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# Exelon Corp. (EXC)

Q2 2019 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to 2019 Second Quarter Exelon Earnings Call. My name is Nora and I'll be facilitating the audio portion of today's interactive broadcast. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] This event also features a streaming audio, which allows you to listen to the show through your PC speakers. For those of you on the stream, please take note of the options available in your event console.

At this time I'd like to turn the show over to Dan Eggers, Exelon's Senior Vice President of Corporate Finance. Please go ahead, sir.

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### Daniel L. Eggers

*Senior Vice President-Corporate Finance, Exelon Corp.*

Thank you, Nora. Good morning, everyone, and thank you for joining our second quarter 2019 earnings conference call. Leading the call today are Chris Crane, Exelon's President and Chief Executive Officer; and Joe Nigro, Exelon's Chief Financial Officer. They're joined by other members of Exelon's senior management team, who will be able to answer your questions following our prepared remarks.

We issued our earnings releases this morning along with the presentation, both of which can be found in the Investor Relations section of Exelon's website. The earnings release and other matters which we discuss during today's call contain forward-looking statements and estimates that are subject to various risks and uncertainties. Actual results could differ from our forward-looking statements based on factors and assumptions discussed in today's material and comments made during the call. Please refer to today's 8-K and Exelon's other SEC filings for discussions of risk factors and factors that may cause results to differ from management's projections, forecasts and expectations.

Today's presentation also includes references to adjusted operating earnings and other non-GAAP measures. Please refer to the information contained in the appendix of our presentation and our earnings release for reconciliations between the non-GAAP measures and nearest equivalent GAAP measures.

We scheduled 45 minutes for today's call. And now, I'll turn the call over to Chris Crane, Exelon's CEO.

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### Christopher M. Crane

*President, Chief Executive Officer & Director, Exelon Corp.*

Thanks, Dan, and good morning, everyone, and thank you for joining us today. Before I turn to the financial results for the quarter, I'm going to spend a few minutes providing some key updates on a number of positive developments in our businesses over the last three months.

First, we continued to move forward on our utility regulatory strategy, filing distribution rate cases at BGE, ComEd and Pepco D.C., reflecting our safety and reliability investments across those service territories.

In D.C., we filed our first multi-year rate case. The plan provides the necessary framework to align Pepco's system investments with D.C. policy goals, including green modernization and further improvements to customer service and reliability. Joe will discuss the details in his remark.

Second, last week, Pepco and other parties filed a settlement agreement at FERC for PECO, not Pepco, PECO's formula transmission rate. The settlement includes a 10.35% ROE inclusive of a 50 basis point ROE adder. PECO made the original filing in 2017 and we expect the final order from FERC in 2020.

Third, in June, we issued our annual Corporate Sustainability Report, marking our performance and sustainability goals and priorities, in addition, the Benchmarking Air Emissions report that found Exelon is the largest generator of zero emissions energy in the U.S. producing 12% of the nation's clean energy, also that we have the lowest emissions rate emitting at a rate that is 4 times less than the next cleanest generator.

Fourth, the New Jersey BPU approved ZEC payments for the state nuclear units, including our interest in Salem. We appreciate the state's support for the carbon-free power produced by these units.

Fifth, we were unable to get legislation done in Pennsylvania in time to reverse the decision to close TMI this fall. Since then, there have been continued discussions on a path forward for the remaining nuclear plants in the state, including consideration of placing a price on carbon through the regional carbon trading.

Sixth, we are also pleased that Trump Administration decided not to impose quotas on uranium, which would have jeopardized the continued operation of commercial nuclear reactors in the United States.

And finally, last week, FERC issued an order directing PJM not to run the capacity auction in August. We agree with FERC's decision to delay the auction until the rules are finalized. The delay provides PJM and the state policy makers time to adjust to the Commission's changes.

Before I turn to the financial results, I also want to address two matters you have raised with us recently. First, we received a number of questions from investors about the impact on our business from a steep decline in power prices. The decline presents a considerable challenge for us, but, as you know, our hedging disclosures are a point-in-time estimate. If you have seen them move up and down in the past, we need to be thoughtful and deliberate about our response if these prices persist. And we have a variety of levers that we can pull and decisions we can make if this is the future of energy markets. We are pursuing a number of market reforms addressing the financial challenges many of our plants face.

