ROE recommendations?

24 A. Staff witness McNally recommends an ROE of 10.3 percent. IIEC witness
25 Gorman recommends a base ROE of 10.2 percent with a reduction of 50 basis
26 points, to 9.7 percent, if Riders SMP and SEA are adopted. CUB witness Thomas
27 recommends an ROE of only 7.77 percent with a further recommendation that
28 investments made under Riders SMP and SEA should received a return of no
29 more than the Company's cost of debt at 6.74 percent. As I demonstrated in my
30 Direct Testimony and reconfirm here, ComEd's cost of equity capital is 10.75
31 percent.

32 **C. General Assessment of Other Parties' Recommendations**

33 Q. What are your general assessments of the other parties' rate of return positions?

34 A. The other parties rate of return recommendations are below ComEd's cost of
35 equity capital. Mr. McNally and Mr. Gorman offer base ROE recommendations
36 that are near the low end of the ROE range that I recommended in my Direct
37 Testimony. However, corporate capital costs have subsequently increased and
38 these recommendations do not reflect those increases. Additionally, their current
39 recommendations are not consistent with the analysis and testimony they
40 presented in ComEd's previous case (Docket No. 05-0597). I will show that had
41 they been consistent with their previous methodologies, their current ROE
42 estimates would have been significantly higher. I will also show that Mr.
43 Gorman's further recommendation to reduce ROE to only 9.7 percent for Riders
44 SMP and SEA is unsupported. Mr. Thomas' ROE recommendation is entirely
45 unreasonable. His criticism of the Commission's use of the capital asset pricing
46 model ("CAPM") is based largely on stale and unresolved academic research and

47 provides no new information that the Commission has not previously considered
48 and rejected.

49 Mr. McNally's and Mr. Gorman's ROEs would have been higher if they
50 had been consistent with their prior testimony. In the previous ComEd case, they
51 both relied on the constant growth DCF model and they obtained their DCF
52 growth rates exclusively from analysts' growth rate estimates. In the present case,
53 Mr. McNally entirely rejects his prior approach and Mr. Gorman attempts to
54 dilute his higher constant growth DCF results by now injecting a multi-stage DCF
55 model. I will show that had Mr. McNally applied the same DCF method he used
56 in the prior case, his ROE estimate would have been well above 11 percent. Mr.
57 Gorman's current constant growth DCF analysis, in fact, produces an ROE of 11.0
58 percent (IIEC Exhibit 2.6 and IIEC Exhibit 2.0 at 19). When these
59 inconsistencies are resolved, the Staff and IIEC analyses support an ROE at least
60 equivalent to 10.75 percent.

61 Q. In the recent North Shore and Peoples Gas case (Docket Nos. 07-0241 and 07-242
62 Cons.), the Commission averaged three ROE methods to determine a base ROE
63 estimate. If a similar approach were used in this case, what would the result be?

64 A. In the North Shore/Peoples case, the Commission excluded ROE estimates that it
65 found unacceptable (City/CUB's annual DCF and CAPM results, Staff's DCF
66 results, and the Utilities' non-CAPM risk premium and other adjustments to their
67 results). The Commission then averaged the Staff and Utilities' CAPM estimates
68 (11.34% and 11.25%) and the Utilities' unadjusted DCF estimate (9.01%). The
69 average base ROE was therefore 10.38 percent (February 5, 2008 Order at 100).

70 If that approach were taken in the present case, the Commission would average
71 Mr. McNally's CAPM estimate (11.25%), Mr. Gorman's constant growth DCF
72 estimate (11.0%) and his CAPM estimate (10.7%), and my updated quarterly
73 constant growth DCF estimate (10.95%) and my long-term CAPM estimate
74 (10.1%). The average of these five ROE estimates is 10.8 percent—again very
75 consistent with the cost I recommend.

76 **D. Recent Economic Trends**

77 Q. How have interest rates changed since you prepared your Direct Testimony?

78 A. While short-term interest rates have been driven down by the Federal Reserve
79 System's recent monetary policies, long-term corporate borrowing rates have
80 actually increased. The following table is an update through February 2008 of the
81 interest rate summary data that I provided in my Direct Testimony. The most
82 recent data available in my Direct Testimony were September 2007. Since then,
83 although the Federal Reserve System has continued to reduce the short-term
84 Federal Funds rate, long-term corporate interest rates have, in fact, increased.
85 While market turmoil and "flight to safety" issues have also pushed down shorter-
86 term Treasury rates, corporate spreads, which reflect investors' risk perceptions,
87 have widened significantly. The data in Table 1 show that such spreads are
88 currently much wider than they have been at any time in the past two years.
89 These factors provide important perspective for evaluating the alternative rate of
90 return positions.

Table 1
Long-Term Interest Rate Trends

Month	Triple-B Utility Rates	20-Year Treasury Rates	10-Year Treasury Rates	20-Year Treasury Spreads	10-Year Treasury Spreads
Jan-05	5.95%	4.77%	4.22%	1.18%	1.73%
Feb-05	5.78%	4.61%	4.17%	1.17%	1.61%
Mar-05	6.01%	4.89%	4.50%	1.12%	1.51%
Apr-05	5.95%	4.75%	4.34%	1.20%	1.61%
May-05	5.88%	4.56%	4.14%	1.32%	1.74%
Jun-05	5.70%	4.35%	4.00%	1.35%	1.70%
Jul-05	5.81%	4.48%	4.18%	1.33%	1.63%
Aug-05	5.80%	4.53%	4.26%	1.27%	1.54%
Sep-05	5.83%	4.51%	4.20%	1.32%	1.63%
Oct-05	6.08%	4.74%	4.46%	1.34%	1.62%
Nov-05	6.19%	4.83%	4.54%	1.36%	1.65%
Dec-05	6.14%	4.73%	4.47%	1.41%	1.67%
Jan-06	6.06%	4.65%	4.42%	1.41%	1.64%
Feb-06	6.11%	4.73%	4.57%	1.38%	1.54%
Mar-06	6.25%	4.91%	4.72%	1.34%	1.53%
Apr-06	6.54%	5.22%	4.99%	1.32%	1.55%
May-06	6.59%	5.35%	5.11%	1.24%	1.48%
Jun-06	6.61%	5.29%	5.11%	1.32%	1.50%
Jul-06	6.61%	5.25%	5.09%	1.36%	1.52%
Aug-06	6.43%	5.08%	4.88%	1.35%	1.55%
Sep-06	6.26%	4.93%	4.72%	1.33%	1.54%
Oct-06	6.24%	4.94%	4.73%	1.30%	1.51%
Nov-06	6.04%	4.78%	4.60%	1.26%	1.44%
Dec-06	6.05%	4.78%	4.56%	1.27%	1.49%
Jan-07	6.16%	4.95%	4.76%	1.21%	1.40%
Feb-07	6.10%	4.93%	4.72%	1.17%	1.38%
Mar-07	6.10%	4.81%	4.56%	1.29%	1.54%
Apr-07	6.24%	4.95%	4.69%	1.29%	1.55%
May-07	6.23%	4.98%	4.75%	1.25%	1.48%
Jun-07	6.54%	5.29%	5.10%	1.25%	1.44%
Jul-07	6.49%	5.19%	5.00%	1.30%	1.49%
Aug-07	6.51%	5.00%	4.67%	1.51%	1.84%
Sep-07	6.45%	4.84%	4.52%	1.61%	1.93%
Oct-07	6.36%	4.83%	4.53%	1.53%	1.83%
Nov-07	6.27%	4.56%	4.15%	1.71%	2.12%
Dec-07	6.51%	4.57%	4.10%	1.94%	2.41%
Jan-08	6.35%	4.35%	3.74%	2.00%	2.61%
Feb-08	6.60%	4.37%	3.53%	2.23%	3.07%

Sources: Mergent Bond Record (Utility Rates);
www.federalreserve.gov (Treasury Rates).

92 Q. What levels of interest rates are forecast for the coming year?

93 A. Both corporate and government interest rates are expected to rise from present
94 levels. I have reproduced as ComEd Exhibit 29.1 Standard & Poor's most recent
95 economic forecast from its *Trends & Projections* publication for February 2008.
96 The summary interest rate data from that publication are presented in the
97 following table:

98 Table 2:
99 Standard & Poor's Interest Rate Forecast

	Current	Average 2008 Est.	Average 2009 Est.
100 Treasury Bills	2.0%	2.0%	2.6%
101 10-Yr. T-Bonds	3.9%	4.0%	4.9%
102 30-Yr. T-Bonds	4.7%	4.5%	5.1%
103 Aaa Corporate Bonds	5.7%	5.7%	6.4%

104 Sources: www.yahoo.com Yahoo Finance (Current Rates);
105 Standard & Poor's *Trends & Projections*, February 2008, page 8
106 (Projected Rates).
107
108

109 The data in Table 2 show that interest rates are projected to increase further
110 during the coming year. Relative to current levels, rates on 10-year and 30-year
111 Treasury bonds for 2009 are expected to increase by an additional 40 to 100 basis
112 points. Corporate borrowing costs are also expected to increase by an additional
113 70 basis points.

114 These factors indicate that the other parties' ROE recommendations are
115 below the cost of equity for ComEd. Their recommendations are inconsistent
116 with the wider corporate spreads that borrowers like ComEd are currently
117 required to pay. Their positions are also inconsistent with projections for further
118 interest rate increases in 2009.

119 **III. Response to Staff Witness Michael McNally**

120 **A. Summary of Mr. McNally's ROE Recommendation**

121 Q. How did Mr. McNally arrive at his 10.3 percent ROE recommendation?

122 A. His ROE recommendation is the average of his multi-stage DCF estimate (9.35%)
123 and his long-term CAPM estimate (11.25%) (Staff Exhibit 4.0 at 28).

124 **B. Comments on Mr. McNally's Methodology**

125 Q. What are your principal disagreements with Mr. McNally?

126 A. I disagree with Mr. McNally's exclusion of the constant growth DCF model,
127 which the Staff (including Mr. McNally) has consistently used in prior cases. I
128 also disagree with several technical aspects of his multi-stage DCF analysis.

129 Q. What is the difference between Mr. McNally's current multi-stage DCF analysis
130 and the constant growth analysis that the Staff typically has used?

131 A. In contrast to the "constant" growth assumption of the traditional DCF model, the
132 multi-stage approach allows alternative growth rates in the various "stages" or
133 time periods covered by the model. For his analysis, Mr. McNally assumed that
134 analysts' growth rates would prevail for the first five years. He then established a
135 transition growth rate in years six through 10. And, finally, he assumed that a
136 much lower constant growth rate would prevail in years 11 to infinity. This
137 approach produces a much lower estimate of ROE because the much lower third-
138 stage growth rate prevails for a much longer time period, which effectively dilutes
139 the higher growth rates in the earlier periods.

140 Q. What would the result have been if Mr. McNally had performed the same constant
141 DCF analysis that he used in Docket No. 05-0597?

142 A. I have prepared that analysis in ComEd Exhibit 29.2. In that analysis, I applied
143 the same constant growth DCF model that Mr. McNally used in Docket No. 05-
144 0597. I used his current comparable company group, his stock prices and
145 dividends, and his Zacks analysts' growth rate forecasts from Staff Exhibit 4.0,
146 Schedules 4.5 through 4.7. As shown in column 9 of ComEd Exhibit 29.2, the
147 average comparable company ROE from the Staff's typical DCF analysis is 11.79
148 percent.

149 Q. What rate of return was indicated by Mr. McNally's constant growth analysis in
150 Docket No. 05-0597?

151 A. His DCF analysis in that case indicated an ROE of 9.36 percent.

152 Q. Why is the current constant growth ROE so much higher?

153 A. The difference is mostly due to higher analysts' growth forecasts. In Docket No.
154 05-0597, Mr. McNally used the same Zacks forecast source, but at that time the
155 average growth projection for his comparable group was only 4.76 percent. The
156 current average growth rate projection is 7.72 percent.

157 Q. Do you recommend that the Commission should use 11.79 percent as a stand-
158 alone estimate of ROE?

159 A. No. However, it is equally inappropriate for Mr. McNally to entirely exclude the
160 traditional Staff DCF approach. If he wishes to consider alternative DCF
161 approaches, as many regulatory economists do, a combination of alternatives
162 would be more appropriate. For example, if one simply averages the constant
163 growth DCF estimate with his multi-stage DCF estimate, the result is a mid-range
164 ROE of approximately 10.6 percent ($11.79\% + 9.35\% / 2 = 10.57\%$).

165 Q. What is the DCF range from your multi-stage growth DCF analysis?

166 A. In my Direct Testimony in ComEd Exhibit 10.5, the indicated multi-stage DCF
167 range was 10.5 percent to 10.6 percent. As I will discuss below, my updated
168 multi-stage range (ComEd Exhibit 29.6) is still 10.5 percent to 10.6 percent.

169 Q. Why is Mr. McNally's multi-stage DCF estimate so much lower than yours?

170 A. His multi-stage estimate is lower because his long-term (third-stage) growth rate
171 is unreasonably low.

172 Q. How are your respective long-term growth rates determined?

173 A. My long-term growth rate is my estimate of expected long-term growth in
174 nominal Gross Domestic Product ("GDP"). As I explained in my Direct
175 Testimony, long-term GDP growth is a reasonable proxy for investors' long-term
176 growth rate expectations, as required in the DCF model, because GDP is the most
177 general measure of growth in the U.S. economy and utilities are a fundamental
178 sector of the economy. Therefore, in the very long-run, utilities can reasonably be
179 expected to grow at about the same rate as the economy. My updated GDP
180 growth rate forecast is presented in ComEd Exhibit No. 29.5. The estimated
181 growth rate from that analysis is 6.5 percent.

182 Mr. McNally's third stage growth rate is based on a concept that cannot be
183 reasonably supported, either academically or empirically. His concept is that the
184 long-term expected growth rate in the economy is equal to the forward rate on
185 long-term Government securities. To my knowledge there is no proven academic
186 or other accepted theory that supports using the forward rate in this manner in the
187 DCF model. As such, Mr. McNally's third-stage growth rate is unsupported and

188 is highly speculative. Additionally, I will demonstrate that the rate, as he
189 calculates it, may be extremely volatile and is significantly influenced by interest
190 rate levels and the shape of the U.S. Treasury bond yield curve.

191 Q. Specifically, how is the forward rate calculated?

192 A. Mr. McNally calculates the forward or expected rate on a 20-year U.S. Treasury
193 bond to be bought 10 years from today. While that calculation is sometimes
194 daunting to introductory finance students, it is, in fact, a time-weighted average
195 derived from current 10-year and 30-year Treasury bond rates. The explanation is
196 simpler than the calculation. Consider a low-risk investor with a 30-year
197 investment horizon. That investor could simply buy a 30-year Treasury bond and
198 hold it to maturity. Alternatively, he or she might initially buy a 10-year bond but
199 recognize that they will have to reinvest their money when the 10-year bond
200 matures. In Mr. McNally's calculation, the estimated 10-year forward, 20-year
201 rate is simply the rate that has to be earned on the 20-year bond so that the current
202 10-year investment plus the 20-year investment made 10 years from now combine
203 to give the same return as the 30-year bond gives today. While such forward
204 calculations are routinely used in hedge and commodity trading strategies, it is
205 beyond the pale to believe that they are a reasonable proxy for investors' long-
206 term growth expectations in the DCF model.

