Direct Testimony

of

Phil A. Hardas

Finance Department

Financial Analysis Division

Illinois Commerce Commission

Commonwealth Edison Company

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

Docket No. 14-0312

July 1, 2014

Q. Please state your name and business address.

A. My name is Phil A. Hardas. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. What is your current position with the Illinois Commerce Commission ("Commission")?

A. I am presently employed as a Senior Financial Analyst with the Finance Department of the Financial Analysis Division.

Q. Please describe your qualifications and background.

A. In December of 1998, I received a Bachelor of Science degree in Finance from Southern Illinois University at Carbondale. In August of 2001, I received a Master of Business Administration degree from the University of Illinois at Springfield. I have been employed by the Commission since May 1999 as a Financial Analyst.

Q. What is the purpose of your testimony?

A. I am recommending a fair rate of return on rate base for Commonwealth Edison Company's ("ComEd" or "Company") electric delivery services, pursuant to the provisions of Section 16-108.5 of the Public Utilities Act ("Act").[1]

[1] 220 ILCS 5/16-108.5.

Q. Have you included any attachments as part of your direct testimony?

A. Yes. I am submitting the following attachments:

Attachment A ComEd's response to Staff Data Request PAH 2.06

Attachment B ComEd's response to Staff Data Request PAH 2.01

Q. Have you reviewed the dollar amounts, percentages and costs of the components of the proposed rate of return on rate base presented in ComEd's Schedule D-1 FY?

A. Yes.

Q. Do you have any changes to ComEd's Schedules D-1 FY and D-1 RY?

A. Yes. ComEd's Schedules D-1 FY and D-1 RY contain an error, showing the proposed cost of short term debt as 0.50%. Attachment A confirms that ComEd's proposed cost of short term debt is actually 0.40%, as reflected in ComEd's 2013 10-K, Page 327.[2]

Q. Do you have any changes to ComEd's Schedule D-3?

A. No. I am not proposing any changes to ComEd's Schedule D-3. Nonetheless, as shown in Attachment B, the annualized amortization of debt expense for the 3.80% Series 113 contains a $6,000 adjustment recorded in 2013 related to the debt issuance costs on this debt instrument.[3] To demonstrate the

[2] Staff Exhibit 3.0, Attachment A, ComEd's response to Staff Data Request PAH 2.06.
[3] Staff Exhibit 3.0, Attachment B, ComEd's response to Staff Data Request PAH 2.01.

appropriateness of the $6,000 adjustment, ComEd should provide more information to explain this adjustment in its rebuttal testimony. Specifically, ComEd should describe the source of this cost and why it is expected to be incurred annually (as opposed to being a one-time cost to be amortized over the remaining life of the issue). Without this adjustment, the annualized amortization of debt expense for the 3.80% Series 113 is $116,510.

Q. Does exclusion of this adjustment change your recommendation for ComEd's fair rate of return on rate base?

A. No. The adjustment does not change the cost of long-term debt or the overall rate of return.

Q. Do you agree that ComEd's proposed capital structure is reasonable for establishing rates in this proceeding?

A. Yes. ComEd's capital structure is appropriate for the reasons set forth in Docket No. 13-0318, ComEd Ex. 4.01, pp. 23-25.

Q. Are you proposing any adjustments to ComEd's proposed rate of return on rate base?

A. No. The rate of return on common equity complies with Section 16-108.5(c)(3) of the Act and the Company has accurately calculated the prudent and reasonable costs of the other components of the capital structure. I agree that the fair rate of return on rate base for ComEd is 7.06% for the filing year and 7.04% for the reconciliation year as shown below:

Filing Year:

Component	Weight	Cost	Weighted Cost
Short-Term Debt	0.22%	0.40%	0.00%
Long-Term Debt	54.01%	5.16%	2.79%
Common Equity	45.77%	9.25%	4.23%
Bank Facility Costs			0.04%
Total	100.00%		7.06%

Reconciliation Year:

Component	Weight	Cost	Weighted Cost
Short-Term Debt	0.22%	0.40%	0.00%
Long-Term Debt	54.01%	5.16%	2.79%
Common Equity	45.77%	9.20%[4]	4.21%
Bank Facility Costs			0.04%
Total	100.00%		7.04%

Q. Does this conclude your prepared direct testimony?

A. Yes.

[4] Includes a 5 basis point reduction to ComEd's return on equity as a performance metrics penalty pursuant to 220 ILCS 5/16-108.5.

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**Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
PAH 2.01 – 2.06
Date Received: June 6, 2014
Date Served: June 16, 2014**

REQUEST NO. PAH 2.06:

The cost of short term debt shown on Schedule D-1 FY and D-1 RY is not the same as that shown on ComEd Ex. 5.0, page 4, line 82 and ComEd Ex. 3.01, page 5, line 8 and page 14, line 13. Please reconcile this difference.

RESPONSE:

The cost of short term is 0.40% as reflected in ComEd's 2013 10-K, Page 327.

The cost of short term debt on Schedule D-1 FY and D-1 RY should be reflected as 0.40%. The attachment labeled as PAH 2.01_Attach 1 discloses this correction.

ComEd will file a revised Schedule D-1 RY and Schedule D-1 FY with its Rebuttal Testimony reflecting this correction. There is no change to the weighted cost of capital or revenue requirement associated with this change.

