

Exelon Corp.

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Q4 2010 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Exelon Fourth Quarter Earnings Conference Call. [Operator Instructions]
After the speakers' remarks there will be a question-and-answer session. [Operator Instructions]
Thank you.

I would now like to turn the conference over to Stacie Frank, Vice President of Investor Relations.
You may begin your conference.

Stacie Frank, Vice President-Investor Relations

Thank you, Lynn, and good morning, everyone. Welcome to Exelon's Fourth Quarter 2010 Earnings Conference Call. Thank you for being with us today. We issued our earnings release this morning, which is available on our website at www.exeloncorp.com. The earnings release and other matters we will discuss in today's call contain forward-looking statements and estimates that are subject to various risks and uncertainties as well as adjusted non-GAAP operating earnings. Please refer to today's 8-K and Exelon's other filings for a discussion of factors that may cause these results to differ from management's projections, forecasts and expectations and for a reconciliation of our operating to GAAP earnings.

Leading the call today are John Rowe, Exelon's Chairman and Chief Executive Officer; and Matt Hilzinger, Exelon's Senior Vice President and Chief Financial Officer. They are joined by other members of Exelon's senior management team, who will be available to answer your questions.

We've scheduled 60 minutes for this morning's call. I will now turn the call over to John Rowe, Exelon's CEO.

John W. Rowe, Chairman and Chief Executive Officer

Good morning, everyone. Thank you, Stacie, happy New Year. 2010 was another year of fine operating and financial performance for Exelon. I'll start with some of the key factors. As you know from our earnings release, our operating earnings were \$4.06 per share, handily beating our original expectations for the year and at the top end of the range we provided you last quarter. We accomplished this through strict attention to cost control across the business. We met our target for operating O&M for 2010 despite starting the year with pension and OPEB expense that was \$35 million higher than 2009 and a challenge in our budget of \$100 million to offset rising costs. This was our second straight year of delivering O&M below the 2008 level of \$4.5 billion.

Revenues at Exelon Generation were helped by better-than-expected market conditions across the portfolio. Higher capacity prices from the scheduled reset of PJM capacity rates were expected but nonetheless helped in delivering on our commitments.

At both ComEd and PECO, weather effects particularly in the summer months increased earnings over last year by about \$0.16 per share. I would point out that we saw very little load growth in either company although we're always a little uncertain about our weather adjustments, and there may be a little more than we're seeing, but it was basically very close to flat.

We generated cash from operations of \$5.3 billion, one million more than our original expectations. Our higher net income, our tax planning work and cash benefits from bonus depreciation were the primary drivers.

Our cash generation in 2010 allowed us to contribute \$765 million to the pension plans, including a \$500 million voluntary contribution last August. Separately, we contributed \$200 million to our

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OPEB plans. And of course the best thing of all is that we returned \$1.4 billion to our shareholders through the dividend, which we held stable at \$2.10 per share.

In operations, both ComEd and PECO maintained strong performance, while managing cost despite intense storms. In each case we were a little disappointed in the duration indices, although I believe we're either in first quartile or close to it, but we were very pleased by our frequency of interruption statistics.

ComEd achieved its highest customer satisfaction scores in more than five years and PECO had its best ever customer satisfaction scores. Exelon Nuclear turned in its eighth consecutive year of capacity factors over 93%. While that starts to sound routine, it simply isn't. The management focus that goes into consistent operations at these levels with a fleet our size is a clear competitive advantage for Exelon.

We added 59 megawatts of new nuclear generation to the fleet through our uprate plan. We have another 98 megawatts projected to be added in 2011 across a number of sites, including Limerick, LaSalle and Quad Cities.

For Exelon Power, 2010 marked our first acquisition of wind assets with the acquisition of John Deere Renewables, now of course called Exelon Wind. This portfolio positions us as an important player in renewables policymaking, and as we told you before we have long-term contracts to lock in our earnings expectations and cash flow. If, as suggested in the President's speech last night, we have continued growth in requirements to purchase renewables, this puts Exelon in the place of selling as well as buying.

We also lived by our own creed and advocacy in retiring some of our oldest plants. We received FERC approval for short-term RMR agreements on Cromby and Eddystone through the retirement dates that we've announced in 2011 and '12. We also solved a longstanding dispute with the State of New Jersey regarding the early retirement of our nuclear plant at Oyster Creek. This provides certainty that we will not be required to install cooling towers, which the plant simply could not afford while still allowing us to capture the majority of the estimated remaining value in the site.

We are preparing the transmission system for a cleaner future. We move forward with \$178 million of transmission upgrades in downtown Chicago. We expect to complete these by the end of 2011. Our transmission team is pursuing high-voltage transmission development across the Midwest to move renewable energy to where it is needed most. And Exelon Generation is taking steps to reduce congestion around our units through projects like the transformer replacement near Clinton Station that is planned for the fourth quarter.