Against this backdrop, I can also again assure you that we will not operate unprofitable or negative free cash flow plants. You've seen us close one losing plants in the past and you should expect that discipline to continue if reforms are not enacted.

The bottom line is that fundamental market reforms are needed in the United States if we want to meet the nation's clean energy climate goals, maintain fuel security and reliable system, we need to sustain and increase electrification, preserving a significant economic value through good paying jobs and property taxes. We'll continue to work at the state level and the national level with FERC, the Congress and the Administration to make this happen.

Second, we've had – we've received numerous questions from our investors about the subpoena in Illinois from the U.S. Attorney's Office. We are cooperating fully and providing all information requested by the U.S. Attorney's Office. We simply can't comment further on the investigation and we're not going to speculate on whether it may affect legislative efforts in Illinois this fall. What we do know about this fall session is there are a number of stakeholders who want to see clean energy legislation enacted.

Illinois lacks behind other progressive states on clean energy policy. Passing the clean energy legislation is a priority for many stakeholders in Illinois, including the Citizens Utility Board, labor, the Clean Jobs Coalition and the renewable community. These stakeholders want to greatly expand the renewable penetration so the state will be able to achieve the 100% clean energy target by 2030.

Kathleen and her team are working with the stakeholders to help craft the legislation – legislative package and inform members of the General Assembly on the benefits of this legislation. It's important to remember that while we are putting a real effort into preserving the value of the generation fleet, our focus remains on the utilities. The bulk of our capital investment in growing majority of our earnings are coming from the regulated business where we continue to see great opportunities to invest and grow to the benefit of our customers and communities.

Now, I'll turn to the financial results on slide 5. We had a good quarter delivering earnings at midpoint range of our guidance. On GAAP basis, we earned \$0.50 per share versus \$0.56 last year. On a non-GAAP basis, we earned \$0.60 per share versus \$0.71 last year. Joe will cover these drivers in his remarks.

Turning to slide 6, operational performance of the utility was mixed during this quarter. We continued to perform at top quartile levels across both reliability and customer operations metrics, but our safety performance has slipped. Safety is the highest priority and we are focused on ways to improve our safety culture and performance. Outage frequency and outage duration performance is in the top quartile for three of our four utilities with ComEd performing in the top decile.

So on the customer operations side, all of our utilities performed in top quartile for service level and call abandonment rate. Our relationship with our customers is improving due to the investments we are making to improve reliability in the customer experience. This can be seen in our customer satisfaction scores and in the recent J.D. Power Electrical Residential Customer Satisfaction (sic) [Electric Utility Residential Customer Satisfaction] ratings.

BGE and PECO and ComEd achieved top decile performance in Customer Satisfaction Index. We improved or maintained our rankings in the J.D. Power rankings. Delmarva ranked first in the East midsize region, the first Exelon utility to ever be ranked first. BGE and PECO maintained their first quartile performance in the East large segment and ComEd improved in its rankings to the second quartile.

Generation performed well during the quarter, nuclear produced 38.8 terawatt hours of zero-emission electricity with a capacity factor of 95.1%. And Exelon power had a gas and hydro dispatch match of 99.7%, exceeding our plan in the wind and solar capture on – the plan was 96% – was beat the plan of 96%.

Now, I'll turn it over to Joe.

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## Joseph Nigro

*Senior Executive Vice President & Chief Financial Officer, Exelon Corp.*

Thank you, Chris, and good morning, everyone. Today, I will cover our second quarter results, our quarterly financial updates, including trailing 12-month ROEs at the utilities and our hedge disclosures.

Turning to the slide 7, we earned \$0.50 per share on a GAAP basis and \$0.60 per share on a non-GAAP basis, which is at the midpoint of our guidance range of \$0.55 to \$0.65 per share. Exelon utilities delivered a combined \$0.39 per share, net of holding company expenses. Utility earnings were modestly higher than our plan largely due to O&M timing at ComEd, BG&E and PECO, which will reverse itself over the course of the year. This was

partially offset by milder weather than expected in the Philadelphia area, impacting PECO by about \$0.01 per share.

ExGen earned \$0.21 per share behind our plan. This was a result of lower load volumes at Constellation due to mild weather and the extended outage at Salem. These factors were partially offset by favorable O&M, strong performance of our generation fleet and realized gains in our nuclear decommissioning trust fund. We are reaffirming our full year guidance of \$3 to \$3.30 per share. And for the third quarter, we are providing adjusted operating earnings guidance of \$0.80 to \$0.90 per share.

