Docket No. 12-0321
ICC Staff Exhibit 9.0

REBUTTAL TESTIMONY

of

MICHAEL McNALLY

Finance Department

Financial Analysis Division

Illinois Commerce Commission

Commonwealth Edison Company

Annual Formula Rate Update and Revenue Requirement Reconciliation
Authorized by Section 16-108.5 of the Public Utilities Act

Docket No. 12-0321

September 11, 2012

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WITNESS IDENTIFICATION

Q1. Please state your name and business address.

A1. My name is Michael McNally. My business address is 527 East Capitol Avenue, Springfield, IL 62701.

Q2. Are you the same Michael McNally who testified previously in this proceeding?

A2. Yes, I am. My direct testimony is ICC Staff Exhibit 4.0.

Q3. What is the purpose of your testimony in this proceeding?

A3. The purpose of my rebuttal testimony is to respond to the rebuttal testimony of Commonwealth Edison Company's ("ComEd" or the "Company") witness Martin G. Fruehe, ComEd Ex. 13.0, regarding the appropriate overall cost of capital for ComEd under Section 16-108.5 of the Public Utilities Act ("Act").[1]

COST OF LONG-TERM DEBT

Q4. Why do the amortization amounts for debt discounts, premiums, and expenses presented on the long-term debt schedule in your direct testimony[2] differ from those presented by the Company?

A4. They differ because mine represent a straight-line amortization calculated over the remaining life of each issuance whereas the Company presented the actual amortizations presented in ComEd's annual report to the Commission (Form 21 ILCC).

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[1] 220 ILCS 5/16-108.5.

[2] ICC Staff Ex. 4.0, Schedule 4.04, Columns (J) and (K).

Q5. Mr. Fruehe argues that in formula rate proceedings you should use the actual reported amortizations.[3] Do you agree?

A5. As Mr. Fruehe notes, the formula rate rules are designed to recover actual costs. However, those costs are still subject to review for prudence and reasonableness. Thus, actual costs should be used, but only if they are prudent and reasonable.

Q6. Are the actual amortizations of debt discounts, premiums, and expenses presented in ComEd's Form 21 prudent and reasonable?

A6. In my opinion, an actual amortization amount for a given issuance that differs significantly from the calculation of a straight-line amortization of the unamortized balance over the remaining life of that issuance would not be reasonable, as the Uniform System of Accounts General Instruction 17 requires that amortizations be in equal monthly amounts over the life of the associated issue. Nonetheless, the actual amortization amounts for most of the individual issuances did not differ substantially from their straight-line amortizations. Thus, for purposes of this proceeding, Staff accepts the Company's proposal to use the actual amortizations (and resulting effects on the unamortized balances) presented in Mr. Fruehe's long-term debt schedule for all but one issuance. Specifically, the annual amortization of loss on reacquired debt associated with Series 2005 (shown on line 69, column (H) of page 1 of Company work paper WPD-3 as $110,409) is approximately 16% greater than the calculation of a straight-line amortization ($94,923). In comparison, the difference between most of the other actual amortization amounts and their respective straight-line amortization calculations is less than 0.1%. Thus, I recommend changing the annual

[3] ComEd Ex. 13.0, pp. 28-29.

amortization of debt expense associated with Series 2005 to $94,923, which reflects a straight-line amortization.[4]

Q7. In his rebuttal testimony, Mr. Fruehe indicates that the coupon interest expense you present for the Series 2008D, 2008E, and 2008F Pollution Control Bonds is in error because you adjusted both the interest rates and the face amounts outstanding.[5] Do you agree that the long-term debt schedule in your direct testimony is in error with respect to those issuances?

A7. Yes. While I believe the face amounts outstanding for those three issuances are correct (and Mr. Fruehe, having adopted those same balances, seems to agree),[6] I acknowledge that the interest rates are incorrect. As I explained in my response to the Company's Data Request 3.01 to Staff, the effective interest rate in my direct testimony was calculated by dividing the actual coupon interest expense for 2011 by the face amount outstanding at the beginning of the year. Instead, I should have divided by the average face amount outstanding during the year (Column (E) on Schedule 4.04). That mistake, in turn, caused the annual coupon interest expenses for those three issuances to be incorrect. By correcting that mistake, the resulting annual coupon interest expense for each of those issuances equals that which Mr. Fruehe presented in his debt schedule.

[4] The $110,409 annual amortization the Company presents violates the previously noted Uniform System of Accounts General Instruction 17, which concerns the amortization of long-term debt costs, since it would amortize the December 31, 2010 balance over 74 months rather than the remaining 86 months of the amortization period reported in the Company's Form 21.
[5] ComEd Ex. 13.0, p. 27.
[6] ComEd Ex. 13.0, p. 27; ComEd Ex. 13.03, p. 1.

Q8. Are there any other adjustments you would recommend to Mr. Fruehe's long-term debt schedule?

A8. Yes. The annual amortization of the premium for the 4.75% sinking fund debentures (shown on line 26, Column (J) of page 1 of the ComEd Schedule D-3) is entered as a positive number ($451); it should be a negative number (-$451). Likewise, the annual amortizations of the loss on reacquired debt associated with Series 111 and 112 (shown in column H on lines 39 and 40 of page 1 of Company work paper WPD-3) are entered as positive numbers; they should be negative.

With all the foregoing changes, the final cost of long-term debt would be 5.78%.

COMMON EQUITY BALANCE

Q9. Mr. Fruehe indicates that there was a scrivener's error in the calculation of your common equity balance.[7] Do you agree?

A9. Yes. The monthly balance for July should have been $6,885,424,000, which, as Mr. Fruehe notes, results in a common equity balance of $4,236,935,000.

OVERALL COST OF CAPITAL

Q10. Given the discussion above, what is ComEd's overall cost of capital?

A10. ComEd's overall cost of capital for rate year 2013 is summarized in the table below:

[7] ComEd Ex. 13.0, p. 31.

	Amount	Percent of Total Capital	Cost	Weighted Cost
Short-Term Debt	$17,947	0.18%	0.71%	0.00%
Long-Term Debt	$5,702,622	57.27%	5.78%	3.31%
Common Equity	$4,236,935	42.55%	9.71%	4.13%
Credit Facility Fees				0.10%
Total Capital	$9,957,503	100.00%		
Weighted Average Cost of Capital				**7.54%**

ComEd's overall cost of capital for the 2011 reconciliation is summarized in the table below:

	Amount	Percent of Total Capital	Cost	Weighted Cost
Short-Term Debt	$17,947	0.18%	0.71%	0.00%
Long-Term Debt	$5,702,622	57.27%	5.78%	3.31%
Common Equity	$4,236,935	42.55%	9.81%	4.17%
Credit Facility Fees				0.10%
Total Capital	$9,957,503	100.00%		
Weighted Average Cost of Capital				**7.58%**

Q11. Does this conclude your prepared rebuttal testimony?

A11. Yes, it does.