So let me say that I am very pleased with what our management achieved in 2010. This was a tough year and across the board, PECO, ComEd, Nuclear, Power Team, Exelon Power, our Business Service group, our business entities met their cost goals and in the case of Power Team, found ways to get some extra revenue in a very challenging power market.

Now turning to 2011. As you've seen in the morning's release, we are expecting another good year with operating earnings somewhere in the range of \$3.90 to \$4.20 per share. Our estimate reflects a number of items, which go in both directions.

PECO has now transitioned to fully deregulated markets, and new electric and gas distribution rates went into effect on January 1. The below-market power purchase agreement between PECO and Exelon Generation ended, which will allow Generation to realize about \$20 more per megawatt hour in 2011 on power sold to PECO customers.

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Exelon Energy, our retail sales arm, is growing its presence in the East as a result of PECO going to market. The pricing on financial swap between Generation and ComEd had a scheduled increase at the beginning of the year, adding about 150 million of revenue net fuel over 2010 levels.

Our financial results will continue to be helped by the hedges put on by Power Team for 2011, which were in the money by over \$1.7 billion at year-end. That includes the swap in Illinois as well as the other contracts in other regions. We expect demand at both ComEd and PECO to again be flat on a weather-normal basis. Now, on the other hand, we of course must continue to limit cost increases and to work ever harder on financial discipline across the enterprise.

PECO had a favorable rate case settlement during the year. ComEd is working hard with other utilities in Illinois to pursue a legislative proposal to invest in modernizing the grid in return for a formula rate structure. While it is too soon to tell the outcome, the proposal would be an economic development engine for the state and would give ComEd more timely and predictable regulatory mechanism for recovering its costs.

As we have reported before, tax legislation passed in December accelerates \$1 billion of cash flow. We are using that along with other funds and the tax benefits thereof to make a \$2.1 billion contribution to the pension plan. Using the funds for this purpose meets our obligation to our employees. It reduces the long-term corporate liability and takes advantage of the tax deductibility of the contributions. It means that our future operating cash flows are more available for things like our nuclear uprates and other long-term growth opportunities. Needless to say, it also makes those more available to protect your dividend.

We, of course, radically improved the funded status of the pension plan, and this allows us to accelerate our plan to rebalance the asset mix of the trust. And what we're doing is moving from our present equity contribution cut to a higher level of debt so that we reduce the volatility and match the assets more closely to the liabilities.

Now 2011 is going to bring a lot of things that bear on our future value. These include environmental regulations, changes in energy and capacity markets and the prospects for the broader economy. We believe and every check we make confirms that EPA will issue its proposed rules for hazardous air pollutants in March, and the final rules are scheduled for later this year. Both because EPA is committed to this end and because there are legal requirements under court order, we expect EPA to move vigorously in this regard. We all know there will be a great deal of political debate about whether these regulations are in some way too much too soon. Since we haven't seen them, we can't opine on whether they're too much, but the Clean Air Act has been around for a long time and compliance requirements are hardly a surprise.

EPA has shown what we believe to be commendable reasonableness on the 316(b) Clean Water rules. The agency has indicated that it expects to issue those rules in March as well. Final rules on 316(b) are expected in mid 2012 with compliance staged over some period after that. Lisa Jackson, the EPA administrator, has stated that a one size fits all approach does not work and that closed cycle cooling may not be the right technology at all plants. We believe that to be good news for Exelon and the entire industry. So there'll be a great deal of news on the EPA front.

With respect to energy and capacity markets, situation remains murky. As you all know, gas prices remain low. We are, of course, very interested in the results of the May capacity auction in PJM. We believe they will be higher than last year's results. The question is how much higher? The reduced demand forecast from PJM will exert some downward pressure on the markets. It is possible that the recent New Jersey legislation to pay for new gas plants will also be a downward force. However, we believe that under FERC precedent, FERC will move to require a reasonable minimum bid price for these units and do so in time for May's RPM auction. We are also evaluating other options on how we would respond in the event the Governor signs this legislation into law.

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There are a very large number of factors affecting the result of May's capacity prices. These include the amount of demand response participation, the number of plant retirements that are definite and bidding behavior reflecting what people really can commit themselves to do with coal plants in the face of both gas prices and the coming EPA regulations. They also reflect the timing of transmission upgrades.

We keep trying to evaluate all of these moving parts, as do you, and we will do our best to put them all together again, once PJM releases its planning parameters and FERC issues its ruling on the demand response market saturation. However, the reality is that we, like you, will not know the May prices until the auction takes place in May. The long-term trend to us is clear, however, capacity prices must rise if new entrants are to be afforded.

Now as I said earlier, we're all aware that gas prices remain low. In the fourth quarter we did see tangible increases in energy prices. We had West Hub forwards up about \$3 per megawatt hour. Some of that has sagged off in January, but prices still remain above the September 30 level. NI-Hub prices remain a challenge, but our hedge prices in the Midwest are helping us here.