Commonwealth Edison Company
Cost of Capital Summary
(In Thousands)

Witness: Menon

Line No.	Class of Capital	Amount	Percent of Total Capital	December 31 Cost	Weighted Cost
	(A)	(B)	(C)	(D)	(E)
	Year Ending December 31, 2013				
1	Short-Term Debt	$ 22,451	0.22%	**0.40%**	0.00%
2	Long-Term Debt	$ 5,568,906	54.01%	5.16%	2.79%
3	Common Equity	$4,719,173	45.77%	9.20% (1)	4.21%
4	Credit Facility Costs (2)				0.04%
5	Total Capital	$10,310,530	100.00%		7.04%

Notes:
(1) See Schedule D-6 RY, Line 16.
(2) See Schedule D-2, Page 2, Line 14.

Commonwealth Edison Company
Cost of Capital Summary
(In Thousands)

Witness: Menon

Line No.	Class of Capital	Amount	Percent of Total Capital	December 31 Cost	Weighted Cost
	(A)	(B)	(C)	(D)	(E)
	Year Ending December 31, 2013				
1	Short-Term Debt	$ 22,451	0.22%	**0.40%**	0.00%
2	Long-Term Debt	$ 5,568,906	54.01%	5.16%	2.79%
3	Common Equity	$4,719,173	45.77%	9.25% (1)	4.23%
4	Credit Facility Costs (2)				0.04%
5	Total Capital	$10,310,530	100.00%		7.06%

Notes:
(1) See Schedule D-6 FY, Line 15.
(2) See Schedule D-2, Page 2, Line 14.

ICC Docket No. 14-0312

Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
PAH 2.01 – 2.06
Date Received: June 6, 2014
Date Served: June 16, 2014

REQUEST NO. PAH 2.01:

Please provide a detailed description of how the "Annualized Amortization of Debt Expense" was calculated for the following debt issues shown in column (K) on Schedule D-3, page 1 and column (H) on WPD-3, page 1:

(1) 5.850% 1994C due 1/15/14 (see D-3, line 2);
(2) 1.625% Series 110 due 1/15/14 (see D-3, line 13);
(3) 3.800% Series 113 due 10/1/42 (see D-3, line 16);
(4) 4.600% Series 114 due 8/15/43 (see D-3, line 17);
(5) 5.850% FMB Series 94C due 1/15/14 (see WPD-3, line 15); and
(6) Variable PC 2003D Series 94C due 1/15/14 (see WPD-3, line 47).

RESPONSE:

The calculation of the "Annualized Amortization of Debt Expense" is as follows:

- Determine the remaining "amortization period" days between the beginning of the current amortization period through the last day of the actual "end" date of amortization (need to factor in leap years).
- Take the remaining Debt Expense balance at the beginning of the current amortization period and divide this amount by the "total days" developed in the preceding bullet.
- Multiply the "per day" amortization amount developed in the preceding bullet by 365 days (or 366 days in a leap year) to derive the total amortization amount for the period in question.

Using the process detailed in the three (3) bullets above, please see the following calculations that will use the information shown on Supplemental Pages 26a/27a and 26b/27b of the 2013 Form 21 ILCC.

(1) The number of total days between January 1, 2013 and January 14, 2014 equal, 379. The "Balance at Beginning of Year" is $3,360, which we divide by 379 and multiply by 365 to derive the $3,236 shown in Line 6, Column H on Supplemental Page 27a of the 2013 Form 21 ILCC.

(2) The number of total days between January 1, 2013 and January 14, 2014 equal, 379. The "Balance at Beginning of Year" is $1,085,274, which we divide by 379 and multiply by 365 to derive the $1,045,185 shown in Line 28, Column H on Supplemental page 27a of the 2013 Form 21 ILCC.

(3) The number of total days between January 1, 2013 and September 30, 2042 equal, 10,865. The "Balance at Beginning" of Year is $3,474,180 (less the $6,000 per below), which we divide by 10,865 and multiply by 365 to derive the amount of $116,510, which is included in the $122,510 that is shown in Line 33, Column H on Supplemental Page 27a of the 2013 Form 21 ILCC. The difference between the $122,510 and the 116,510 is $6,000, which represents an adjustment recorded in 2013 related to the debt issuance costs on this debt instrument.

(4) This new debt instrument was issued on August 19, 2013. The $49,060 shown in Line 35, Column H on Supplemental page 27a of the 2013 Form 21 ILCC represents 135 days of amortization for the period of August 19, 2013 through December 31, 2013. The $132,644 shown in Page 1, Line 17, Column (K) of Schedule D-3 represents an "annualization" of the $49,060 ($49,060 divided by 135 days and then multiplied by 365 days).

(5) For this debt instrument, the monthly amortization amount is derived based on the loss associated with the reacquirement of this debt instrument, divided by the period between the date of reacquirement through the original maturity date of this debt instrument. In 2013, ComEd recorded monthly amortization of $5,424.62. This instrument will be fully amortized in January 2014.

(6) For this debt instrument, the monthly amortization amount is derived based on the loss associated with the reacquirement of this debt instrument, divided by the period between the date of reacquirement through the original maturity date of this debt instrument. In 2013, ComEd recorded monthly amortization of $3,117.81. This instrument will be fully amortized in January 2014.