207 Q. Why is the 20-year forward rate volatile?

208 A. The forward rate is volatile because it depends on the absolute level of interest
209 rates and the shape of the U.S. Treasury bond yield curve. In Mr. McNally's
210 calculation, the 20-year rate is entirely determined by the rates that existed for 10-

211 year and 30-year Treasury bonds on February 1, 2008. The following table
212 demonstrates the 20-year forward rate based on the monthly 10-year and 30-year
213 Treasury bond rates that existed during 2007, and for three hypothetical yield
214 curve scenarios:

Table 3
Implied 20-year Rate, 10 Years Forward

Month	10-Year Treasury	30-Year Treasury	Implied 20f 10*
Jan-07	4.76%	4.85%	4.90%
Feb-07	4.72%	4.82%	4.87%
Mar-07	4.56%	4.72%	4.80%
Apr-07	4.69%	4.87%	4.96%
May-07	4.75%	4.90%	4.98%
Jun-07	5.10%	5.20%	5.25%
Jul-07	5.00%	5.11%	5.17%
Aug-07	4.67%	4.93%	5.06%
Sep-07	4.52%	4.79%	4.93%
Oct-07	4.53%	4.77%	4.89%
Nov-07	4.15%	4.52%	4.71%
Dec-07	4.10%	4.53%	4.75%

Higher Rate Scenarios

Steep Yield Curve	4.00%	6.00%	7.01%
Flat Yield Curve	5.50%	6.00%	6.25%
Level Yield Curve	6.00%	6.00%	6.00%

215 $^{*}20f10 = [(1+30\text{-yr})^{30}/(1+10\text{-yr})^{10}]^{1/20} - 1$

216 As show in the right-hand column of Table 3, Mr. McNally's long-term growth
217 rate projection would have ranged between 4.71 percent in November 2007 and
218 5.25 percent in June 2007. Since for DCF purposes the intent is to estimate an
219 expected constant growth rate, the actual data for 2007 raise serious questions
220 about Mr. McNally's approach. More telling, however, are the hypothetical data
221 at the bottom of the table. These data show that Mr. McNally's approach is

222 entirely wrong. With higher interest rates and various yield curve scenarios, Mr.

223 McNally's growth rate estimate would be much higher and even more volatile.

224 Q. What long-term growth rate should Mr. McNally have used?

225 A. As explained in my Direct Testimony and have updated in this rebuttal, 6.5

226 percent is a reasonable rate. Under these circumstances, it would seem difficult to

227 assign any weight to Mr. McNally's multi-stage growth DCF estimate.

228 Q. What is the indicated ROE from Mr. McNally's multi-stage growth model if a 6.5

229 percent growth rate is inserted as the third-stage, long-term growth rate in that

230 model?

231 A. I have prepared that analysis in ComEd Exhibit 29.3. The resulting ROE is 10.73

232 percent.

233 **C. Response to Mr. McNally's Comments**

234 Q. Please summarize Mr. McNally's comments on your testimony?

235 A. Mr. McNally offers several criticisms of my ROE analysis at pages 29-34 of his

236 Direct Testimony. On page 30, he summarizes those criticisms saying that the

237 growth rates in my DCF analyses are unsustainably high based on current

238 economic growth, that my risk premium analysis is flawed, and that I use

239 arbitrary weights for my individual models that lead to a recommendation that is

240 inconsistent with those results.

241 Q. Are Mr. McNally's comments valid?

242 A. No. Mr. McNally's only substantive comments are those concerning the DCF

243 growth rate. His comments about my bond-yield-plus-risk premium analysis are

244 irrelevant, since I only offered that analysis for general perspective. His

245 comments about the weightings used to determine my final ROE recommendation
246 are simply incorrect. I did not use, as McNally claims (Staff Exhibit 4.0, page 34,
247 line 680-681) "only the high-end of those [DCF] ranges" to establish my ROE
248 recommendation.

249 Q. How do you respond to Mr. McNally's growth rate contentions?

250 A. Mr. McNally's growth rate comments are based on several erroneous contentions.
251 First, he criticizes my inclusion of GDP growth in some of my DCF models based
252 on his view that Energy Information Administration ("EIA") forecasts and his
253 analysis of Treasury bond yields indicate "expectations of long-term growth in the
254 overall economy of approximately 5%" (Staff Exhibit 4.0, page 30, line 596). As
255 I explained above, Mr. McNally's Treasury bond analysis is something of a red
256 herring with respect to the DCF model. Also, as I will explain in more detail in
257 my rebuttal of Mr. Gorman, other GDP forecasts, including EIA, contain inflation
258 projections that are 50 percent below long-run averages and farther below current
259 inflation levels. When these factors are correctly considered, Mr. McNally's
260 criticism of my GDP growth rate forecast and its use in portions of my DCF
261 analysis are without merit.

262 His second growth rate criticism is a back-door effort to re-impose the "b
263 times r" sustainable growth argument, which the Commission has rejected in prior
264 cases (see p. 21). His discussion on page 32 and his Staff Exhibit 4.0, Schedule
265 4.10 are based on a routine "b times r" approach from which he concludes that an
266 earned ROE of over 21 percent or a retention rate of over 61 percent would be
267 required to sustain a 6.6 percent growth rate (Staff Exhibit 4.0, page 32, lines 633-

268 637). While these calculations are mechanically correct in a hypothetical steady
269 state world in which dividends, earnings, book value, stocks price all move in
270 lockstep, they bear little relationship to the numerous factors that affect investors'
271 long-term growth rate expectations. A counter example using Mr. McNally's
272 ROE recommendation illustrates this point. Based on the average retention rate in
273 his Schedule 4.10 (33.5%) and his 10.3 percent ROE, the implied "b times r"
274 growth rate is only 3.45 percent ($33.5\% \times 10.3\% = 3.45\%$). Adding that
275 growth rate to the dividend yield range from his or my comparable group (4.0%-
276 4.5%) would produce an ROE estimate of only 7.45 percent to 7.95 percent (4.0%
277 yield + 3.45% growth = 7.45% ROE; 4.5% yield + 3.45% growth = 7.95%). This
278 level of ROE is less than 200 basis points above ComEd's cost of debt. Such
279 unreasonably low DCF results have led to rejection of the "b time r" approach,
280 and, therefore, Mr. McNally's criticisms based on this approach should be
281 similarly rejected.

282 Finally, Mr. McNally's criticisms of my GDP growth rate have no bearing
283 on my quarterly constant growth DCF model (upon which the Commission has
284 consistently relied) because I do not use the GDP growth rate in that model.

285 **IV. Response to IIEC Witness Michael P. Gorman**

286 **A. Summary of Mr. Gorman's ROE Recommendation**

287 Q. How did Mr. Gorman arrive at his 10.2 percent ROE recommendation?

288 A. Mr. Gorman's recommendation is the midpoint of a range between 9.8 percent
289 and 10.6 percent. The low end of his range is his Two-Stage Growth DCF result
290 (9.8%). The upper end of his range is the average of his Constant Growth DCF

291 result, his Risk Premium result, and his CAPM result (average of 11.0%, 10.0%,
292 and 10.7%, respectively equals 10.6%).

293 **B. Comments on Mr. Gorman's Methodology**

294 Q. Did you also update Mr. Gorman's analysis?

295 A. Yes. These results are shown in ComEd Exhibit 29.4, pages 1-6. In ComEd
296 Exhibit 29.4, page 1, column 1, I summarize Mr. Gorman's ROE results from his
297 direct testimony (at page 33). In arriving at his ultimate recommendation of 10.2
298 percent, Mr. Gorman arbitrarily gave heavier weight to his Two-Stage DCF result
299 and less weight to his other approaches. Had he simply given equal weight to all
300 four of his model outcomes, he would have found an ROE of 10.4 percent. In this
301 light, had Mr. Gorman more reasonably considered his own quantitative results
302 and the other checks of reasonableness that he offers, his ROE estimate would
303 have higher.

304 The necessary changes to Mr. Gorman's analysis are summarized on
305 ComEd Exhibit 29.4, page 1, column 2. They indicate that had Mr. Gorman
306 relied on more reasonable assumptions, he would have found an ROE estimate
307 very similar, if not higher, than my ROE recommendation of 10.75 percent.

308 Q. What adjustments should be made to Mr. Gorman's DCF and CAPM analyses?

309 A. I did not make any adjustments to Mr. Gorman's Constant Growth DCF and
310 CAPM models. I updated Mr. Gorman's Two-Stage Growth DCF analysis by
311 replacing his second stage growth estimate of 5.0 percent with the more realistic
312 long-term growth projection of 6.5 percent. These results are shown in ComEd

313 Exhibit 29.4, page 2. They indicate a Two-Stage Growth DCF estimate of 11.0
314 percent.

315 Q. What are the problems with Mr. Gorman's risk premium analysis?

316 A. In his bond yield plus risk premium analysis, he uses the same general approach
317 that I use, based on allowed regulatory rates of return. In that analysis, however,
318 he shortens the analysis period and he fails to include the well-documented
319 tendency for risk premiums to increase when interest rates decline. Without
320 including this characteristic of risk premiums, his risk premium analysis is not
321 consistent with recent experience or with sound academic research, such as the
322 Harris and Marston studies I discussed in my direct testimony. With recent
323 historically low interest rates, this omission causes him to significantly understate
324 his risk premium estimates. In addition, his interpretation of his risk premium
325 analysis appears to be quite improperly subjective in terms of the data he presents.

326 Q. How is Mr. Gorman's risk premium analysis structured?

327 A. Mr. Gorman' risk premium analysis is presented in IIEC Exhibits 2.11 and 2.12.
328 He discusses the analysis on pages 24-27 of his direct testimony. His analysis
329 consists of two parts. In one part he adds a Government bond equity risk
330 premium of 5.15 percent to a projected 30-year Treasury bond yield of 4.6
331 percent. This produces an ROE of 9.8 percent. In his second approach, he adds a
332 utility bond risk premium of 3.7 percent to the recent Baa utility bond yield of 6.4
333 percent. This produces an ROE estimate of 10.1 percent. From these two results,
334 he concludes that a 10.0 percent ROE is appropriate from his risk premium
335 analysis.

336 Q. Why do you say that Mr. Gorman's approach is subjective?

337 A. On page 25, at lines 567-568 of his direct testimony, Mr. Gorman explains that 18
338 of his 22 Treasury bond risk premium observations range between 4.4 percent and
339 5.9 percent. From this range he selects the approximate midpoint of 5.15 percent
340 for his Treasury bond analysis. In the following paragraph, he says that his utility
341 bond risk premiums "...primarily fall in the range of 3.0% to 4.4%...." From this
342 range he selects the midpoint of 3.7 percent.

343 Q. Why do you disagree with Mr. Gorman's selections in his Treasury bond analysis?

344 A. Without closer inspection, his selections might appear reasonable. In fact, they
345 are not. What Mr. Gorman fails to explain is that, with the lower interest rates in
346 recent years, in his own risk premium data since 2000 (see IIEC Exhibit 2.11)
347 there is *not one* Government bond risk premium as low as the 5.15 percent he
348 recommends. Indeed, Mr. Gorman excludes from his subjective range the one
349 observation in 2005 when the Treasury bond yield was closest to the 4.6 percent
350 projected Government bond rate he finally applies. In 2005, the Treasury bond
351 rate was 4.65 percent and, based on an average allowed ROE of 10.54 percent, the
352 indicated risk premium was 5.89 percent. Without any further analysis, these
353 Treasury bond data show that the Mr. Gorman's risk premium estimates of ROE
354 should have been in the 10.5 percent range (4.60% Gorman projected Treasury
355 bond rate + 5.89% 2005 risk premium = 10.49%).

356 Q. Is there a similar problem with Mr. Gorman's utility bond risk premium analysis?

357 A. Yes. Mr. Gorman's IIEC Exhibit 2.12 shows that to find a risk premium as low as
358 his 3.7 percent one must revert to 2001 when the interest rate on A-rated utility

359 bonds was 7.76 percent. The effect of Mr. Gorman's improper omission of the
360 inverse risk premium-interest rate relationship can be seen further by comparing
361 the 7.98 percent average utility interest rate over his 22-year analysis (IIEC
362 Exhibit 2.12) to the 6.4 percent current Baa rate he uses to estimate ROE. Based
363 on a 7.98 percent average utility interest rate, the average risk premium was 3.67
364 percent from his 22-year study. During the only years in that analysis when
365 interest rates were as low as 6.4 percent (2003-2007), the average risk premium
366 was 4.5 percent. Had Mr. Gorman simply used this more recent risk premium for
367 consistency with his low 6.4 percent utility interest rate, he would have found an
368 ROE of 10.9 percent ($6.4\% + 4.50\% = 10.9\%$). These comparisons show that Mr.
369 Gorman's risk premium data actually support an ROE range of 10.5 percent to
370 11.0 percent.

371 Q. In your risk premium analysis from your direct testimony, you used a standard
372 regression analysis to account for the inverse relationship between risk premiums
373 and interest rates. What does Mr. Gorman's risk premium analysis indicate when
374 this approach is applied to his data?

375 A. In ComEd Exhibit 29.4, pages 3-6, I have applied the standard regression analysis
376 to calculate "interest rate adjustment" factors for his two risk premium studies.
377 This approach properly takes into account the inverse relationship between equity
378 risk premiums and interest rates. Using this analysis, Mr. Gorman's Treasury
379 bond risk premium indicates an ROE of 10.4 percent. For his utility bond risk
380 premium, the indicated ROE is 10.7 percent. These results further confirm that

381 Mr. Gorman's risk premium data support an ROE in the range of 10.5 percent to
382 10.75 percent.

383 Q. Has Mr. Gorman previously recognized the inverse risk premium-interest rate
384 relationship?

385 A. Yes. In his testimony before the Public Utility of Commission of Texas in Docket
386 No. 14965, page 15, lines 10-13, Mr. Gorman stated:

387 The results of my study indicate an inverse relationship between a
388 bond's real return and the equity risk premium. This result is
389 consistent with the findings of published studies which indicate
390 equity risk premiums move inversely with interest rates.

391 Had Mr. Gorman made a similar adjustment in this case, his risk premium results
392 would have indicated an ROE considerably higher than the one he recommends.

393 **C. Response to Mr. Gorman's Comments**

394 Q. Please summarize Mr. Gorman's comments on your testimony.

395 A. Mr. Gorman's criticisms are centered in three areas. He alleges that my estimate
396 of GDP growth is too high, the Treasury rates I used in my CAPM analysis are
397 too high, and my risk premium analysis is not reasonable.

398 Q. How do you respond to Mr. Gorman's criticisms of your GDP growth rate?

399 A. I addressed the GDP growth rate issue in my Direct Testimony and in my
400 discussion of Mr. McNally's testimony above. I would reiterate that my updated
401 Constant Growth DCF results of 10.2 percent to 10.8 percent and my Quarterly
402 DCF results of 10.3 percent to 11.1 percent do not include GDP growth as a
403 component in either analysis.

404 Q. How do you respond to Mr. Gorman's criticisms of your CAPM analysis?

405 A. I have updated my CAPM analysis in ComEd Exhibit 29.8 which shows an ROE
406 result of 10.1 percent. Mr. Gorman attempts to update my CAPM analysis and
407 arrives at a result of 9.76 percent. The problem with Mr. Gorman's criticism of
408 my CAPM analysis is that he uses stale interest rate forecasts and relies on a
409 short-term CAPM approach which is not applicable in the current interest rate
410 environment. In redoing my long-term CAPM analysis, Mr. Gorman uses a long-
411 term Treasury bond yield forecast of 4.6 percent. However, as I show in ComEd
412 Exhibit 29.1, the most recent forecast for long-term Treasury rates is 5.1 percent.
413 As ComEd Exhibit 29.8 shows, when this rate is considered the long-term CAPM
414 result is 10.1 percent. I did not redo my short-term CAPM analysis because there
415 is too much turmoil in the short-term interest rate market for this approach to have
416 any credibility. The Federal Reserve Bank continues to lower the Fed Funds rate
417 in response to a perceived worsening of the economy. This leads to a "flight to
418 safety" among investors which puts even more downward pressure on short-term
419 interest rates. Until this situation is resolved, it is not appropriate to rely on short-
420 term CAPM results that include unstable short-term Treasury bill rates.

421 Q. How do you respond to Mr. Gorman's criticisms of your risk premium analysis?

422 A. I find Mr. Gorman's comments concerning my risk premium analyses to be
423 surprising since he relied on virtually the same approach in his direct testimony.
424 He uses commission-authorized returns to determine his risk premiums and then
425 applies them to both projected and current interest rates. The primary differences
426 between our approaches is that my historical timeframe is longer (my data goes
427 back to 1980, Mr. Gorman's to 1986) and I take into account the inverse

428 relationship between interest rate levels and equity risk premiums (which Mr.
429 Gorman has also done in previous cases). Furthermore, as I noted in my rebuttal
430 of Mr. McNally, comments about my bond-yield-plus-risk premium analysis do
431 not impact my recommendation because I only offered that analysis for general
432 perspective.