We will continue our radical hedging policy, which we've talked to you about many times. It has served us well through this period of low prices. And of course, Ken Cornew and his team are constantly looking to lock in longer-term power contracts that give us both some value for our capacity and reflect the value of the environmental costs in the long-run price of energy. And while we don't get many when we look out at the longer-term we do see some that give us this sort of value.

So that is 2010 and 2011 as we see it. As I said earlier, we are simply very pleased with 2010 performance, and we see no reason why we can't do it again for you in 2011. Matt.

Matthew F. Hilzinger, Chief Financial Officer and Senior Vice President

Thank you, John. Happy New Year everyone. This morning I will discuss our fourth quarter and full year results and provide additional details for our 2011 earnings and cash forecast. My key messages for today are on Slide 6.

Starting with the fourth quarter, we achieved operating earnings of \$0.96 per share for the quarter, compared to \$0.92 in earnings per share in the fourth quarter of 2009. Our fourth quarter results were mainly attributable to higher capacity revenues and higher nuclear volumes partially offset by unfavorable market conditions and increased nuclear fuel costs.

For the year, Exelon's 2010 operating earnings were \$4.06 per share. We are very pleased with our financial performance for 2010 because we were able to deliver earnings well above our original guidance range despite the slower economic recovery unanticipated a year ago.

Now a few thoughts on our latest hedging activity and current market conditions, as we mentioned last quarter, and as you can see on Slide 8, we increased the pace of our hedging activity for 2012 during the first half of the year when prices were higher, and we have since slowed down as prices moved lower.

Also, as you can see in the chart on the left, we increased the percentage of put options during the year, which comprise most of our sales above purely ratable sales plan. The use of put options provides downside price protection but allows us to capture higher prices as they rise.

The chart on the right highlights the PJM West Hub energy prices continue to improve with some contribution from increasing Eastern coal prices. Midwest energy and natural gas prices have remained relatively unchanged over the past quarter. Our hedging disclosures, which are in the

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appendix of today's presentation, now incorporate all of Exelon Wind sales. Wind assets located in Illinois, Michigan and Minnesota are included in the Midwest region. All other wind assets are located in the South and West region.

Moving to Slide 9. ComEd had a great year, despite lower than expected loads. ComEd was able to absorb increased storm costs and the impacts of an unfavorable Court of Appeals ruling, principally due to their proactive focus on cost management. ComEd's load results are on Slide 10. A weak economy continues to weigh on ComEd's load growth. ComEd's weather-normal load growth for the fourth quarter of 2010 declined by 1.2% driven by lower residential usage, which was largely a result of the continued impact of high unemployment and higher foreclosures in the Chicagoland region. Chicagoland's regional unemployment rate of 9.3% is in line with the U.S. rate, while the GDP of 1.6 for the region lags behind the U.S. statistics.

Looking ahead to 2011, we're expecting flat usage next year, compared to 0.2% for 2010. We believe that the Chicago economy is gradually turning a corner. However, we expect the improvement in the residential class will be offset by the energy efficiency efforts and the Large C&I growth will be slower, reflecting the stability of the gains experienced in 2010.

Turning to PECO on Slide 11. PECO also had a very good year and delivered solid earnings despite historic summer storms. As expected, PECO's fourth-quarter results were lower than last year due to the scheduled reduction in the collection of CTC revenue. As a reminder, this was the last year of PECO's CTC revenue collections, as PECO has made its full transition to competitive markets.

On Slide 12, PECO's weather-normal load was flat for the fourth quarter and essentially flat for the year. In the fourth quarter, PECO experienced positive growth in the Large C&I class, which was offset by decreases in residential and Small C&I classes.

Looking ahead to 2011, we expect PECO's electric deliveries to be flat, consistent with 2010 as a result of larger energy efficiency impacts in 2011 that will offset economic improvements, particularly in the residential class and Large C&I classes. Small C&I sales are expected to contract this year but at a lesser rate than 2010.

According to 2011 earnings outlook, we are expecting another good year for Exelon with operating earnings in the range of 3.90 to 4.20 earnings per share for the full year and first-quarter results in the range of \$1 to \$1.10 per share.

Exelon's 2011 operating earnings will be led by ExGen, primarily due to the expiration of the PECO power purchase agreement with ExGen. Under our normal hedging policy, ExGen has been locking in forward sales of its 2011 expected generation at market rates since 2008.

2011 effective realized energy prices for the Mid-Atlantic are expected to be approximately 20 per megawatt hour higher than they were in 2010. A portion of this increased revenue will be offset by lower capacity prices, once the 2011 and '12 planning year rates are effective in June. We expect ComEd and PECO's 2011 operating income will be supported by increased distribution rates. PECO's new distribution rates were effective at the beginning of 2011. For ComEd, new distribution rates subject to approval will be effective in June. Our full year operating earnings estimates also reflect higher state taxes of \$0.03, attributable to the recently enacted Illinois income tax rate increase.

