

31-Oct-2019

Exelon Corp. (EXC)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Exelon 2019 Third Quarter Earnings Call. At this time, all participants' lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn – hand the call over to your speaker today, Dan Eggers, Senior Vice President of Corporate Finance. Please go ahead, sir.

Daniel L. Eggers

Senior Vice President-Corporate Finance, Exelon Corp.

Thank you, Tamara. Good morning, everyone, and thank you for joining our third 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 are joined by other members of Exelon senior management team, will be available to answer your questions following our prepared remarks.

We issued our earnings release 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 this call. Please refer to today's 8-K and Exelon's other SEC filings for a discussion 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 the nearest equivalent GAAP measures.

I'll turn the call over to Mr. Chris Crane, Exelon's Chief Executive Officer.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Thank you, Dan, and good morning, everyone. We had a good quarter, delivering of strong earnings, excellent customer service across our utilities, and our nuclear units ran at high levels of reliability. I'll turn to our regular reporting of our financial performance in a minute, but I first want to address a matter that I know is on all of our minds.

We have been – we have publicly reported we have received two grand jury subpoenas. The subjects which are our lobbying practices in Illinois and the company's relationship with an Illinois state senator. These subpoenas and the speculation about what's behind them have dominated the news about Exelon and ComEd. Given that the investigations are ongoing, we cannot discuss many details, but I'll tell you this. When we learned of these investigations, we pledged complete cooperation with the government and that is the path we have taken. The company's outside lawyers are undertaking an exhaustive investigation of the facts relevant to the subpoenas. A special committee of the board, represented by its own outside counsel, has also been formed and is being briefed on the investigation. Exelon's outside lawyers are sharing the results of the investigation with the

government on an ongoing basis. Their investigation is enabling us to determine what changes are necessary internally to ensure that, going forward, we operate at the highest possible standards, not whether actions have been legal or not but rather which go beyond the ethical reproach. We are keeping our eye on the ball by staying focused on the operational and the strategic path that has delivered the success.

Now, I'll turn to the regular report and answer any questions about that I can at the end of the call. Starting on slide 5, we had a pause – we've had positive developments over the quarter. First, we were named Dow Jones Sustainability Index for the 14th year in a row with Exelon continuing to score in the top 20% of North American companies in all industries. Second, we launched a climate investment initiative to invest \$20 million in start-ups in our service territories that are working on new technologies to reduce greenhouse gas emissions and climate change, mitigating climate change. Third, Pepco Maryland was granted a 9.6 allowed ROE in its most recent rate case. This is an improvement and the results continue to – through the enhancement in our reliability and customer service for our customers.

Fourth, the Maryland PSC issued an order in the alternative rate making proceeding known as PC 51 allowing Maryland Utilities to file a multi-year rate plan as soon as next year. Fifth, the New York Supreme Court rejected challenges to the New York ZEC program, removing the last remaining legal challenge in front of us. Sixth, Governor Wolf issued an executive order beginning the process for Pennsylvania to join RGGI, the Regional Greenhouse Gas Initiative. This will allow Pennsylvania to meet its climate goals while helping to preserve the state's remaining zero carbon nuclear plants.

Seventh, earlier this week, we announced an agreement with Governor Hogan in Maryland that will allow us to continue to operate Conowingo Dam and protect the long-term health of the Chesapeake Bay. Continued production of carbon-free energy from the dam is vital to support Governor Hogan's goal in generating 100% clean electricity in Maryland by 2040. Finally, we're announcing a new round of cost savings at ExGen, finding additional \$100 million savings, we continue to work hard at driving efficiencies and adapting to our current market conditions. These savings will help ExGen navigate the depressed forwards but will not be enough to overcome the financial challenges of some of our Illinois nuclear plants.

I realize there has been some discussion on the potential impact of the investigation on the prospects of a clean energy legislation in Illinois. The need for clean energy legislation is bigger than just one stakeholder or one company. We are one part, but only one part, of the ongoing discussion about the urgent need for legislation in Illinois. With the roadblocks – with the road, excuse me, with the rollback of environmental regulations in Washington, states across the country are taking action to require emission reductions so they can benefit from clean energy economy that will result. This is true in Illinois where many stakeholders and policymakers want to put Illinois on a path to 100% clean, and drive electrification of transportation and to protect our communities. They believe the action is urgently needed in Illinois to ensure clean air, reliable service, and affordable rates for Illinois consumers.

Exelon nuclear plants are essential to achieving these goals. The four plants without ZECs avoid 45 million metric tons of carbon dioxide emission, contribute \$4.5 billion in state gross domestic product, pay \$149 million in state taxes. And if they were to retire prematurely, Illinois customers or consumers will pay more than \$483 million more in electricity annually. I should point out that the delays in enacting legislation are in part linked to FERC's delay in issuing an order on PJM market capacity. This is due to the lack of quorum until the end of November when Commissioner Glick completes his recusal period.