433 **V. Response to CUB Witness Christopher C. Thomas**

434 **A. Summary of Mr. Thomas' ROE Recommendation**

435 Q. What is the basis for Mr. Thomas' 7.77 percent ROE recommendation?

436 A. He derives his recommendation entirely from the annual version of the constant
437 growth DCF model, which the Commission has previously rejected (North Shore
438 and Peoples Gas, Docket Nos. 07-0241 and 07-242 Cons., at 99). His growth rate
439 in that model is based entirely on the "b times r" sustainable growth rate
440 approach, which the Commission has also previously rejected (GTE North,
441 Docket Nos. 93-0301, 94-0041). The "b times r" method as applied by Mr.
442 Thomas produces a growth rate of only 3.09 percent. When this low growth rate
443 is added to the projected dividend yield for his comparable group (4.68%), it
444 produces the exceptionally low ROE that Mr. Thomas recommends. He also
445 provides a CAPM analysis, which he offers as support for his DCF result. In his
446 CAPM analysis, the risk-free rate is based on the 30-year Treasury bond interest
447 rate (4.35%). He uses "raw" or unadjusted beta coefficients that average 0.71,
448 which the Commission has previously rejected (North Shore and Peoples Gas,
449 Docket Nos. 07-0241 and 07-242 Cons., at 99). His market risk premium is 5
450 percent. These data produce a CAPM estimate of 7.9 percent.

451 **B. Comments on Mr. Thomas' Methodology**

452 Q. What is your assessment of Mr. Thomas' DCF and CAPM analyses?

453 A. Mr. Thomas' analyses and final recommendation far understate the cost of equity
454 capital. Both his DCF estimate at 7.77 percent and his CAPM estimate at 7.9
455 percent are less than 200 basis points above ComEd's cost of debt. As I
456 demonstrated in the analysis in my Direct Testimony (ComEd Exhibit 10.3) the "b
457 times r" growth rates are exceptionally low. Particularly, the historical growth
458 rates derived from the 2002-2006 time period used by Mr. Thomas are negatively
459 skewed by restructuring costs and dividend policy shifts that have occurred in the
460 utility industry. For Mr. Thomas to rely solely on such data for his DCF growth
461 rate is incorrect and, accordingly, it produces an unreasonably low ROE estimate.
462 Similarly, Mr. Thomas' CAPM analysis is negatively biased by his use of
463 unadjusted beta coefficients that are much lower than the widely followed data
464 published by *Value Line*. These factors should lead the Commission to again
465 reject Mr. Thomas' ROE recommendations.

466 **C. Response to Mr. Thomas' Comments**

467 Q. At pages 34-35, Mr. Thomas criticizes your use of GDP growth rates in portions
468 of your DCF analysis. How do you respond to these criticisms?

469 A. As I explained in my Direct Testimony, many of the traditional sources for DCF
470 growth rates have become extremely volatile and, particularly those often relied
471 upon from Value Line, have been very low relative to prior time periods. In this
472 context, I have recommended consideration of the long-term nominal GDP
473 growth rate. As shown in my updated forecast in ComEd Exhibit 29.5, that

474 estimate is currently 6.5 percent. I use long-term GDP data because, unlike
475 analysts' forecasts, that data produces a consistent and stable growth rate as
476 required by the assumptions of the DCF model. However, as I also explained in
477 my Direct Testimony, I understand that the Commission did not accept my GDP
478 forecast in ComEd's prior case as a sole source for the DCF growth rate. In that
479 context, in the present case I have presented both analysts' growth rate forecasts
480 and GDP forecasts. In my updated quarterly DCF analysis (ComEd Exhibit 29.7),
481 I use only analysts' growth rates with no GDP growth at all. The ROE range from
482 that analysis is 10.3 percent to 11.1 percent, with a midpoint of 10.7 percent.
483 Based on these results, Mr. Thomas' criticism of my growth rate estimates is
484 without merit.

485 **VI. Response to the Contention that ComEd's Rate of Return Should be Reduced**
486 **if the Commission Approves Riders SMP and SEA**

487 Q. What is your response to the Mr. Gorman's and Mr. Thomas' recommendations
488 concerning Riders SMP and SEA?

489 A. Mr. Gorman recommends that his ROE should be reduced by 50 basis points (to
490 9.7%) if the Riders are adopted by the Commission. He provides no analysis to
491 support the amount of his negative adjustment and his brief, three-sentence
492 explanation is that the Riders would shift risks away from ComEd and onto its
493 customers (IIEC Exhibit 2.0 at 35, lines 779-783). As I understand from the
494 testimony provided by Company witnesses Mr. Mitchell, Mr. Williams, Ms. Clair,
495 and Mr. Crumrine (ComEd Exhibits 1.0, 4.0, 6.0, and 11.0, respectively),
496 ComEd's proposal for a system modernization projects ("SMP") rider and storm
497 expense adjustment ("SEA") rider would provide significant benefits to

498 customers. Particularly Rider SEA would, in fact, balance customer and
499 Company risks by assuring that there is no over- or under-recovery of storm
500 expenses. For Mr. Gorman to recommend a large reduction to ComEd's allowed
501 rate of return with no analysis to support his recommendation is simply
502 inappropriate.

503 Mr. Thomas' recommendation to provide a debt-only rate of return for
504 projects covered by Rider SMP is similarly inappropriate. If the purpose for the
505 system modernization proposal were to expedite and accelerate such projects, it
506 would make little economic sense for those very projects to receive a substandard
507 rate of return. Like Mr. Thomas' other extreme rate of return recommendations,
508 his debt-only rate of return recommendation for Rider SMP investments should be
509 rejected.

510 **VII. Update of ROE Estimates**

511 Q. What are the results of your updated DCF analyses?

512 A. My updated DCF results are shown in ComEd Exhibits 29.6 and 29.7. In both of
513 these exhibits, I rely on a 25-company comparable group that contains the same
514 companies I used in my Direct Testimony, less two companies that are now being
515 acquired (Energy East and Puget Energy). In ComEd Exhibit 29.6, I present the
516 updated results for the annual versions of the DCF model. Those updates apply
517 current versions of the same analysts' and GDP growth rates I used in my direct
518 testimony. The indicated DCF range is 10.2 percent to 10.9 percent. The
519 quarterly version of the constant growth model, with growth rates based solely on

520 analysts' estimates, is shown in ComEd Exhibit 29.7. The reasonable range from
521 my updated quarterly DCF analysis is 10.3 percent to 11.1 percent.

522 Q. What are the results of your updated CAPM analysis?

523 A. The results of that analysis are shown in ComEd Exhibit 29.8. The indicated
524 ROE from the CAPM analysis based on a long-term Treasury bond risk-free rate
525 is 10.1 percent.

526 Q. What are the results of your updated risk premium analysis?

527 A. My updated risk premium analysis is presented in ComEd Exhibit 29.9. Based on
528 currently projected Baa utility interest rates for 2009 (which are slightly lower
529 than current Baa utility rates shown previously in Table 1), the electric utility risk
530 premium analysis indicates an ROE of 10.81 percent. The updated gas LDC risk
531 premium analysis indicates an ROE of 10.72 percent. The updated results of the
532 Ibbotson risk premium analysis and the Harris-Marston risk premium analysis
533 indicate ROEs of 11.0 percent ($6.5\% + 4.5\% = 11.0\%$) and 12.0 percent ($6.5\% +$
534 $5.13\% = 11.3\%$), respectively. As noted in my Direct Testimony, the Ibbotson
535 and Harris-Marston results are not used in my ROE estimates, but are presented
536 for general perspective on overall capital market costs.

537 Q. What do you conclude from your updated ROE analyses?

538 A. My updated analyses show that ComEd's requested 10.75 percent ROE is
539 reasonable. My conclusions are also supported by the interest rate risk associated
540 with projections for higher rates over the coming year and the ongoing risks and
541 uncertainties that exist in the electric utility industry as well as the specific risks
542 that ComEd continues to face.

543 Q. Does this conclude your rebuttal testimony?

544 A. Yes, it does.

Economic Indicators

Seasonally Adjusted Annual Rates — Dollar Figures in Billions

	Annual % Change					2007				E2008				E2009				
	A2007	E2008	E2009	A2007	E2008	E2009	3Q	A4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Gross Domestic Product																		
GDP (current dollars)	\$13,843.0	\$14,309.0	\$14,822.0	4.9	3.4	3.6	\$13,971.0	\$14,081.0	\$14,153.0	\$14,201.0	\$14,376.0	\$14,507.0	\$14,588.0	\$14,732.0				
Annual rate of increase (%)	4.9	3.4	3.6	-	-	-	6.0	3.2	2.1	1.3	5.0	3.7	2.3	4.0				
Annual rate of increase—real GDP (%)	2.2	1.2	1.9	-	-	-	4.9	0.6	(0.7)	(0.7)	3.2	2.4	0.3	2.3				
Annual rate of increase—GDP deflator (%)	2.7	2.2	1.7	-	-	-	1.0	2.6	2.8	2.1	1.8	1.3	1.9	1.7				
* Components of Real GDP																		
Personal consumption expenditures	\$8,276.0	\$8,405.0	\$8,563.0	2.9	1.6	1.9	\$8,302.0	\$8,343.0	\$8,347.0	\$8,342.0	\$8,437.0	\$8,493.0	\$8,502.0	\$8,533.0				
% change	2.9	1.6	1.9	-	-	-	2.8	2.0	0.2	(0.3)	4.7	2.7	0.4	1.5				
Durable goods	1,237.0	1,229.9	1,255.4	4.8	(0.6)	2.1	1,241.9	1,254.7	1,231.9	1,208.5	1,236.2	1,243.1	1,230.5	1,243.6				
Nondurable goods	2,393.8	2,424.8	2,471.8	2.4	1.3	1.9	2,396.8	2,408.0	2,403.8	2,406.9	2,436.2	2,452.2	2,457.9	2,465.9				
Services	4,671.3	4,767.6	4,854.6	2.8	2.1	1.8	4,689.5	4,708.2	4,732.0	4,739.6	4,782.9	4,815.8	4,826.6	4,840.0				
Nonresidential fixed investment	1,369.6	1,380.1	1,370.9	4.8	0.8	(0.7)	1,387.3	1,412.7	1,398.1	1,377.8	1,371.1	1,373.3	1,356.3	1,364.3				
% change	4.8	0.8	(0.7)	-	-	-	9.4	7.5	(4.1)	(5.7)	(1.9)	0.6	(4.9)	2.4				
Producers durable equipment	1,064.9	1,074.6	1,106.5	1.4	0.9	3.0	1,073.5	1,083.4	1,074.1	1,067.2	1,068.4	1,088.6	1,082.5	1,101.7				
Residential fixed investment	464.2	354.0	351.7	(17.1)	(23.8)	(0.6)	454.3	423.8	384.1	355.7	341.8	334.3	335.8	346.1				
% change	(17.1)	(23.8)	(0.6)	-	-	-	(20.8)	(24.2)	(32.6)	(26.4)	(14.8)	(8.5)	1.8	13.0				
Net change in business inventories	8.3	(12.2)	5.4	2.1	2.1	0.5	30.6	(3.4)	(10.1)	(16.0)	(19.8)	(3.0)	(3.8)	(1.9)				
Gov't purchases of goods & services	2,022.5	2,065.3	2,074.8	2.1	2.1	0.5	2,033.6	2,046.7	2,059.5	2,064.5	2,067.2	2,070.0	2,071.5	2,073.9				
Federal	754.9	785.8	795.8	1.7	4.1	1.3	764.0	764.5	776.0	783.3	789.2	794.4	797.1	796.5				
State & local	1,267.3	1,280.1	1,280.0	2.3	1.0	(0.0)	1,269.6	1,282.0	1,283.6	1,281.7	1,278.7	1,276.6	1,275.5	1,278.4				
Net exports	(560.0)	(458.9)	(412.7)	-	-	-	(533.1)	(521.0)	(495.3)	(460.4)	(441.0)	(439.1)	(424.6)	(410.3)				
Exports	1,407.6	1,518.2	1,633.1	7.9	7.9	7.6	1,441.2	1,455.0	1,478.2	1,503.6	1,530.0	1,561.0	1,589.3	1,620.4				
Imports	1,967.6	1,977.1	2,045.8	2.0	0.5	3.5	1,974.3	1,975.9	1,973.5	1,963.9	1,971.0	2,000.1	2,013.9	2,030.6				
** Income & Profits																		
Personal income	\$11,667.0	\$12,139.0	\$12,645.0	6.2	4.1	4.2	\$11,747.0	\$11,876.0	\$11,991.0	\$12,067.0	\$12,181.0	\$12,319.0	\$12,457.0	\$12,573.0				
Disposable personal income	10,184.0	10,723.0	11,056.0	5.8	5.3	3.1	10,258.0	10,364.0	10,471.0	10,552.0	11,099.0	10,770.0	10,895.0	10,995.0				
Savings rate (%)	0.5	1.7	1.2	-	-	-	0.5	0.2	0.6	1.0	4.5	0.6	1.2	1.2				
Corporate profits before taxes	1,881.9	1,574.0	1,893.6	4.2	(16.4)	20.3	1,879.7	1,900.4	1,604.3	1,529.0	1,585.1	1,577.4	1,869.3	1,890.4				
Corporate profits after taxes	1,411.5	1,189.5	1,420.0	4.4	(15.7)	19.4	1,410.2	1,430.9	1,213.4	1,154.9	1,196.8	1,192.9	1,404.1	1,419.1				
‡ Earnings per share (S&P 500)	76.80	71.20	71.20	(5.8)	(7.3)	0.0	78.70	76.80	75.10	70.40	73.10	71.20	69.10	70.20				
† Prices & Interest Rates																		
Consumer price index	2.9	2.5	1.6	-	-	-	1.9	4.3	2.8	0.9	1.5	0.8	1.9	2.0				
Treasury bills	4.4	2.0	2.6	-	-	-	4.4	3.4	2.3	1.9	2.0	2.1	2.2	2.3				
10-yr notes	4.6	4.0	4.9	-	-	-	4.7	4.3	3.7	3.8	4.2	4.4	4.6	4.7				
30-yr bonds	4.8	4.5	5.1	-	-	-	4.9	4.6	4.3	4.3	4.6	4.7	4.8	4.9				
New issue rate—corporate bonds	5.6	5.7	6.4	-	-	-	5.8	5.5	5.4	5.5	5.9	6.0	6.1	6.2				
Other Key Indicators																		
Housing starts (1,000 units SAAR)	1,340.0	870.0	1,110.0	(25.8)	(35.4)	28.2	1,300.0	1,150.0	950.0	830.0	820.0	870.0	970.0	1,070.0				
Auto & truck sales (1,000,000 units)	16.1	15.0	15.3	(2.3)	(6.8)	1.7	15.9	16.1	15.3	14.7	14.9	15.2	14.8	15.1				
Unemployment rate (%)	4.6	5.4	5.8	-	-	-	4.7	4.8	5.0	5.4	5.6	5.6	5.8	5.8				
\$ U.S. dollar	(5.6)	(7.6)	2.5	-	-	-	(11.4)	(17.9)	(5.1)	(5.2)	1.0	5.0	4.5	2.1				

Note: Annual changes are from prior year and quarterly changes are from prior quarter. Figures may not add to totals because of rounding. A—Advance data. P—Preliminary. E—Estimated. R—Revised. *1996 Chain-weighted dollars. **Current dollars. †Trailing 4 quarters. ‡Average for period. §Quarterly % changes at quarterly rates. This forecast prepared by Standard & Poor's.

Commonwealth Edison Co.

