

30-May-2012

Exelon Corp. *(EXC)*

Sanford C. Bernstein Strategic Decisions Conference

CORPORATE PARTICIPANTS

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

MANAGEMENT DISCUSSION SECTION

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Thank you very much for coming this afternoon. With me today is Chris Crane who is a nuclear industry veteran, who has been at Exelon since its inception 10 years ago and has been charged with operating the nuclear fleet, promoted to Chief Operating Officer and ultimately, after the Constellation acquisition, to Chief Executive Officer.

I'll be asking a series of question I've prepared in advance, but you're welcome also to submit questions using the three-by-five cards on your seats. And in about 15, 20 minutes, we'll have somebody come by and pick those up where we can add them to the list.

So, Chris, just to begin particularly for investors that maybe new to Exelon, can you provide an overview of the company's businesses?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Sure, I can. I have to – since I have our IR up here today, JaCee Burnes, our VP of IR, she's making me read the forward-looking statement. So the matters that I'll discuss today contain forward-looking statements. Estimates are subject to various risks. Please refer to Investor Relations if you have any other questions for more of the forward-looking statements. So, apologize for that, but we all have lawyers.

Exelon is a competitive integrated electricity and gas provider. With a combination of Exelon and the acquisition of Constellation, we now provide energy services across 47 states and a few provinces in Canada. We have three primary businesses, one being Exelon utilities, which is the three wires companies, Commonwealth Edison in Chicago area, Baltimore Gas and

Electric in Baltimore and PECO, the Philadelphia Electric Company. They transmit and distribute the power to the end user and BGE and PECO also have retail gas operations in small transmission assets for natural gas.

On the other side of the company, our competitive merchant business is a large generation fleet, 35,000 megawatts of generation. 19,000 megawatts of that are nuclear. We're the largest nuclear operator in the country and the third largest in the world. We match that with other gas, winds, solar, hydroelectric assets to make the full generation portfolio. And that is brought to market through our now Constellation business that is responsible for the sale in the wholesale market or the retail market of the electricity. And we also deal with gas on that side of that business too.

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How would you describe Exelon's long-term business strategy and how does the merger with the Constellation advance that strategy?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

We continue to look at our long-term strategy as a competitive integrator. We touch every segment of the energy business. We'd continue to leverage that in the future. We feel that the size, the scale and the scope of our current platform gives us opportunities for organic growth and also balance sheet that allows us to look at opportunities on a larger scale, if they come along.

So, the integration of Constellation into the Exelon family of companies jumpstarted us. It gave us a very strong platform for the retail sales. Previously, we participated with our trading organization primarily in wholesale opportunities, either in state-wide auctions or bilateral contracts with other utilities, to provide generation support. Having Constellation now in the fleet with its large competitive retail wing allows us another – which we believe is a strong opportunity to bring our product to market with improved margins.

Unverified Participant

And let's go into a little bit further. How does the Constellation's retail power marketing complement your wholesale power generation? And, specifically, how does it facilitate hedging of power prices? How does it affect your liquidity requirements in your credit ratings?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

So, if you were to look at Constellation prior to the merger and Exelon prior to the merger, we were very long in generation. We had large base load units, primarily in the PJM market, which spreads from Illinois back east to the East Coast states from Pennsylvania down into – excuse me, from New Jersey down into Virginia. And so you would term us as long generation.

Constellation, on the other hand, had a very developed retail organization, but they were short on generation. So they had more customers, they had more avenue to market, but they didn't have the generation to back that up. There is inefficiencies around that, collateral requirements for contracts, hedging requirements to ensure you can weather tail events or price volatility and be able to serve your customers while you're maintaining margins. There's inefficiencies around those costs and there's inefficiencies around just being the large baseload generator that people know when they're coming to market because of the scale. So combining the two creates the synergies. It creates the opportunity to go to market and it drives a more efficient platform and actually de-risks both sides while doing that.

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Now, on the other hand, possible as a result of that in sort of marketing and trading line of business, Constellation had a more freewheeling corporate culture than Exelon. What steps have you taken to ensure proper risk management going forward in that retail power marketing and trading?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

By necessity, they had to take more risk. They had built a business model that was, as I described, short on generation, but long on customer base. Our risk management policies would drive us to – through our spot process, how we hedge, how we sell our product. We use a ratable program. We sell a third, third, third. We enter a normal year 90% hedged. Only 10% of our portfolio is open. So we would continue to follow that.

