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# Exelon Corp. (EXC)

Q1 2015 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. My name is Britney, and I will be your conference operator today. At this time, I would like to welcome everyone to the Quarter One 2015 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.  
[Operator Instructions]

Thank you. Mr. Francis Idehen, you may begin your conference.

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### Francis Idehen

*Vice President-Investor Relations*

Thank you, Britney. Good morning, everyone, and thank you for joining for our First Quarter 2015 Earnings Conference Call. Leading the call today are Chris Crane, Exelon's President and Chief Executive Officer and, Jack Thayer, Exelon's Chief Financial Officer. They're joined by other members of Exelon's senior management team, who will be available to answer your questions following our prepared remarks.

We issued our earnings release this morning along with the presentation, each of which can be found in the Investor Relations section of Exelon's website. The earnings release and other matters which we'll 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, comments made during this call, and in the risk factors section sections of the 10-K, which we filed in February as well as in the earnings release in and the 10-Q which we expect to file later today.

Please refer to the 10-K, today's 8-K and 10-Q and Exelon's other filings for a discussion of factors that may cause the 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 a reconciliation between the non-GAAP measures to the nearest equivalent GAAP measures.

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

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### Christopher M. Crane

*President, Chief Executive Officer & Director*

Thank you, Francis. And good morning, everyone, and thanks for joining the call. Before I go into the prepared remarks, I want to first start by addressing the situation in Baltimore. As a company with a significant presence in Baltimore, we're monitoring the unrest with great concern. As you know, Maryland's Governor, Larry Hogan, has declared a State of an Emergency and Mayor Stephanie Rawlings-Blake has declared city-wide curfew through into next week. We join the rest of the business community in recognizing the issues that Baltimore is dealing with and needs to address so this great city can heal itself and get back onto economic growth for all.

Moving on to the quarter, I'm very pleased with our financial performance. We delivered earnings of \$0.71 per share, surpassing our guidance range of \$0.60 to \$0.70, and Jack is going to describe our performance in greater detail.

I would like to focus my remarks on our priorities and how we are strategically pursuing value for customers and shareholders. We continue to operate in a challenging market environment, particularly on the generation side of our business, but our gen-to-load match strategy continues to create value, as seen in the first quarter hedge disclosure.

Our advocacy efforts are focused on creating channels to capture value for our communities and customers we serve and for our shareholders. I'll touch on those directly. In our regulated business, we are redefining the role of the utility of the future, in part by making needed infrastructure investments to modernize the grid. Over the next five years, our LRP has \$16 billion of capital that will create approximately a 6% CAGR, with another potential \$7 billion at PHI.

Installing smart meter technology to enable customers to make informed choices about their energy consumption and promoting energy efficiency investments and innovation and resilient technologies at our utilities is a way that is progressive and equitable across all customer types. You can see this reflected in the Energy Plan for Illinois' Future bill that we recently proposed through ComEd in Illinois.

With these efforts, we are bringing improvements to the lives of the customers in a way that creates value for the company. Our merchant business faced challenges, primarily due to policies and market design shortcomings that have failed to fairly value the benefits of nuclear. As a result, we focused our advocacy efforts on ensuring reliable environmental and economic benefits of nuclear power are not taken for granted and that these plants are operated on a level playing field.

In Illinois, we are working with state legislators on the Low Carbon Portfolio Standard that values each of these benefits. The bill unanimously was approved by the Senate Energy Panel and the Public Utilities Committee and will now go the Senate floor. We hope the same will happen in the House and that the bill will be approved within this legislative session.

From a reliability perspective, we are pleased that FERC has granted the waiver to allow PJM to delay the capacity auction in order to further review PJM's CP proposal. It is clear from this action that FERC appreciates that the older rules are not sufficient to ensure reliability and that changes must be made. We look forward to a positive outcome.

We continue to work through the process of finalizing a contract with RG&E for our Ginna facility. As these events play out, we continue to do our best operating the plants and the utilities at high levels of efficiency, hedging our generation output through strong portfolio management while we expand our footprint and our profits in retail, power and gas operations. As you can see, we are doing things on both sides our business; we're tapping into multiple channels to create upside and drive value for our customers and for our investors.