McNally DCF Analysis (2005 Case Methodology)
Constant Growth DCF Model (with Quarterly Compounding)

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
No.	Company	McNally Prices	McNally Compounded Quarterly Dividends				"D ₁ "	Dividend Yield	Zacks Growth Rate	ROE
1	Ameren Corp.	45.54	0.744	0.723	0.702	0.681	2.850	6.26%	6.20%	12.46%
2	AGL Resources, Inc.	38.46	0.467	0.456	0.446	0.436	1.805	4.69%	4.75%	9.44%
3	Entergy Corp.	109.57	0.860	0.829	0.902	0.869	3.459	3.16%	13.00%	16.16%
4	FirstEnergy Corp.	72.39	0.604	0.589	0.574	0.560	2.326	3.21%	7.50%	10.71%
5	FPL Group, Inc.	65.33	0.507	0.491	0.476	0.461	1.935	2.96%	10.60%	13.56%
6	National Fuel Gas Co.	43.54	0.336	0.352	0.343	0.335	1.366	3.14%	7.50%	10.64%
7	PPL Corp.	49.41	0.373	0.362	0.351	0.340	1.426	2.89%	10.33%	13.22%
8	Progress Energy	45.42	0.665	0.648	0.631	0.647	2.591	5.71%	5.20%	10.91%
9	Southern Co.	37.30	0.445	0.435	0.426	0.417	1.722	4.62%	4.40%	9.02%
	Average							4.07%	7.72%	11.79%

2005 Case Methodology Source: Docket No. 05-0597, ICC Staff Exhibit 5.0, pages 5-8 and Schedules 5.3-5.6.

Notes:

Column 1: See ICC Staff Exhibit 4.0, Schedule 4.6.

Columns 2-5: See backup workpapers associated with this Exhibit.

Column 6: Sum of columns 2-5.

Column 7: Column 6 divided by Column 1.

Column 8: See ICC Staff Exhibit 4.0, Schedule 4.5 (Stage 1 growth).

Column 9: Column 7 plus column 8.

Commonwealth Edison Co.

McNally DCF Analysis (with Revised Long-Term GDP Growth)

Three Stage DCF Model

No.	Company	(1)	(2)	(3)	(4)	(5)
		McNally Prices	Growth Rates			ROE
			Zacks Stage 1	Average Stage 2	GDP Stage 3	
1	Ameren Corp.	45.54	6.20%	6.35%	6.50%	12.67%
2	AGL Resources, Inc.	38.46	4.75%	5.63%	6.50%	10.82%
3	Entergy Corp.	109.57	13.00%	9.75%	6.50%	10.90%
4	FirstEnergy Corp.	72.39	7.50%	7.00%	6.50%	9.80%
5	FPL Group, Inc.	65.33	10.60%	8.55%	6.50%	10.12%
6	National Fuel Gas Co.	43.54	7.50%	7.00%	6.50%	9.81%
7	PPL Corp.	49.41	10.33%	8.42%	6.50%	9.99%
8	Progress Energy	45.42	5.20%	5.85%	6.50%	11.83%
9	Southern Co.	37.30	4.40%	5.45%	6.50%	10.66%
	Average		7.72%	7.11%	6.50%	10.73%

Notes:

Column 1: See ICC Staff Exhibit 4.0, Schedule 4.6.

Column 2: See ICC Staff Exhibit 4.0, Schedule 4.5 (Stage 1 growth).

Column 3: Average of Columns 3 & 5.

Column 4: See ComEd Exhibit 29.5.

Column 5: Rate that equates current prices with dividend stream that grows for years 1-5 at Stage 1 growth, for years 6-10 at Stage 2 growth, and for years 11-perpetuity at Stage 3 growth.

Commonwealth Edison Co.
Summary of Updated Gorman ROE Results

	(1)	(2)
	Summary of Results	
	Gorman	
	Initial	Updated
	ROE	ROE
DCF Models		
Constant Growth DCF	11.0%	11.0%
Two-Stage DCF	9.8%	11.0%
Risk Premium	10.0%	10.5%
CAPM	10.7%	10.7%
ROE Recommendation	10.2%	10.8%

Notes:

Column 1: See Table 2 at Gorman, page 33.

Column 2: Constant Growth DCF result not changed; see page 2 of this Exhibit for updated Two-Stage DCF result; see average of results from pages 3 and 5 for updated Risk Premium result; CAPM result not changed.

Commonwealth Edison Co.

Gorman Two-Stage Growth DCF Analysis Considering Long-Term GDP Growth

No.	Company	(1)	(2)	(3)	(4)	(5)
		Gorman Dividend D ₀	Gorman Price P ₀	Gorman First Stage Growth (EPS)	Second Stage Growth (GDP)	Updated Cost of Equity
1	ALLETE	\$1.64	\$40.05	6.25%	6.50%	10.80%
2	Alliant Energy Co.	\$1.40	\$40.70	6.78%	6.50%	10.19%
3	Ameren	\$2.54	\$52.58	6.43%	6.50%	11.62%
4	American Elec. Pwr.	\$1.64	\$46.89	5.63%	6.50%	10.06%
5	Cent. Vermont P.S.	\$0.92	\$29.68	8.90%	6.50%	10.14%
6	Cleco Corporation	\$0.90	\$27.13	13.53%	6.50%	11.24%
7	Con. Edison	\$2.32	\$47.60	3.57%	6.50%	11.06%
8	DTE Energy Co.	\$2.12	\$46.66	5.80%	6.50%	11.19%
9	Empire District	\$1.28	\$23.04	10.80%	6.50%	13.55%
10	Energy East Corp.	\$1.24	\$27.23	3.00%	6.50%	10.64%
11	FirstEnergy	\$2.00	\$71.28	8.40%	6.50%	9.71%
12	Hawaiian Electric	\$1.24	\$22.54	7.50%	6.50%	12.61%
13	MGE Energy, Inc.	\$1.42	\$34.50	NA	6.50%	NA
14	N.W. Nat'l Gas	\$1.86	\$41.93	4.50%	6.50%	10.82%
15	NICOR, Inc.	\$0.92	\$18.54	3.31%	6.50%	11.09%
16	NiSource Inc.	\$1.50	\$48.58	5.19%	6.50%	9.56%
17	NSTAR	\$1.40	\$35.06	6.17%	6.50%	10.68%
18	Piedmont Nat'l	\$1.00	\$25.97	5.65%	6.50%	10.43%
19	PNM Resources	\$0.92	\$21.86	9.32%	6.50%	11.55%
20	Pinnacle West	\$2.10	\$42.03	3.16%	6.50%	11.09%
21	Progress Energy	\$2.44	\$47.93	4.96%	6.50%	11.57%
22	Puget Energy, Inc.	\$1.00	\$27.60	4.94%	6.50%	10.08%
23	Southern Co.	\$1.61	\$37.87	4.71%	6.50%	10.67%
24	Teco Energy, Inc.	\$0.78	\$17.07	7.19%	6.50%	11.51%
25	UIL Holdings Co.	\$1.73	\$35.41	10.00%	6.50%	12.52%
26	Vectren Corp.	\$1.30	\$28.79	5.06%	6.50%	11.01%
27	Xcel Energy Inc.	\$0.92	\$22.31	6.07%	6.50%	10.80%
	Average	\$1.49	\$35.59	6.42%	6.50%	11.0%

Notes:

Columns 1-3: See IIEC Exhibit 2.9.

Column 4: See ComEd Exhibit 29.5.

Column 5: The internal rate of return implied by the price in column 2 and dividends for 150 periods. The initial dividend shown in column 1 is assumed to grow for the first five periods at the rate in column 3, then at the rate in column 4 for the remaining periods.

Commonwealth Edison Co.
Update of Gorman Risk Premium Analysis - Treasury Bond

	(1)	(2)	(3)
	TREASURY BOND YIELD	AUTHORIZED ELECTRIC RETURNS	INDICATED RISK PREMIUM
1986	7.78%	13.93%	6.15%
1987	8.59%	12.99%	4.40%
1988	8.96%	12.79%	3.83%
1989	8.45%	12.97%	4.52%
1990	8.61%	12.70%	4.09%
1991	8.14%	12.55%	4.41%
1992	7.67%	12.09%	4.42%
1993	6.59%	11.41%	4.82%
1994	7.37%	11.34%	3.97%
1995	6.88%	11.55%	4.67%
1996	6.71%	11.39%	4.68%
1997	6.61%	11.40%	4.79%
1998	5.58%	11.66%	6.08%
1999	5.87%	10.77%	4.90%
2000	5.94%	11.43%	5.49%
2001	5.49%	11.09%	5.60%
2002	5.43%	11.16%	5.73%
2003	4.96%	10.97%	6.01%
2004	5.05%	10.75%	5.70%
2005	4.65%	10.54%	5.89%
2006	4.91%	10.36%	5.45%
Jun-07	4.89%	10.27%	5.38%
AVERAGE	6.60%	11.64%	5.04%

INDICATED COST OF EQUITY

GORMAN TREASURY BOND YIELD	4.60%
MOODY'S AVG ANNUAL YIELD DURING STUDY	6.60%
INTEREST RATE DIFFERENCE	-2.00%
INTEREST RATE CHANGE COEFFICIENT	-39.46%
ADJUSTMENT TO AVG RISK PREMIUM	0.79%
BASIC RISK PREMIUM	5.04%
INTEREST RATE ADJUSTMENT	0.79%
EQUITY RISK PREMIUM	5.83%
GORMAN TREASURY BOND YIELD	4.60%
INDICATED EQUITY RETURN	10.43%

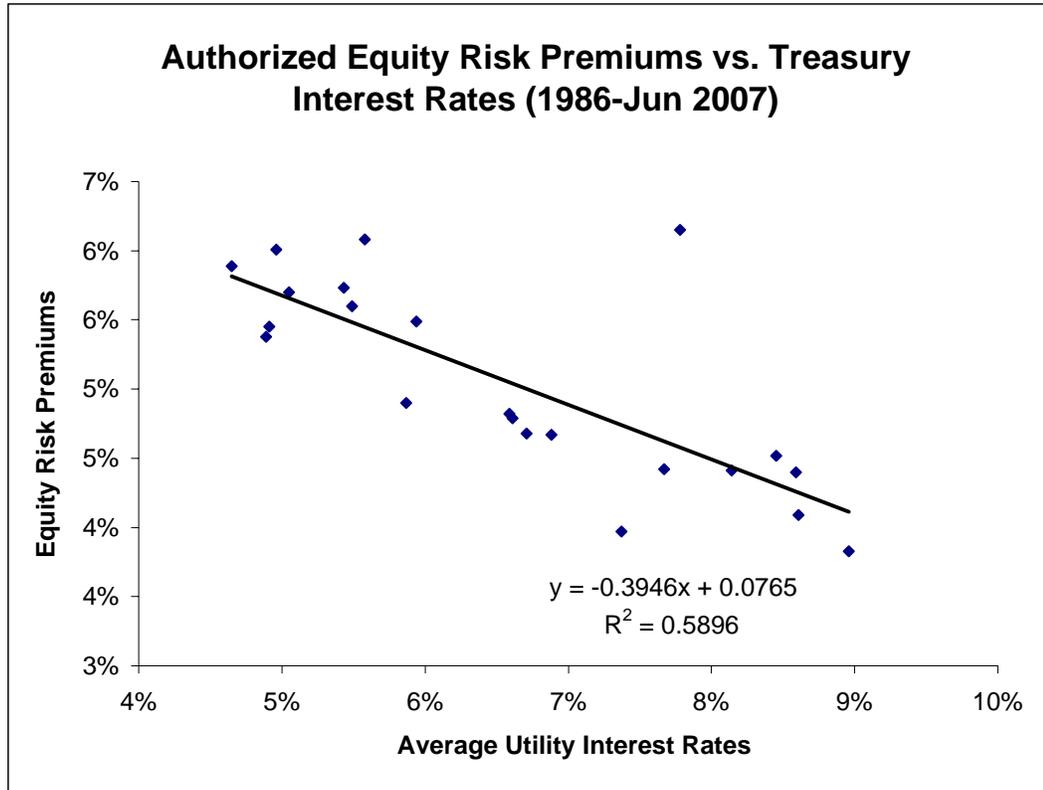
Notes:

Columns 1-3: IIEC Exhibit 2.11.

Gorman Direct, page 27, lines 597-598 for base Treasury bond yield.

See regression data on next page for derivation of "Interest Rate Change Coefficient."

Commonwealth Edison Co.
Update of Gorman Risk Premium Analysis - Treasury Bond



Commonwealth Edison Co.
 Update of Gorman Risk Premium Analysis - Utility Bond

	(1) MOODY'S "A" RATED PUBLIC UTILITY BOND YIELD	(2) AUTHORIZED ELECTRIC RETURNS	(3) INDICATED RISK PREMIUM
1986	9.58%	13.93%	4.35%
1987	10.10%	12.99%	2.89%
1988	10.49%	12.79%	2.30%
1989	9.77%	12.97%	3.20%
1990	9.86%	12.70%	2.84%
1991	9.36%	12.55%	3.19%
1992	8.69%	12.09%	3.40%
1993	7.59%	11.41%	3.82%
1994	8.31%	11.34%	3.03%
1995	7.89%	11.55%	3.66%
1996	7.75%	11.39%	3.64%
1997	7.60%	11.40%	3.80%
1998	7.04%	11.66%	4.62%
1999	7.62%	10.77%	3.15%
2000	8.24%	11.43%	3.19%
2001	7.76%	11.09%	3.33%
2002	7.37%	11.16%	3.79%
2003	6.58%	10.97%	4.39%
2004	6.16%	10.75%	4.59%
2005	5.65%	10.54%	4.89%
2006	6.07%	10.36%	4.29%
Jun-07	6.00%	10.27%	4.27%
AVERAGE	7.98%	11.64%	3.67%

INDICATED COST OF EQUITY

GORMAN "Baa" UTILITY BOND YIELD	6.40%
MOODY'S AVG ANNUAL YIELD DURING STUDY	<u>7.98%</u>
INTEREST RATE DIFFERENCE	-1.58%
INTEREST RATE CHANGE COEFFICIENT	<u>-38.13%</u>
ADJUSTMENT TO AVG RISK PREMIUM	0.60%
BASIC RISK PREMIUM	3.67%
INTEREST RATE ADJUSTMENT	<u>0.60%</u>
EQUITY RISK PREMIUM	<u>4.27%</u>
GORMAN "Baa" UTILITY BOND YIELD	6.40%
INDICATED EQUITY RETURN	<u><u>10.67%</u></u>

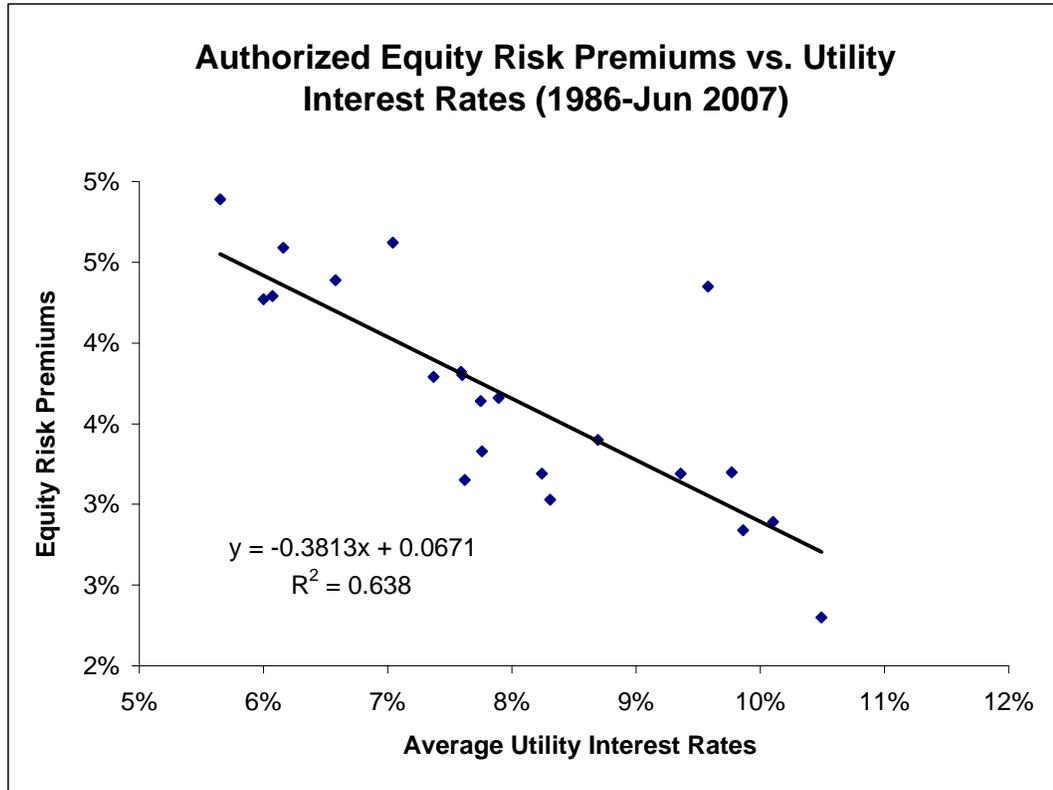
Source:

Columns 1-3: IIEC Exhibit 2.12.

