

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

COMMONWEALTH EDISON COMPANY :  
 :  
Application for a Certificate of Public Convenience :  
and Necessity, pursuant to Section 8-406.1 of the : No. 13-  
Illinois Public Utilities Act, and an Order pursuant :  
to Section 8-503 of Illinois Public Utilities Act, to :  
Construct, Operate and Maintain a new 345 kilovolt :  
transmission line in Ogle, DeKalb, Kane and :  
DuPage Counties, Illinois :  
 :

Direct Testimony of  
**KEVIN GARRIDO**  
Director,  
Financial Planning and Analysis  
Commonwealth Edison Company

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1 **I. INTRODUCTION**

2 **A. Witness Identification**

3 **Q. What is your name and business address?**

4 A. My name is Kevin Garrido. My business address is Commonwealth Edison Company  
5 (“ComEd”), Three Lincoln Center, Oakbrook Terrace, IL 60181-4260.

6 **Q. By whom and in what position are you employed?**

7 A. I am employed by ComEd as Director of Financial Planning and Analysis.

8 **B. Purpose of Direct Testimony**

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is two-fold. First, I explain the financing required for the  
11 Grand Prairie Gateway Transmission Line Project (“Grand Prairie Gateway Project” or  
12 “Project”), a high voltage transmission line, for which ComEd is seeking a Certificate of  
13 Public Convenience and Necessity (“CPCN”) under Section 8-406.1 of the Public  
14 Utilities Act (“PUA”). Second, I address whether ComEd can finance the project without  
15 any adverse financial consequences for ComEd or its customers.

16 **Q. What is your conclusion?**

17 A. In brief, I conclude that ComEd will be able to support all the financing for the  
18 construction of the Grand Prairie Gateway Project without experiencing any significant  
19 adverse financial consequences for ComEd or its customers.

20 **C. Background and Qualifications**

21 **Q. What are your duties as Director of Financial Planning and Analysis?**

22 A. My duties include load forecasting, risk management, short-term financial forecasting,  
23 and long-term financial modeling. I supervise preparation of ComEd's budget, long-  
24 range plan, and monitoring and analysis of monthly financial performance. Under my  
25 direction, ComEd analyzes the drivers of and variances from its budget and develops  
26 revised projections for the current year. I also direct preparation of detailed projections  
27 for revenue, expenses, earnings and cash flow to ensure the company has the proper  
28 levels of liquidity and financing available to achieve its operational and financial targets.  
29 I direct monitoring and projection of numerous financial ratios to ensure that ComEd's  
30 financial position will support an investment grade credit rating, as well as determination  
31 of when debt issuances or other sources of capital are required to support the operations  
32 of the business.

33 Q. **What has been your prior professional experience?**

34 A. I have been employed by either Exelon Corporation ("Exelon"), ComEd's parent  
35 company, or ComEd since 2004 in various positions, including roles as Senior and  
36 Principal Financial Analysts and Manager of Corporate Development. In May 2012, I  
37 was promoted to my current position, Director of Financial Planning and Analysis for  
38 ComEd.

39 Q. **What is your educational background?**

40 A. I was awarded a Bachelor of Arts Degree in Economics and Business from the University  
41 of Florida in 1997 and a Master of Business Administration Degree from Cornell  
42 University in 2004.

43 **D. Itemized Attachments**

44 **Q. Are any exhibits attached to your direct testimony?**

45 A. Yes. I have attached the following three exhibits:

- 46 • ComEd Exhibit (“Ex.”) 8.01: S&P March 2013 Credit Report
- 47 • ComEd Ex. 8.02: Moody’s September 2013 Credit Report
- 48 • ComEd Ex. 8.03: Fitch April 2013 Credit Report

49 **II. FINANCING OF THE PROJECT**

50 **Q. Are you familiar with ComEd’s Grand Prairie Gateway Project?**

51 A. Yes. ComEd is seeking a CPCN under Section 8.406.1 of the PUA authorizing it to  
52 construct, operate and maintain the Grand Prairie Gateway Project, which is a new 345  
53 kilovolt (“kV”) electric transmission line and related facilities in the Illinois counties of  
54 Ogle, DeKalb, Kane, and DuPage.