This leads me to our proposed merger with PHI. As you know, we've obtained regulatory approval from FERC, Virginia and New Jersey. We've reached a global settlement in Delaware that is pending Commission approval. That leaves Maryland and the District of Columbia. In Maryland, we've reached a partial settlement with several critical parties. We presented that settlement to the Maryland Public Service Commission and expect a decision from them on May 15. In the District, we've completed our evidentiary hearings and we're now filing briefs and the Commission will commence its deliberations.

We have said from the beginning that this merger and the commitments we have made clearly demonstrate this merger is in the public interest and should be approved by the regulatory commissions. While there's no guarantee that the Public Service Commission will approve the proposal, and there's no guarantee that they will not impose conditions that would frustrate the transaction, we believe that the settlement and commitments that

we have made in the proceeding are more than meet the statutory requirements for the merger approval, and we will look forward to orders approving the merger. We expect the merger to close late in the second quarter or in the third quarter.

In summary, we're creating value today while actively pursuing public policy changes that recognize the benefits provided by our clean reliable assets and we're working on all those fronts.

I'll now turn it over to Jack, who will cover the financial performance for the quarter.

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## Jonathan W. Thayer

*Chief Financial Officer & Senior Executive VP*

Thank you, Chris, and good morning, everyone. We had a strong first quarter to start the year. My remarks will cover our financial results for the quarter, second quarter guidance range and update our hedge disclosures and cash outlook. I'll start on slide four.

Starting with our first quarter results on slide four, Exelon exceeded our guidance range and delivered earnings of \$0.71 per share. At Exelon Generation, once again we realized the benefits of our generation to load matching strategy. Quarter-after-quarter, this strategy has paid dividends in a broad array of market conditions.

During the first quarter, despite experiencing lower power prices than during the same period in 2014, we benefited from a lower cost to serve customers. We are realizing strong margins in our load business from contracts we executed last year after the Polar Vortex. In addition, our gas business performed above our expectations during the quarter due to favorable weather. While our nuclear plants performed better than they did at this time last year, we did have some nuclear outages that negatively impacted our quarterly earnings by approximately \$0.04 relative to plan.

That being said, we continue to push our plants to perform at our standard highest levels of performance. Our portfolio management team performed strongly and was able to more than offset these losses. On balance, Generation earned \$0.35 per share during the quarter. Exelon's Utilities delivered combined earnings of \$0.39 per share, an \$0.08 increase over the first quarter of last year.

Although we did not see a repeat of the Polar Vortex of 2014, with sustained extreme cold and wind -chill, we faced a very cold winter with heating degree days 14% to 19% above normal in ComEd's and PECO's service territories. In fact, it was colder in Philadelphia this winter than the previous winter. Cold weather, a lack of severe storms and increased distribution rates at BGE drove utility results this quarter. More detail on quarter-over-quarter drivers at the Utilities can be found in the Appendix on slide 16.

For the second quarter, we are providing guidance of \$0.45 per share to \$0.55 per share. This compares with our realized earnings of \$0.51 per share in the second quarter of 2014. We are reaffirming our full-year guidance of \$2.25 to \$2.55 per share. Since our last call, both PECO and ComEd have filed rate cases this year. On March 27, PECO filed an electric distribution rate case with the Pennsylvania Public Utility Commission requesting a \$190 million revenue increase and a 10.95% return on equity. This is PECO's first rate case filing since 2010 and the first-time filing based on a fully projected future test year.

In addition, if the PAPUC approves the new System 2020 plan, an additional \$275 million will be spent during the next five years to install advanced equipment and reinforce the local electric system, making it more weather resistant and less vulnerable to storm damage. We expect the PAPUC to rule by the end of the year on the rate case and System 2020 plan with new rates going into effect in January of 2016.

On April 15, ComEd filed its Annual Formula Rate Filing with the Illinois Commerce Commission. ComEd requested a revenue decrease of \$50 million. This reduction is a result of a continued focus on cost management and operational efficiencies that are being realized from a stronger, more reliable grid with fewer outages.

EIMA and the smart grid investments are working. Since 2012, there have been more than 3.3 million avoided customer interruptions including 1.2 million in 2014, due largely to increased investments in distribution automation or digital smart switches that automatically route power around problem areas. Outage avoidance has saved customers an estimated \$175 million. More detail on each of these rate cases can be found in the Appendix on slides 20 through 22.