On Slide 13, our 2011 earnings guidance assumes O&M on a consolidated basis of 4.68 billion, a \$290 million increase over 2010 primarily driven by three items: First, 90 million for wage and inflationary increases; second, 55 million for increased nuclear costs, driven by two more outages in 2011 than in 2010; and third, 50 million for the inclusion of a complete year of O&M projections

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for Exelon Wind. Going forward, we expect future O&M increases for Exelon to be more in line with a 2% growth rate, particularly in 2012 and 2013.

Our pension estimates on Slide 14 reflect our year-end valuation, and the \$2.1 billion pension contribution announced earlier this month. The incremental contribution will be funded by 500 million of cash from operations, 850 million for bonus depreciation benefits and 750 million in tax benefits from the contribution itself.

Slide 15 has more information as to why we decided to make the \$2.1 billion contribution to Exelon's pension plans. Under the Pension Protection Act, effective in 2008, we are effectively required to fund our pension obligation over a seven-year period. With this contribution, our funded status is expected to be about 90% by the end of the year. Accelerating our funding enables us to reduce the risk on the balance sheet and reduce the sensitivity of our funded status and contribution requirements to future changes in the discount rate. The pension contribution improves cash flow due to lower future funding requirements, particularly in 2012 and 2013. It also lowers pension expense, provides additional cushion in our already strong credit metrics and creates additional debt capacity.

Moving to Slide 16. We expect operating cash flows of 4.3 billion in 2011, and combined with our strong credit metrics we are well positioned to meet our operating commitments, make investments in growth opportunities and fund the dividend.

As you can see, we expect to spend approximately \$700 million at ExGen for investments and uprates in wind projects. As planned, we will continue work on our uprate projects across the fleet including MUR uprate projects at Braidwood, Byron, Limerick and LaSalle. All of which are expected to be fully operational over the next two years, and EPU projects at Peach Bottom and LaSalle.

We will also continue the completion of the three Michigan wind projects that were in advanced stages of development at the time of that acquisition. At the utilities, we anticipate spending over 400 million on new business, Smart Grid investments and transmission upgrades.

As shown on Slide 17, John has discussed many of the key events that we are focused on in 2011. As we actively work our way through 2011, we will continue to focus on managing our costs, anticipating events that can have a significant impact on our business and adapting accordingly to maximize opportunities and minimize challenges.

And at this time, operator, we are ready for your questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] In consideration of others, we ask that you please limit your questions to one question and one follow-up question. Please return into queue for further questions. [Operator Instructions] And your first question comes from the line of Daniel Eggers with Credit Suisse.

<Q – Dan Eggers>: Morning. John, you made reference to kind of the RPM outlook and some of the pluses and minuses we've seen since the fall. If you were to add those all together, relative to some of the expectations you guys shared at the EEL conference, are you more positive? Less positive? Or indifferent to the outlook to the auction results this spring?

<A – John Rowe>: I'm never indifferent that's not one of my sins. We really haven't been able to add them together in a new an interesting way. I suppose we're a little less optimistic at the moment than we were in September but not a lot. And we just have to see because we know a couple parts that move negatively, but there are some things out there going positively too. Ken Cornew, would you like to add to that?

<A – Kenneth Cornew>: Yes. Dan, obviously the level of PJM demand forecast that they produced in January would have downward pressure on modeling of prices. Also, consideration of any kind of subsidized generation essentially is a price taker, like what's proposed in New Jersey legislation would also have downward pressure. And as you know and are well aware of and have been vocal about, there are other moving parts. PJM's going to issue its planning parameters in February. FERC's going to have to rule on minimum-offer pricing and demand response saturation and ultimately the big driver is the EPA environmental standards and reduced energy margins and how they play into how coal plants bid in the next auction. So we still see upside, and we're going to be watching very carefully what happens in the next two months.

<Q – Dan Eggers>: Ken, I guess, maybe kind of thinking about some of the forward hedging opportunities and some of the longer-term full requirements, auctions. With the move in coal prices, particularly in the West where you guys have a lot of generation, are you seeing a forward curve that is economic for people to bid in the '12 and '13 time horizon? Or are coal prices at a point now where there seems to be a fundamental disconnect to the physical power markets?

<A – Kenneth Cornew>: Clearly, Dan, the margins from coal generation in the Midwest are getting squeezed down when you look at forward prices. Forward prices and heat rates have moved up more aggressively in the Mid-Atlantic than the Midwest in the past quarter and obviously in January they've come back a bit, as John mentioned. I still think there is upside particularly in heat rates at NI-Hub. I know we've talked about what CAGR could – how CAGR could impact power prices. We think there might be a little bit of that in the forward market, but not much of it. We've talked about how MACT standards in '14 and '15 could improve prices more significantly. As [inaudible] congestion has been pretty significant in the last 20, 30 days. A lot of transmission work is going on in the Midwest region. We think some of that is making its way into forwards, and I think that'll turn around over time.