And while the FERC delay is very frustrating, it does allow Illinois more time to enact and implement the legislation changes in time to protect the clean energy programs from negative treatment and PJM capacity

auction. The delay in FERC order will push back the 2022 and 2023 auction until at least late fall of 2020. Spring passage of legislation will allow for Illinois clean energy procurement mechanism to be in place before the 2023-2024 capacity auction and potentially before the 2022-2023 auction as well.

Moving to our financial results. We have had a strong quarter with earnings above our guidance. Our GAAP-based – on a GAAP basis, we earned \$0.79 per share versus \$0.76 per share last year. On a non-GAAP basis, we earned \$0.92 per share versus \$0.88 per share last year. Joe will cover these details in his remarks.

Moving on to slide 6. Operational performance at the utilities was mixed this quarter. Each of our utilities performed well on customer operations side with mostly top quartile performance. However, only ComEd performed in the first quartile in outage frequency and duration metrics. This year, the Mid-Atlantic – in the Mid-Atlantic, we have seen significantly more storms and abnormally higher temperatures, which increase vegetation impacts, it caused on the reliability-related issues. For instance, PHI had 27 minor storms in 2019 compared to 4 in 2018.

These drove the lower reliability metrics for our Mid-Atlantic Utilities. Generation performed well during the quarter. Nuclear produced 39.2 terawatt hours of zero emission electricity with a capacity factor of 95.5. Excellent power exceeded our plan and had a gas and hydro dispatch match of 97.5 in a wind and solar capture of 96.5. That said, we also had some outages in Texas during critical hours that were disappointing and caused us to miss out on some of the bigger opportunities in ERCOT.

For now, I'll turn it over to Joe, and then we'll go to the questions after. Thank you.

Joseph Nigro

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

Thank you, Chris and good morning, everyone. Today, I will cover our third quarter results, quarterly financial update, including trailing 12-month ROE at the utilities and our hedged disclosures. I will also provide an update on our full year 2019 guidance and our cost management program. First, turning to slide 7, we earned \$0.79 per share on a GAAP basis and \$0.92 per share on a Non-GAAP basis, which exceeded our guidance range of \$0.80 to \$0.90 per share.

The outperformance was driven by Exelon Utilities, which delivered a combined \$0.56 per share net of holding company expenses. Utility earnings were higher relative to guidance, driven largely by O&M timing during the quarter and favorable weather in our non-decoupled jurisdictions including PECO, Atlantic City Electric and Delmarva Delaware. As a reminder, in total, we are approximately 70% de-coupled across our utilities. ExGen earned \$0.36 per share, which was a little behind our plan.

The third quarter was impacted by unplanned outages at owned and contracted assets in ERCOT, which unfortunately hit during periods of high prices. Although we had one of the top 10 hottest summers in 70 years in PJM and the third hottest September on record, we saw lower prices and volatility which resulted in less ability to optimize our wholesale portfolio during the quarter.

Turning to slide 8. We show our quarter-over-quarter walk. The \$0.92 per share in the third quarter of this year was \$0.04 per share higher than the third quarter of 2018. Exelon Utilities less HoldCo earnings were up \$0.01 per share compared with last year. The earnings growth was driven primarily by higher distribution rates associated with completed rate cases relative to the third quarter of 2018. This was partially offset by unfavorable weather and load at PECO.

ExGen's earnings were up \$0.03 per share compared with last year benefiting from fewer planned nuclear outage days at our owned and operated plants and savings associated with our cost management programs. Higher ZEC revenues from the increase in New York ZEC pricing and start of the New Jersey ZEC program in April 2019 also contributed to ExGen's year-over-year earnings growth. Fees were partially offset by lower capacity pricing primarily in PJM.

Turning to slide 9. We are narrowing our 2019 EPS guidance range to \$3.05 to \$3.20 a share from \$3 to \$3.30 per share. As you are aware, ComEd's ROE is tied to the 30-year treasury rate, which has declined about 70 basis points since the beginning of the year. Our updated guidance takes into account the slight degradation in earnings we are seeing from the decline in treasuries. We are delivering on our financial commitment and confident we will be within our revised guidance range at year end.

Moving to slide 10. Looking at our utility returns on a consolidated basis, we continue to exceed our consolidated 9% to 10% target with a 10.1% trailing 12-month ROE. Earned ROEs for the legacy Exelon Utilities remained above 10%, but dipped modestly last quarter, primarily due to a BGE equity infusion to support capital investment as well as declining treasury yield, which impacted ComEd's ROE. The declining treasuries will continue to impact ComEd's ROE for the remainder of the year and going forward if they do not rebound.

