Docket No. 10-0467
Staff Cross Exhibit 13

ComEd Response to Staff Data Requests:

MGM 3.04

MGM 3.06

MGM 3.07

MGM 3.08

MGM 3.09

MGM 3.11

ICC Docket No. 10-0467

Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
MGM 3.01 – 3.12
Date Received: September 17, 2010
Date Served: October 6, 2010

REQUEST NO. MGM 3.04:

Referring to lines 15-16 of ComEd Ex. 11.0, please provide Dr. Hadaway's definition of the word "artificial" as he uses it to describe current yields on U.S. Treasury securities.

RESPONSE:

In this context, the word "artificial" means influenced by government monetary policy and not representative of typical free-market forces.

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REQUEST NO. MGM 3.06:

On page 19 of ComEd Ex. 11.0, Dr. Hadaway notes that the "extreme turbulence in the capital markets" has increased the cost of capital for utilities despite the "artificially low" yields on U.S. Treasury securities. Based on his observations and response to MGM 3.04, should one conclude that the cost of capital for utilities is "artificially high"?

RESPONSE:

No. Government monetary policy, which has "artificially" reduced interest rates on high quality debt, has not had the same effect in the equity markets for utility shares. As demonstrated in Graphs 2 and 3 on pages 25 and 26 of Dr. Hadaway's Direct Testimony (ComEd Ex. 11.0), utility shares have not recovered nearly as much as the broader stock markets since the March 2009 low point and, therefore, the cost of equity capital for utilities has not declined in lockstep with lower interest rates or as much as it may have for other equity securities.

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REQUEST NO. MGM 3.07:

On page 19 of ComEd Ex. 11.0, Dr. Hadaway discusses "flight to safety" as a flow of funds out of corporations and into government securities. Does Dr. Hadaway agree that the "flight to safety" can be observed within investment classes (e.g. from common stocks in one or more sectors or industries of the economy to common stocks in other sectors or industries of the economy) as well as across investment classes (e.g., from common equity to Treasury securities)? If he believes otherwise, please provide any support for that belief.

RESPONSE:

While the term "flight to safety" can have alternative meanings depending on the context, as used in his testimony, Dr. Hadaway is referring to the general movement of funds from more risky corporate investments into less risky government securities. A narrower use of the term might describe the movement of funds out of the more risky general stock market into presumably safer utility shares. As explained in ComEd's Response to Staff Data Request MGM 3.06, however, such movement has not occurred, at least as reflected in the much larger percentage recovery since their low points in March 2009 of the broader market indices relative to utility share prices.

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REQUEST NO. MGM 3.08:

As a witness in a utility cost of capital proceeding such as the instant docket, has Dr. Hadaway ever elected to not rely on a given model because of abnormal market conditions producing "artificially high" yields on U.S. Treasury securities? If so, please provide citations to that proceeding and an explanation for that decision.

RESPONSE:

Yes. In the early 1980s, interest rates on long-term Treasury bonds and high grade utility bonds were extremely high. Rates peaked in September 1981, with the 30-year Treasury rate at 14.68 percent and the yield on Moody's average utility bond index at 16.89 percent. During this time period, in Texas PUC Docket No. 4240, filed March 1982, Dr. Hadaway explained that the Federal Reserve System's change of monetary policy (beginning in October 1979) had created unprecedented volatility in the long-term debt markets, which caused him to reject abnormally high "bond-yield plus risk-premium" estimates of the cost of equity. Please see the attachment labeled as MGM 3.08_Attach 1 for a copy of that testimony.

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REQUEST NO. MGM 3.09:

As a witness in a utility cost of capital proceeding such as the instant docket, has Dr. Hadaway ever used a risk premium model of the form $k_e = r_f + (r_m - r_f)$ (where r_f = the risk-free rate and r_m = the return on the overall market) without any alterations? If not, why not?

RESPONSE:

It depends on the definition of "r_f" in the equation shown above. In some of Dr. Hadaway's risk premium analyses in prior cases, he did use a similar equation where r_m was the Ibbotson S&P 500 historical return and "r_f" was the corporate bond rate, not the traditional "risk-free rate" based on U.S. Treasury bonds.

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REQUEST NO. MGM 3.11:

Referring to pages 1 and 2 of ComEd Ex. 11.5, what was the average credit rating of the companies whose bonds were included in the "Moody's average Public Utility Bond Yield"? Please provide supporting documentation.

RESPONSE:

"Moody's Average Public Utility Bond Yield" was initially the average of the yields for the indices of its top four rating categories (Aaa, Aa, A, and Baa). Because Moody's Aaa index was suspended on December 10, 2001, since that time the Average Public Utility Bond Yield has been the simple average of Aa, A, and Baa. Dr. Hadaway does not have further documentation of the bond ratings of the companies in the indices.