On slide 8, we show our quarter-over-quarter walk. The \$0.60 per share in the second quarter of this year was \$0.11 per share lower than the second quarter of 2018. Exelon utilities less holdco earnings were up \$0.04 per share compared with last year. The earnings growth is driven primarily by higher distribution rates associated with completed rate cases and higher transmission revenues at ComEd and PHI relative to the second quarter of 2018. This was partially offset by unfavorable weather at PECO.

ExGen's earnings were down \$0.13 per share compared with last year. The decrease was driven by lower realized energy prices, partially offset by higher ZEC revenue from the increase in New York ZEC prices and the start of the New Jersey ZEC program.

Moving to slide 9, our utility ROEs remain strong and we continue to exceed our 9% to 10% earned ROE targets across the utilities. The consolidated PHI utilities earned a 9.1% ROE for the trailing 12 months. Compared to last quarter, we had some help from the constructive distribution rate case settlement at ACE, Pepco D.C., and Pepco Maryland, offset by equity infusions across PHI.

Legacy Exelon utilities maintained its strong 10.5% earned ROEs in the quarter and importantly, consolidated ROEs across our utilities were 10.2%. We remain focused on meeting our utility earnings growth targets by maintaining the earned ROEs at PHI and sustaining strong performance at our every utilities.

Turning to slide 10, on May 24, PGE filed for a combined \$148 million rate increase in electric and gas distribution revenues. The requested rate increase include \$81 million and almost \$68 million for electric and gas revenues, respectively, based on rate base of \$5.4 billion and a requested ROE of 10.3%. The increase is primarily driven by the ongoing need for capital investments to maintain and modernize the electric and gas distribution system. It also reflects moving \$15.8 million of revenues currently being recovered via of the STRIDE and electric reliability investment surcharges into rate base – into base rates. We expect to receive an order in the fourth quarter.

On May 30, Pepco filed a multi-year plan in the District of Columbia, requesting a revenue increase over three years to recover capital investments made during the 2018-2019 period and planned investments over the 2020 to 2022 time period. The request provides the necessary framework to allow Pepco to align its system investments with policy goals set by the Commission and enable us to continue to make the investments needed to modernize the energy grid, support the District's energy goals, sustain first quartile reliability performance and enhance programs and tools that have resulted in improved satisfaction among our customers.

The multi-year plan includes five performance incentive mechanisms, or PIMs, focused on system reliability, customer service and interconnection of distributed energy resources. The inclusion of these PIMs with the multi-year plan provide a performance-based rate-making approach designed to strengthen general incentives for good utility performance and penalize for underperformance.

The multi-year plan provides customers with rate predictability and reduces the administrative cost to customers caused by frequent filing with traditional rate cases to recover costs. On July 9, the Chief Public Utility Law Judge issued his proposed order in the Pepco Maryland distribution rate case. The Chief Judge recommended a \$10.3 million revenue increase and a 9.6% allowed ROE, which is 10 basis points higher than Pepco Maryland's current ROE. A final order by the Maryland PSC is expected by August 13.

Finally, ComEd annual formula rate update filing is expected to be decided in December of this year. More details on these rate cases can be found on slides 20 through 23 in the appendix.

Turning to slide 11, we are continuing our robust capital deployment program at the utilities. And during the second quarter, we invested \$1.4 billion of capital to the benefit of our customers. We expect to exceed our capital plan of \$5.3 billion by a \$100 million this year. We have been able to take advantage of the favorable weather to fund investments in our gas business at PG&E plus we had some additional storm related work.

As Chris mentioned, these investments are improving our infrastructure, increasing reliability and resiliency, which results in a better customer experience. Today, I'd like to talk about two projects that are part of these efforts that will bring improved operations to our customers in D.C. and Northern Illinois.

The first project is District of Columbia Line Undergrounding project, or DC PLUG. The DC PLUG initiative is a \$500 million multi-year partnership between the District's Department of Transportation and Pepco focused on the underground placement of more vulnerable distribution power lines.

Over the course of the initiative up to 30 feeders will be placed underground with six during the first phase. The underground placement of these lines will make the electric distribution system more resilient during severe weather events, reducing the duration and frequency of electric outages.