<Q – Dan Eggers>: So, Ken, does that mean that you're, are you more reluctant to bid Midwest power forward or sell power forwards? So is the hedging bias more in Mid-Atlantic right now just because it's a more efficient market from your perspective and the Midwest will come later?

<A – Kenneth Cornew>: A little more complicated than that, Dan. But relatively speaking if we do think there is upside, we will try to maintain that upside through option strategies, through what hubs we actually sell power at, and we do consider the different products on-peak and off-peak. I think there is more upside in on-peak Midwest prices so a lot of what we've done in the past quarter has been focused on Midwest off-peak, and we'll continue to look for ways to hedge the portfolio

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while maintaining that upside. I think if you look at our hedge disclosures and our sensitivity charts, you'll see that we've done a pretty good job of that.

<Q – Dan Eggers>: Okay. Thank you, guys.

Operator: Your next question comes from the line of Steve Fleishman, with Bank of America Merrill Lynch.

<Q – Steve Fleishman>: Yeah. Hi. Good morning.

<A – John Rowe>: Good morning, Steve.

<Q – Steve Fleishman>: First, a quick technical question. On the O&M increases, the 2% per year that you're talking about, is that pretty consistent at both the utilities and at Gen?

<A – Matthew Hilzinger>: Yeah. It's close. There could be two, a little bit over two in some areas and under in other areas, but we've set the target to average two.

<Q – Steve Fleishman>: Okay. And then separate topic, on the issue of New Jersey that was brought up in terms of this coming auction. John, I think you mentioned FERC precedent would not support what they're trying to do. Could you maybe elaborate a little bit on the FERC precedent on this?

<A – John Rowe>: Sure, but it's better that Joe Dominguez does because I've kind of gone to the extent of my knowledge. I think it's called the minimum price point. Joe, would you answer this?

<A – Joseph Dominguez>: Sure. Steve, when we're mentioning precedent in here, we're looking at the New York ISO case that recently came down applying the minimum offer price rule in the New York market. There's also been activity in the forward capacity market in New England. These are not new issues for FERC. FERC has applied minimum offer price rules to these markets. We believe that both PJM suppliers and others will bring this issue to the FERC very quickly, and that will get it rolling before the next auction.

<Q – Steve Fleishman>: Okay. And I guess one just last quick question. I seem to always ask it to you, John, but now that we've had one of these monster mergers, any kind of updated thoughts on your M&A strategy?

<A – John Rowe>: We are always looking. We look in different directions. We are absolutely value driven. We will not change. We will not abandon our value-added strategy out of the lusts of an old man, out of the envy of other people's shiny press releases or for any other reason. But as to the recent Duke-Progress announcement, it looks to me like a very sensible merger. I commend both Jim and Bill on doing it. It's the right way to make things happen. It will make a good company. We, of course, had looked at Progress ourselves. At our current share price, the accretion dilution numbers did not meet our tests. They apparently did for Duke. We have nothing but respect for what they're attempting to do, and we expect to see more of it across the industry. But it is one more example that Exelon is always paying attention, but we do this for value only.

<Q – Steve Fleishman>: Great, thank you.

Operator: And your next question comes from the line of Jonathan Arnold with Deutsche Bank.

<Q – Jonathan Arnold>: Good morning. Just wondering if we could get a little more color on what you think is going on with the underlying usage trends, particularly in ComEd, which seem to be – come in quite weak compared to what you had been anticipating when you did the EEI slides I guess in early November.

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<A – John Rowe>: I'm going to ask Anne Pramaggiore to answer that because she's closer to it than I am.

<A – Anne Pramaggiore>: Sure. Thanks, John. We did come through 2010 lower than we had originally expected. What we saw was a drop-off in fourth quarter, really September through November. We expected a decline in that part of the year but not as dramatically as we saw. And I think our view of that – you have to break it down by class. The Large C&I performed very well throughout the year. I think an overall increase of about 2.6%. And we had some sectors that we're in – some of our manufacturing sectors where we saw double-digit increases. So I think overall that sector's strong Residential underperformed, and Small C&I continues to underperform for us.

I think we're seeing general, just generally the Chicago economy lagging, what we see nationally. Our foreclosure rates are higher. Repossessions were up 20% over 2009. Personal bankruptcies is up pretty significantly over 2009. Disposable income is not up. So we're just seeing general tough economic trends in our region. And the other dynamic that we think impacted Residential here is we had the hottest July in 15 years, so we had very high bills during the summer. We saw our call center rate increase by about 23%, and that was driven predominantly by customers concerned about high bills. So we may have seen a reaction coming off that hot summer so that's the way we're interpreting it.