Gorman Direct, page 27, lines 601-603 for base "Baa" utility bond yield.

See regression data on next page for derivation of "Interest Rate Change Coefficient."

Commonwealth Edison Co.
Update of Gorman Risk Premium Analysis - Utility Bond



Commonwealth Edison Co. GDP Growth Rate Forecast

	Nominal GDP	% Change	GDP Price Deflator	% Change	CPI	% Change
1947	244.2		15.5		22.3	
1948	269.2	10.2%	16.4	5.6%	24.1	7.7%
1949	267.3	-0.7%	16.4	-0.2%	23.8	-1.0%
1950	293.8	9.9%	16.5	1.0%	24.1	1.1%
1951	339.3	15.5%	17.7	7.2%	26.0	7.9%
1952	358.4	5.6%	18.0	1.7%	26.6	2.3%
1953	379.4	5.9%	18.2	1.2%	26.8	0.8%
1954	380.4	0.3%	18.4	1.0%	26.9	0.3%
1955	414.8	9.0%	18.7	1.8%	26.8	-0.2%
1956	437.5	5.5%	19.4	3.5%	27.2	1.4%
1957	461.1	5.4%	20.0	3.3%	28.1	3.4%
1958	467.2	1.3%	20.5	2.3%	28.9	2.7%
1959	506.6	8.4%	20.8	1.2%	29.2	1.0%
1960	526.4	3.9%	21.0	1.4%	29.6	1.5%
1961	544.7	3.5%	21.3	1.1%	29.9	1.0%
1962	585.6	7.5%	21.6	1.4%	30.3	1.2%
1963	617.8	5.5%	21.8	1.1%	30.6	1.3%
1964	663.6	7.4%	22.1	1.5%	31.0	1.3%
1965	719.1	8.4%	22.5	1.8%	31.6	1.6%
1966	787.8	9.5%	23.2	2.8%	32.5	3.0%
1967	832.6	5.7%	23.9	3.1%	33.4	2.7%
1968	910.0	9.3%	24.9	4.3%	34.8	4.2%
1969	984.6	8.2%	26.1	5.0%	36.7	5.4%
1970	1038.5	5.5%	27.5	5.3%	38.8	5.9%
1971	1127.1	8.5%	28.9	5.0%	40.5	4.2%
1972	1238.3	9.9%	30.2	4.3%	41.8	3.3%
1973	1382.7	11.7%	31.8	5.6%	44.4	6.3%
1974	1500.0	8.5%	34.7	9.1%	49.3	11.0%
1975	1638.3	9.2%	38.0	9.4%	53.8	9.1%
1976	1825.3	11.4%	40.2	5.8%	56.9	5.8%
1977	2030.9	11.3%	42.7	6.3%	60.6	6.5%
1978	2294.7	13.0%	45.7	7.0%	65.2	7.6%
1979	2563.3	11.7%	49.5	8.3%	72.6	11.3%
1980	2789.5	8.8%	54.0	9.1%	82.4	13.5%
1981	3128.4	12.1%	59.1	9.4%	90.9	10.4%
1982	3255.0	4.0%	62.7	6.1%	96.5	6.2%
1983	3536.7	8.7%	65.2	3.9%	99.6	3.2%
1984	3933.2	11.2%	67.6	3.8%	103.9	4.4%
1985	4220.3	7.3%	69.7	3.0%	107.6	3.5%
1986	4462.8	5.7%	71.2	2.2%	109.7	1.9%
1987	4739.5	6.2%	73.2	2.7%	113.6	3.6%
1988	5103.8	7.7%	75.7	3.4%	118.3	4.1%
1989	5484.4	7.5%	78.6	3.8%	123.9	4.8%
1990	5803.1	5.8%	81.6	3.9%	130.7	5.4%
1991	5995.9	3.3%	84.4	3.5%	136.2	4.2%
1992	6337.8	5.7%	86.4	2.3%	140.3	3.0%
1993	6657.4	5.0%	88.4	2.3%	144.5	3.0%
1994	7072.2	6.2%	90.3	2.1%	148.2	2.6%
1995	7397.7	4.6%	92.1	2.0%	152.4	2.8%
1996	7816.8	5.7%	93.8	1.9%	156.9	2.9%
1997	8304.3	6.2%	95.4	1.7%	160.5	2.3%
1998	8747.0	5.3%	96.5	1.1%	163.0	1.5%
1999	9268.4	6.0%	97.9	1.4%	166.6	2.2%
2000	9817.0	5.9%	100.0	2.2%	172.2	3.4%
2001	10128.0	3.2%	102.4	2.4%	177.0	2.8%
2002	10469.6	3.4%	104.2	1.7%	179.9	1.6%
2003	10960.8	4.7%	106.4	2.1%	184.0	2.3%
2004	11685.9	6.6%	109.5	2.9%	188.9	2.7%
2005	12433.9	6.4%	113.0	3.2%	195.3	3.4%
2006	13194.7	6.1%	116.6	3.2%	201.6	3.2%
2007	13843.0	4.9%	119.7	2.7%	207.3	2.9%
10-Year Average		5.2%		2.3%		2.6%
20-Year Average		5.5%		2.5%		3.1%
30-Year Average		6.6%		3.5%		4.2%
40-Year Average		7.3%		4.1%		4.7%
50-Year Average		7.1%		3.7%		4.1%
60-Year Average		7.0%		3.5%		3.8%
Average of Periods		6.5%		3.3%		3.8%

Source: St. Louis Federal Reserve Bank, www.research.stlouisfed.org

**Commonwealth Edison Co.
Discounted Cash Flow Analysis
Summary Of DCF Model Results**

Company	Constant Growth DCF Model Analysts' Growth Rates	Constant Growth DCF Model Long-Term GDP Growth	Low Near-Term Growth Two-Stage Growth DCF Model
1 ALLETE	10.2%	10.8%	10.3%
2 Alliant Energy Co.	10.2%	9.9%	9.9%
3 Ameren	10.8%	11.4%	10.6%
4 American Elec. Pwr.	9.5%	10.1%	10.4%
5 Cent. Vermont P.S.	12.1%	9.6%	9.1%
6 Cleco Corporation	17.3%	9.8%	10.4%
7 Con. Edison	8.4%	11.4%	10.7%
8 DTE Energy Co.	10.4%	11.2%	10.8%
9 Empire District	12.4%	12.1%	11.5%
10 FirstEnergy	12.5%	9.5%	9.4%
11 Hawaiian Electric	12.6%	12.0%	11.1%
12 MGE Energy, Inc.	NA	10.6%	10.1%
13 N.W. Nat'l Gas	8.2%	9.7%	9.8%
14 NICOR, Inc.	8.1%	10.9%	10.1%
15 NiSource Inc.	8.2%	11.5%	11.0%
16 NSTAR	10.1%	10.6%	10.6%
17 Piedmont Nat'l	9.3%	10.5%	10.2%
18 PNM Resources	14.0%	11.0%	10.7%
19 Pinnacle West	10.3%	11.5%	11.0%
20 Progress Energy	10.0%	11.6%	10.9%
21 Southern Co.	9.3%	10.9%	10.5%
22 Teco Energy, Inc.	10.1%	11.2%	10.7%
23 UIL Holdings Co.	14.9%	11.4%	10.6%
24 Vectren Corp.	9.5%	11.0%	10.6%
25 Xcel Energy Inc.	10.5%	10.7%	10.5%
GROUP AVERAGE	10.8%	10.8%	10.5%
GROUP MEDIAN	10.2%	10.9%	10.6%

Sources: Value Line Investment Survey, Electric Utility (East), Nov 30, 2007; (Central), Dec 28, 2007; (West), Feb 8, 2008; Natural Gas Utility, Dec 14, 2007.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Commonwealth Edison Co.
Constant Growth DCF Model
Analysts' Growth Rates

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Company	Recent Price(P0)	Next Year's Div(D1)	Dividend Yield	Analysts' Estimated Growth				Average Growth (Cols 4-7)	ROE K=Div Yld+G (Cols 3+8)
				Zacks	Reuters	Thomson	SNL		
1 ALLETE	39.26	1.68	4.28%	5.00%	8.75%	5.00%	5.00%	5.94%	10.2%
2 Alliant Energy Co.	40.69	1.40	3.44%	6.00%	7.00%	6.00%	8.00%	6.75%	10.2%
3 Ameren	51.79	2.54	4.90%	5.00%	7.00%	5.40%	6.10%	5.88%	10.8%
4 American Elec. Pwr.	46.81	1.67	3.57%	5.40%	5.78%	6.03%	6.50%	5.93%	9.5%
5 Cent. Vermont P.S.	29.23	0.92	3.15%	NA	9.00%	8.90%	NA	8.95%	12.1%
6 Cleco Corporation	27.04	0.90	3.33%	9.50%	15.50%	14.00%	17.00%	14.00%	17.3%
7 Con. Edison	47.95	2.34	4.88%	3.20%	4.04%	3.76%	3.00%	3.50%	8.4%
8 DTE Energy Co.	46.50	2.18	4.69%	6.00%	6.00%	5.75%	5.00%	5.69%	10.4%
9 Empire District	22.77	1.28	5.62%	NA	6.00%	6.00%	8.40%	6.80%	12.4%
10 FirstEnergy	70.57	2.15	3.05%	7.50%	11.25%	11.00%	8.20%	9.49%	12.5%
11 Hawaiian Electric	22.75	1.24	5.45%	4.50%	3.60%	7.60%	13.00%	7.18%	12.6%
12 MGE Energy, Inc.	34.95	1.43	4.09%	NA	NA	NA	NA	NA	NA
13 N.W. Nat'l Gas	47.92	1.52	3.17%	5.30%	4.90%	4.88%	5.00%	5.02%	8.2%
14 NICOR, Inc.	42.63	1.86	4.36%	4.00%	4.33%	3.80%	3.00%	3.78%	8.1%
15 NiSource Inc.	18.43	0.92	4.99%	2.80%	3.10%	2.90%	4.00%	3.20%	8.2%
16 NSTAR	34.78	1.43	4.11%	6.20%	5.87%	6.04%	6.00%	6.03%	10.1%
17 Piedmont Nat'l	26.21	1.04	3.97%	5.50%	5.16%	5.23%	5.50%	5.35%	9.3%
18 PNM Resources	21.63	0.97	4.49%	5.80%	11.50%	9.42%	11.40%	9.53%	14.0%
19 Pinnacle West	42.02	2.12	5.05%	6.70%	5.58%	3.63%	NA	5.30%	10.3%
20 Progress Energy	48.11	2.47	5.13%	4.60%	4.52%	4.88%	5.30%	4.83%	10.0%
21 Southern Co.	38.10	1.66	4.36%	4.60%	5.06%	5.21%	5.00%	4.97%	9.3%
22 Teco Energy, Inc.	17.03	0.80	4.70%	7.30%	5.00%	4.45%	4.90%	5.41%	10.1%
23 UIL Holdings Co.	35.25	1.73	4.91%	NA	12.00%	10.00%	8.00%	10.00%	14.9%
24 Vectren Corp.	28.85	1.31	4.54%	4.70%	5.00%	4.85%	5.20%	4.94%	9.5%
25 Xcel Energy Inc.	22.49	0.95	4.22%	5.20%	6.12%	6.94%	7.00%	6.32%	10.5%
GROUP AVERAGE	36.15	1.54	4.34%	5.47%	6.75%	6.32%	6.84%	6.45%	10.8%
GROUP MEDIAN			4.36%						10.2%

Sources: Value Line Investment Survey, Electric Utility (East), Nov 30, 2007; (Central), Dec 28, 2007; (West), Feb 8, 2008; Natural Gas Utility, Dec 14, 2007.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

**Commonwealth Edison Co.
Constant Growth DCF Model
Long-Term GDP Growth**

	(10)	(11)	(12)	(13)	(14)
Company	Next			GDP Growth	ROE K=Div Yld+G (Cols 12+13)
	Recent Price(P0)	Year's Div(D1)	Dividend Yield		
1 ALLETE	39.26	1.68	4.28%	6.50%	10.8%
2 Alliant Energy Co.	40.69	1.40	3.44%	6.50%	9.9%
3 Ameren	51.79	2.54	4.90%	6.50%	11.4%
4 American Elec. Pwr.	46.81	1.67	3.57%	6.50%	10.1%
5 Cent. Vermont P.S.	29.23	0.92	3.15%	6.50%	9.6%
6 Cleco Corporation	27.04	0.90	3.33%	6.50%	9.8%
7 Con. Edison	47.95	2.34	4.88%	6.50%	11.4%
8 DTE Energy Co.	46.50	2.18	4.69%	6.50%	11.2%
9 Empire District	22.77	1.28	5.62%	6.50%	12.1%
10 FirstEnergy	70.57	2.15	3.05%	6.50%	9.5%
11 Hawaiian Electric	22.75	1.24	5.45%	6.50%	12.0%
12 MGE Energy, Inc.	34.95	1.43	4.09%	6.50%	10.6%
13 N.W. Nat'l Gas	47.92	1.52	3.17%	6.50%	9.7%
14 NICOR, Inc.	42.63	1.86	4.36%	6.50%	10.9%
15 NiSource Inc.	18.43	0.92	4.99%	6.50%	11.5%
16 NSTAR	34.78	1.43	4.11%	6.50%	10.6%
17 Piedmont Nat'l	26.21	1.04	3.97%	6.50%	10.5%
18 PNM Resources	21.63	0.97	4.49%	6.50%	11.0%
19 Pinnacle West	42.02	2.12	5.05%	6.50%	11.5%
20 Progress Energy	48.11	2.47	5.13%	6.50%	11.6%
21 Southern Co.	38.10	1.66	4.36%	6.50%	10.9%
22 Teco Energy, Inc.	17.03	0.80	4.70%	6.50%	11.2%
23 UIL Holdings Co.	35.25	1.73	4.91%	6.50%	11.4%
24 Vectren Corp.	28.85	1.31	4.54%	6.50%	11.0%
25 Xcel Energy Inc.	22.49	0.95	4.22%	6.50%	10.7%
GROUP AVERAGE	36.15	1.54	4.34%	6.50%	10.8%
GROUP MEDIAN			4.36%		10.9%

Sources: Value Line Investment Survey, Electric Utility (East), Nov 30, 2007; (Central), Dec 28, 2007; (West), Feb 8, 2008; Natural Gas Utility, Dec 14, 2007.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Commonwealth Edison Co.
Low Near-Term Growth
Two-Stage Growth DCF Model