The second project featured is the expansion of ComEd's Itasca Substation. This \$48 million project installed a new distribution terminal and associated equipment, including an indoor switchgear building, three medium power transformers and 12 138 kV circuit breakers. The expanded substation provides capacity to power the equivalent of 45,000 homes. It will support three new data centers in the Itasca/Elk Grove technology corridor near O'Hare Airport. These customers chose the Greater Chicago area after several years of discussions with ComEd's economic development team, part of our continuing efforts to bring additional investment and jobs to Northern Illinois.

On slide 12, we provide our gross margin update and current hedging strategy at the generation company. Before discussing the gross margin update, I want to spend a minute talking about the drop in the illiquid forward power curves during the second quarter, particularly in June.

Prices in PJM in 2020 and 2021 declined sharply. NiHub Around-the-Clock power prices fell nearly \$3 per megawatt hour or approximately 11% in 2020 and approximately \$2.40 per megawatt hour or close to 10% in 2021. PJM West Hub prices fell more than \$4 per megawatt hour and approximately 13% to 14% in 2020 and 2021, respectively.

Jim can cover in more detail during Q&A, but at a high level, we think these declines reflected some combination of the following: lower natural gas prices, a mild start to summer that weighed on [indiscernible] (20:27) prices which then cascaded out to the forward curve, which we've seen before, some market anticipation of plants targeted for retirement looking less likely to retire, and hedging activity likely including market participants selling



based on changes in the economic value of revenue put options sold or written to support new build power plants over the last few years driving down prices.

Despite the mild weather and low price environment, 2019 total gross margin is flat to our last update. During the quarter, we executed \$100 million in power new business and \$50 million in non-power new business. We are highly hedged for the rest of the year and well balanced on our generation to load matching strategy

In 2020 and 2021, our total gross margin is down \$100 million and \$250 million, respectively. Open gross margin declined \$550 million and \$500 million, respectively, primarily due to lower energy prices at PJM West Hub, New York Zone A and PJM NiHub. Mark-to-market of hedges were up \$500 million and \$300 million, respectively, as our hedge position mitigated part of the impact of the price decline. We also executed \$50 million of power new business in both 2020 and 2021. We continue to remain behind our ratable hedging [ph] perspective (00:22:03) and added less than a ratable amount of hedges across our regions during the quarter. We ended the quarter 10% to 13% behind ratable in 2020 and 7% to 10% behind in 2021 when considering cross commodity hedges.

Our generation to load matching strategy remains a competitive advantage contributing positive margin and providing a vehicle to bring our generation output to market in a disciplined manner. We remain comfortable with this strategy to hold open market length, given the continued strength of our balance sheet.

Finally, moving on to slide 13, we remain committed to maintaining a strong balance sheet and our investment grade credit ratings. Even at the June 30 pricing marks, given the levers we have available, we are confident that we will stay within our consolidated FFO-to-debt metrics in our disclosure window of 2019 to 2022. Our consolidated corporate credits metrics remain above our targeted ranges and meaningfully above S&P thresholds. Looking at ExGen, we are well ahead of our debt-to-EBITDA target of 3 times. For 2019, we expect to be at 2.5 times debt-to-EBITDA and 2 times on a recourse basis.

With that, I will now turn the call back to Chris for his closing remarks.

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## Christopher M. Crane

*President, Chief Executive Officer & Director, Exelon Corp.*

Thanks, Joe. Turning to slide 14, we recognize the current power markets are creating headwinds for us. We're prepared to meet them head on and take thorough or thoughtful action, if necessary.

In the meantime, we are accomplishing the things we committed to do, including maintaining industry-leading operations, meeting our financial commitments, effectively deploying more than \$5 billion in capital across utilities this year, and advocating for policies that support clean energy.

Our strategy remains the right one and we are committed to our value proposition. We continue to grow the utilities targeting a 7.8% rate base growth and a 6% to 8% earnings growth through 2022. We continue to use free cash flow from the GenCo to fund the incremental equity needs of the utilities, pay down debt and fund part of the growing dividend.

We will continue to optimize the value of ExGen business by seeking fair compensation for our zero-emitting generation fleet, closing uneconomic plants like we are doing with TMI, and selling assets where it makes sense to accelerating our debt reduction plans and maximizing value through the generation to load match strategy at Constellation.



We will sustain strong investment grade credit metrics and we will grow our dividend annually 5% through 2020. The strategy underpinning this value proposition is effective. We remain committed to optimizing the value of our businesses and earning your ongoing support of Exelon.