The consolidated PHI utilities earned a 9.4% ROE for the trailing 12 months, a 30 basis point increase from last quarter driven by higher distribution revenue from the constructive distribution rate order at both Pepco Maryland and the settlement at Atlantic City Electric. We remain focused on meeting our utility earnings growth target by maintaining the earned ROEs at PHI and sustaining strong performance at our other utilities.

Turning to slide 11. During the quarter, there were some important developments on the regulatory front outside of our rate cases. First as Chris mentioned, in August, the Maryland PSC in its PC 51 proceeding found that alternative rate plans can be beneficial to both customers and utilities by reducing administrative costs caused by the frequent filing of traditional rate cases and providing customer rate predictability. The order supports the implementation of multi-year rate plans of a three-year duration, and established a working group to develop the rules. We are actively participating in the group process. Once the commission issues its final order, Maryland utilities will be able to file a multi-year rate plan on a staggered basis consistent with the commission's order.

Second, the DC Public Service Commission approved Pepco's DC notice of construction request for Phase 1 of the Capital Grid Project. It will strengthen the Capital area electric system, improve reliability and resiliency, and help facilitate the District's climate commitments. This phase, including rebuilding two substations and constructing approximately 10 miles of two 230 kV underground transmission lines, Phase 1 is scheduled for completion by 2026.

On the current rate cases, Pepco Maryland received a final order on August 12. The Maryland Commission approved a \$10.3 million increase in annual electric distribution revenues. Importantly, the order increased Pepco's allowed ROE by 10 basis points to 9.6%, a recognition of strong performance in reliability and customer satisfaction. Rates went into effect on August 13.

We also have several rate cases still in progress. On October 23, administrative law judge providing over ComEd's annual formula rate case issued a proposed order. No additional adjustments to the revenue requirements were recommended. We expect to receive a final order from the Illinois Commerce Commission on December 4 of this year. Last Friday, BGE filed a settlement agreement with the Maryland PSC. This settlement provides for an increase to BGE's annual electric and natural gas distribution rate of \$25 million and \$54 million, respectively. We expect a final order by December of 2019.

Finally, we received the procedural schedule on Pepco's DC multi-year plan with a final order expected in the fourth quarter of 2020. More details on our rate cases can be found on slides 21 through 24 of the appendix.

Turning to slide 12. We are continuing on our robust capital deployment at the utilities, investing \$1.3 billion of capital during the third quarter. Year-to-date, we've invested \$3.9 billion in capital at the utilities, improving our infrastructure, and increasing reliability and resiliency for the benefit of our consumers. We expect to deploy more than \$5.4 billion this year, \$100 million above our original plan. And as a reminder, 63% of our rate base growth is covered under either formula rates or mechanisms like capital trackers.

Today, I will talk about two projects that are part of these efforts and will bring improved performance to our customers in Maryland and New Jersey. The first project is the BGE Key Crossing Reliability Initiative, which is a \$232 million multi-year project to install a double circuit, 230 kV overhead electric transmission line across the Patapsco River, replacing the 2.25-mile underground circuit.

The circuits are a critical link in the electric system and are exhibiting symptoms of long-term failure and are approaching the end of the useful life. Key Crossing will improve grid reliability by reducing risk of power outages caused by aging infrastructure and will support faster restoration of customer interruptions going forward.

The second project is the Lewis Higbee Ontario Rebuild Project in Atlantic City. The \$62 million projects include rebuilding three 69 kV transmission lines which are about 16.5 line miles long in total and replacing 295 existing wood structures with 225 new galvanized steel structures. This project resolves potential system performance and reliability issues, thereby improving reliability and resiliency to customers in the service area of Absecon Island.

On slide 13, we provide our gross margin update and current hedging strategy at the Generation Company. Since the Constellation merger, we have delivered strong results in our wholesale business quarter after quarter even in an environment of declining power and natural gas prices, as well as lower volatility. These market conditions combined with reduced liquidity out on the curve leads to less opportunity to optimize our wholesale portfolio compared to history.

As a result, we are reducing our power new business target by \$50 million in 2020 and 2021 and our non-power new business target by \$50 million in 2021. This new business target reductions are mostly offset by cost savings, which I will discuss on the next slide. I should also stress that these changes reflect our expectation for our wholesale optimization business. Our customer-facing Constellation businesses continue to perform very well with sustained margin and success in delivering new products for our customers.

Turning to the gross margin tables. We did benefit in the third quarter from higher forward prices, which you can see in the open gross margin line. These positives were offset by the lower wholesale business targets that I just discussed, which leave total gross margin in 2020 and 2021 flat. During the quarter, we hedged a more than ratable amount as prices modestly recovered from their late second quarter lows. Although we are still behind our ratable overall, ending the quarter 5% to 8% behind ratable in 2020 and 1% to 4% behind ratable in 2021, we are much closer to a ratable hedging amount. We continue to see upside in certain markets, but are not expecting a significant rebound in power prices.