55 **Q. What is the estimated cost of the proposed Project, including the 345kV line and  
56 related facilities?**

57 A. The total estimated cost of the Grand Prairie Gateway Project is identified by Mr. Kaup  
58 (ComEd Ex. 6.0) as \$277 million for the Primary Route and at least \$336 million for the  
59 Alternate Routes. However, those costs include indirect costs that are not incremental,  
60 *i.e.*, that ComEd would incur anyway. For the purposes of analyzing the financing of the  
61 project, I therefore used a cost of \$251 million for the Primary Route and \$307-\$311  
62 million for the Alternate Routes. Those costs include construction of the line itself and  
63 related facilities, and also include land acquisition costs and costs of substation work at  
64 the Byron and Wayne Substations, but exclude non-incremental overhead costs and the

65 Allowance for Funds Used During Construction (“AFUDC”). The following chart shows  
66 these estimated construction costs by year:

67 **Chart KG-1:**  
68 **Annual Estimated Construction Finance Costs**

| <u>Year</u> | <u>Primary</u> |
|-------------|----------------|
| 2013        | \$2 million    |
| 2014        | \$27 million   |
| 2015        | \$109 million  |
| 2016        | \$112 million  |
| 2017        | \$1 million    |

69 **Q. How does the annual estimated construction costs for the Grand Prairie Gateway**  
70 **Project compare to ComEd’s historic and projected levels of expenditures?**

71 **A.** ComEd’s capital expenditures were approximately \$1.0 billion in 2010 and 2011 and  
72 approximately \$1.2 billion in 2012. For the years 2013 through 2016, ComEd’s capital  
73 expenditures are projected to be as follows:

74 **Chart KG-2:**  
75 **ComEd’s Total Capital Expenditures for 2013-2016**

| <b>Year</b> | <b>ComEd’s Total<br/>Capital Expenditure</b> | <b>Project’s Construction<br/>Cost Percentage Share</b> |
|-------------|--|---|
| (A)         | (B)  | (C)   |
| 2013        | \$1.5 billion                                | Less than 1%  |
| 2014        | \$1.8 billion                                | 2%  |
| 2015        | \$2.0 billion                                | 5%  |
| 2016        | \$1.9 billion                                | 6%  |

76 Column (C) of Chart KG-2 shows the Project’s estimated yearly costs as a percentage of  
77 ComEd’s total capital expenditures. For the years 2014 through 2016, the Project’s

78 estimated costs will only comprise between 0% and 6% of ComEd's total capital  
79 expenditures per year.

80 **Q. How will ComEd finance the Grand Prairie Gateway Project during construction?**

81 A. The Project will be funded through internal financing from ComEd's budget. ComEd  
82 maintains the flexibility to finance its budget with any combination of cash, existing  
83 credit facilities, external financing sources, and other financing alternatives.

84 **Q. Can you explain ComEd's current financial condition?**

85 A. Yes. ComEd has access to a \$1 billion revolving credit facility, which expires in March  
86 2018. The facility provides ComEd access to three forms of liquidity. First, the facility  
87 serves as a commercial paper backstop for ComEd, which allows ComEd to access  
88 commercial paper markets for short-term working capital needs. Second, ComEd can  
89 issue up to \$500 million in letters of credit off of this facility. Finally, ComEd is able to  
90 draw cash from the facility at a rate of Libor plus 127.5 basis points. The facility is  
91 sourced through a diverse syndication of 25 banks with no one bank holding more than  
92 7.5% of the total commitments. The bank group is also geographically diverse with 49%  
93 of commitments from US Banks, 25% from European banks, 15% from Canadian banks  
94 and 11% from Asian banks. Under the current credit agreement, ComEd has the option  
95 to extend the facility maturity date by 1 year to 2019.