Operator, we can now open the call up to questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Your first question comes from the line of Greg Gordon of Evercore ICI (sic) [Evercore ISI].

Greg Gordon

*Analyst, Evercore ISI*

Hey. Good morning.

Q

Christopher M. Crane

*President, Chief Executive Officer & Director, Exelon Corp.*

Hey, Greg.

A

Greg Gordon

*Analyst, Evercore ISI*

So one high level question and then maybe one or two in the weed's question. And I don't want to ask you anything that you're maybe not comfortable delving too deeply into, but I'm going to anyway. You mentioned the concept of levers that you have in order to stay on track to generate the free cash flow and credit metric targets that you laid out for us at the beginning of the year despite the fall on the forward curves. And you talked about how you won't run power plants that aren't cash flow positive. And look, I've covered the stock for a long time – company for a long time. We've been in this situation before and nothing is ever as good or as bad as it looks at the moment. But can you tell us, should this persist, what some of those options are in a little bit more detail, please?

Q

Christopher M. Crane

*President, Chief Executive Officer & Director, Exelon Corp.*

Yeah. I'll let Joe go through the list of what we've got laid out right now. We've been talking quite a bit about it, meeting on it as we watch the markets. So, Joe?

A

Joseph Nigro

*Senior Executive Vice President & Chief Financial Officer, Exelon Corp.*

Yeah. Hey, good morning, Greg. Greg, you mentioned one of them. I think we've proven through our time with our financial discipline that we're not going to run power plants in perpetuity that are uneconomic. So that would be the first lever.

A

Obviously, you've seen us continue to drive efficiencies in our business and continue to look at ways to streamline our costs, and we would continue to do that, and that would be across our Exelon generation business as well as the business services company.

At our disposal – and I won't speculate on what at this time, but we obviously have the opportunity, if necessary, to look at asset sales. We do have a small amount of growth capital in our ExGen business. We would look at that and take a hard look at that. And then, there are alternate forms of financing, when you think about project financing and other things.

So I think when you look at it, this is a point-in-time estimate of our financials. As you said, we've seen the markets move up and down. We're comfortable, like we said, with our credit metrics through the disclosure period and we continue to allocate capital in the ways we've laid out. And if we had to, if these continue, we would look at these levers.

Greg Gordon

*Analyst, Evercore ISI*

Q

Yeah. I'm very cognizant that some of those plants are large nuclear units in the state of Illinois. And I'm also cognizant that you're having a dialogue with legislators and other constituencies in the state around an omnibus energy strategy that takes into account, contemplates certain actions with regard to those plans. Can you tell us how broad that coalition is as we get into the veto session and whether you think that the state policymakers understand the implications of the lack of necessary market reforms in PJM and the need to take back control of the market?

Christopher M. Crane

*President, Chief Executive Officer & Director, Exelon Corp.*

A

As you can imagine, we have a significant communications drive with the legislative and the administration on the situation and we are prepared to present them with the coalition. I'll let Kathleen describe who she's working with that will balance out the needs for the state, the goals that the Governor set after his election to get to 100% clean by 2030 and be able to do that in an economic way that does not harm our customers. Do you want to talk about the coalition?

Kathleen L. Barrón

*Senior Vice President -Government and Regulatory Affairs & Public Policy, Exelon Corp.*

A

Yeah. Good morning, Greg. There are a number of stakeholders that are very focused on getting clean energy legislation enacted in Illinois. As you know, a number of states across the country have already set 100% clean energy targets. And it's not just states like California and New York, it's across the country. And so Illinois, there's lot of emphasis on making sure that Illinois, which is already the cleanest state in the country, has an equally aggressive target.

So on that question, we have folks in the environmental community heavily focusing on environmental justice players. The renewable developers are very focused on addressing those flaws in the prior version of the state's clean energy targets to make sure that they can achieve the goals that have been set previously, but also as they set a more ambitious new target for renewable development in state.

The consumer advocate is heavily focused on this policy as well because the question of state's having to pay twice for capacity is very much in the forefront, and ensuring that if we're going to incentivize clean energy, we can count that capacity towards our obligations with PJM. And then finally, the labor community, very focused on what these policies mean both for new construction and preservation of existing clean energy resources.

So that's the coalition that's focusing on putting the package together. There are a number of parties who will come together in the end to help – communicate the message that Chris mentioned that this is important for the

state, but it's not going to be possible if we can't allow those resources to count as capacity. And that's why the [ph] FORP's (00:30:45) is foundational to getting this policy done.