	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
Company	Next	Annual	Recent	CASH FLOWS							ROE=Internal Rate of Return (Yrs 0-150)
	Year's Div	2011 Div		Change to 2011	Year 1 Div	Year 2 Div	Year 3 Div	Year 4 Div	Year 5 Div	Year 5-150 Div Growth	
1 ALLETE	1.68	1.80	0.04	-39.26	1.68	1.72	1.76	1.80	1.92	6.50%	10.3%
2 Alliant Energy Co.	1.40	1.70	0.10	-40.69	1.40	1.50	1.60	1.70	1.81	6.50%	9.9%
3 Ameren	2.54	2.54	0.00	-51.79	2.54	2.54	2.54	2.54	2.71	6.50%	10.6%
4 American Elec. Pwr.	1.67	2.20	0.18	-46.81	1.67	1.85	2.02	2.20	2.34	6.50%	10.4%
5 Cent. Vermont P.S.	0.92	0.92	0.00	-29.23	0.92	0.92	0.92	0.92	0.98	6.50%	9.1%
6 Cleco Corporation	0.90	1.30	0.13	-27.04	0.90	1.03	1.17	1.30	1.38	6.50%	10.4%
7 Con. Edison	2.34	2.40	0.02	-47.95	2.34	2.36	2.38	2.40	2.56	6.50%	10.7%
8 DTE Energy Co.	2.18	2.40	0.07	-46.50	2.18	2.25	2.33	2.40	2.56	6.50%	10.8%
9 Empire District	1.28	1.35	0.02	-22.77	1.28	1.30	1.33	1.35	1.44	6.50%	11.5%
10 FirstEnergy	2.15	2.50	0.12	-70.57	2.15	2.27	2.38	2.50	2.66	6.50%	9.4%
11 Hawaiian Electric	1.24	1.24	0.00	-22.75	1.24	1.24	1.24	1.24	1.32	6.50%	11.1%
12 MGE Energy, Inc.	1.43	1.50	0.02	-34.95	1.43	1.45	1.48	1.50	1.60	6.50%	10.1%
13 N.W. Nat'l Gas	1.52	1.92	0.13	-47.92	1.52	1.65	1.79	1.92	2.04	6.50%	9.8%
14 NICOR, Inc.	1.86	1.86	0.00	-42.63	1.86	1.86	1.86	1.86	1.98	6.50%	10.1%
15 NiSource Inc.	0.92	1.00	0.03	-18.43	0.92	0.95	0.97	1.00	1.07	6.50%	11.0%
16 NSTAR	1.43	1.75	0.11	-34.78	1.43	1.54	1.64	1.75	1.86	6.50%	10.6%
17 Piedmont Nat'l	1.04	1.16	0.04	-26.21	1.04	1.08	1.12	1.16	1.24	6.50%	10.2%
18 PNM Resources	0.97	1.09	0.04	-21.63	0.97	1.01	1.05	1.09	1.16	6.50%	10.7%
19 Pinnacle West	2.12	2.28	0.05	-42.02	2.12	2.17	2.23	2.28	2.43	6.50%	11.0%
20 Progress Energy	2.47	2.53	0.02	-48.11	2.47	2.49	2.51	2.53	2.69	6.50%	10.9%
21 Southern Co.	1.66	1.85	0.06	-38.10	1.66	1.72	1.79	1.85	1.97	6.50%	10.5%
22 Teco Energy, Inc.	0.80	0.86	0.02	-17.03	0.80	0.82	0.84	0.86	0.92	6.50%	10.7%
23 UIL Holdings Co.	1.73	1.73	0.00	-35.25	1.73	1.73	1.73	1.73	1.84	6.50%	10.6%
24 Vectren Corp.	1.31	1.43	0.04	-28.85	1.31	1.35	1.39	1.43	1.52	6.50%	10.6%
25 Xcel Energy Inc.	0.95	1.10	0.05	-22.49	0.95	1.00	1.05	1.10	1.17	6.50%	10.5%
GROUP AVERAGE											10.5%
GROUP MEDIAN											10.6%

Sources: Value Line Investment Survey, Electric Utility (East), Nov 30, 2007; (Central), Dec 28, 2007; (West), Feb 8, 2008;
Natural Gas Utility, Dec 14, 2007.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

**Commonwealth Edison Co.
Discounted Cash Flow Analysis
Column Descriptions**

Column 1: Three-month Average Price per Share (Nov 2007-Jan 2008)	Column 13: Average of GDP Growth During the Last 10 year, 20 year, 30 year, 40 year, 50 year, and 60 year growth periods. See Exhibit 29.5.
Column 2: Estimated 2008 Dividends per Share from Value Line	
Column 3: Column 2 Divided by Column 1	Column 14: Column 12 Plus Column 13
Column 4: "Next 5 Years" Company Growth Estimate as Reported by Zacks.com	Column 15: See Column 2
Column 5: Mean Estimate of "LT Growth Rate (%)" Reported by Reuters.com	Column 16: Estimated 2011 Dividends per Share from Value Line
Column 6: "Next 5 Years (per annum) Growth Estimate Reported by Thomson Financial Network (at Yahoo Finance)	Column 17: (Column 16 Minus Column 15) Divided by Three
Column 7: Mean "LTGR" (Long-Term Growth Rate) Reported by SNL	Column 18: See Column 1
Column 8: Average of Columns 4-7	Column 19: See Column 15
Column 9: Column 3 Plus Column 8	Column 20: Column 19 Plus Column 17
Column 10: See Column 1	Column 21: Column 20 Plus Column 17
Column 11: See Column 2	Column 22: Column 21 Plus Column 17
Column 12: Column 11 Divided by Column 10	Column 23: Column 22 Increased by the Growth Rate Shown in Column 24
	Column 24: See Column 13
	Column 25: The Internal Rate of Return of the Cash Flows in Columns 18-23 along with the Dividends for the Years 6-150 Implied by the Growth Rates shown in Column 24

Commonwealth Edison Co.
Quarterly Dividend DCF Model

No.	Company	Value Line					Dividend Yield	Analysts'		
		Stock Prices	Compounded Quarterly Dividends			"D ₁ "		Growth Rate	ROE	
1	ALLETE	39.64	0.454	0.443	0.432	0.422	1.752	4.42%	5.94%	10.4%
2	Alliant Energy Co.	41.70	0.380	0.371	0.362	0.353	1.465	3.51%	6.75%	10.3%
3	Ameren	53.80	0.683	0.666	0.649	0.633	2.631	4.89%	5.88%	10.8%
4	American Elec. Pwr.	47.14	0.448	0.438	0.428	0.418	1.733	3.68%	5.93%	9.6%
5	Cent. Vermont P.S.	28.30	0.251	0.244	0.237	0.230	0.963	3.40%	8.95%	12.4%
6	Cleco Corporation	27.25	0.258	0.247	0.238	0.228	0.971	3.56%	14.00%	17.6%
7	Con. Edison	47.50	0.619	0.606	0.594	0.582	2.400	5.05%	3.50%	8.6%
8	DTE Energy Co.	45.88	0.599	0.584	0.569	0.555	2.306	5.03%	5.69%	10.7%
9	Empire District	22.87	0.350	0.340	0.330	0.320	1.341	5.86%	6.80%	12.7%
10	FirstEnergy	67.74	0.586	0.569	0.552	0.535	2.242	3.31%	9.49%	12.8%
11	Hawaiian Electric	22.08	0.346	0.335	0.325	0.315	1.321	5.98%	7.18%	13.2%
12	MGE Energy, Inc.	35.24	0.387	0.377	0.367	0.358	1.490	4.23%	NA	NA
13	N.W. Nat'l Gas	47.92	0.405	0.397	0.389	0.382	1.573	3.28%	5.02%	8.3%
14	NICOR, Inc.	42.63	0.497	0.487	0.478	0.468	1.931	4.53%	3.78%	8.3%
15	NiSource Inc.	18.56	0.246	0.241	0.236	0.231	0.954	5.14%	3.20%	8.3%
16	NSTAR	34.70	0.379	0.380	0.371	0.362	1.491	4.30%	6.03%	10.3%
17	Piedmont Nat'l	26.21	0.282	0.275	0.269	0.263	1.090	4.16%	5.35%	9.5%
18	PNM Resources	18.96	0.277	0.268	0.258	0.250	1.053	5.55%	9.53%	15.1%
19	Pinnacle West	39.53	0.582	0.568	0.553	0.539	2.242	5.67%	5.30%	11.0%
20	Progress Energy	47.37	0.668	0.651	0.636	0.620	2.575	5.44%	4.83%	10.3%
21	Southern Co.	37.69	0.442	0.432	0.423	0.413	1.711	4.54%	4.97%	9.5%
22	Teco Energy, Inc.	17.07	0.215	0.209	0.204	0.199	0.828	4.85%	5.41%	10.3%
23	UIL Holdings Co.	35.09	0.490	0.473	0.457	0.441	1.861	5.30%	10.00%	15.3%
24	Vectren Corp.	29.11	0.352	0.344	0.336	0.329	1.362	4.68%	4.94%	9.6%
25	Xcel Energy Inc.	20.60	0.258	0.251	0.245	0.238	0.991	4.81%	6.32%	11.1%
Average										
Median										
<u>11.1%</u>										
<u>10.3%</u>										

Sources: Company websites and Value Line Investment Survey: Electric Utility (East), Nov 30, 2007; (Central), Dec 28, 2007; (West), Feb 8, 2008; Natural Gas Utility, Dec 14, 2007.

Commonwealth Edison Co. Capital Asset Pricing Model Analysis

Long-Term CAPM Analysis

Risk-free Rate ¹	Value Line Beta ²	Long-Term Ibbotson Risk Premium ³	Cost of Common Equity			
5.10%	+	0.87	x	5.75%	=	<u>10.10%</u>

Notes:

¹ Projected 30-yr Treasury bond rate from ComEd Exhibit 29.1.

² Average beta from Value Line sheets for each comparable company. Value Line Investment Survey, Electric Utility (East), Nov 30, 2007; (Central), Dec 28, 2007; (West), Feb 8, 2008.

³ Ibbotson Associates 2007 Yearbook, page 31, average of Geometric and Arithmetic risk premiums; Long-Term risk premium is difference between "Large Company Stocks" and "Long-Term Government."

Commonwealth Edison Co.
Risk Premium Analysis (Electric)

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED ELECTRIC RETURNS (2)	INDICATED RISK PREMIUM
1980	13.15%	14.23%	1.08%
1981	15.62%	15.22%	-0.40%
1982	15.33%	15.78%	0.45%
1983	13.31%	15.36%	2.05%
1984	14.03%	15.32%	1.29%
1985	12.29%	15.20%	2.91%
1986	9.46%	13.93%	4.47%
1987	9.98%	12.99%	3.01%
1988	10.45%	12.79%	2.34%
1989	9.66%	12.97%	3.31%
1990	9.76%	12.70%	2.94%
1991	9.21%	12.55%	3.34%
1992	8.57%	12.09%	3.52%
1993	7.56%	11.41%	3.85%
1994	8.30%	11.34%	3.04%
1995	7.91%	11.55%	3.64%
1996	7.74%	11.39%	3.65%
1997	7.63%	11.40%	3.77%
1998	7.00%	11.66%	4.66%
1999	7.55%	10.77%	3.22%
2000	8.14%	11.43%	3.29%
2001	7.72%	11.09%	3.37%
2002	7.53%	11.16%	3.63%
2003	6.61%	10.97%	4.36%
2004	6.20%	10.75%	4.55%
2005	5.67%	10.54%	4.87%
2006	6.08%	10.36%	4.28%
2007	6.11%	10.36%	4.25%
AVERAGE	9.23%	12.40%	3.17%

INDICATED COST OF EQUITY

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.50%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.23%
INTEREST RATE DIFFERENCE	<u>-2.73%</u>

INTEREST RATE CHANGE COEFFICIENT	<u>-41.83%</u>
ADJUSTMENT TO AVG RISK PREMIUM	1.14%

BASIC RISK PREMIUM	3.17%
INTEREST RATE ADJUSTMENT	1.14%
EQUITY RISK PREMIUM	<u>4.31%</u>

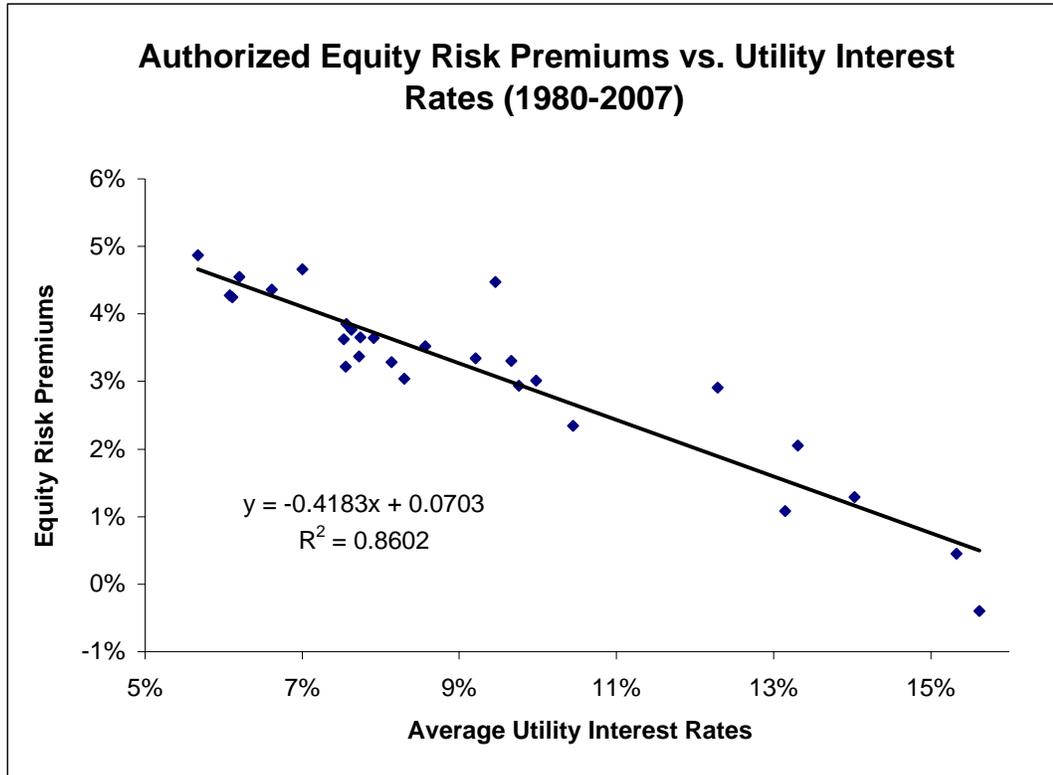
PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.50%
INDICATED EQUITY RETURN	<u>10.81%</u>

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*Projected triple-B bond yield is 140 basis points over projected 30-year Treasury bond rate of 5.1% from ComEd Exhibit 29.1. The average triple-B spread for 2007 was 142 basis points.