I will now turn to our first quarter gross margin update on slide five. During the quarter, we saw a drop in natural gas prices, while power prices were steady and heat rates expanded further. The market is finally incorporating the change in the generation stack due to coal retirements as evidenced by the heat rates seen today. Approximately 10 gigawatts of coal plants in PJM have or will retire this year, with the majority of retirements occurring in April and May.

We hedged close to a ratable amount during the quarter in both the Mid-Atlantic and Midwest regions. At the end of the quarter for 2016 and 2017, we remain considerably behind ratable in the Midwest, where we continue to see upside. Total gross margin is unchanged or relatively unchanged across 2015 through 2017 from our fourth quarter disclosures.

As I mentioned, Constellation had a good quarter and executed \$200 million in power new business and \$100 million in non-power new business. In addition, we raised our power new business target by \$100 million because we have line of sight for continued success in the balance of the year. This increase was offset by our nuclear outages, resulting in a net \$50 million improvement in 2015 total gross margin.

Slide six provides an update on our cash flow expectations for this year, projected cash from operations of \$6.7 billion. I'd like to point that we've increased our CapEx projections at ComEd by \$200 million. In finalizing the investment plan for 2015, ComEd identified incremental opportunity to invest in infrastructure, including grid resiliency and security, storm hardening and smart grid. These investments will continue to improve the reliability of ComEd's system. As a reminder, the Appendix includes several schedules that will help you in your modeling efforts.

Thank you. And we'll now open the line for questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Your first question comes from the line of Daniel Eggers with Credit Suisse.

Dan L. Eggers

*Credit Suisse Securities (USA) LLC (Broker)*

Hey. Good morning, guys.

Q

Christopher M. Crane

*President, Chief Executive Officer & Director*

Good morning, Dan.

A

Dan L. Eggers

*Credit Suisse Securities (USA) LLC (Broker)*

I've been hearing a lot of concern about the Pepco acquisition and probably some of the Maryland comments, both out of the MEA and Governor's Office. Can you just share your thoughts in how you guys address maybe the market power considerations or issues that are raised and how you guys move past that to get this deal done?

Q

Christopher M. Crane

*President, Chief Executive Officer & Director*

Yeah, there are some that have mentioned a loss of competition. And as all know, Pepco Maryland and BG&E do not compete. Each will be standalone in the future, as they are now, rate cases will be decided by the Public Utility Commission in Maryland. We work at the will of the Commission. The benefits that we show by bringing PHI into the Exelon Utilities with best practice sharing, being able to leverage procurement and the commitments that we made, we think meet the test to the benefit of the consumer.

A

So the Governor has not taken that position. The Governor has stayed neutral since, as he said, he's come into this late in the process. So there were rumors that he was against it; that was clarified with a letter that he sent to the Commission saying he has faith in the Commission that they'll do the right thing and he's neither for or against, he's neutral on it. And that's the support that we've gotten from Montgomery County and Prince George's County is significant. Those were the major customer bases where majority of the Maryland customers are and we have a strong support from both counties.

Dan L. Eggers

*Credit Suisse Securities (USA) LLC (Broker)*

Okay. And I guess just to play devil's advocate. If Pepco were not to tell you guys to get funded, the equity component of that transaction well in advance, how would you guys use that capital if you ended up having it back to deploy in a different direction?

Q

Jonathan W. Thayer

*Chief Financial Officer & Senior Executive VP*

Dan, it's Jack. Obviously, we don't anticipate that to happen. We anticipate getting a successful outcome here. To the extent that the terms of approval were onerous or we were rejected outright, we would look to cash settle the

A

equity, the forwards that we had issued, and we would look to utilize the capital raise from the convertibles to either fund growth at the business or return value to shareholders through other means.

Dan L. Eggers

*Credit Suisse Securities (USA) LLC (Broker)*

Q

Okay. And I guess just maybe one last question, the prioritization of capital. Obviously the ERCOT CCGTs are out there, but there's been more conversation about prospectively the LNG project that you guys are an early investor in as well as these stories about the UK office. Can you just clarify how you guys are prioritizing those capitals and maybe address any of the issues that might be around what we've been hearing in the media?