We look at our risk management platform that we had previously. We've maintained that and put that in on the oversight of the Constellation business. We have limitations on the size of the prop book. We think that there is benefits to having a proprietary trading operation. But in scale, it won't be meaningful. There's stronger limits on it. So, we'll continue to operate as Exelon has operated in the past, just with a larger scale.

Unverified Participant

Constellation also had a more geographically diversified and fuel diversified generation business than you did. That's much smaller. But are there ways that you could capitalize on that fuel and geographic diversification to create opportunities for growth?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Definitely. You can use ERCOT, the Texas market, as an example. We had some older units that with not the best efficiency in operations. It did not dispatch much. We have been picking up gas assets combining our fleet with the Constellation generation fleet, their retail and wholesale sales vehicle in Texas. We now have covered the book. We're long in Texas in generation and it gives us an opportunity to continue to grow. And it's a mix now of a portfolio that's baseload which covers the generation around the clock. We have Mid Merit that works through the day and we have peaking assets that previously were not optimized in either portfolio. And bringing those together, again, de-risks us – gives us a strong platform and also it gives us room to grow. And you can look at New England, New York ISO and PJM the same way.

Unverified Participant

How do you see the joint venture with Electricite de France and the Constellation Energy Group playing out over time?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Well, we've had our first board meeting of the joint owners, with EDF. And I think we have a good relationship, both board – both sides of the boards, our nuclear operators. So, our Chief Operating Officer from the Generation Company is the Chairman of the Board.

Our Chief Nuclear Officer sits on the board. We're going to continue to focus what is one of our main core competencies, safe reliable operation and optimizing those assets. We think there is opportunities and we're working with EDF on how we can leverage both sides. They are the largest operator of nuclear plants in the world and have a very solid operation. So, we'll continue to grow the relationship and continue to optimize the value that we can get out of those assets.

Unverified Participant

Now, that joint venture, if I remember correctly, was formed in part to participate in what was anticipated to be an expansion of the nuclear – U.S. nuclear fleet. Now in fact, over the last 10 years, you have, I think only on one occasion, considered building new nuclear assets at the height of the gas price boom and the expectation of CO2 regulation. But nothing has been built over the next 10 years given the very low price of the natural gas. I think, again it may well be difficult to economically justifying new construction.

Is Exelon's nuclear fleet in essence a set of depreciating assets that will be run to their end of the useful life and not replaced? And have you thought about a transition to a fleet that would be primarily fossil thereafter?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

We have looked at all of those points. We do not believe that new nuclear can or should be built in a merchant environment, the risks, the capital cycle. Our models would say you have to have long run natural gas of greater than \$8 of a million btu or – and a \$25 carbon tax. Neither one of those are on the horizon any time soon, so we won't be venturing into new nuclear.

We look at our current fleet as very solid, durable assets. We have three decades of operations left. We look closely at what we do with that free cash flow as we make investments. We look at the near-term value of an investment. We look at the long-term value of the investment.

But we do believe that it would be impossible to recreate the Exelon fleet as it is today cost prohibitive. And so, what we're going to do over the next 30 years on average is maintain them well, operate them well, and take advantage of the free cash flow that they do create to further make investments in gas assets or other solid investments in the utility or energy sectors.

Unverified Participant

We actually have couple of questions from the audience as sort of follow-on up on the steam, two in particular. What fuel mix would you anticipate five to 10 years from now and, in particular, what would be your appetite for new combined cycle natural gas turbines?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

We do see the load coming back in most areas – 2018, 2020 – that would get us back to the peak loads that we had in 2008. So, there is some tightening in the market that we anticipate over the next four or five years. That will drive the requirement for new generation to come on.

We believe on the current fundamentals in the competitive market the only thing that's reasonable to build at this time are gas assets. CCGTs are peaking, gas assets, combined cycle or peaking assets. And we think that will continue for at least a decade.

There's advancements in other technologies. There's modular reactors that will have a smaller capital spend and that are trying to be developed. They have a shorter capital cycle. There may be opportunities as the market tightens to go to a newer technology, more efficient and less risky. But right now, we see it is natural gas. We're not seeing the development of the back end of the clean coal technology, really coming fast enough to – or the expense of those type of assets in a competitive market would also be prohibitive.