We're looking over out to 2011, flat, which is – we revised originally we thought we were going to see a little pick-up in 2011, but based on this trend with the economy in the Chicago region we're looking to a flat 2011.

<Q – Jonathan Arnold>: Thanks a lot, Anne. Could I just ask on one other topic? We've seen you go from a hedging position that was well above your ratable plan range to something a little bit closer to that range over the last several quarters. And your slides make a comment about willing to recognize future upside, et cetera. Should we consider that where you see the curves today, you're going to continue to hedge slower than plan and allow that trend to continue? Or do we go ratable from here? What's your current strategy?

<A – John Rowe>: We're mostly ratable but let Ken answer that in detail.

<A – Kenneth Cornew>: John's right. Jon, we are going to continue our ratable hedging program. As we said before, we are going to focus on maintaining upside through our product strategies, focusing on the retail market, looking at and watching very carefully what congestion looks like in the forwards versus what we believe. But we are going to remain disciplined, and you should expect us to follow close to a ratable plan.

<Q – Jonathan Arnold>: Thank you very much.

Operator: Your next question comes from the line of Paul Fremont with Jefferies.

<Q – Paul Fremont>: Thank you very much. First question that I have is if we go back about a year in time, you had been originally projecting 5%-type increases in O&M particularly at Exelon Generation. What accounts for the improvement to what is now a much more favorable level? And does the pension contribution play a significant part in the growth revision?

<A – Christopher Crane>: This is Chris. Yeah, so the pension has a positive effect overall. You have to first of all go back to what we did a couple years ago. In 2009, we made a reduction of over 500 head count in the corporate office. We continued to work on cost containment methodologies. We had some catch-up in certain areas on some infrastructure spend, but I think overall this year's increase over last, as Matt said, is driven by a couple things, more refueling, a couple more refueling outages, the wind expense and others. But we feel fairly comfortable with what we've

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done in our contracting space and our services space, and what we'll be doing in our labor negotiations to maintain that 2% going forward.

<A – John Rowe>: In other words, we keep trying.

<Q – Paul Fremont>: Second question, the amended rate request at Commonwealth Edison, is that primarily to affect the full year expected impact of the September court ruling?

<A – John Rowe>: Significantly but let's let Anne answer in detail.

<A – Anne Pramaggiore>: I think we also have an adjustment in there based on the bonus depreciation. I think that's a big driver of that adjustment.

<Q – Paul Fremont>: Because I think you had an \$18 million number in there as expected for the fourth quarter. So should the annualized effect be roughly just four times that or \$72 million?

<A – Anne Pramaggiore>: What you see in the adjustment is predominantly the bonus depreciation adjustment. That's mainly what drove it. What's not in there yet is the Appellate Court ruling. That's still sitting with, I think, 326 now so that still includes the roughly 80 million from the Appellate Court ruling on depreciation.

<Q – Paul Fremont>: Okay. So the annual impact is \$80 million?

<A – Anne Pramaggiore>: Yeah. And you'll see it. The staff position takes that out.

<Q – Paul Fremont>: Got it. If I look at market heat rates, it looks like there's significantly more improvement in market heat rates in the Mid-Atlantic versus the Midwest from I guess third quarter disclosures versus fourth quarter disclosures. I would have expected because coal sets the price more of the time in the further west you go that you would see the opposite trends. So what would you – how do you account for sort of the relative underperformance of the region that seems to be more coal intensive than the East?

<A – John Rowe>: Well, I think the answer is you want to get to gas because it's where you are in the knee on the curve. But Ken Cornew is the expert on knees.

<A – Kenneth Cornew>: Paul, the Mid-Atlantic increases in heat rates in the fourth quarter are largely driven by what spot prices were doing, driven by coal prices ticking up, also driven by gas bases increases in the East. So really the driver of the Mid-Atlantic increase was a combination of coal-price pressure and gas-basis pressure. And we didn't see that. We saw pretty flat coal prices in the Midwest and Powder River Basin coal, so we didn't see as much of an uptick in heat rates in the Midwest because of that.

<Q – Paul Fremont>: Okay. And then I guess my last question is if I look at sort of the effect of the hedges and your open, coupled with your gross margin numbers, it looks like ExGen would be up a little bit in '13 relative to '12. Is there anything that we should think about in terms of the utilities whereby – I would guess they should be at least as strong in '13 as '12? Or is there something there that I'm missing?

<A – John Rowe>: I think that you're probably right about PECO. ComEd has got to get through this existing rate case and either get a more attractive rate regime than other Illinois utilities have experienced or cut a change understanding with the legislature or else it will have to take more drastic cost-cutting measurements, including things we really wouldn't like to do. Frank, would you like to pick up the answer to that? This is Frank Clark.