Turning to slide 14. Between 2015 and 2018, we have announced more than \$900 million in cost savings, which does not include the synergies from our merger with PHI. These savings were primarily at Exelon Generation with approximately one-third coming from our corporate services company. In addition to O&M savings, we have continued to find ways to reduce the capital intensity of our generation fleet and improve its cash flow.

Since 2015, we have reduced ExGen's total annual capital expenditures from \$3.5 billion to a projected \$1.5 billion in 2022 while maintaining the safety and reliability of our fleet. Included in these reductions are the elimination of most growth capital at ExGen except for Constellation's customer-facing solar business, \$325 million of base CapEx savings, and \$675 million of savings from nuclear fuel.

One of the key components of our value proposition is ExGen's ability to generate free cash flow, and we continue to look for ways to optimize its cash flow. Today, we are announcing additional \$100 million in run rate pre-tax cash savings in 2022. \$75 million is attributed to O&M reductions and \$25 million is other P&L items, which mostly offset the reduction in new business targets.

I should point out that these savings reflect our current state, and we expect an opportunity for additional savings that will vary in amount depending on the future state of our challenged Illinois nuclear station. We can find these savings due to the hard work of all of our employees who strive every day to run the company more efficiently while adhering to our commitments of safety, reliability and community stewardship.

Finally, moving on to slide 15. We remain committed to maintaining a strong balance sheet in our investment-grade credit rating. Our consolidated corporate credit metrics remain above our targeted ranges and meaningfully above S&P threshold. Looking at ExGen, we are well ahead of our debt-to-EBITDA our target of 3.0 times. For 2019, we expect to be at 2.5 times debt-to-EBITDA and 2 times debt-to-EBITDA when excluding nonrecourse debt.

Before turning the call back over to Chris for his closing remarks, I want to set expectations for our fourth quarter disclosures. Given the lack of clarity around the outcome of legislation in Illinois, which will shape the future of Exelon Generation, and the fact that PJM will not have held a capacity auction for the 2022-2023 delivery year before our call in February, we will not be providing some of our usual disclosures including the roll forward of our hedge disclosures to 2022 and ExGen's updated four-year free cash flow outlook.

Thank you and I'll now turn the call back to Chris for his closing remarks.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Thanks, Joe. Turning to slide 16. We are accomplishing things we committed to do including maintaining industry-leading operations, meeting our financial commitments, effectively deploying more than \$5 billion in capital across our 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 will 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, as Joe mentioned, the free cash flow from GenCo to fund incremental equity needs at the utilities, pay down debt, and fund part of the growing dividend. We will continue to optimize the value of our ExGen business by seeking fair compensation for zero admitting generation fleet, closing uneconomic plants like we did with TMI and Oyster Creek, selling assets where it makes sense to accelerate our debt reduction plans, and maximizing value through the generation-to-load match strategy at Constellation.

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

Operator, we can now turn it over to questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first response is from Greg Gordon of Evercore. Please go ahead.

Greg Gordon

Analyst, Evercore ISI

Thanks. Good morning.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Good morning, Greg.

Greg Gordon

Analyst, Evercore ISI

Got a couple of questions. First, as it pertains to ExGen, you sort of commented at the end with regard to plant closures, if you're, for one reason or another, unable to get the State of Illinois to understand the economic necessity of increased compensation for your nuclear fleet, at what point do you go down the path of moving to shut down of the most uneconomic units?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

I can't stress how important the spring legislative session will be for the future of the four sites that are not covered under the ZEC program. So, we'll be watching – there's a couple variables here. We'll be watching what happens with the FERC order and what PJMs responses to the FERC order driving the legislation. But the first half of 2020 will be a real critical point in decision-making and potential announcements one way or the other.

Greg Gordon

Analyst, Evercore ISI

Okay. And Joe, as it pertains to the details of the guidance, it's sort of two steps forward, one-and-a-half steps back on the outlook for ExGen, better wholesale prices and the cost cutting, but lower optimization expectations. Is that a function of just lower volatility and lower overall prices, making it less – that volatility lessening the opportunity for your traders to manage the book effectively. Or can you give us a little more color on that?

Joseph Nigro

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

Yeah, Greg, you're spot on. I think it's a combination of factors. It's the lower volatility in the marketplace. I mean, we had a warm summer here and we didn't see much volatility. We didn't see prices respond. I do want to stress that we're talking about the wholesale side of our business. Our retail business remains very solid. And as it relates to ExGen, we announced these cost cuts which mostly offset the reduction in the new business targets.

