DIRECT TESTIMONY

of

JANIS FREETLY

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. 16-0259

June 29, 2016

Q. Please state your name and business address.

A. My name is Janis Freetly. 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 currently employed as a Senior Financial Analyst in the Finance Department of the Financial Analysis Division.

Q. Please describe your qualifications and background.

A. In May of 1995, I earned a Bachelor of Business from Western Illinois University. I received a Master of Business Administration degree, with a concentration in Finance, from Western Illinois University in May of 1998. I have been employed by the Commission as a Financial Analyst since September of 1998. I was promoted to Senior Financial Analyst on August 31, 2001.

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

A. I will present a fair rate of return on rate base for Commonwealth Edison Company ("ComEd" or "Company") pursuant to Section 16-0108.5(c) of the Illinois Public Utilities Act ("Act").[1]

[1] 220 ILCS 5/16-108.5

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

A. Yes.

Q. Did you make any changes to the amounts, percentages or costs of the capital structure components?

A. Yes, I made slight changes to the balances of long-term debt and common equity that the Company proposed. However, my changes do not impact the percentages or costs of the components of the proposed rate of return on rate base presented by the Company.

Q. Do you have any changes to the balances of the components of the capital structure?

A. Yes. According to ComEd, the balance of construction-work-in-progress ("CWIP") accruing an allowance for funds used during construction ("AFUDC") for the year ending December 31, 2015 was $509,297,000. As shown on page 2 of Schedule D-1, ComEd removed this amount from the long-term debt and common equity balances in proportion to the percentage of the capital structure comprised by each of these long-term components. However, on Schedule D-2, ComEd subtracts the CWIP accruing AFUDC from the balance of short-term debt to arrive at a net amount outstanding balance of CWIP accruing AFUDC of $214,792,000. That adjustment recognizes the Commission's formula for calculating AFUDC assumes short-term debt is the first source of funds financing CWIP[2] and addresses the double-counting concern the Commission raised in a previous Order.[3] The Commission's formula also assumes that any CWIP not funded by short-term debt is funded proportionally by the remaining sources of capital (i.e., long-term debt, preferred stock and common equity). Thus, to avoid double counting the portions of long-term debt and common equity that the AFUDC formula assumes is financing CWIP, only the balance of CWIP accruing AFUDC that remains after accounting for short-term debt should be removed from the long-term capital components of the capital structure. Hence, using ComEd's long-term capital structure ratios presented on Schedule D-1, page 2, I subtracted a combined total of $214,792,000 from the common equity and long-term debt balances in proportion to the percentage of the capital structure represented by these long-term capital components instead of $509,297,000 proposed by ComEd.

Q. Do these adjustments to the balances of the long-term components of the capital structure change ComEd's proposed rate of return on rate case?

[2] *Uniform System of Accounts for Electric Utilities Operating in Illinois,* Electric Plan Instruction 3, Item 17. Long-term debt, preferred stock and common equity are assumed to finance CWIP balances in excess of the short-term debt balance according to their relative proportions to long-term capital.

[3] Order, Docket No. 95-0076 (Illinois-American Water Company, general rate increase), December 20, 1995, p. 51.

A. No. Although the balances of long-term debt and common equity do change slightly, the adjustments are not material enough to change the percentages or weighted costs of the capital structure components.

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

A. Yes, I made three minor changes to ComEd's unamortized debt discount and debt expense balances for the two series issued in 2015. I changed the unamortized discount balance for ComEd's 3.70% Series 118 bonds presented in column (F) of line 17 on Schedule D-3. While the bonds were issued in March 2015, ComEd annualized the amortization of the discount to reflect twelve full months of amortization instead of only the nine months since they were issued, as presented in column (J) of Schedule D-3. However, ComEd did not also reduce the unamortized discount balance by the annual amortization included in column (J). Thus, I began with the entire balance of unamortized debt discount presented in the Company's ICC Form 21[4] for this issue and reduced it by the annualized amount of amortization ComEd included in column (J) of Schedule D-3.

I made similar adjustments to the unamortized discount and unamortized debt expense balances for ComEd's 4.35% Series 119 bonds presented in columns (F) and (G) of line 18 on Schedule D-3. The bonds were issued in November 2015 and the annualized amortization of the discount and debt expense were included by ComEd in columns (J) and (K). Similarly,

[4] ComEd ICC Form 21 for the year ending December 31, 2015, page 27a, line 35, column (g).

however, ComEd did not reduce the unamortized discount balance and debt expense by the annual amortization respectively included in columns (J) and (K). Thus, I began with the entire balances of unamortized debt discount and expense presented in the Company's ICC Form 21[5] for this issue and reduced the unamortized debt discount balance by the annualized amount of amortization of debt discount that ComEd included in column (J) and reduced the unamortized debt expense balance by the amount of amortization ComEd included in column (K). Hence, the unamortized discount in column (F) and the unamortized debt expense in column (G) now reflect the amount of annualized amortization that ComEd included in columns (J) and (K) for the year ending December 31, 2015. I present ComEd's Schedule D-3 with the revised balances mentioned above in the attached Schedule 3.01.