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<A – Frank Clark>: Well, that's comprehensive, John. We won't really know until we get at least a preliminary order from the hearings down there with respect to the current rate case probably by the end of the first quarter. I'm optimistic that 2012 and '13 will be solid years for ComEd because I'm very optimistic that we'll either get good regulatory outcomes or efficiency in cost containment to offset it.

<Q – Paul Fremont>: Thank you very much.

Operator: Your next question comes from the line of Hugh Wynne with Sanford Bernstein.

<A – John Rowe>: Good morning, Hugh.

<Q – Hugh Wynne>: Good morning. I was hoping you might elaborate a little bit on your comments on the EPA and their forthcoming 316(b) regulations regarding cooling water intake. I guess I'm interested in your views as to what considerations the EPA might take into account in determining which power plants are having a material ecological impact on the cooling, on the bodies of water they use for cooling water. How they might differentiate among plants on this basis? And what their developing thinking might imply for your fleet? Which plants might be most at risk?

<A – John Rowe>: I'm going to start this and then turn it over to Joe Dominguez, Hugh. I think it is a mix of analysis over many years plus community activism. And I'll give you two examples of that. Dominion has put cooling towers in at the Brayton Point Station in New England, the power plant I watch when I fly to see my mother-in-law because – and of course, used to run and so I pay attention to it. And there, there were long years of studies on what was happening to the winter flounder population in what I think is called Mount Hope Bay, and it was sort of the accumulation of those studies over many years that I think motivated both EPA and Dominion in the ultimate settlement. It was also the value of the plant. There were a couple of plants there that could support it.

Arguably, you would say the same about Oyster Creek. I mean we thought it should run for another 20 years without the towers, but there were a lot of people who had studies of different weight in New Jersey saying there was localized impact in Barnegat Bay, and so you had a lot of political pressure surrounding it. So I think what goes on is a mix of science and community pressure, and that affects both state regulation and EPA. But, Joe, can you be more wise?

<A – Joseph Dominguez>: I don't think so, John. I could use different words but say basically the same thing. I think what we might say to you is some recognition of sensitive water bodies are going to be treated differently than the Great Lakes and rivers and so I think EPA is going to pay special attention to estuaries as John just indicated. You may see a change in the design intake criteria threshold but all of it's going to boil back down to some sort of cost benefit analysis, we think, on the environmental impact versus the cost of the towers. And EPA is going to, I think, very carefully look at the fish studies and the other biological impacts in making determinations. The thing that we felt was very good about Commissioner Jackson's December 16 letter was she clearly ruled out a one-size-fits-all, which would have been problematic for Exelon, but it would have been very problematic for just about everybody in the industry.

<A – John Rowe>: I'd like to add one thing, Hugh. I'm scampering out on the limb now and all my lawyers will be frightened, but I like them that way. But EPA, technically, does not mix its air and water decisions together. They're different statutes, administered by different arms of the agency. But there is an overriding economic issue here, which is EPA and the Administration are not going to enforce their regulations in a way that makes two-thirds or three-quarters of the power plants in the country uneconomic.

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And the real issue, I think, on water is to get at those that are in the most environmentally sensitive area. And on air, to shut down the oldest, dirtiest and least economic. And a very strong case can be made and we've helped hire consultants to do it, that you can replace 20% to 30% of the coal fleet and mostly it can be picked up easily by existing or new gas-fired capacity. But I don't think once those numbers get up in the 30%, 35% range, the economic costs become much more challenging and you put too many things together you start to fueling the Tea Party objections to everything EPA is doing. And so I think you see some rough, practical balance emerge, and I still think that balance will be good for us.

<Q – Hugh Wynne>: Just if I could a follow-up question on that. You've said that you think the EPA will pay special attention to estuaries over rivers and lakes. I guess I haven't spent enough time underwater perhaps, but what is the difference between estuaries and rivers and lakes in terms of the impact of these cooling water intakes structures?

<A – Joseph Dominguez>: It's fish concentration basically and spawning grounds for fish. So estuaries traditionally have been very rich habitats for spawning, for fish spawning, so you have an impact on fish larvae that you don't necessarily see in the Great Lakes or you don't necessarily see in fresh water rivers.

<A – John Rowe>: I was going to say we believe like swamps, but I think Joe's answer was much better.

<Q – Hugh Wynne>: Okay, good. Thank you very much, guys.

Operator: Your next question comes from the line of Michael Lapidès with Goldman Sachs.

<Q – Michael Lapidès>: Hey, guys, a question for you. Can you give a little bit of an update on the Exelon transmission? And can we go into a little bit of granularity just in terms of size, scale and timeline for specific projects, if you know them at this stage? Or at least for kind of when you'll make major – when you'll make significant filings for projects at either PJM or elsewhere?