As Chris mentioned, depending on the outcome of Illinois, there's still other things that we would have to evaluate on how our business model changes and disposition of assets. There's other costs that we would look at. Some of the levers we have at hand will continue to address CapEx, obviously, and any other asset financing. So, there's a

combination of factors here. But specifically, to the drop in the new business targets, it is the market environment that we're seeing.

Greg Gordon

Analyst, Evercore ISI

Q

Okay. And then two more questions, one on the regulated side. ComEd sounds like it's operating very well, but the 30-year is a headwind and it'll continue to be a headwind into next year and until we see a steepening of the yield curve. So, like as you're looking at the outcomes in the other areas of the utility business, the other 60%, 65% of the earnings contribution from outside ComEd, are you seeing opportunities to offset the impact of interest rates or should we assume that, all things equal, you're trending lower in that 6% to 8% guidance range than you were before?

Joseph Nigro

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

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Yeah, Greg, good question. It's Joe again. We update once a year on our Q4 call, as it relates to Exelon Utilities and we will expect to do that on the call in February. Having said that, we are seeing the impact of the lower ROEs at ComEd. Just for reference, every 50 basis point move up or down is about \$0.03 of EPS. So for 2019, for example, the weighted average 30-year is down approximately 50 basis points, and we see that with our revised guidance. The 30-year treasury on the forward curve is down approximately 70 basis points versus 12/31. I would say, though, that's one piece of the plan. The CapEx plan, as we said, only incorporates identified projects that benefit the consumer and improve liability and the customer experience. We have seen through time that as we get closer to a given period, we find need for an additional investment to continue to improve the liability and that customer experience. And we'll continue to work hard at that as we move forward.

Greg Gordon

Analyst, Evercore ISI

Q

All right. And my last question, Chris, I know it's a difficult topic. The investigation, the second subpoena and retirement of Anne Pramaggiore, they're all very disconcerting public disclosures. What is it that you can tell us about how you can potentially resolve this investigation? What kind of timeline are we looking at between now and when you can get the other parties in this comfortable with the way that you've acted or comfortable that they've gotten the information they need so that we can resolve this?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

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There is a grand jury investigation going on. There's not a lot of details that we can provide at this point. The timeline is not set by us. It's set by the government and the grand jury, and we'll continue to cooperate. Anything we learn from our outside attorneys doing the independent investigation, we'll immediately take action on and correct. But our cooperation with the government, full cooperation, very open cooperation is the imperative here. And like I said, we're not passing judgment on is anything legal or illegal in some of our past practices with contract lobbyists or consultants. So these things can take a while. I don't expect it will impede our business at all going forward as keeping the eye on the ball, improving the operations, driving the reliability while driving efficiency at the same time. The management team is very focused. There's a lot of speculation in news articles. There's things out there that people are speculating on that they're guessing, to say that's the best. So we'll just have to continue the process, continue to cooperate, continue to keep our eye on the ball. And when it comes time that we're able to speak, we can provide a little bit more color on any corrective actions we've taken but for now it's – we can't go there.

Greg Gordon

Analyst, Evercore ISI

I appreciate that, Chris. Thank you.

Q

Operator: Thank you. Your next question is from the line of Julien Dumoulin-Smith from Bank of America.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Hey, good morning, team.

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Good morning.

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Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Hey, just wanted to follow up on a few details perhaps we can talk to as a function of the process today. And I'll include the two of them together here. First, the Clean Jobs Coalition and just some of the headlines around where the legislation stands today. I know whether it happens this year or more importantly next year, just wanted to understand how we're framing that conversation today given the realities. And then separately and somewhat related, I'd be curious how would you position the conversation of the franchise extension at ComEd next year? It seems unrelated but I just want to make sure we at least talk to some of the process on that front as well.

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Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Sure. I'll cover the first part and Joe Dominguez is with us and I'll let him cover the second part. The conversations, negotiations, strategy for the legislation is still an active conversation with many stakeholders. And when you talk about the Clean Job Coalition, just so you know, that's not a very structured organization. And to speak as a body as somebody did to one publication, we're still very close and in conversation with some of those members of the coalition. And we'll continue, but there's a lot of people involved. There's different coalitions. There's the path to 100% to the Clean Job Coalition. There's the labor. So things are continuing to evolve in conversations with leadership in the legislature are continuing to take place. So it's not like we're stalled or stopped or don't have parties to deal with. Kathleen is dealing for the generation side, doing a significant part of that. And Joe is working to not only support what the governor wants and what the state wants, but in the meantime also protecting the consumers to make sure what we're doing to get to the path to a 100% clean by 2030 is done in the most economic fashion.

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I'll ask Kathleen if she wants to add anything more to the first part and then we're going to turn it over to Joe.