Unverified Participant

So, if the great core of the fleet, in terms of volume output of electricity, the nuclear fleet, is not expanding. What are the sort of longer term perspectives for growth here? Are you at risk from the roll-off of legacy hedges being renewed at lower prices, or is that going to work the other way going forward? And how is your view underpinned by your outlook for energy and capacity prices over time?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Well, we do focus on the life of our assets, but three decades is a significant amount of time. So it's not predicting an early demise of the nuclear assets. What will happen in the next three decades, what will be the technology advancements be, is there going to be storage capability where we go more to renewable, there is a lot of work to be done. So that's the long-term. And in the meantime, we are the lowest cost producers in the stack on baseload power with the nuclear plants. So as the others are stressed, we still feel very comfortable that we'll be in the stack with a fair margin that continue to operate.

On the near-term – segmenting both of them on the near-term, we do think that the market fundamentals, the return of energy, the strengthening of the economy, the retirement of the less efficient coal units, either through low natural gas prices or the environmental rules coming out will cause heat rates, which equate to power prices coming up that would support new gas development. And we will watch that. We maintain a small group that's knowledgeable on construction and they do modifications. We'll continue to watch the technology. And if we see the opportunities, we would make that investment.

Unverified Participant

But what about the outlook for the revenue stream there? Are you hedged at a point where you think your current level of revenues and earnings is sustainable at the market prices? And, I guess, second, is your expectation for market prices to move materially higher and how long would that take to translate into higher revenues and earnings for Exelon?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

We are in a trough of the market right now. We have hedges or sales, the actual sales that we've put on that hold our revenue stream over the next year, they start to go down. But at the two-year point out, we start to see gas prices recovering. We start to see energy prices recovering. So there is a contango in the curve that we believe that will happen. As we're selling our power now, as I mentioned, on a ratable basis, we're selling it into \$4 gas in 2014.

So there is an improvement from the prompt – the current year right now and we see that is continuing to improve as time goes on.

So we do a five-year planning cycle and we refresh that on an annual basis. We take the market fundamentals. We look at the revenue. We stress it under a few scenarios. But then we look at cash – cash from operations, are we covering our O&M expenses to maintain our operations? Are recovering our baseline capital to keep our plants reliable and safe? Are we covering the dividend requirements? Are we covering the fuel requirements? And our last modeling – and we're going to provide a lot more detail at our Investor Day or an Analyst Day next week. But we feel very comfortable that the balance sheet is strong enough. We can weather the trough while maintaining all our requirements of cash.

So it's – like I said our expense, our baseline capital, our nuclear fuel, our fuel cost and the dividend. And with that, we'll watch the fundamentals as they return and we'll continue to look at growth opportunities.

Unverified Participant

Now, a skeptic might interpret that answer to say that you're relying on the balance sheet to help fund the O&M and the maintenance CapEx in addition to the internally generated cash flow. Is that too skeptical or are you covering your maintenance CapEx from the free cash flow? Are you borrowing a significant part of the dividend? How do we think of the ins and outs of the cash flow statement in this period of trough earnings?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

As I said, we're going to cover this in much more detail and show the numbers on the usage of cash and CAGRs next week. But it's more of the latter. We have cash from operations over the five year period that cover all the expense, all the baseline capital, the nuclear fuel cost and the dividend. We have one year. We're working on that, but we have balance sheet space on that one-year that may require us to lever up slightly. But we've maintained margin on our balance sheet that as every business has to do or every company has to do from time-to-time as you cycle up on the use of debt or you come down because of cash from operations.

So, in a five-year period, we feel very comfortable. And as I said, for our merchant business in our holding company where you look at utilities more around your debt-to-equity ratio and your return on equity, it's a solid measurement, and you deal with the rating agencies for their individual ratings. That's very clear.

On the merchant side, what we watched with the rating agencies, primarily, is the FFO to debt, the free cash flow from operations to the debt ratio. And they have a number that is a stress number and we exceed that number during this planning period that maintains margin. So if something unexpected comes up, we need more cash, we've got the balance sheet to depend on or as the base plan has it, we've got the balance sheet that we can depend on. But the free cash flow in the majority of the period is supporting up to the line where it would be growth capital. So, we're even covering some of the growth items with free cash flow during that period also.