<A – John Rowe>: Do my best and then Chris will fill you in a little more. But we started off with Exelon Transmission looking around the whole country to see if we could find and develop a number of big for-profit projects. What we found was that the local utilities either want the big projects themselves or don't have much interest in somebody like us coming in and building them. And the odds of getting a lot of them done didn't seem too good, so we've sort of narrowed the goals of Exelon Transmission. I think its real value-add is probably more localized, but we do have one big project, which is the so-called RITE Line that we're exploring with AEP which would be a very big project to carry power East. And with that, let me let Chris flesh it out.

<A – Christopher Crane>: Yeah, that's the biggest project on the table is the RITE Line that we announced, and we gave a little bit more color at EEI on it. And we continue to work on the agreements between co-owners and the design cast. It's a couple of years out for large investment. The most significant thing that we've done with the organization above and beyond that is building the analytic tools inside the organization to do a larger system planning awareness of the whole PJM footprint. So we'll continue to work in partnerships with other utilities as opportunities come up.

<Q – Michael Lapidès>: Got it. A while back you guys had talked about some of the transmission work in and around the Chicago area, just kind of a planning I think in case certain coal plants are not operating down the road. Can you just give an update on where that stands and what the impact of those projects likely would be?

<A – John Rowe>: I'll ask Frank or Anne to fill in, but let me say that ComEd took a look at those projects, realized that there was a significant probability that some of these plants would go down, and put those transmission projects into its plans. Anne, do you want to be more definitive?

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<A – Anne Pramaggiore>: Well, we have a project ongoing right now. We've received our certificate from the commission, and we're looking to have that major project, building a new substation and some new conductors heading south of the service territory or south of the city, I should say, through our service territory, and that we're targeting completion towards the end of this year.

<Q – Michael Lapidès>: Got it.

<A – John Rowe>: Thank you.

<Q – Michael Lapidès>: Thank you, much appreciated.

Operator: And your next question comes from the line of Julien Dumoulin with UBS.

<Q – Julien Dumoulin-Smith>: Good morning, thank you.

<A – John Rowe>: Good morning.

<Q – Julien Dumoulin-Smith>: I wanted to ask you with regards to the Illinois legislation that you guys proposed a few weeks ago, just one, with regard to timeline there and the expectations for this year. And then secondly with regards to how that meshes with the Appellate Court case.

<A – John Rowe>: Only God and Frank Clark are able to make estimates as to the timeline of the Illinois legislation.

<Q – Julien Dumoulin-Smith>: Frank?

<A – Frank Clark>: I'm waiting for God to tell me. The General Assembly, jokes aside, should be out of session; they should adjourn by the end of May. That often gets delayed a bit, but very likely by the end of May we'll know whether the – our interest in legislation for formula rates will be received or not. In the meantime, we still have our rate case going forward, and the timing on that's very similar to the end of May. And we will see. It's impossible to make a prediction. We've got a strong rate case. And the regulatory results in Illinois have been less than maybe we would have hoped for in the past, looking at some of the utilities outcomes. I don't want to be overly optimistic. We've enjoyed a strong results in the General Assembly, but we've also have received something less than that.

So we – my best expectation right now is that we are working very closely with the leadership in the General Assembly. Anne and John are doing an extraordinary job visiting all of the leaders, all of the decision-makers. They know exactly what we're trying to do and if they embrace it, we'll get a good outcome. If they don't, we won't. There's no money being offered to offset anything. It's very straight forward. It's all about economic development. It's directly related to being a stimulus for State of Illinois and job creation, and I think it's at least received a warm reception. We'll see what happens when it begins to move in the House and in the Senate.

<A – Stacie Frank>: Operator, I'm going to turn the call over now to John for just a few final remarks, please.

John W. Rowe, Chairman and Chief Executive Officer

Our real news today is simply that we beat our earnings forecast again, as we have done quarter-by-quarter through 2010. And we expect to perform equally well in 2011. The important things to remember about Exelon are simple. We continue to have the best upside in the industry by far.

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How much is in '14, how much is in '15, how much is in '16, your guess is probably as good as ours, but nobody else has the same upside and the fully regulated with the high market-to-book ratios will have real challenges keeping them.

While you're waiting for that upside we give you a 5% dividend. It got even safer with the bonus depreciation. We're continuing to add capability through our power uprates and as we've shown you by beating our own O&M forecasts, we continue to have capability to find new ways to save money. We can't manage 2013 or 2014 until we get to them.

We won't have any miracles, but what we do have is the ability to constantly hunt both on the revenue side and the cost side for new opportunities, \$1 million at a time or a \$0.01 a share at a time, whatever we can find, we continue to hunt. We continue to deliver. I have a wonderful management team around me that shares that junkyard dog attitude toward money. And that's true when we look at acquisitions. It's also true when we look day-to-day. We'll run our models, you'll run your models. We will beat our models.

Stacie Frank, Vice President-Investor Relations

Thank you. That concludes our call today, and we appreciate you joining us.

Operator: This concludes today's conference call. You may disconnect your lines at this time.

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