Kathleen L. Barrón

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

The only thing that I would add is that the same news story is talking about that question, Julien, also mentioned that the FRR is the centerpiece of this CJC bill. And that's because it's essential to achieving the state's clean energy goals. If we do not address this, the PJM market will send over \$1 billion a year to old coal plants rather than investing the money towards the state's clean energy ambition. And the fact that folks are lobbying and rallying the capital around this, the fact that it's an important policy change, and that it needs to happen right away

A

is something that should be noted. Now, obviously, there are other elements of the bill both from the CJC, the path to 100%, and others that there is not agreement about. And that's why it's going to take all stakeholders together to deliver a piece of legislation that will get the state to its clean energy goals in a way that's affordable. And we are committed, as Chris said, to working with all stakeholders to achieve that goal.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Joe?

Joseph Dominguez

Chief Executive Officer, Commonwealth Edison Co.

Great, Julien, good morning. Let me just start off explaining what the franchise agreement is. At its most basic level, it's an agreement that sets forth the procedures for us to use city right of ways for our infrastructure and the fee schedule that we pay in order to use their right of way. So what I'm talking about here, the kind of granular things that are in the franchise agreement is how many times could you open up a street to interconnect a new business, what the fees are for the those operations, that kind of granular detail. We've been in negotiations with the city now for some time. There was a pause in those negotiations while the mayor's raise was being sorted out and her new team was put in place. I'm pleased with the progress we're making right now.

There are three potential outcomes here. The agreement is scheduled to come to an end at the end of next calendar year, at the end of 2020. Either party, ComEd or the city have an option at the end of this year to terminate the agreement or they can continue to negotiate. As I said, the path we're on right now is that we're continuing to negotiate. And if we're successful, we'll get a new agreement. If the city elects to terminate at the end of this year, we will continue negotiations. And if we do not reach a resolution, it's not like we stopped providing electric service to the city but our fee schedule and our procedures will drop out of the franchise agreement and will be governed by the municipal code. That will add a little bit of process to our work, but it doesn't shut down quite obviously our activities. If the city does not issue a notice of termination at the end of the year and we continue to negotiate and can't reach a resolution, then the agreement by its terms just continues year-to-year until we reach a resolution. So that's kind of the outline of it.

And Julien, if you don't mind, I'd like to provide some additional context. Chris and Greg talked a little bit about our performance, but I think it bears on the entire discussion this morning. We are on track at ComEd to deliver our best performance in the history of the company. We talked about being first quartile. We're actually first decile on reliability and arguably best-in-class. As a result of the good policies, which we've advocated for, 92% of the energy that we deliver to customers comes from zero carbon resources. To put that into context, the next closest large utility is at about 46%.

We have a supplier diversity program that is second to none, 41% of our spend this year is with businesses owned by women and people of color as well as veterans. We are on track as a result of all of this to deliver the best customer satisfaction we've ever seen. And we're doing all of it at affordable rates. Today, our rates are 20% lower than the average for large American cities. Four out of nine of our rate cases have been decreases under the Smart Grid Law, including that last two cases. Chris talked about the investigation and certainly will have warnings as a consequence of it. But it's important for all of the shareholders who invest in our platform to understand that we are doing a lot of things right and with some humility could lay claim to being one of the best performing utilities in America.

And I just add that for context in all of the things we're talking about today.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Thanks, Joe.

A

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Excellent guys, I appreciate the time.

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Thanks, Julien.

A

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

Steve Fleishman

Analyst, Wolfe Research LLC

Yeah, hi, good morning.

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Hey, Steve.

A

Steve Fleishman

Analyst, Wolfe Research LLC

Hey, so I guess one of the things that we've struggled with these disclosures has just been really what benefit if any you've gotten from legislation over the last few years and for example on the formula rates, the ROE right now is actually really low and as Joe mentioned. Then also I guess you've got the ZECs on Clinton and Quad. So just – but I think those plants would have been losing a lot of money if you didn't get them. So I guess, maybe you could just give some color of kind of what value really is at risk from an investor standpoint because it's just not clear that you've gotten a lot of value out of any legislation over this period.

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Well, the value is the consistency in the process of the rate cases. We are tied to the 30-year and that was a negotiation that was done. If you look at the history of the rate cases and how it has improved the regulatory process and the consistency of the regulatory process, I think there's a lot of value in that. You know when you get 100% of ask or 99.6% of ask and you're not litigating something over an extended period, it creates predictability. We can't control the 30-year but we can control the efficiency and the productivity of the system with the right regulatory format and that's what we've done.

A

As for Clinton and Quad cities, it did save the plants and it's more than just saving losing cash we would have shut them down. And that issue would have been resolved very quickly. It's meaningful to the state and the community but it also is providing a profitable cash flow from those units. We're working on legislation that would either secure the other four sites in the state through the FRR process or we'll shut those plants down. So, in a point of time with a low interest rate, you could point to that and say, we haven't gotten anything, but that has not

been the historical case. And going forward, we'll watch what we can do if interest rates persist to stay low, what action we should take. But I would have to tell you that I understand the sentiment of your view or your – or question, but there's been a great deal of consistency that's happened and a great deal of ability to invest capital.