Christopher M. Crane

*President, Chief Executive Officer & Director*

A

Yeah, you can see based off of our capital spend, our highest priority is in the regulated investments. We're making, as I said, \$16 billion of investment over the next five years, with another potential \$7 billion with Pepco, being PHI coming in. So, that we see is a good solid investment needed for the infrastructure for the customers and benefit to shareholders.

The CCGTs in Texas are still a very good investment, very positive NPV. It continues to match our generation to load strategy, as we continue to grow that load book in Texas in ERCOT. We said at the beginning, we're getting these at a very good terms. They're under \$700 a KW on our brownfield site where we'll have expense advantages of combining them with our existing facilities. And the nature of those plants, the efficiency and the flexibility of them, they'll dispatch well in that ERCOT market. So that's still a positive investment.

Annovais a good strong option. We're the fifth largest in the handling merchant gas. We have core competencies around our gas portfolio and continuing to grow out the gas business is a logical move we believe. But the nature of that project is contracted. It would be a contracted long-term type arrangement that de-risks it significantly. If we are successful in obtaining contracts and permits then we would make the investment to continue to develop out our gas business. So that's the strategy around utilities. The strategy around competitive electric and gas continue to be the primary.

The story in the UK, is not an equity story at all. Exelon Nuclear Partners has been invited in to the bidding process to be the operator on a couple of projects potentially in the UK. We have a very small office that we rent month-to-month that those folks are working out of. Part of the process of doing that is understanding more the UK market. So there's been some due diligence around that, but we have no plans right now on becoming an equity owner in the UK at this point. That was a clarification needed to be made.

Dan L. Eggers

*Credit Suisse Securities (USA) LLC (Broker)*

Q

Thank you. I appreciate it.

**Operator:** Your next question comes from the line of Jonathan Arnold with Deutsche Bank.

Jonathan Philip Arnold

*Deutsche Bank Securities, Inc.*

Q

Hi. Good morning, guys.



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

A

Good morning.

Jonathan W. Thayer  
*Chief Financial Officer & Senior Executive VP*

A

Good morning.

Jonathan Philip Arnold  
*Deutsche Bank Securities, Inc.*

Q

Just quick one on Illinois. Christopher, you're saying you still think that you're hopeful that you'll get things across the finish line in the spring session. There's been talk that there might be slippage into the veto session and obviously with the PJM auction delayed maybe the state would want to wait, see the outcome. What's behind your conviction that we're still on for the spring?

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

A

There's a hearing today that will be continuing to address the issue. So, it is being discussed, it's being worked, even with all of the other business that has been going on in Springfield around budget. So as I said, we got strong support, unanimous support out of the Senate Energy and Public Utilities Committee in March, unanimous. And there's hearings in both the House and the Senate this week to continue to discuss it. So we remain positive, cautious, but positive that we'll be able to get something through in this session. If we don't, and if the likelihood is that we're not going to get a build and we have to address the long-term profitability of the units, and we'll decide that as we see the legislative session end.

Jonathan Philip Arnold  
*Deutsche Bank Securities, Inc.*

Q

Okay. That's great. And then one other issue and Dan asked about the UK and you responded about the nuclear operator bidding process. There was also a story that you'd been linked to looking at an investment in a CCGT, which appeared to be similar next generation technology like you're working on in Texas. Any comments on that?

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

A

Yeah, I learned about that when you did, in the clippings. So, there is market intelligence that's going on at a lower level in the organization, but there is no plans to enter into equity positions at this point in the UK.

Jonathan Philip Arnold  
*Deutsche Bank Securities, Inc.*

Q

Great. Thanks for reiterating that. That's all I have.

**Operator:** Your next question comes from the line of Greg Gordon with Evercore ISI.

Greg Gordon  
*Evercore ISI*

Q

Thanks. Good morning, guys.

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

A

Good morning.

Greg Gordon  
*Evercore ISI*

Q

Your expected generation guidance for 2015 through 2017 in New England is 2X, 2X plus today versus what it was in the fourth quarter release. You haven't acquired any assets. So can you explain how you've been able to double your expected generation in that market and the flow through impact it's having on your expected gross margin, which looks like it's up marginally over the next two years, but then down marginally in 2017?

Joseph Nigro  
*Executive Vice President, Exelon; Chief Executive Officer, Constellation, Exelon Corp.*

A

Greg, good morning. It's Joe. I'll speak to that. And you're right on we noticed that our expected generation in New England in all years has increased appreciably. And as such, that generation percentage hedged has declined with that increased output of generation.