Unverified Participant

So, the cash from operations is significant – is sufficient to cover your maintenance CapEx during this period. And growth CapEx, you're basically borrowing as might be anticipated, right. And I wasn't quite clear on whether you're covering a large portion of the dividend or not.

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

We are. We are.

Unverified Participant

Okay.

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

We are.

Unverified Participant

So, we have a couple of questions around dividend policy, and I think, perhaps, the first one goes to downside risk. If this proves not to be a trough but sort of a new normal \$4 to \$5 gas, let's say, in the corresponding power prices, is the dividend one that can be maintained in the long-term? And is there a gas price where you would see the dividend – the current dividend is being at risk?

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

We don't have a model that – let me go back. We have multiple levers if this new market, if this trough is the norm. We would definitely look at capital. We would look at assets. We would look at expense and we would go through the line. And then, eventually, you would have to look at the dividend. There are market cases where that could be the case. We don't foresee that in any of the stress cases that we've run that would be equivalent to what other agencies run also.

But you don't want to – I can't speculate on what that gas price would be. I can tell you, if that market situation creates itself, we are the strongest in the sector. If we're getting hurt, there's people that are gone well before us and that in itself changes the market fundamentals on what's out there.

Unverified Participant

The other questions around dividend sort of go to the limitations that places on your strategy, on your growth. I think, basically, if I were in your shoes now as trying to invest aggressively on the upgrade of my nuclear fleet, build the equivalent of the whole nuclear power plant over the next five years and the associated CapEx with that if I was facing the volatility of revenues that you do as a competitive generator, I would feel uncomfortable with 70% in terms of it's holding me back on CapEx or holding me back on credit quality. Do you perceive risk at that very high payout ratio? One question points out that it's about 70% of consensus earnings for 2013 and 2014. Or, do you feel that you have the latitude and the balance sheet cushion to deal with it?

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

We believe we have the balance sheet cushion to deal with it. We'll continue to look at growth opportunities. We've maintained the balance sheet for that. The two years, as you're pointing out, are the peak or the low of the trough however you want to describe it. And what we're doing is management is trying to provide consistency to the shareholders.

We've done a good job in operations, continuing to efficiently operate our assets. We've done a good job on the financial discipline. We've maintained the balance sheet for this point in the cycle. And I don't feel uncomfortable that we're missing opportunities or constraining ourselves. If we hadn't done what we've done over the last years, we would be in a different situation. But I think the health of the balance sheet will allow us to ride through this.

Unverified Participant

Is it safe to say, on the other hand, that as we come out of the trough that dividend growth isn't going to be the first priority for extra cash that you're going to be looking to bring the dividend payout ratio down over time?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Well, as the power prices, the market returns, the earning increase, it will naturally decrease the ratio in the percentage, the yield percentage. So this is the value proposition of Exelon.

As I've said probably a million times that we have the most durable platform. The competitive integrated nature of us, 50% regulated revenue, 50% competitive strong assets, strong balance sheet in the low point of the investment cycle, you've get a fantastic yield. As the market comes back, the value comes back. The yield will naturally decrease, but your equity component increases in value.

That's how we got here. We were trading higher. We had a higher equity value. The market has come down. We've maintained a consistent dividend, I think, for three years now since 2008, I believe is what it is. And that consistency, I think, is what the shareholders are looking for and in clarity on how we've managed the balance sheet.

Unverified Participant

We've a couple of questions about management incentive scheme. So, what incentives is your – or what metrics or benchmarks is your incentive comp geared to? How, in general, does the management incentive structure work at Exelon?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

So, we have two incentive programs. One is the annual incentive program, which is primarily tied – for me, it's tied to EPS. As you go down in the organization, you get to the nuclear plant manager, it's 50% EPS and 50% around safety and operational growth. So, it adjusts as you go through the organization. That is set on and that target is set on an annual basis by the compensation committee of the Board and approved by the full Board. So, that's the first one.

The second is the long-term incentive program which has five components. And I won't be able to name them off the top of my head. But it's partially TSR. There's other components that are around growth in return and the other target, I'm forgetting right now. But that's the basis of the long-term incentive program.