Greg Gordon

*Analyst, Evercore ISI*

Q

Thanks. And my final question was actually a numbers question on the update on the mark-to-market, Joe. There was \$50 million decline in power new business to go. Is that because that moved into hedges, because you executed sales or are you assuming lower volumes or lower margins in the out years in the retail business?

James McHugh

*Chief Executive Officer-Contellation & Executive Vice President, Exelon Corp.*

A

Hi, Greg. Yeah. This is Jim McHugh. That is just executed – that's executed business that has now moved into the mark-to-market and hedges. So when you net that all together in the numbers, those two lines would be flat from last quarter. It's just executed now.

Greg Gordon

*Analyst, Evercore ISI*

Q

Okay. Thank you.

**Operator:** Your next question comes from the line of Steve Fleishman of Wolfe Research. Your line is open.

Steve Fleishman

*Analyst, Wolfe Research LLC*

Q

Yeah. Thanks. I've got follow-ups to both of Greg's question. So, first of all, just – I know in the past when prices have fallen a lot, at certain times you've talked about actually how much money losing plants there are and potential offsets. Can you give any flavor on that, on just, hey, if prices stay this low, if we shut certain plants or generally shut plants, what the potential offset could be?

Christopher M. Crane

*President, Chief Executive Officer & Director, Exelon Corp.*

A

If you're asking in market prices, we don't calculate the effect of uneconomic plants being shut down on the effect of the market.

Steve Fleishman

*Analyst, Wolfe Research LLC*

Q

Yeah.

Christopher M. Crane

*President, Chief Executive Officer & Director, Exelon Corp.*

A

If you're asking about the effect of removing the negative free cash flow, we haven't got those numbers to be published right now. It's something that we're looking at. What we're trying to evaluate, unit by unit and then in aggregate, as we've said publicly, right now, you can see the challenge in the future if this market persists between the capacity and the energy market that Dresden, Byron and Braidwood are financially challenged.

Now, do you think we've got a clear path that with good coalition to support, fixing that at – some of it at the state level and we still are working very hard with PJM for FERC to continue on base-load scarcity and the capacity

market reforms that should correct and make a fair market. But short of those things happening, those three sites you can look into the future and see the challenges that they have.

Steve Fleishman

*Analyst, Wolfe Research LLC*

Q

Okay. And then I guess that the point there is if we're just using current forwards and taking it down that we're including basically losses on plants that you would not just sit and take forever.

Christopher M. Crane

*President, Chief Executive Officer & Director, Exelon Corp.*

A

Right. That's right.

Joseph Nigro

*Senior Executive Vice President & Chief Financial Officer, Exelon Corp.*

A

Correct.

Steve Fleishman

*Analyst, Wolfe Research LLC*

Q

Okay.

Christopher M. Crane

*President, Chief Executive Officer & Director, Exelon Corp.*

A

Either we have a clear path to securing them or the units will be shut down. We will not damage the balance sheet sitting around for years with negative free cash flow or negative earnings.

Steve Fleishman

*Analyst, Wolfe Research LLC*

Q

Okay. And then just specific question to the Illinois coalition, can you just give any color, if possible, that since this news from a few weeks ago came out about the subpoena, has there been any – have these talks continued? And is there any kind of public process we'll be able to see kind of those talks, or is it just going to kind of be suddenly in legislative proposal?

William A. von Hoene

*Chief Strategy Officer & Senior Executive VP, Exelon Corp.*

A

Steve, it's Bill von Hoene. The activity that has started and continued for a number of months on advancing the clean energy legislation among the coalition that was referenced by Kathleen and by Chris remains unchanged. We're meeting regularly. We are doing the stakeholder outreach. We're trying to craft a package and educate members of the legislature. And the pendency of the grand jury and subpoenas had no impact on the level of activity or the intensity of the activity in that regard.

Steve Fleishman

*Analyst, Wolfe Research LLC*

Q

Okay. Thank you.

**Operator:** Your next question comes from the line of Chris Turnure of JPMorgan. Your line is open.

**Christopher Turnure***Analyst, JPMorgan Securities LLC*

Q

Good morning. I was wondering if you could just help us with some background of your franchise agreement in Chicago, when that expires, the terms of renewal, et cetera, and kind of how you're thinking about that right now.

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

A

Joe? Anne?