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

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

Q. Do you recommend any adjustments to the Company's proposed rate of return on rate base for either the filing year or reconciliation year?

[5] ComEd ICC Form 21 for the year ending December 31, 2015, page 27a, lines 36-37, column (g).

A. No. The proposed capital structure presented in Company Schedule D-1 reasonably balances the cost advantage of tax deductible interest expense that results from employing debt as a source of capital with the financial strength needed to raise capital under most capital market conditions that results from employing common equity as a source of capital. Further, the rate of return on common equity complies with Section 16-108.5(c)(3) of the Act. Therefore, I agree that the fair rate of return on rate base for ComEd is 6.71% for the filing year and 6.69% for the reconciliation year, as shown below:

Filing Year:

Component		Balance (in thousands)	Weight	Cost	Weighted Cost
Short-Term Debt	$	32,144	0.27%	0.53%	0.00%
Long-Term Debt		6,544,091	54.11%	5.06%	2.74%
Common Equity		5,516,904	45.62%	8.64%	3.94%
Bank Facility Costs					0.03%
Total	$	12,093,138	100.00%		6.71%

Reconciliation Year:

Component		Balance (in thousands)	Weight	Cost	Weighted Cost
Short-Term Debt	$	32,144	0.27%	0.53%	0.00%
Long-Term Debt		6,544,091	54.11%	5.06%	2.74%
Common Equity		5,516,904	45.62%	8.59%	3.92%
Bank Facility Costs					0.03%
Total	$	12,093,138	100.00%		6.69%

Q. Does ComEd's cost of common equity include any reductions related to a performance metric penalty pursuant to Section 5/16-108.5 of the Act?

A. Yes, it does. It includes a five basis point reduction because ComEd did not achieve a performance metric outlined in Section 16-108.5 of the Public Utilities Act.[6]

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

[6] ComEd Ex. 3.0, 5.

Commonwealth Edison Company
Embedded Cost of Long-term Debt
Year Ending December 31, 2015