Unverified Participant

It sounds like they better clarify the targets to make sure that the incentives are working, right.

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Well, I don't pay as much attention to my incentive or my pay as I probably should, but I'll brush up on that for next week.

Unverified Participant

Okay. We've some questions about the environmental and nuclear regulatory policy. Let's maybe begin with some of the more, what you might call, challenges facing Exelon. Can you update us on the status of EPA regulation under Section 316(b) of the Clean Water Act and what the implications maybe for Exelon in terms of environmental CapEx?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

316(b) is a rule that has been under revision and work by the EPA for some years now. As an industry, we've come together with Edison Electric Institute, the Nuclear Energy Institute and a utility working group to help interface with the EPA. And the EPA has been very supportive and open to the industry's feedback as they have been with other stakeholders.

We believe that the draft will come out. I think the date is in July right now that the last one I heard. We recently had more dialogue with the EPA on the some of the components. I think as it is written or as we understand it, it doesn't drive cooling towers as the best available technology. There has been latitude that's been given and this gets into a very complicated set of parameters. But it talks about damaging aquatic life through cooling towers through either impingement or entrainment and there's standards and measures around that.

The bottom line is we think it is going to come out to be reasonable. We've assessed what we think the capital spend will be for our assets with removing the cooling towers, the best available technology. The fear that assets would be early – have to be retired early is diminished and it allows the State to have more say in how the mitigation action should be. So, we feel like the stakeholder processes worked well and we look forward to seeing the ruling come out.

Unverified Participant

Are there particular plants, however, that are situated in inlets or bays that have particular environmental sensitivity where cooling towers may nonetheless be required or are there any assets that you're concerned about where that upgrade maybe necessary?

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

Our primary concern around this was our Oyster Creek facility in New Jersey. It is the oldest operating nuclear plant in the country and the State was driving us to the equivalent of the previous 316(b) which had to put a cooling tower in.

It was economically challenging if that mandate came out from the State of New Jersey. We negotiated with the state to cut its extended life in half. We'll run the unit without cooling towers as configured now to the end of 2019 and then we'll shut the unit down. That also matched a sweet spot on garnering the NPV of the plant and not having to put extended capital into that plant to make the extra 10 years. So that was our risk plant and we were able to work with the State of New Jersey and the current administration on a settlement for that. We don't have that same concern with any of our other facilities to that magnitude. There is capital that would have to be expended on screens and mechanical components on water intakes but not as...

Unverified Participant

[indiscernible] (0:32:54)

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

Right.

Unverified Participant

Now, a couple of questions around NRC policy, regarding the new leadership in NRC and NRC's investigation of the Fukushima Daiichi disaster. What do you believe are the implications of that crisis and the new leadership on waste storage policy in the U.S? Do you see any need for Exelon to move in the direction of on-site dry cask storage, or do you see any other important regulatory developments with relation to waste storage?

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

I think the Nuclear Regulatory Commission did a fantastic job in responding to Fukushima. They kept a very balanced approach. They had significant oversight at the facility or in Japan. They worked hard to get the lessons learned, and they put them into the process now of determining what changes are required for the U.S. fleet.

They recognized there were significant differences already in not only operating strategy but design basis. But there are things that we can and should do as an industry to enhance margins of safety. And those rule-making or those technical assessments are underway now. And the NRC has in the past and it continues to keep an open stakeholder process which, again, like the EPA, helps. Everybody have some input and so we appreciate that.

I think the current action that the commission has given the staff is to evaluate that. We as – Exelon and we as an industry don't think that it's necessary to offload the spent fuel pools early into dry cask storage. We don't see margins of safety improving. And what comes – how that – we think that's drive early on in the accident at Fukushima, it was thought that one or two of the spent fuel pools were allowed to dry and the fuel and the hydrogen and the explosions came from that area.

Subsequent to that is inspections have been made. That was not the case. Right now, at the majority of the Exelon facilities, we have on-site dry cask storage currently. We maintain enough space in our used or spent fuel pool to offload a complete core with margins. So if we needed to do maintenance inside a reactor, we can take the fuel out, put it into the spent fuel pool that have adequate cooling capacity and adequate space. So we're very familiar with how to do dry cask storage where it's permitted I think at 8 of the 10 sites or maybe 7 of the 10 sites and ones working through the permitting now. But we don't think it's necessary to increase margins of safety.