It's more than just the ROE, right. We have been able to – through legislative terms, been able to consistently invest needed capital for reliability and efficiency and be able to earn a return. They may be a little bit lower returns, but we're able to predictably invest the money and predictably get a return on the money. So, that's huge. If you go back historically to what's happened in some of our jurisdictions, investing money at risk and then getting the disallowances in the regulatory process was much more damning than having a low 30-year rate and having a low ROE, but still an ROE that's above our cost of capital.

Steve Fleishman

Analyst, Wolfe Research LLC

Q

Yeah. Got that. And then just one other question with respect to the nuclear plants. This may be premature, but just could you give us a sense – I am assuming they're money-losing on their own, the four nuclear plants that you're referring to, or is there any way to kind of get a sense of the – if you ended up having to shut them, what it would do.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

We don't evaluate the market response – projected market response from shutting the plants down. So, what we do evaluate is the current financial performance, the free cash flow and earnings, and then the forward projected based off of the forward curves and look at the credit metrics and the balance sheet to see what's happening. And so, we have discussed openly that the four sites are in the future at the current forwards with the current capacity market being managed the way it is by PJM versus the needs that the state wants to maintain the clean energy sources with lack of being able to get legislation to change and be able to pull ourselves out of a very inefficient, by what the state wants, auction process at PJM and going to FRR. They're marginal at best to looking forward to losing cash and earnings. So that's the situation.

Now, I don't think we're announcing the amounts yet. We're continuing to evaluate these numbers. But I can tell you that some are more dire than others at this point, and we need to move forward with the legislation to prevent the loss for the state from an environmental perspective and from economic perspective.

Steve Fleishman

Analyst, Wolfe Research LLC

Q

Thank you.

Operator: Thank you. Your next response is from Stephen Byrd from Morgan Stanley. Please go ahead.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

Hi, good morning.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Good morning.

Stephen Calder Byrd*Analyst, Morgan Stanley & Co. LLC*

Q

Just wanted to go back to the point you mentioned about the special committee of the board with respect to the Illinois investigation. Are there any targeted deliverables in terms of reports or updates and will any of that eventually be made public or is that more for internal purposes?

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

A

I'll let Bill answer that.

William A. von Hoene*Chief Strategy Officer & Senior Executive VP, Exelon Corp.*

A

Stephen, it's Bill von Hoene. The special committee of independent directors will continue to meet periodically, as needed. They have their own counsel. There's no particular deliverable that you should anticipate out of that. It's just part of the regular process that's undertaking in circumstances such as this. So no particular deliverable should you foresee.

Stephen Calder Byrd*Analyst, Morgan Stanley & Co. LLC*

Q

Understood. And in terms of the scope of the investigation, to your knowledge, is this focused solely on Illinois or are there other states or elements of the business involved?

William A. von Hoene*Chief Strategy Officer & Senior Executive VP, Exelon Corp.*

A

We're not at liberty to talk about the particulars of the investigation. But you've seen what has been reported about the subject matter and the subject matter that has been reported by us in our case and I'd refer you to that.

Stephen Calder Byrd*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah. No, that's fair. And just lastly, just in terms of the scope of the investigation, I think there were four individuals mentioned and I think we've seen two announcements from Exelon. I assume just at a high level that you had mentioned, Chris, at the beginning, the policy is to cooperate with investigations. I presume that employees who do not cooperate would not be employed at the firm, or is there a sort of policy we should think about in terms of how you approach cooperation with the investigations?

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

A

Yeah, the expectation is for all employees and all executives to participate in whatever manner they're requested to, if that's providing information or having discussions, that's the expectation. People's employment is based off of their total record, but our expectation is full cooperation and ethical behavior.

Stephen Calder Byrd*Analyst, Morgan Stanley & Co. LLC*

Q

Understood. Thank you very much.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

All right.

A

Operator: Thank you. Your next response is from Praful Mehta from Citigroup.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Thanks so much. Hi, guys.

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Hey, good morning.

A

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Good morning. So, maybe I just wanted to focus on the generation side a little bit. I was comparing Q2 and Q3 power prices, and it looks like every region the power prices go higher. However, given as you talked about, your volatility was lower and so margins came in lower and there's also a little bit of cost cutting now for 2021. So just wanted to understand how we should think about the generation business. It seems like curves itself aren't enough. Volatility is now a new element that we need to consider. How should we think about the stability of the generation business? And also, in the context of reserve margins and PJM, if you could just give us a little bit more on how you think about the business, that'd be really helpful.

