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Exelon Corp. (EXC)

Edison Electric Institute Financial Conference

CORPORATE PARTICIPANTS

Christopher M. Crane

President, Chief Executive Officer & Director

MANAGEMENT DISCUSSION SECTION

Christopher M. Crane

President, Chief Executive Officer & Director

I get the wave, so I think, ready to start now. So, thanks, everybody. Good morning and thanks for coming. And thanks for those of you joining us online. Today, I want to talk about Exelon's strategy. We've had a very productive year the last year. Things have improved greatly. You can see that forward-looking statement for your pleasure.

But our strategy continues to leverage on the integrated business model to create value and diversify the business, utilities, stable earnings, dividend support and regulated growth while the competitive business ensures that the capacity to market in the platform for diversification is fully utilized.

A key factor, as we have said in the past in delivering growth, is our operational excellence and we consider that a core competency. How well we operate our plants and serve our customers will determine our ability to drive value.

As an industry, there is quite a bit of transformation occurring today, changing customer behaviors, emergence of disruptive technologies that can be looked at as disruptive or enabling technologies, challenges to the integrity of the grid and continuing industry consolidation. The changes are not going to occur overnight, but it does create some uncertainty in the process. We're sure there will be more of a transformation than not.

So how will we respond? At the heart of our strategy is two main elements. We continue to invest in our core markets where opportunities match our core competencies. The acquisition of Pepco Holdings is the best example of that. But we're continuing to invest in adjacent markets that capitalize on our core competencies, our assets in the markets themselves. The fast-ramping ERCOT gas plants that we announced are examples of those, along with the distributed energy platform that we're developing.

We'll continue to shape public policy to turn threats into opportunities, remain focused on continuous improvement and create a culture of innovation in technology and the competencies we need to ensure we can be successful.

So what makes us unique? We have the flexibility to pursue new markets and opportunities in multiple business areas with the size and diversity of our platform. Our integrated model is a distinct competitive advantage for us with the size and scale, which we will drive value to our customers and to our shareholders.

Driving value at the utilities, talk through the drivers there. We're making investments to significantly grow our rate base. Between 2014 and 2018, we'll invest \$16 billion into our existing utilities and with Pepco Holdings, another \$8 billion. This will drive material earnings growth. The merger with PHI is a good example of

opportunities in the core market, as I mentioned earlier. Leveraging the core competencies around operational excellence to improve performance with integrating PHI into the existing platform and share the best practices across all four utilities, we should only grow stronger.

We invest in our utilities where it provides benefit to our customers by improving reliability and service. Investing in needed infrastructure improvements across the system is the primary – for system resiliency. Investing also to address trends as I've discussed, the examples are smart meters or intelligent networks, smart city concepts that are evolving.

As the current utility model evolves, so will we. We'll continue to advocate to ensure we can capture on value and innovation. Our goal, operate at the highest levels of performance, customer satisfaction and safety. We'll continue to do this, and we will drive value for both our customers and for our shareholders.

Focusing on the generation side, talk about the drivers there, the driving principles to preserve the value of the core of our assets while being strategic on how we diversify into adjacent markets. We have consistently operated our nuclear fleet better and year-over-year in the last decade, have been able to prove that we are the best nuclear operator in the country. In doing so, we've been able to provide clean, reliable energy to the system.

When we think about strategic growth in adjacent markets, we must identify the emerging trends and be a leader in pursuing opportunities to capitalize on those trends. Our investment in both Bloom Energy and NET Power are prime examples of being a first mover in transformative technologies.

Part of the platform that we're investing in and building positions us for growth across the full ecosystem. I mentioned creating a culture of innovation earlier, and that's not a platitude. We have formed technologies exchange cross-functional innovation to evaluate and respond to current and advancing emerging technologies that we can create an opportunity in the Exelon business model.

We have Constellation Technology Ventures. It's an early-stage venture capital fund targeting innovations related to Exelon's businesses, putting us at the table as these technologies are emerging and being developed. Each business unit is exploring new products and services and processes that they may incorporate that drives the relevance of us to our customers. The initiatives will keep us on the forefront of innovation as we diversify our business.

When we think about diversification, we operate in volatile commodity markets. We mitigate some of that volatility via portfolio management and our ability to match load and generation. We also diversified our fuel mix and our regional mix, the two fast-ramping natural gas plants that we're building in Texas are great examples of how we're executing on this plan.