Line No.	Debt, Issue Type Coupon Rate		Date Issued	Maturity Date	Days Outstanding Factor	Principal Amount	Face Amount Outstanding	Unamortized Discount or (Premium)	Unamortized Debt Expense	Carrying Value *(H)=(E)-(F)-(G)*	Annual Coupon Interest *(I)*[3]	Annual Amortization of Discount (Prem)	Annual Amortization of Debt Expense	Annual Interest Expense *(L)=(I)+(J)+(K)*
	(A)[1]		(B)[1]	(C)[1]		(D)[1]	(E)[1]	(F)[2]	(G)[2]	(H)	(I)	(J)[2]	(K)[2]	(L)
	First Mortgage Bonds													
1	5.875%	Series 100	01/22/03	02/01/33		350,000,000	253,600,000	624,237	1,476,363	251,499,400	14,899,000	36,508	86,344	15,021,852
2	5.900%	Series 103	03/06/06	03/15/36		325,000,000	325,000,000	1,375,447	2,354,680	321,269,873	19,175,000	68,036	116,474	19,359,510
3	5.950%	Series 104	08/28/06	08/15/16		300,000,000	300,000,000	25,820	185,155	299,789,025	17,850,000	41,513	297,716	18,189,229
4	5.950%	Series 104I	10/02/06	08/15/16		115,000,000	115,000,000	(146,661)	56,658	115,090,003	6,842,500	(235,821)	91,103	6,697,782
5	5.900%	Series 103I	03/22/07	03/15/36		300,000,000	300,000,000	8,667,850	731,532	290,600,618	17,700,000	428,753	36,185	18,164,938
6	6.150%	Series 106	09/10/07	09/15/17		425,000,000	425,000,000	204,119	691,101	424,104,780	26,137,500	119,588	404,899	26,661,987
7	6.450%	Series 107	01/16/08	01/15/38		450,000,000	450,000,000	998,444	3,286,155	445,715,401	29,025,000	45,271	149,000	29,219,271
8	5.800%	Series 108	03/27/08	03/15/18		700,000,000	700,000,000	296,862	1,405,994	698,297,144	40,600,000	134,769	638,293	41,373,062
9	4.000%	Series 109	08/02/10	08/01/20		500,000,000	500,000,000	55,006	2,062,921	497,882,073	20,000,000	11,993	449,801	20,461,794
10	1.950%	Series 111	09/07/11	09/01/16		250,000,000	250,000,000	-	244,144	249,755,856	4,875,000	-	365,215	5,240,215
11	3.400%	Series 112	09/07/11	09/01/21		350,000,000	350,000,000	65,556	1,542,043	348,392,401	11,900,000	11,560	271,906	12,183,466
12	3.800%	Series 113	10/01/12	10/01/42		350,000,000	350,000,000	555,510	3,118,649	346,325,841	13,300,000	20,753	116,510	13,437,263
13	4.600%	Series 114	08/19/13	08/15/43		350,000,000	350,000,000	728,602	3,893,866	345,377,532	16,100,000	26,359	140,872	16,267,231
14	2.150%	Series 115	01/10/14	01/15/19		300,000,000	300,000,000	404,110	1,422,284	298,173,606	6,450,000	132,764	467,267	7,050,031
15	4.700%	Series 116	01/10/14	01/15/44		350,000,000	350,000,000	107,914	3,433,726	346,458,360	16,450,000	3,846	122,370	16,576,216
16	3.100%	Series 117	11/10/14	11/01/24		250,000,000	250,000,000	188,240	2,377,313	247,434,447	7,750,000	21,285	259,828	8,031,113
17	3.700%	Series 118	03/02/15	03/01/45		400,000,000	400,000,000	4,355,172	-	395,644,828	14,800,000	143,557	-	14,943,557
18	4.350%	Series 119	11/19/15	11/15/45		450,000,000	450,000,000	3,381,494	5,578,640	441,039,866	19,575,000	119,506	138,406	19,832,913
19						6,515,000,000	6,418,600,000	21,887,722	33,861,224	6,362,851,054	303,429,000	1,130,240	4,152,189	308,711,430
20	**Notes**													
21	6.950%		07/16/98	07/15/18		225,000,000	140,000,000	232,755	3,977	139,763,268	9,730,000	91,744	1,568	9,823,312
22	**Subordinated Deferrable Interest Debt**													
23	6.350%		03/17/03	03/15/33		206,186,000	206,186,000	106,650	1,293,384	204,785,966	13,092,811	6,195	75,137	13,174,143
24						$6,946,186,000	$ 6,764,786,000	$ 22,227,127	$ 35,158,585	$ 6,707,400,288	$ 326,251,811	$ 1,228,179	$ 4,228,894	$ 331,708,885

Notes:
(1) Long-term debt balances taken from Form 21 ILCC, Page 22a.
(2) Balances taken from Form 21 ILCC, Supplemental Pages 26a-27b.
(3) Amounts are taken from Form 21 ILCC, Page 23a. For series issued in 2015, the amount is annualized.

Commonwealth Edison Company
Embedded Cost of Long-term Debt
Year Ending December 31, 2015

Line No.	Adjusted Cost of Long-term Debt	Amount	Adjusted Long-term Debt Balance	Amount	EMBEDDED COST OF LONG TERM DEBT	Amount
	(A)	(B)	(C)	(D)	(E)	(F)
1	Interest on long-term debt (1)	$ 326,251,811	Total long-term debt balance (6)	$ 6,764,786,000	Cost of long-term debt	$ 336,794,147
2	+ Amortization of discount (premium) (2)	1,228,179	Less Unamortized discount (premium) (7)	22,227,127		
3	+ Amortization of debt expense (3)	4,228,894	Less Unamortized debt expense (8)	35,158,585	Balance of long-term debt	$ 6,660,632,134
4	+ Amortization of loss on reacquired debt (4)	5,101,795	Less Unamortized loss on reacquired debt (9)	46,843,975		
5	+ Amortization of gain on reacquired debt (5)	(16,533)	Less Unamortized gain on reacquired debt (10)	(75,821)		
6	Cost of long-term debt	$ 336,794,147	Balance of long-term debt	$ 6,660,632,134	**COST OF LONG-TERM DEBT**	**5.06%**

Notes:
(1) Schedule D-3, Page 1, Column (I).
(2) Schedule D-3, Page 1, Column (J).
(3) Schedule D-3, Page 1, Column (K).
(4) WPD-3, Page 1, Line 39, Column (H)
(5) WPD-3, Page 1, Line 42, Column (H)
(6) Schedule D-3, Page 1, Column (E).
(7) ICC Staff Exhibit 3.0, Schedule 3.01, Page 1, Column (F).
(8) ICC Staff Exhibit 3.0, Schedule 3.01, Page 1, Column (G).
(9) WPD-3, Page 1, Line 39, Column (G).
(10) WPD-3, Page 1, Line 42, Column (G).