**Anne R. Pramaggiore***Senior Executive Vice President & CEO-Exelon Utilities, Exelon Corp.*

A

Well, I'll start. Hi. This is Anne. And Joe Dominguez is here as well. But basically the expiration date is the end December of 2020. The city needs to give us an indication by the end of the year as to whether they want to maintain status quo, renegotiate or terminate the franchise agreement. So we'll know by the end of year, but we're in discussions with them. We've started to have discussions around that.

We understand what their priorities are and their I think priorities are very much aligned with ours. They want to see more clean energy in the city of Chicago and they are concerned about vulnerable population, in particular, in terms of pricing. And those are all – those are both strong strategic elements of our focus going forward at all our utilities. But that's the status right now.

**Joseph Nigro***Senior Executive Vice President & Chief Financial Officer, Exelon Corp.*

A

And just to supplement with what Anne said. We've been in the process of these negotiations for some time. We've exchanged terms and have detailed discussions about how the agreement would be structured going forward. We had a slowdown in those negotiations during the transition to the new mayor, but those negotiations have resumed in full at this point.

**Christopher Turnure***Analyst, JPMorgan Securities LLC*

Q

Okay. And right now, that is your set of assets and you would need to be compensated, if anything changed there?

**Joseph Nigro***Senior Executive Vice President & Chief Financial Officer, Exelon Corp.*

A

Yeah. That's correct. But again, the focus here is on getting the franchise agreement done. Our expectation is it will be fully negotiated and done. We'll address the issues that Anne talked about. To the extent municipalization is looked at, that will come with a very hefty price tag, as you know. And I don't think, realistically, that's a path we're going to go down.

**Christopher Turnure***Analyst, JPMorgan Securities LLC*

Q

Okay. And then, I guess, just more modeling here for the balance of 2019. You put out the third quarter guidance there, which was, I think, a little bit less than we had expected. How are you thinking about the fourth quarter right now and what, I guess, might look like a O&M headwind at least in the back half overall?

Joseph Nigro

*Senior Executive Vice President & Chief Financial Officer, Exelon Corp.*

A

Yeah. You heard me say in my – it's Joe. Good morning. You heard me say in my prepared remarks that we reaffirmed our guidance, range of \$3 to \$3.30. That's inclusive of the earnings guidance we gave you, obviously, for the third quarter and we're comfortable with those numbers.

Christopher Turnure

*Analyst, JPMorgan Securities LLC*

Q

Okay. Anything to think about that might be kind of one-time or non-recurring in nature for the third or fourth quarter that could help you year-over-year?

Joseph Nigro

*Senior Executive Vice President & Chief Financial Officer, Exelon Corp.*

A

I mean, you saw some of the drivers of the second quarter when we talked about the lower load volumes at Constellation driven by the unfavorable weather. And we continue to – as Jim talked about, we continue to execute our new business at Constellation and we continue to manage the utility business accordingly and we're comfortable with the full year guidance.

Christopher Turnure

*Analyst, JPMorgan Securities LLC*

Q

Okay, great. Thanks, Joe.

**Operator:** Your next question comes from the line of Michael Weinstein from Credit Suisse. Your line is open.

Michael Weinstein

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi, guys. Just one quick follow-up on guidance. The guidance for \$4.2 billion of cash flow generation from ExGen over the next four years, what does that assume in terms of uneconomic plants you might be operating or how, I guess, retirement's going forward with those types of plants? What's built into that \$4.2 billion number?

Joseph Nigro

*Senior Executive Vice President & Chief Financial Officer, Exelon Corp.*

A

Good morning, Michael. It's Joe. As Chris mentioned when he just said, inclusive, when you look at the three plants in Illinois that he mentioned, Byron, Braidwood and Dresden, those plants are running in those cash flow forecasts. And then, to the extent, these power prices continue, there's obviously challenges financially with those. And as I said in my remarks, we won't continue to run those plants in perpetuity uneconomically.

Having said that, we haven't provided the numbers specifically, but we will – we put out a forecast in our fourth quarter call for \$7.8 billion of free cash flow from 2019 to 2022 coming off generation and we're still working with that number.

Michael Weinstein

*Analyst, Credit Suisse Securities (USA) LLC*

Q

So, I mean, would it be accurate to say that there's upside either way at this point with the forward curves where they are?