This also ties into our strategy of being a first-mover, harnessing the newer, cleaner, more efficient technology as we enter further into the ERCOT market. And as we do this, we will use the full spectrum of the financing tools at our disposal. The value of our assets is also driven by policy and talk a little bit about regulatory developments.

On the capacity market, the proposed changes to the market design have been widely discussed quite a bit here at this conference. We have invested heavily over the last decade to make our fleet of nuclear assets more reliable in PJM. The fleet is well-positioned to meet the enhanced capacity requirements that are needed to ensure that we keep the lights on.

On the demand side, changes to the demand curve construct as well as the role of DR will also serve to benefit our base load nuclear. In the power markets, the EPA regulation on carbon emissions is a positive given the clean

nature of our fleet. The effect of these changes coupled with the additional coal retirements are positive for heat rates and ultimately power prices. There are also positive developments, while they unfold – other developments as they unfold, will take actions to create value in the future as we do currently as we operate.

Switching subjects a bit, in Illinois, we're looking for a market-based solution. We're staunch advocates of competitive markets. All markets participants, including Exelon in a competitive business, must be appropriately compensated for the value that they provide. We'll promote policies that drive in that direction.

The benefits of Exelon's fleet to Illinois are substantial. What's gotten lost in the discussion is what we think is a better market design. Simply put, we are seeking a solution that recognizes the real market value of the clean attributes of nuclear as it's also already done in Illinois law for other sources: wind, solar and clean coal.

Examples of such solutions could be as simple as a clean energy standard or a carbon-trading program like RGGI. We're confident a sound solution will be reached and we'll continue to engage with all the stakeholders in that process.

We are positioned strong heading into the future. We've been productive since I've spoke to you last year at this time. We're excited about the investments we're making in the way that we are managing the business. We're going to grow our utility platform and invest in rate base. We're investing in leading-edge projects like Bloom Energy, NET Power, our fast-ramping gas plants.

We continue to add renewables to the portfolio as they come available, expanding our retail channels to market with the incorporation of the Integrys and ProLiance. Selling assets that are greater value to others and recycling capital into new investments has been a focus and creating an internal culture for innovation.

Power markets have had some expected volatility this year, showing improvement year-over-year. Our assets have had an unparalleled ability to participate in any future upside. But we cannot leave our future solely in the hands of the market. Our integrated business model gives us the flexibility to create value from our core assets and with our core competencies, while pursuing opportunities to further enhance the value across the energy chain.

The strength of our balance sheet will continue to give us ability to finance our investments. We're encouraged by market design and regulatory changes that recognize the value brought by the types of assets that we own. We'll continue to advocate actively to protect both our assets and the reliability of the system while delivering on customer satisfaction.

Our success in the evolving energy landscape will require operational excellence, strategic planning and leadership. We're taking this challenge head on and we expect to capitalize on the changes in the coming horizon.

So, with that, I will take questions. And we have the rest of our senior team up here that will be able to fill in the blanks where I can't answer. If you have a question, we'll get the mic to you if you just raise your hand.

QUESTION AND ANSWER SECTION

Christopher M. Crane

President, Chief Executive Officer & Director

Vic? You could always bail me out, Vic.

A

Q

Chris, you have an inherent leverage in the generation part of your business. And what do you see – can you expand on a couple of areas where your leverage might work, particularly in the PJM as well as reliability area?

Christopher M. Crane

President, Chief Executive Officer & Director

Sure. The biggest leverage point that we have inherent to our fleet, is the clean nature with the current trend going to cleaner emissions standards, Greenhouse Gas Initiatives, we're very well positioned for that. The second major leverage point we have over others is the maturity – or the complexity and maturity of our Constellation business and the platform that they are able to match the load to generation.

Some of our risks are a lot of assets in PJM and we work to minimize the exposure on that, not only ensuring market designs are properly managed, but also on how we're hedging our assets going forward. So those would be the key ones, I don't know, Ken, Joe and Jack?

A

I think reliability. I think reliability, Chris, is the third. Obviously, we saw during the Polar Vortex last year, significant underperformance amongst certain assets and the nukes were the foundation of the power grid at that point. So I think the capacity and performance market is acknowledgement that there's real value in that reliability and we look forward to that evolving.

Christopher M. Crane

President, Chief Executive Officer & Director

Any other questions or commentary?

A

Q

Can I just follow-up?