96 ComEd also has access to the bond markets for permanent financing with stable  
97 credit ratings that have been affirmed by Standard & Poor's ("S&P") on March 28, 2013,  
98 and by Moody's Investor Service ("Moody's") on September 9, 2013. Moody's  
99 upgraded ComEd's rating by one notch in March 2012. Fitch Ratings ("Fitch") affirmed

100 their positive rating outlook on April 18, 2013, which was upgraded on February 8, 2013,  
101 from a stable rating. S&P senior secured rating is A-, Moody's senior secured rating is  
102 A3, and Fitch's senior secured is BBB+.

103 Therefore, ComEd has the ability to access short and long-term credit markets  
104 with terms and conditions consistent with similarly-rated companies, which ensures that  
105 the Project can be financed at competitive market rates.

106 **Q. What is the current outlook for ComEd's credit rating?**

107 A. S&P, Moody's and Fitch all provide conditions that could result in a change in rating,  
108 either up or down. S&P states that their rating for ComEd could improve only if the  
109 parent rating for Exelon were to be upgraded. S&P also states that their rating for  
110 ComEd could change downward if either ComEd's funds from operations ("FFO") to  
111 debt ratio were to consistently be less than 15% or if Exelon were to be downgraded. On  
112 November 8, 2013, Moody's stated that it had placed the ratings of most US regulated  
113 utilities, including ComEd's rating, on review for upgrade, explaining that Moody's has  
114 adopted a more favorable view of the relative credit supportiveness of the US regulatory  
115 environment in general. In its September 2013 report, Moody's states that a rating  
116 downgrade would occur if there are dramatic changes to ratemaking implementation of  
117 the Energy Infrastructure Modernization Act, or if ComEd's metrics were to degrade for  
118 an extended period of time. Fitch states that a constructive outcome in ComEd's next  
119 rate filing could lead to a one-notch upgrade and that a lack of rate support for  
120 investments or a change in our dividend policy could result in a downgrade. It is my  
121 opinion that based on internal company financial projections, our credit metrics are

122 prospectively favorable and the probability of a downgrade from any of the credit  
123 agencies is not likely given our current formula ratemaking structure and ability to  
124 recover costs.

125 **Q. How does the Grand Prairie Gateway Project affect the costs of prospective**  
126 **financings and future credit ratings?**

127 A. The capital expenditures related to the Grand Prairie Gateway Project are small relative  
128 to ComEd's projected total capital expenditures and borrowing capacity. The  
129 incremental debt and interest associated with financing this project would not be enough  
130 to affect ComEd's credit ratings, liquidity, or ability to access short or long-term credit  
131 markets at competitive rates. To illustrate the potential impacts, assume that 45% of the  
132 Project's total estimated costs (\$251 million), or approximately \$113 million, is financed  
133 with debt. At an assumed 5.0% cost of debt, the maximum annual incremental interest  
134 expense after project completion would be \$5.7 million. As a point of comparison, in  
135 2012, ComEd's long term debt balance was \$5.6 billion and ComEd's total interest  
136 expense was approximately \$300 million. In this example, the incremental debt and  
137 interest would be approximately 2% of ComEd's 2012 statistics, which would not be  
138 enough to impact either ComEd's prospective financings or future credit ratings.

139 **Q. Will there be any adverse impact on ComEd's credit ratings after the Grand Prairie**  
140 **Gateway Project goes into service?**

141 A. No. Once in service, the Grand Prairie Gateway Project will provide the cash flow  
142 necessary to fully support any incremental debt and equity. All costs associated with the

143 project, including depreciation, operating and maintenance costs, and the cost of equity,  
144 will be recovered in Transmission rates.

145 **III. CONCLUSION**

146 **Q. Does this complete your direct testimony?**

147 **A. Yes.**