Unverified Participant

Are there any other lessons from the Fukushima Daiichi disaster that Exelon is taking on board or that the NRC is requiring that you take on board and what are the cost consequences if any?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Well, there is a couple of things that are being looked at. The one that I think is the best lesson to translate here in the States and to other countries is the availability of emergency equipment, backup, power sources and this is for the accident that you can't anticipate.

So we have design bases accidents. We're secure on earthquakes. We're secure on flooding. We're secure on fires, but the event that you could not anticipate. Then you have to have the severe accident management guidelines and the equipment that can be readily brought in.

One of the issues of Fukushima was that type of equipment being available and the Japanese having to reach out for things like boric acid to help neutralize the radiation or radioactive products continuing to be developed.

We're coming up with a strategy where we would essentially store our equipment like that and make sure that we start to work as teams across the industry on drill on how we would do that, so we're ready. You hear about the accident in some State. You know how you're going to support or they know how they're going to support us. And I think that it's a valid initiative to go through and, again, it's not material in cost. It is expensive if you look at it on the face. But we run a couple of billion dollar O&M budget on an annual basis, so you're not going to see a material increase.

There are capital expenditures that may have to be made. The evaluations are being done on those now on how you would make those design changes, if it's filtering exhaust from containments, things like that. But I don't think we have estimates on them. But again, we do not foresee for our fleet that it's a meaningful material impact, a number that would come out of it.

Unverified Participant

Your nuclear fuel costs have been on an ascending trend for several years. And the question is are we kind of reaching a point where the decline in nuclear generation in Japan, the shutdown of the reactors in Germany may have an impact on the uranium market and alleviate some of those cost pressures?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

The cost of uranium, historically, 10 years ago was down in the \$12, \$15 a pound range and it was really not sustainable at that level. But there was a lot of material coming into the market from non-traditional sources, blending down weapons grade uranium, things like that.

The market started to increase about eight years ago and actually went from those low prices up to \$130 on the spot market. That's when supply could not keep up with demand and some of these outside streams were being taken out of the market. Since then, substantial amount of development has been done in the mining area. You've seen a large increase on exports of uranium from Australia, Uzbekistan. Other countries have gotten into mining and milling and exporting, so there is significant supply right now.

And I think just off the top of my head, I look at the number every Friday night, it's been staying between \$50 and \$54 for probably a better part of a year. So there has been some stabilization on costs.

We think that has – with the supply, with the cost, we're at the right price to maintain the fuel sources, the mining sources. We haven't seen the end effect of the Japanese yet. They have supply contracts that are take-or-pay. We'll have to see how that works out in the marketplace and how the effect of the German reactors come in.

One thing that is important is that we don't start the whipsaw cycling, because the predictability on the investment for the miners is not healthy for it. But we do think this price here is a reasonable price. Again, next week, we'll show our fuel cost and you'll see them much flatter than you've seen them before. Part of that is some components coming down. There's inflation in enrichment cost. There's some inflation in manufacturing cost, a nominal CAGR on an annual basis, but we think we're at the...

Unverified Participant

All right.

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

...sweet spot now.

Unverified Participant

Now, a couple of questions about environmental regulation more broadly, including regulation of air emissions from fossil fuel generators. What changes in the environmental policy would you expect assuming that you had a Romney administration or a second Obama administration? Would you see major potential differences in those two scenarios or do you think the EPA regulations are now in place and will be rolled out as promulgated?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Yeah. We believe that the EPA regulations that have come out will be maintained. It's only reasonable the investments are going into the plants, so the plants that are retiring, have been announced that, that can't make the standards. I don't see a reversal as practical and I don't see it as warranted. We're all doing what we have to do to improve the quality of the emissions of our plants.



Right now, I don't think we're going to see a whole lot of new regulations. And this is a company position that we've taken. Let's let the economy recover. It's not a time to be talking about carbon. We'll see how things evolve. And let's get the load back up. Natural gas will have its effect on the market and some economically challenged plants. But I think the rules are the right rules and now the industry has the predictability that it needs to make the investment.

Unverified Participant

Or the retirements, I guess, you mentioned that gas prices and the vulnerability of some of the older smaller unit. How much capacity do you think will be taken out on a net basis from the U.S. generation fleet by, say, the end of 2015?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Capacity on a percentage basis...