Commonwealth Edison Co.
Risk Premium Analysis (Electric)



Commonwealth Edison Co.
Risk Premium Analysis (LDC)

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED GAS COMPANY RETURNS (2)	INDICATED RISK PREMIUM
1980	13.15%	14.05%	0.90%
1981	15.62%	15.11%	-0.51%
1982	15.33%	15.62%	0.29%
1983	13.31%	15.25%	1.94%
1984	14.03%	15.31%	1.28%
1985	12.29%	14.75%	2.46%
1986	9.46%	13.46%	4.00%
1987	9.98%	12.74%	2.76%
1988	10.45%	12.85%	2.40%
1989	9.66%	12.88%	3.22%
1990	9.76%	12.67%	2.91%
1991	9.21%	12.46%	3.25%
1992	8.57%	12.01%	3.44%
1993	7.56%	11.35%	3.79%
1994	8.30%	11.35%	3.05%
1995	7.91%	11.43%	3.52%
1996	7.74%	11.19%	3.45%
1997	7.63%	11.29%	3.66%
1998	7.00%	11.51%	4.51%
1999	7.55%	10.66%	3.11%
2000	8.14%	11.39%	3.25%
2001	7.72%	10.95%	3.23%
2002	7.53%	11.03%	3.50%
2003	6.61%	10.99%	4.38%
2004	6.20%	10.59%	4.39%
2005	5.67%	10.46%	4.79%
2006	6.08%	10.43%	4.35%
2007	6.11%	10.24%	4.13%
AVERAGE	9.23%	12.29%	3.05%

INDICATED COST OF EQUITY

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.50%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.23%
INTEREST RATE DIFFERENCE	<u>-2.73%</u>

INTEREST RATE CHANGE COEFFICIENT	-42.69%
ADJUSTMENT TO AVG RISK PREMIUM	<u>1.17%</u>

BASIC RISK PREMIUM	3.05%
INTEREST RATE ADJUSTMENT	1.17%
EQUITY RISK PREMIUM	<u>4.22%</u>

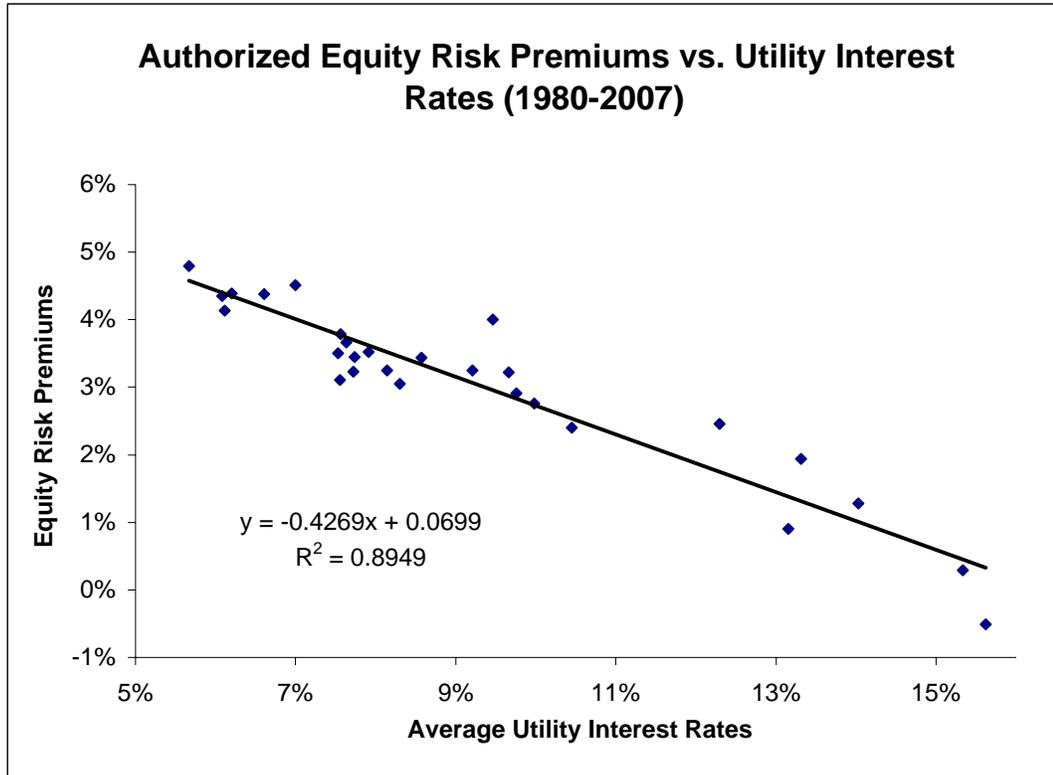
PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.50%
INDICATED EQUITY RETURN	<u>10.72%</u>

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*Projected triple-B bond yield is 140 basis points over projected 30-year Treasury bond rate of 5.1% from ComEd Exhibit 29.1. The average triple-B spread for 2007 was 142 basis points.

Commonwealth Edison Co.
Risk Premium Analysis (LDC)



STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	No. 07-0566
Proposed general increase in electric rates	:	
	:	

Surrebuttal Testimony of
SAMUEL C. HADAWAY, PH.D.
Principal
FINANCO, INC.

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1 **I. Introduction and Summary of Surrebuttal Testimony**

2 Q. Please state your name and affiliation.

3 A. My name is Samuel C. Hadaway. I previously filed Direct and Rebuttal
4 Testimony on behalf of Commonwealth Edison Company ("ComEd") in this
5 proceeding.

6 **A. Purpose of Testimony**

7 Q. What is the purpose of your Surrebuttal Testimony?

8 A. The purpose of my testimony is to respond to the Rebuttal Testimony concerning
9 the return on equity ("ROE") of Illinois Commerce Commission Staff ("Staff")
10 witness Michael McNally, Illinois Industrial Energy Consumers ("IIEC") witness
11 Michael P. Gorman, and Citizens' Utility Board ("CUB") witness Christopher
12 C. Thomas.

13 **B. Overview of Other Parties' Rebuttal**

14 Q. What are the other parties' principal responses to your Rebuttal Testimony?

15 A. The other parties disagree with my criticisms of their initial recommendations and
16 continue to support the same ROEs they recommended in their Direct Testimony
17 (Staff, 10.3 percent; IIEC, 10.2 percent; and CUB, 7.77 percent). As I
18 demonstrated in my Direct Testimony and reconfirmed in my Rebuttal testimony,
19 ComEd's cost of equity capital is 10.75 percent.

20 Q. Have corporate capital costs continued to rise since you prepared your rebuttal
21 testimony?

22 A. Yes. Contrary to Mr. Gorman's specific statements about declining capital costs,
23 Table 1 shows that interest rates for triple-B corporate borrowers like ComEd
24 have continued to increase. Relative to triple-B interest rates that existed when
25 ComEd's initial case was prepared in September 2007 (6.36 percent), average
26 triple-B utility rates for March 2008 were 6.68 percent and have increased further.
27 Additionally, as indicated in the two right-hand columns of Table 1, corporate
28 interest rate spreads (corporate interest rates minus U.S. Treasury rates) have also
29 continued to increase, reflecting the ongoing market turbulence that corporate
30 entities face in their efforts to raise capital.

Table 1
Long-Term Interest Rate Trends

Month	Triple-B Utility Rates	20-Year Treasury Rates	10-Year Treasury Rates	20-Year Treasury Spreads	10-Year Treasury Spreads
Jan-05	5.95%	4.77%	4.22%	1.18%	1.73%
Feb-05	5.78%	4.61%	4.17%	1.17%	1.61%
Mar-05	6.01%	4.89%	4.50%	1.12%	1.51%
Apr-05	5.95%	4.75%	4.34%	1.20%	1.61%
May-05	5.88%	4.56%	4.14%	1.32%	1.74%
Jun-05	5.70%	4.35%	4.00%	1.35%	1.70%
Jul-05	5.81%	4.48%	4.18%	1.33%	1.63%
Aug-05	5.80%	4.53%	4.26%	1.27%	1.54%
Sep-05	5.83%	4.51%	4.20%	1.32%	1.63%
Oct-05	6.08%	4.74%	4.46%	1.34%	1.62%
Nov-05	6.19%	4.83%	4.54%	1.36%	1.65%
Dec-05	6.14%	4.73%	4.47%	1.41%	1.67%
Jan-06	6.06%	4.65%	4.42%	1.41%	1.64%
Feb-06	6.11%	4.73%	4.57%	1.38%	1.54%
Mar-06	6.25%	4.91%	4.72%	1.34%	1.53%
Apr-06	6.54%	5.22%	4.99%	1.32%	1.55%
May-06	6.59%	5.35%	5.11%	1.24%	1.48%
Jun-06	6.61%	5.29%	5.11%	1.32%	1.50%
Jul-06	6.61%	5.25%	5.09%	1.36%	1.52%
Aug-06	6.43%	5.08%	4.88%	1.35%	1.55%
Sep-06	6.26%	4.93%	4.72%	1.33%	1.54%
Oct-06	6.24%	4.94%	4.73%	1.30%	1.51%
Nov-06	6.04%	4.78%	4.60%	1.26%	1.44%
Dec-06	6.05%	4.78%	4.56%	1.27%	1.49%
Jan-07	6.16%	4.95%	4.76%	1.21%	1.40%
Feb-07	6.10%	4.93%	4.72%	1.17%	1.38%
Mar-07	6.10%	4.81%	4.56%	1.29%	1.54%
Apr-07	6.24%	4.95%	4.69%	1.29%	1.55%
May-07	6.23%	4.98%	4.75%	1.25%	1.48%
Jun-07	6.54%	5.29%	5.10%	1.25%	1.44%
Jul-07	6.49%	5.19%	5.00%	1.30%	1.49%
Aug-07	6.51%	5.00%	4.67%	1.51%	1.84%
Sep-07	6.45%	4.84%	4.52%	1.61%	1.93%
Oct-07	6.36%	4.83%	4.53%	1.53%	1.83%
Nov-07	6.27%	4.56%	4.15%	1.71%	2.12%
Dec-07	6.51%	4.57%	4.10%	1.94%	2.41%
Jan-08	6.35%	4.35%	3.74%	2.00%	2.61%
Feb-08	6.60%	4.49%	3.74%	2.11%	2.86%
Mar-08	6.68%	4.36%	3.51%	2.32%	3.17%

Sources: Mergent Bond Record (Utility Rates);
www.federalreserve.gov (Treasury Rates).

32 Q. What levels of interest rates are forecast for the coming year?

33 A. Both corporate and government interest rates are expected to rise from present
34 levels. I have reproduced as ComEd Exhibit 42.1 Standard & Poor's most recent
35 economic forecast from its *Trends & Projections* publication for March 2008.
36 The summary interest rate data from that publication are presented in the
37 following table:

Table 2
Standard & Poor's Interest Rate Forecast

	Mar. 2008 Average	Average 2008 Est.	Average 2009 Est.
Treasury Bills	1.3%	1.7%	2.6%
10-Yr. T-Bonds	3.5%	3.7%	4.8%
30-Yr. T-Bonds	4.4%	4.3%	5.0%
Aaa Corporate Bonds	5.5%	5.5%	6.1%

Sources: Federal Reserve System website (Actual Rates); Standard
& Poor's *Trends & Projections*, March 2008, page 8 (Projected Rates).

38 The data in Table 2 show that interest rates are projected to increase further
39 during the coming year. Relative to current levels, 10-year Treasury rates for
40 2009 are expected to increase by 130 basis points and rates on 30-year Treasury
41 bonds are expected to increase by 60 basis points. Corporate borrowing costs are
42 also expected to increase by an additional 60 basis points.

43 These factors indicate that the other parties' ROE recommendations are
44 below the cost of equity for ComEd. Their recommendations are inconsistent
45 with the wider corporate spreads that borrowers like ComEd are currently
46 required to pay. Their positions are also inconsistent with projections for further
47 interest rate increases in 2009.

48 **II. Response to Staff Witness Michael McNally**

49 Q. Did Mr. McNally update his estimate of ComEd's cost of equity in his rebuttal
50 testimony?

51 A. No. He did not.

52 Q. On March 14, 2008, Staff witness Janis Freetly submitted Direct Testimony in
53 ICC Docket 07-0585-0590 recommending a cost of equity for the Ameren utilities
54 of approximately 10.7 percent. Did Staff use a different methodology in the
55 Ameren proceeding to estimate cost of equity than Mr. McNally used in this
56 proceeding?

57 A. No. Ms. Freetly used the same methodology that Mr. McNally used.

58 Q. If Ms. Freetly and Mr. McNally used the same methodology, why did
59 Ms. Freetly's analysis in ICC Docket 07-0585-0590 result in a 10.7 percent cost of
60 equity, whereas the outcome of Mr. McNally's analysis (performed only one
61 month earlier) was a 10.3 percent equity cost?

62 A. Although Ms. Freetly and Mr. McNally used different comparable company
63 samples, the principal difference between the two estimates is the date of the data
64 used as inputs for the analyses. If Mr. McNally's analysis were performed using
65 data inputs as of the same dates used in Ms. Freetly's analysis, his cost of equity
66 result would have been 10.65 percent. ComEd Exhibit 42.2 to my testimony
67 contains an update of Mr. McNally's cost of equity analysis using the same input
68 dates as were used by Ms. Freetly.

69 Q. Do you know of any reason why Ameren should have a higher cost of equity than
70 ComEd under the present conditions?

71 A. No.

72 Q. Would the results of Ms. Freetly's and Mr. McNally's analyses be the same if
73 different dates were used?

74 A. No. As with all cost of equity estimates, the results could differ depending on the
75 dates used for the inputs.

76 Q. If Mr. McNally's analysis were updated to reflect more current inputs, would a
77 higher cost of equity result?

78 A. Yes. An update of Mr. McNally's analysis using data as of April 1, 2008 would
79 result in a cost of equity of approximately 10.5%.

80 Q. On pages 3-6, Mr. McNally argues that his forward Treasury bond forecast is a
81 useful estimate of expected growth in gross domestic product (GDP) and that your
82 criticisms of his approach are not valid. How do you respond?

83 A. I would refer to my Rebuttal Testimony (ComEd Ex. 29.0) at pages 9-12.
84 Mr. McNally's response is largely off point, and his present arguments for his
85 approach are simply wrong. In my Rebuttal Testimony, I demonstrated that
86 Mr. McNally's forward interest rate forecast is entirely defined by existing 10-
87 year and 30-year Treasury bond interest rates. I showed that his forecast is
88 unstable and entirely dependent on then-existing interest rates and the shape of the
89 U.S. Treasury yield curve. Using only the monthly data for 2007, I demonstrated
90 that his GDP growth estimate would have ranged from 4.71 percent to 5.25

91 percent—hardly the kind of stability that is required for the *constant growth rate*
92 in the DCF model.

93 His present claim (Staff Ex. 17.0, page 3, at lines 52-56) that he chose a
94 10-year forward rate because the terminal stage of his DCF model begins ten
95 years in the future is not correct. The terminal stage of his multi-stage model is,
96 in fact, the constant growth stage of that model. For Mr. McNally to claim that a
97 10-year forward interest rate is somehow related to this issue is at best confusing
98 and potentially misleading. In fact, Mr. McNally's statistical calculations are
99 unrelated to either long-term GDP growth rate expectations or to the long-run
100 growth rate that is required in the DCF model.

101 Q. At pages 6-7, Mr. McNally again applies the "b times r" growth rate
102 methodology, which the Commission has rejected (GTE North Inc 10/11/1994,
103 1994 WL 711847, Ill.C.C., Oct 11, 1994, (NO. 93-0301, 94-0041)) and concludes
104 that a sustainable growth rate of 4.31 percent is reasonable. How do you respond?

105 A. I would again refer to my Rebuttal Testimony (ComEd Ex. 29.0) at page 13-14.
106 Even if arguably Mr. McNally's sample produces a higher "b times r" growth rate,
107 it remains true that with a 4.0 percent to 4.5 percent dividend yield, his 4.31
108 percent growth rate produces an ROE range of only 8.31 percent to
109 8.81 percent—again far below the reasonable cost of equity. In other words, Mr.
110 McNally's approach does not address the flaws in the "b time r" method that
111 caused the Commission to reject it.

112 **III. Response to IIEC Witness Michael P. Gorman**

113 Q. At page 3, Mr. Gorman states that interest rates have not increased since you filed
114 your Direct Testimony. Do you agree?

115 A. No. As noted previously, with respect to corporate borrowing costs,
116 Mr. Gorman's statement is incorrect. His discussion is potentially confusing
117 because he focuses on changes in Treasury bond rates rather than changes in
118 interest rates for corporate borrowers like ComEd. These two rates are moving in
119 different directions and Mr. Gorman's contention with respect to the cost of
120 capital for ComEd is simply wrong. As I demonstrated previously in Table 1,
121 since I prepared my direct testimony with data through September 2007, interest
122 rates on triple-B rated utility debt increased from 6.36 percent to 6.68 percent.
123 And while rates on Treasury bonds have declined, spreads between Treasury
124 bonds and corporate debt have widened significantly. Mr. Gorman's Government
125 bond interest rate discussion is not on point with respect to ComEd's cost of
126 capital and should be disregarded.

127 Q. At pages 6-12, Mr. Gorman provides a lengthy risk premium discussion, arguing
128 that there is no inverse relationship between interest rates and equity risk
129 premiums and criticizing your risk premium analysis. Do his contentions have
130 merit?

131 A. No. Mr. Gorman's contentions are wrong and his arguments are contrary to the
132 significant academic literature that demonstrates the inverse relationship. These
133 points notwithstanding, the inverse relationship between interest rates and risk
134 premiums is not required to show that Mr. Gorman's position is wrong. Without

135 even considering the inverse relationship issue, had he considered the wider risk
136 premiums that have existed in recent years (while interest rates have been low), he
137 would have seen that the basic risk premium data support my ROE
138 recommendation. The following table illustrates this point.