Very simply, we had disclosed in Q4 2013 that we had worked with a fuel supplier to restructure a contract that we have. And if you remember, back then our generation had dropped by about 50% in the quarter-over-quarter at that time. That contract restructuring has been terminated and it will be effective at the end of June this year and the contract itself will revert back to its original terms and conditions.

It has two impacts. One, you're seeing the generation impact and the hedge percentage impact. And the notification of that termination was at the end of the first quarter of this year, so really you're seeing it flow through on an immediate basis. The gross margin impact was very minimal across the horizon. And as such, just mechanically when you look at the hedge disclosure, the dollars of the termination of the contract restructuring as well as the increased value of the generation output and the margin associated with that is all flowing through the open gross margin line and it's very minimal. So really it's a volume change that you see with real dollar impact.

Greg Gordon  
*Evercore ISI*

Q

So then what's the economic rationale for termination if it's more or less NPV neutral? Are these fuel contracts for gas plants that have optionality associated with price volatility? Are they base load? Why would you terminate that contract if it wasn't increasing the NPV appreciably?

<A – [oD6FFV-E]Joe Nigro – Exelon Corp.> I can't say too much due to the confidentiality of the nature of the agreement. But what I will say is the contract termination was the right of the supplier, held that right. And from our perspective, as I said, the impact economically was very muted. I can't speak to the supplier's perspective on why they terminated, but it's related to a long-term supply arrangement that we have.

Greg Gordon  
*Evercore ISI*

Q

Okay. Thank you.

**Operator:** Your next question comes from the line of Julien Dumoulin-Smith with UBS.

Julien Dumoulin-Smith  
*UBS Securities LLC*

Q

Hi. Good morning.

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

A

Good morning.

Jonathan W. Thayer  
*Chief Financial Officer & Senior Executive VP*

A

Good morning.

Julien Dumoulin-Smith  
*UBS Securities LLC*

Q

So I wanted to focus on the CP product, if you could. First, with regards to your expectations on future retirements, I'm curious, do you see the CP product as proposed driving retirements as you go to 100% CP market? Is that conceivable? And what kinds of units? And then subsequently, obviously with Supreme Court here waiting on the DR decision, how do you see that ultimately impacting the base in CP products of any eventual auction here? And does it appreciably impact CP, or is it more of an impact on the base auction?

Joseph Nigro  
*Executive Vice President, Exelon; Chief Executive Officer, Constellation, Exelon Corp.*

A

Julien, It's Joe. I think to your first question around retirements, we don't see a material impact. I mean, I think the rationale is first and foremost obviously to improve the reliability on the system. And to do that, you need a couple of – well, you can go about that in a couple of ways. One is the hardening of the units themselves, which have a cost associated with it. The second thing is to make sure you have firm fuel on site for these units and there's a cost to do that.

When you look at the economics of all that, we don't believe there's going to be a material impact to retirements. I will sit and here say, though, given this structure that's been laid out, if it is implemented, I would expect that you would see an increased risk premium effectively in the marketplace, given the fact that the penalty structure is changing, rightfully so, to ensure reliability, but I don't think outright there will be a material impact on the retirement side.

Julien Dumoulin-Smith  
*UBS Securities LLC*

Q

And on demand response?

Joseph Nigro  
*Executive Vice President, Exelon; Chief Executive Officer, Constellation, Exelon Corp.*

A

I guess from a DR perspective, there's a lot of flux around the rules, but sitting here looking at this auction, we would expect to see the demand response activity will continue in the way it has. And then as you see – as rule changes through time, if it is to change whether it becomes a retail product as opposed to a wholesale product, we'll have to see how that plays out.

Julien Dumoulin-Smith  
*UBS Securities LLC*

Q

Okay. Fair enough. And then just turning to the renewals business, obviously the YieldCo phenomenon continues to evolve. Have you given more thought about the degree to which this business is core as we've seen the market evolve?

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

A

Julien, with respect to the renewables part of our business?

Julien Dumoulin-Smith  
*UBS Securities LLC*

Q

Exactly. Just – not creating a structure yourself, but ultimately whether you could garner better value in the public markets of late?