Unverified Participant

Or just on megawatts some sort?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Yeah. We've seen in our markets the 15 to 19 megawatts or gigawatts of power come out. I don't know if we've updated that number. Joe Dominguez is our regulatory expert. If he's in here, he's got a different number. But I think the announcements are consistent with what we thought they would be and that natural gas is probably having more of an effect on the economics of these plants than the EPA standards.

Unverified Participant

Now, what impact do you expect those retirements to have and – or is that impact already reflected in capacity prices in PJM and forward prices for power? Or do you see some incremental upside to Exelon from the final compliance with these regs?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

I think there's upside in energy prices yet to come. We speculate is it \$3 or \$5, depending. But there is upside when the retirements happen. We saw some improvement in the capacity pricing this time, but it was offset by some subsidized generation coming in. We do think that's a one-time event. We're disappointed with that process and there's a lot more that we have to learn over the next couple of weeks working with PJM and the other generators. So, we do anticipate next auction, there should be improvement in capacity prices. We anticipate the energy prices will start to increase 2014-2015 timeframe as the stack tightens.

Unverified Participant

Now, as the stack tightens, is there going to be a need for significant incremental replacement capacity? Will that capacity – do you think that capacity will be almost entirely combined cycle gas turbine and are the economics of power prices and capacity prices adequate to sustain that investment? So do we need the investment or the pricing was there to allow the investment?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Each area of the country is a little bit different on when that will come back. If you look at Northern Illinois, we anticipate the early 20s as getting back to the point of load that we were seeing in 2008. That was the disruption of the recession and what we went through and load going away, adding on to that energy efficiency standard is another thing.

So you're still in some areas five or six years out from the tightening of the available generation that new generation would be warranted. You get to the PECO zone, the southeast Pennsylvania, it could be even longer. We're looking at refinery shutdowns. Other things, as we look at Maryland, it's about the 2018 timeframe.

So we watch all the markets. We look at transmission with that also to see if there is a basis differential and is there transmission investments to be made that can support those generation needs. ERCOT, Texas – reading some stuff recently, it looks like they're going to be sooner. Their economy seems to be stronger. And I think some of the pricing mechanism that they're starting to look at would drive some investment sooner. But today, there's still excess capacity in that market.

Unverified Participant

So, I take it you see limited opportunities for Exelon to invest in new combined cycle gas turbine generation given what you've said.

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

For – four to five years, yes.

Unverified Participant

Okay.

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

We continue to look at distressed assets, but I don't think there is one market that I can point to now that is calling for new generation to be developed.

Unverified Participant

Do you see opportunities in M&A either of companies or of assets that would allow you to grow earnings over the next three to five years?

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Our primary focus right now is integrating the Constellation organization and assets into our fleet, so that's priority one. That is the focus. That was a big acquisition and there is strong synergies that can be garnered from it, so we don't want to take our eye off the ball.

We continue to look at, as the processes run, individual assets and we picked up one end of last year in Texas, a CCGT. Others have been going too high. We take the long view on the valuations and we know there's going to continue to be cycles in the business. So, we'll look at acquiring assets, but they have to be at the right price.

Unverified Participant

But just to wrap up, people here are wondering why Exelon as opposed to any of the other stocks that they're having the opportunity to evaluate at the conference, what is the investment case in a nutshell for Exelon.

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

As I look at – I'll repeat myself, I look at our asset base, we have the highest quality of generation fleet, lowest cost. You cannot duplicate the jewels that we have in our generation base. You look at our scale and scope on our commercial side, bringing that energy to market, we're going to be able to garner the best margins just from cost basis and generation cost. So we've got a strong merchant generation and commercial organization, our good utility businesses that are getting strong returns where we're working on investments on them. You get a yield with us right now of – today, it's greater than 5% yield, that's a strong yield. And the only thing that's going to drop that percentage is the equity coming back up as the market recovers.

So we think we're the best positioned in a recovering market. We think we have the best balance sheet to weather the current situation that we're in. And we are paying what we think is a strong dividend that's supportable over the period.

Unverified Participant

Great. Thank you very much, Chris. I appreciate it.

Christopher M. Crane

President & Chief Operating Officer, Exelon Corp.

Thanks.

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