Authorized Electric Utility Equity Returns

	2003	2004	2005	2006	2007
1 st Quarter	11.47%	11.00%	10.51%	10.38%	10.27%
2 nd Quarter	11.16%	10.54%	10.05%	10.69%	10.27%
3 rd Quarter	9.95%	10.33%	10.84%	10.06%	10.02%
4 th Quarter	11.09%	10.91%	10.75%	10.39%	10.56%
Full Year	10.97%	10.75%	10.54%	10.36%	10.36%
Average Utility					
Debt Cost	6.61%	6.20%	5.67%	6.08%	6.11%
Indicated Risk					
Premium	4.36%	4.55%	4.87%	4.28%	4.25%

Source: *Regulatory Focus*, Regulatory Research Associates, Inc., Major Rate Case Decisions, January 8, 2008.

139 Equity risk premiums over the past five years, with no inverse relationship
140 adjustment, have ranged between 4.25 percent to 4.87 percent, with an average of
141 4.46 percent. Had Mr. Gorman added this average, unadjusted risk premium to
142 the March 2008 triple-B utility bond interest rate (6.68 percent), he would have
143 found an ROE of 11.1 percent (6.68% + 4.46% = 11.14%). I disagree with
144 Mr. Gorman's attacks on the "inverse relationship" portion of my risk premium
145 analysis, but even if this relationship is ignored, basic risk premium analysis
146 supports my ROE recommendation and clearly shows that Mr. Gorman's
147 recommendation is too low.

148 Q. On page 12, Mr. Gorman states that the projected interest rates you use in your
149 risk premium render your analysis "overstated and flawed." Does his contention
150 have merit?

151 A. No. While I continue to recommend using interest rate forecasts, given current
152 corporate interest rate levels, my analysis does not require the use of forecasts.
153 As I demonstrated above, the use of current interest rates rather than forecasted
154 rates does not change the conclusions reached from my risk premium analysis.
155 With current triple-B interest rates of 6.68 percent and a current unadjusted risk
156 premium of 4.46 percent, the indicated ROE is 11.14 percent.

157 Q. Mr. Gorman "updates" your DCF analysis using a long-term GDP growth rate of
158 4.9 percent rather than the 6.5 percent rate that you use in your rebuttal testimony.
159 Do you agree with his "update?"

160 A. No. His update is a mischaracterization of my DCF analysis. My GDP growth
161 rate forecast is the best representation of what investors may reasonably expect
162 for the very long-run, as required by the DCF model. GDP forecasts and
163 economic forecasts in general are difficult and are often dominated by current
164 data and very recent experience. I used the very long-term St. Louis Federal
165 Reserve Bank data to mitigate this well-known forecasting deficiency.

166 While the St. Louis Federal Reserve Bank data base contains data dating
167 back to 1947, my forecast is not a simple average or extrapolation of the historical
168 data. Like most econometric forecasts, my approach uses the long-run historical
169 relationships to project what investors may reasonably expect for the long-run
170 future. To account for recent data having a greater influence on current

171 expectations, I applied a weighted averaging process that gives about five times as
172 much weight to the most recent 10 years as compared to the earliest 10 years.
173 Giving more weight to the more recent, low inflation years also lowers the overall
174 forecast. For example, my updated forecast is for a future growth rate of
175 6.5 percent, while the overall long-run average of the data is a growth rate of
176 7 percent. In this context, Mr. Gorman's criticism of my use of historical GDP
177 data is unwarranted and his "update" of my DCF analysis is not credible.

178 **IV. Response to CUB Witness Christopher C. Thomas**

179 Q. At page 3, Mr. Thomas says that "prior Commission ROE decisions have resulted
180 in a upward spiral of ever-increasing returns." Have allowed rates of return
181 "spiraled" upward in recent years?

182 A. No. Mr. Thomas' statement is inaccurate. As shown above in my responses to
183 Mr. Gorman's risk premium arguments, allowed rates of return have come down
184 in recent years as interest rates have declined. They certainly have not "spiraled"
185 upward as Mr. Thomas states. While it is true that average utility risk premiums
186 relative to interest rates have widened, I also demonstrated in my risk premium
187 analysis that there is a highly statistically significant inverse relationship between
188 the risk premiums embodied in allowed rates of return and interest rate levels.
189 Mr. Thomas' entire discussion about "spiraling" rates of return is captured in this
190 well-documented statistical relationship. With lower interest rates, risk premiums
191 have increased, but allowed returns have not increased. Mr. Thomas' misplaced
192 rhetoric should be disregarded.

193 Q. On pages 4-7, Mr. Thomas provides charts that purport to show increasing
194 allowed rates of return for utilities relative to Baa interest rates, but decreasing
195 rates of return for the S&P 500 relative to Baa interest rates. From this analysis,
196 at page 8, he concludes that there has been "an upward bias in Commission
197 decisions." How do you respond to this analysis and conclusion?

198 A. Mr. Thomas' analysis is inaccurate and misleading and his conclusion is wrong.
199 His first three charts (pages 4-6), which show allowed rates of return relative to
200 Baa interest rates for various time periods, simply demonstrate the statistical
201 tendency I discussed above. Risk premiums tend to expand (and contract) as
202 interest rates decrease (and increase). Recent years with lower interest rates have
203 had wider equity spreads, and the late 1970s and early 1980s, with very high
204 interest rates, had very small and even negative equity spreads. While some have
205 argued that these data show inertia in the regulatory process, they certainly do not
206 demonstrate "an upward bias."

207 Mr. Thomas' fourth chart (page 7), which shows the S&P's returns relative
208 to Baa rates, is also a statistical artifact. For him to imply that this chart indicates
209 a declining risk premium for stocks is a further misrepresentation. While it is true
210 that stock market returns as represented by the S&P 500 have been lower since
211 2000 than they were in the late 1980s and 1990s, this is simply a reflection of the
212 "tech bubble" that burst in 2000 and the volatility and consolidation that
213 continues. Mr. Thomas' criticisms are not well founded and should be
214 disregarded.

215 Q. Does this conclude your rebuttal testimony?

216 A. Yes, it does.

Economic Indicators

Seasonally Adjusted Annual Rates — Dollar Figures in Billions

	Annual % Change				2007				2008				E2009			
	P2007	E2008	E2009	P2007	E2008	E2009	30	P4Q	10	20	30	40	10	20		
Gross Domestic Product																
GDP (current dollars)	\$13,844.0	\$14,304.0	\$14,968.0	4.9	3.3	4.6	\$13,971.0	\$14,084.0	\$14,142.0	\$14,171.0	\$14,372.0	\$14,531.0	\$14,657.0	\$14,844.0		
Annual rate of increase (%)	4.9	3.3	4.6	-	-	-	6.0	3.3	1.6	0.8	5.8	4.5	3.5	5.2		
Annual rate of increase—real GDP (%)	2.2	1.1	2.2	-	-	-	4.9	0.6	(0.9)	(0.8)	3.0	2.3	0.9	2.9		
Annual rate of increase—GDP deflator (%)	2.7	2.2	2.4	-	-	-	1.0	2.7	2.5	1.6	2.7	2.2	2.6	2.2		
* Components of Real GDP																
Personal consumption expenditures	\$8,276.0	\$8,373.0	\$8,500.0	2.9	1.2	1.5	\$8,302.0	\$8,341.0	\$8,340.0	\$8,333.0	\$8,391.0	\$8,429.0	\$8,436.0	\$8,469.0		
% change	2.9	1.2	1.5	-	-	-	2.8	1.9	(0.1)	(0.4)	2.8	1.8	0.3	1.5		
Durable goods	1,235.6	1,207.8	1,233.9	4.7	(2.2)	2.2	1,241.9	1,249.0	1,215.4	1,186.4	1,207.4	1,222.1	1,212.5	1,225.6		
Nondurable goods	2,393.1	2,401.9	2,428.4	2.4	0.4	1.1	2,396.8	2,405.1	2,395.6	2,392.0	2,406.1	2,413.7	2,413.9	2,421.1		
Services	4,672.6	4,775.1	4,851.5	2.8	2.2	1.6	4,689.5	4,713.6	4,744.7	4,760.6	4,788.1	4,807.0	4,819.8	4,834.5		
Nonresidential fixed investment	1,369.0	1,382.2	1,384.3	4.8	1.0	0.2	1,387.3	1,410.5	1,400.5	1,376.7	1,373.4	1,378.3	1,365.1	1,373.9		
% change	4.8	1.0	0.2	-	-	-	9.4	6.9	(2.8)	(6.6)	(1.0)	1.4	(3.8)	2.6		
Producers durable equipment	1,064.6	1,073.1	1,115.7	1.3	0.8	4.0	1,073.5	1,082.2	1,079.3	1,065.6	1,063.7	1,083.6	1,083.9	1,107.6		
Residential fixed investment	463.7	347.3	339.5	(17.2)	(25.1)	(2.3)	454.3	422.0	381.1	351.7	332.6	323.8	325.1	334.5		
% change	(17.2)	(25.1)	(2.3)	-	-	-	(20.8)	(25.5)	(33.5)	(27.5)	(20.0)	(10.3)	1.6	12.1		
Net change in business inventories	6.6	(18.8)	17.6	-	-	-	30.6	(10.1)	(9.9)	(32.2)	(29.9)	(3.1)	0.3	7.2		
Gov't purchases of goods & services	2,022.0	2,056.9	2,064.0	2.1	1.7	0.4	2,033.6	2,044.7	2,050.5	2,056.8	2,059.1	2,061.1	2,061.9	2,062.9		
Federal	755.2	782.6	792.5	1.7	3.6	1.3	764.0	765.6	773.0	780.2	786.1	791.2	793.9	793.3		
State & local	1,266.6	1,274.9	1,272.4	2.2	0.7	(0.2)	1,269.6	1,279.0	1,277.7	1,271.1	1,273.8	1,270.9	1,269.2	1,270.7		
Net exports	(556.5)	(419.4)	(322.4)	-	-	-	(533.1)	(506.8)	(484.1)	(430.8)	(384.3)	(378.3)	(352.1)	(323.8)		
Exports	1,408.4	1,528.6	1,682.2	8.0	8.5	10.0	1,441.2	1,458.2	1,482.1	1,508.1	1,542.9	1,581.3	1,619.9	1,663.6		
Imports	1,964.9	1,948.0	2,004.5	1.9	(0.9)	2.9	1,974.3	1,965.0	1,966.2	1,938.9	1,927.2	1,959.6	1,972.0	1,987.4		
** Income & Profits																
Personal income	\$11,659.0	\$12,151.0	\$12,681.0	6.2	4.2	4.4	\$11,735.0	\$11,853.0	\$11,973.0	\$12,145.0	\$12,194.0	\$12,291.0	\$12,444.0	\$12,589.0		
Disposable personal income	10,175.0	10,701.0	11,085.0	5.7	5.2	3.6	10,245.0	10,341.0	10,461.0	10,823.0	10,767.0	10,752.0	10,890.0	11,007.0		
Savings rate (%)	0.4	1.1	0.9	-	-	-	0.4	(0.0)	0.1	3.0	1.2	0.1	0.7	1.0		
Corporate profits before taxes	1,882.2	1,623.8	1,990.4	4.2	(13.7)	22.6	1,879.7	1,901.9	1,642.3	1,553.4	1,643.6	1,655.7	1,959.4	1,977.0		
Corporate profits after taxes	1,411.7	1,237.0	1,498.3	4.4	(12.4)	21.1	1,410.2	1,432.0	1,242.5	1,183.2	1,255.4	1,266.7	1,484.0	1,491.5		
‡ Earnings per share (S&P 500)	66.40	67.00	81.50	(18.6)	(7.3)	0.0	78.60	66.40	61.20	55.40	58.10	67.00	69.90	74.20		
† Prices & Interest Rates																
Consumer price index	2.9	3.5	2.1	-	-	-	2.8	5.0	4.5	2.3	2.3	1.8	2.4	1.2		
Treasury bills	4.4	1.7	2.6	-	-	-	4.4	3.4	2.2	1.5	1.5	1.6	1.8	2.3		
10-yr notes	4.6	3.7	4.8	-	-	-	4.7	4.3	3.7	3.5	3.7	3.9	4.2	4.5		
30-yr bonds	4.8	4.3	5.0	-	-	-	4.9	4.6	4.4	4.3	4.3	4.4	4.5	4.8		
New issue rate—corporate bonds	5.6	5.5	6.1	-	-	-	5.8	5.5	5.5	5.4	5.5	5.5	5.7	5.9		
Other Key Indicators																
Housing starts (1,000 units SAAR)	1,340.0	860.0	1,100.0	(25.8)	(35.9)	27.5	1,300.0	1,150.0	950.0	830.0	800.0	850.0	950.0	1,050.0		
Auto & truck sales (1,000,000 units)	16.1	14.9	15.5	(2.4)	(7.5)	3.8	15.9	16.1	15.2	14.5	14.7	15.2	15.0	15.4		
Unemployment rate (%)	4.6	5.4	5.8	-	-	-	4.7	4.8	5.0	5.4	5.6	5.7	5.8	5.8		
\$U.S. dollar	(5.6)	(11.0)	(2.8)	-	-	-	(11.4)	(17.9)	(11.3)	(12.2)	(0.3)	(2.0)	(4.7)	(0.6)		

Note: Annual changes are from prior year and quarterly changes are from prior quarter. Figures may not add to totals because of rounding. A—Advance data. P—Preliminary. E—Estimated. R—Revised. *1996 Chain-weighted dollars. **Current dollars. †Trailing 4 quarters. ‡Average for period. §Quarterly % changes at quarterly rates. This forecast prepared by Standard & Poor's.

Commonwealth Edison Co.
McNally ROE Analysis (with Freetly update)

Panel 1: Three Stage DCF Model

No.	Company	(1) Prices	Growth Rates			(5) ROE
			(2)	(3)	(4)	
			Zacks Stage 1	Average Stage 2	GDP Stage 3	
1	Ameren Corp.	44.00	6.20%	5.68%	5.15%	11.97%
2	AGL Resources, Inc.	36.43	4.75%	4.95%	5.15%	10.04%
3	Entergy Corp.	106.57	13.00%	9.08%	5.15%	10.00%
4	FirstEnergy Corp.	70.91	7.50%	6.33%	5.15%	8.76%
5	FPL Group, Inc.	63.71	10.60%	7.88%	5.15%	9.13%
6	National Fuel Gas Co.	46.26	7.50%	6.33%	5.15%	8.50%
7	PPL Corp.	47.59	10.33%	7.74%	5.15%	9.03%
8	Progress Energy	44.00	5.20%	5.18%	5.15%	11.08%
9	Southern Co.	35.81	4.40%	4.78%	5.15%	9.80%
	Average		7.72%	6.44%	5.15%	9.81%

Panel 2: ROE Summary

DCF Result	9.81% (see above)
CAPM Result	11.49% (see page 2)
Average ROE	<u>10.65%</u>

Column Notes:

Column 1: Prices as of Feb 14, 2008.

Column 2: See ICC Staff Exhibit 4.0, Schedule 4.5 (Stage 1 growth).

Column 3: Average of Columns 3 & 5.

Column 4: Docket Nos. 07-0585 - 07-0590 (Cons), ICC Staff Exhibit 5.0, Schedule 5.03-G (Stage 3 growth).

Column 5: Rate that equates stock prices with dividend stream that grows for years 1-5 at Stage 1 growth, for years 6-10 at Stage 2 growth, and for years 11-perpetuity at Stage 3 growth.

Commonwealth Edison Company McNally ROE Analysis (with Freetly update)

Panel 3: Capital Asset Pricing Model Analysis

U.S. Treasury Bonds	
30-Year T-Bond Yield ¹	Effective Yield
4.67%	4.72%

CAPM Estimate of ROE for McNally Group			
Risk-free Rate	Beta ²	Risk Premium ¹	Cost of Common Equity
4.72% +	0.75	x 9.03%	= <u>11.49%</u>

¹ Docket Nos. 07-0585 - 07-0590 (Cons), ICC Staff Exhibit 5.0, Schedule 5.07.

² McNally Exhibit 4.0, Schedule 4.9.