Christopher M. Crane

President, Chief Executive Officer & Director

Sure.

A

Q

I was really looking for some quantification that you have so many terabyte hour available [inaudible] (13:42-13:48) what are the potential quantification of that value that is...?

Christopher M. Crane

President, Chief Executive Officer & Director

That would be our open position.

A

A

Vic, it's early to say what the leverage of the clean attribute and the reliable attributes of our portfolio are. PJM is working on recognizing reliability in its capacity performance plan. We're excited to see that plan and see what they file later this year and we'll go from there. There is, clearly for us, upside being the most reliable fleet in the PJM footprint.

So we'll be looking forward to that. As Chris mentioned, courting with Illinois on a market structure to recognize clean is another important element of the leverage of the Genco and upside there as well. We haven't quantified it at this point.

A

And Vic, one thing is in the deck on slide 18 you see some sensitivities that show capacity, price sensitivity and other things. So there is some financial quantification that you could use with that information.

Q

Thanks. I was curious if you've taken any extra maintenance or sort of hardening steps heading into winter this year given the extreme weather last year, if you expect a repeat of that.

Christopher M. Crane

President, Chief Executive Officer & Director

We have a pretty diligent process in place already on summer and winter readiness. So we had gone through all of our plants to make sure that they're hardened and ready, checking outside systems, gas levels and breakers, all that type of stuff. We did have an unfortunate lesson learned last year where we lost two nuclear units in an unfortunate time during a cold weather and snow event. It was a simple filter on outside electric equipment that had blown off. So taking all those lessons learned and spreading them across the fleet, we have a sensitivity here in Texas to cold weather with the gas plants that we need to make sure that heat rates and things like that are properly managed or bringing space heaters and things like that. So we do it every year. Unfortunately, a couple of times, we had to learn a little bit more. We've learned from others and we incorporate those lessons learned into our readiness programs.

Q

Hi. What's your view on some of the other core markets you operate in, New England and New York, for example?

Christopher M. Crane

President, Chief Executive Officer & Director

You want to talk about New England and New York?

Yeah. I think we recently sold an asset in New England with our Fore River plant, but we still have a load position there. We still own generation in New England. Most of it's in the load pocket in Boston. We're very comfortable with managing that portfolio.

The last capacity auction in New England cleared pretty strong and we have some sites in New England that we could explore opportunities to possibly build new generation up there and we'll continue to evaluate that. But we're very comfortable with the markets we're in, both in New York and New England.

You completed a number of asset divestitures, getting ready for the Pepco acquisition. And I'm just wondering if you could just update us on if you have any more that you think you can do there and just how you're approaching that acquisition closing.

Christopher M. Crane

President, Chief Executive Officer & Director

Sure. The asset rationalization we just are completing right now. It started in advance of Pepco. It's timely, but it started in advance. Looking at how the assets fit in our portfolio, utilization of these assets, the capacity output and then looking at the value that they can have for others. So, we're completing our last transaction right now which is the Hillabee plant in Alabama. And then we'll be done at this point on asset rationalization, adding the units here in Texas will give us a better balance of load to generation, derisk our book. We'll continue to look for opportunities like that. But we don't foresee any other divestiture plans in the near future. Any other questions?

Thinking about the financing that you did at ExGen Texas. Why did you select that group of assets to do that financing and do you have other sets of assets where you think you might have an opportunity to layer in some debt?

Christopher M. Crane


President, Chief Executive Officer & Director

[indiscernible] (19:11)

Sure. So we have had – starting with our renewable assets, we've had a program where we've been looking at project financing assets that are certainly valuable to our company but are non-core from a ratings perspective.

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The project finance market has been an opportunity for us to pull capital out of those assets. Many of them contracted to redeploy that into the business, and funds both the investment at the utilities as well as growth projects. The recent financing of the Texas assets is really an opportunity just to extract value in the fleet of combined cycles that we have in Texas and some simple cycle assets and redeploy that into the growth part of our business.

So as you think about it, in some regards, we're pulling capital out of what are cyclical parts of our business. We're investing heavily in the regulated parts of our business at the higher multiple business, so we think we're unlocking a significant amount of value in doing that.

Christopher M. Crane*President, Chief Executive Officer & Director***A**

Other questions?

Christopher M. Crane*President, Chief Executive Officer & Director*

Not seeing anything. We thank you very much for your time and attention. Have a good day.

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