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

A

As you know, we have an extensive business, both on the solar as well as wind renewables part of our business. And how we've improved the returns on that business over the last number of years has been through the extensive use of project financing as a means of returning capital to the corporate coffers to reinvest, either in the growth of the utilities or fund some of our other expansionary efforts around, as an example, the peaker that we're building in New England or the combined cycles we're building in Texas.

Certainly, we do watch and we do evaluate and consider the potential impact on value that a YieldCo could have on our assets from the perspective of YieldCos as potential buyers of those assets or through the potential to create our own YieldCo. And we continue to evaluate that. Within our project financing efforts, we have retained that option to be able to do that.

I think one of the key elements, though, to a successful strategy around the YieldCos is having a significant and visible pipeline of assets that you could drop down. And we have, I think, a good amount of assets. We have elements like our Annova LNG facility, that we if decide to pursue that and we had a long-term off-take agreement that would provide attractive revenues that could fit in that type of structure. But at this point, we don't have any plans to pursue such a structure and continue to have a candidly wait-and-see approach.

Julien Dumoulin-Smith  
*UBS Securities LLC*

Q

All right. So more of a retain the business, build it out and then see down the line, rather than monetize it?

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

A

Absolutely. So you see us continuing to deploy wind investments. We have a project that we're developing down in Texas, [indiscernible] (32:23). You continue to see us work down on a path on the Annova LNG project, to secure a long-term off-take and you see us continue to, through our Constellation business, continue to pursue opportunities to grow the solar side of our business.

Julien Dumoulin-Smith  
*UBS Securities LLC*

Q

Great. Well, thank you for the time.

**Operator:** Your next question comes from the line of Neel Mitra with Tudor, Pickering.

Neel Mitra  
*Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Hi. Good morning.

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

A

Good morning.

Neel Mitra  
*Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Just wondering on the HoldCo side, how much more debt are you able to support after the Pepco acquisition closes now that you're more regulated?

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

A

Neel, as you know, we have significant debt issuance forthcoming that will be used to finance at the holding company the PHI transaction that we would look to bring to market once we have visibility around a successful path in Maryland. We continue to evaluate the balance sheet capacity and the space that we have at that holding company. As you know, we've said we'll utilize that holding company as a potential vehicle to finance regulated growth. I think an important element of this is the interplay between the growing earnings mix of our utilities business relative to our merchant exposure and how the rating agencies perceive us.

And so to the extent that the rating agencies continue to evolve in their thinking around the risk embedded in our business, and CS is a less risky credit, I would say that's the biggest mover of balance sheet capacity. Obviously, some elements around, whether its capacity performance, the Illinois Clean Energy legislation that would be additive to the company's cash flow and earnings would also be helpful to our ability to add further leverage to the holding company.

Neel Mitra  
*Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Got it. And then assuming Pepco closes, what's the latest update as to when the dividend is fully funded by the regulated side?

Jonathan W. Thayer  
*Chief Financial Officer & Senior Executive VP*

A

So we project that towards the latter part of the decade into 2020 timeframe, but we'll continue to evaluate that based off of rate case outcomes.

Neel Mitra

*Tudor, Pickering, Holt & Co. Securities, Inc.*

Okay. Great. And then...

Q

Jonathan W. Thayer

*Chief Financial Officer & Senior Executive VP*

And, Neel, that's specific to, from a free cash flow standpoint, the utilities being able to, not just from a payout ratio standpoint, but from a free cash flow funding standpoint. Chris' point on the latter part of the decade is when that cash would be available to potentially consider growing the dividend.

A

Neel Mitra

*Tudor, Pickering, Holt & Co. Securities, Inc.*

Great. And then last on the Illinois legislation, if something isn't reached by the end of May, what are the options to maybe keep the process going through 2015? Or is it kind of done through the rest of the year if you don't have an outcome by May?

Q

William A. von Hoene

*Chief Strategy Officer & Senior Executive VP*

We expect the session to – this is Bill von Hoene – conclude at the end of May. It conceivably could be extended. If the budget impasse continues, it's unlikely that the energy legislation would be considered during that period of time. There is a six day session, veto session, in November and into early December which requires a supermajority on any votes that pass during that period of time. So that would be the next time the legislature would convene after the conclusion of this regular session.

A

Neel Mitra

*Tudor, Pickering, Holt & Co. Securities, Inc.*

And a supermajority which require a 60% vote, is that correct?