Q

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

Let me have Joe start and then Jim McHugh go into more detail.

A

Joseph Nigro

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

Yeah, Praful, good morning. I think if you think about what the intrinsic strategy of our generation business is, it's been producing electric generation and deliver it to our customer-facing businesses, and that still continues. Obviously, the power markets have some challenges and you've seen what we've done with our new business. We continue to work hard to find ways to reduce the cost structure both from an O&M and capital investment perspective of our generation assets as well as our Constellation business. And I think that's what you'll see us continue to do.

A

I think the second piece of that gets into the industrial strategy of what we're trying to accomplish as a company. You see how we're investing in our utilities. You see how we continue to manage our balance sheet and we continue to return value to the shareholders. That is being done on the back of cash flows that are being generated, free cash flow that's being generated at excellent generation. And we will continue to work hard to do that as we continue to transform the generation business.

The last piece is, obviously, as we've talked about in our prepared remarks and with some of the questions, we announced this cost cutting exercise in a business-as-usual stake. Depending on the outcome of the legislation in

Illinois, clearly, there's other elements to our business that would need to evolve under certain scenarios, so we'll continue to work hard at that. And then that will be dictated by other outcomes.

Kenneth W. Cornew

Chief Commercial Officer & Senior Executive VP, Exelon Corp.

A

And Praful, it's Ken Cornew. I'll just add a comment. Our strategy continues to be, be a premier operator of generation particularly nuclear and other clean generation, and also be a solutions provider for customers. That has not changed. I wouldn't think about the generation company any differently than that.

And I'd like Jim to comment a little more on the customer side of our business.

James McHugh

Chief Executive Officer-Constellation & Executive Vice President, Exelon Corp.

A

Yes, I think it's important to note that the new business generation, we put new business targets in our hedge disclosures. That's an expectation of the value we're going to create both from our customer-facing businesses as well as the optimization of the assets in the markets. The customer-facing businesses are performing very strongly and the stable value that has been there for a while, we still see good margins and really product enhancements and product solutions for customers who are demanding more. What's happening on our wholesale business side is the lower volatility in the markets, which actually where we've reduced our new business targets around that end of the business, which actually in my view point leads to more stability. We have an environment where 70% to 75% of the gross margin in our new business will come from the stable customer-facing businesses that we run, that are still performing strongly.

So a smaller portion of our overall gross margins would come from this optimization activity. We happen to have an expectation of those numbers in our forward disclosures. And that's the number that we're lowering based on this environment where we just see the supply stack being strong in markets like PJM and policy adding more generation to the stack, low natural gas price volatility, and low demand growth in markets like PJM. So I think we're able to shift our business focus here to this customer facing business that's more stable. We can reduce our costs to match that new business model, and really provide an environment that I think is a less risk environment work for the Generation Company.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Q

Got you. That's super thoughtful and helpful color, so I appreciate that. I guess just a quick follow-up, in terms of the federal investigation, as you mentioned earlier on the call, it could take a long time or it could take some time. So if it does take time and your Illinois legislation for some reason is delayed, linked to that, how do you decide on what happens with the units? Do you still run them? Do you still – nuclear refueling is still continued, or do you kind of wait? What kind of decision making do you kind of expect around that from a timing perspective?

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

A

Well, nothing has been linked to the investigation and the legislation. Right now, there is – to run any legislation, we've got to see a FERC order and we probably won't see the FERC order or PJM's response. Both of those tied together till sometime in the first quarter which will enable us to refine a legislative path going forward. If for some reason, we don't garner support as a coalition and a large group of stakeholders to go forward with the legislation, by what we see in the market forwards today, plants will start to shut down. That's the reality if something doesn't

happen in the spring because PJM will run their auctions. And if there's lack of legislation or our ability to withhold the load and the generation from that auction, the expectation of clearing megawatts, you've seen the trend.

So, without being able to get capacity revenue for those eight reactors and the market forwards being as low as they are right now, it's uneconomic. And the one thing we are not going to do is sit around and damage the balance sheet and create a situation that's unrecoverable. The responsibility of the balance sheet is felt very strong by the management team. And the actions that we will take, if a lack of a cohesive and complete resolution path forward, we can't sit here for years and bleed cash and build up debt and damage the HoldCo and further damage the GenCo.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Q

Understood. That's very helpful. Thank you so much.

Operator: Thank you. I will now turn the call back over to Chris Crane, President and CEO, for closing remarks.

Christopher M. Crane

President, Chief Executive Officer & Director, Exelon Corp.

I just want to thank everybody for participating in the call today and the questions. And I understand that we can't answer everything right now, but rest assured, we're taking all the actions that are necessary to ensure we can put this behind us. So thank you. With that, I'll close out the call.

Operator: Thank you for joining us today. This concludes today's conference call. You may now disconnect.

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