**Joseph Nigro***Senior Executive Vice President & Chief Financial Officer, Exelon Corp.*

A

We'll give you an update at our fourth quarter call. And it's -you're getting like one side of the story here, obviously, because in the numbers we provide, we're showing you the mark-to-market. You see our gross margin disclosures and the change quarter-over-quarter driven – this quarter driven by the price drops we saw in the second quarter. I also discussed there are other levers at our disposal, those aren't reflected in our disclosures, but you can go back to what we modeled on the fourth quarter call. And that's what we've disclosed yet this point.

**Michael Weinstein***Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay, great. Thanks.

**Operator:** Your last question comes from the line of Praful Mehta of Citigroup. Your line is open.

**Praful Mehta***Analyst, Citigroup Global Markets, Inc.*

Q

Thanks so much. Hi, guys.

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

A

Hi.

**Praful Mehta***Analyst, Citigroup Global Markets, Inc.*

Q

So maybe just following up a little bit on the power markets. It was very helpful to get the levers that you've talked about. But just to understand, from a PJM perspective, do you see more happening on the market side as in other players shutting down other plants or other form of rationalization, like you've also talked about regulation? Where do you see PJM going, because if it stays this way, clearly, it's unsustainable? So, wanted to understand how you thought the market would play out?

**James McHugh***Chief Executive Officer-Contellation & Executive Vice President, Exelon Corp.*

A


Yeah, Praful, this is Jim McHugh. I'll start. I think from a market's perspective, first of all, the one thing I want to highlight to Joe's point about this is a point-in-time. We've already seen the NiHub market move up \$1 on the forward curve since the end of the quarter and the West Hub market's moved up about \$0.75 since the June 30 pricing. So, we've seen a pickup in prices so far.

I think when it comes to what we're working on, we've talked over the last several quarters on the market reform side [indiscernible] (42:17) pricing is waiting to be enacted. There's some work being done on reserves and scarcity pricing and the ORDC curve and PJM. And in the long run, it's a little bit lower priority right now for PJM, but the focus on the base load price formation and Entergy relaxation.

Those are some of the things. I think we have new build and retirements both happening over the next four or five years as a natural course of the business and our fundamental analysis. So, there will be a little bit of that. But I think, by and large, the reforms are around price formation. And then, in the long run, if we're able to come up with



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a market solution to have carbon pricing in the market would be another thing in the long run that would be something we would all continue working on.

The one thing that's interesting to me about where we're seeing these prices, in that \$22 area in the NiHub, if you look at Cal 2021, Cal 2022, Cal 2023, that's trading down where the quarter two just cleared. The quarter two NiHub just cleared \$22.25 with very, very mild weather. So the entire curve is trading where a very mild quarter just traded. So it is an interesting note to me and I think it gives us some insight into why we think those prices on the forward curve have that – have already responded slightly higher in the last couple of weeks.

**Praful Mehta**

*Analyst, Citigroup Global Markets, Inc.*

Q

That's super helpful color. And maybe just one follow-up, more strategic. If you do see these profiles, does that mean that you think more retail would be helpful to the business? Do you look to expand on the retail side or maybe acquire more retail businesses? Is that something that you think would work?

**James McHugh**

*Chief Executive Officer-Contellation & Executive Vice President, Exelon Corp.*

A

Yes. So I think from a retail perspective, our customer-facing businesses are doing pretty well. The margins are hanging in, our win rates are strong and we're holding our market share, our retail customer-facing business, and our wholesale load auctions and wholesale origination businesses have performed well.

I think as far as acquisitions and expanding it, we've talked for a while now about having grown really what is the best-in-class platform. So we will look to acquire books of business, if there's a value proposition there that we can absorb it into our best-in-class platform and just take a retail book of business. We'll look for those opportunities and we certainly would take a hard look at them.

**Praful Mehta**

*Analyst, Citigroup Global Markets, Inc.*

Q

All right. Really helpful. Thank you, guys.

**James McHugh**

*Chief Executive Officer-Contellation & Executive Vice President, Exelon Corp.*

A

Yeah.

**Operator:** I would like to turn the call over back to speaker, Chris Crane. Please go ahead, sir.

**Christopher M. Crane**

*President, Chief Executive Officer & Director, Exelon Corp.*

Thank you, all, for participating in the call today. We remain on track to meet our commitments to our customers, communities and shareholders.

With that, we'll close up the call.

**Operator:** This concludes today's conference call. You may now all disconnect.

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