Q

William A. von Hoene

*Chief Strategy Officer & Senior Executive VP*

That's correct.

A

Neel Mitra

*Tudor, Pickering, Holt & Co. Securities, Inc.*

Okay. Great. Thank you.

Q

William A. von Hoene

*Chief Strategy Officer & Senior Executive VP*

The point on that, though, in May of 2014 we committed not to make any decisions based off of the economics for a year. We're coming to the end of that year and we need to make decisions that start the planning process if we do not see a success there.

A

**Operator:** Your next question comes from the line of Angie Storozyński with Macquarie.

Angie Storzynski

*Macquarie Capital (USA), Inc.*

Q

Thank you. So I wanted to focus again on Illinois. So it seems like you guys have bullish energy prices in Illinois and that's why you're not hedging much of your portfolio. You're also bullish on capacity prices, at least in PJM. You just had this spike in MISO capacity. So how does that add up because on the one hand if capacity prices rise, then you have less of a volatility in on peak power prices and that's potentially lower heat rates, so how does it reconcile with your outlook on heat rate?

Joseph Nigro

*Executive Vice President, Exelon; Chief Executive Officer, Constellation, Exelon Corp.*

A

Good morning. This is Joe. I think that what I would say is if we talk just about energy prices in Northern Illinois for a minute, using prices as of the end of the quarter, we do still see heat rate expansion. We don't think the market is priced in or the upside really driven by the back of the changing dispatch stack. And if you think about two different timeframes like 2016, 2017, we probably see less upside than we do when you get out to the 2018, 2019 time period and it's probably to the tune of \$1 to \$2 accordingly.

And just as importantly, we also have a view that we think that natural gas is underpriced at this point, which would, in addition to that, would drive prices higher net-net because you would see a slight heat rate decline with the rise in natural gas, but net-net it would be a positive outcome. And your point is right, that from a hedging perspective, we continue to remain behind our ratable hedging plan in the Midwest to the tune of about 10% in 2016 and 2017 approximately, just given those views.

Angie Storzynski

*Macquarie Capital (USA), Inc.*

Q

And you also think that the carbon legislation in Illinois is not going to have any negative impact on forward energy prices in Illinois?

Joseph Nigro

*Executive Vice President, Exelon; Chief Executive Officer, Constellation, Exelon Corp.*

A

No, we don't.

Angie Storzynski

*Macquarie Capital (USA), Inc.*

Q

Okay. And secondly in ERCOT, so you keep saying that you have a cost advantage for the new build and you clearly do. But forward curves are showing on peak spark spreads of \$15, \$16. So the conclusion or your dedication to the project is driven by your outlook on where these sparks are going to go as opposed to what we're seeing. And so can you give us at least a sense what is kind of spark spreads you're assuming in your calculations when you think that the IRR of the projects is still interesting?

Kenneth W. Cornew

*Chief Commercial Officer & Senior Executive VP*

A

Angie, it's Ken. We continue to be comfortable with our investment in these plants because of, as Chris said, the cost advantage, the technology advantage, meaning the heat rate efficiencies and the responsiveness of the plants. We've seen spark spreads bounce around a lot in ERCOT. The lack of volatility recently has driven them down. Our long-term fundamental views are what I would say conservative and we're still confident in the investments, very confident, actually.

Angie Storzynski  
*Macquarie Capital (USA), Inc.*

Q

Okay. Thank you.

**Operator:** And your final question comes from the line of Shahriar Pourreza with Guggenheim Partners.

Shahriar Pourreza  
*Guggenheim Securities LLC*

Q

Good morning.

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

A

Good morning.

Shahriar Pourreza  
*Guggenheim Securities LLC*

Q

Just sticking with the RSSA, with Ginna, is there an update on the filing? And then just counter with the EDF put option, how should we think about under an assumption that you may own the remaining portion of this plant? Is there an option that you can get an expanded RSSA contract if the timing works?

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

A

The RSSA contract – this is Bill von Hoene. The RSSA contract was approved by FERC effective April 1, but with two adjustments being required in the contract which has been sent back and a compliance filing will be made by Ginna to reflect that. And there will be a process by which the contract itself will be evaluated and potentially settled through a FERC procedure. So that is going to go forward for probably the balance of the year based upon precedent in other circumstances, although the ability to collect on a cost-based rate is effective now.

The put is exercisable by EDF January 1, 2016. We do not know and don't speculate as to what would happen in connection with that. With regard to the potential extension of the RSSA agreement, it's predicated on the period of time that's necessary for the New York system to find alternative ways to deliver the same reliability that Ginna currently is required to deliver. So we would not anticipate, in the absence of the failure of the New York system to do so, that there would be any basis for extension of the agreement.

Shahriar Pourreza  
*Guggenheim Securities LLC*

Q

Got it. And then just one last thing, just sticking with the Illinois carbon portfolio, have you quantified what could potentially be available under the cap using, let's say, the 2014 rates? And then additionally, am I correct to assume that there's an opportunity to breach that cap if somehow the credits are being constrained?

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

A

No. The cap is the same essentially 2% cap that goes on energy efficiency and RPS. And I think that's been calculated by a number of folks. There's no provision by which the cap could be breached under the legislation as it's currently proposed.



Shahriar Pourreza  
*Guggenheim Securities LLC*

Q

Got it. And then you haven't quantified what could be available under the program using pre-existing rates, right?

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

A

No, we have not.

Shahriar Pourreza  
*Guggenheim Securities LLC*

Q

Okay. Thanks so much.

**Operator:** Your next question comes from the line of Paul Ridzon with Key Banc.

Paul T. Ridzon  
*KeyBanc Capital Markets, Inc.*

Q

Hi. A quick question on Illinois. With the Attorney General's Office kind of weighing in on the MISO auction, is that entering the discussion in the legislature?

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

A

There has been attention, not surprisingly, to the MISO auction in connection with the legislative deliberations, and I think it's relevant in the minds of the number of legislators. From our standpoint, however, it has virtually no impact on the health of our plants. The Clinton plant was a price taker in the auction and which had sold in advance a significant portion of the power, the benefit of the auction result is only about \$13 million, so that's far short of what would be necessary and doesn't obviate the need for the low carbon portfolio standard for that plant and elsewhere.

Paul T. Ridzon  
*KeyBanc Capital Markets, Inc.*

Q

Thank you.

**Operator:** Your next question comes from the line of Ali Agha with SunTrust.

Ali Agha  
*Suntrust Robinson Humphrey, Inc.*

Q

Thank you. I wanted to clarify, I may have missed this. I think you were mentioning that on the forward prices versus fundamental view, if I heard you right you said you thought Midwest was probably about \$2 lower than where the fundamental view would be. I want to confirm that. And what's your thinking on Mid-Atlantic or PJM right now forward versus fundamental?

Joseph Nigro  
*Executive Vice President, Exelon; Chief Executive Officer, Constellation, Exelon Corp.*

A

Yeah, this is Joe. What I said was there's two components to our view. The first is just fundamentally we still expect to see heat rate expansion in Northern Illinois across the time horizon. So, if you look at calendar 2016,

2017 and beyond, we would expect to see heat rate expansion, and that's probably in that \$1 to \$2 range. But additionally, we see gas price upside, which would also increase the power price beyond that upside. So that would effectively raise the heat rates as well and – or effectively raise the power price as well.

So there's two components to our view and, as such, we're behind our ratable plan in 2016 and 2017 from a hedging perspective to the tune of approximately 10%. And it's important to note that there's some seasonality associated with that in our hedging profile within a given year reflects that, meaning we see time buckets that are more valuable relative to the market than others.

On the West Hub side, we see that heat rates and power prices are generally in line with our fundamental forecast, and we don't see quite as much opportunity. But, again, there's seasonality associated with that and our hedging profile takes that into account.

Ali Agha

*Suntrust Robinson Humphrey, Inc.*

Q

Got it. And, Joe, one other thing, on the retail side, a quick update on the competitive environment and the \$2 to \$4 margin that we've historically been benchmarking, just to give us a sense of where we are as new contracts are rolling in.

Joseph Nigro

*Executive Vice President, Exelon; Chief Executive Officer, Constellation, Exelon Corp.*

A

Yeah, I think in general our load business has done very well, whether we're talking about our retail book of business on the commercial industrial side or our Polar procurement business on the wholesale side. After the Polar Vortex last year, we saw, I would say, folks maybe pricing the risk more prudently from our perspective as it relates to managing a retail contract. That's one element of it. And then from the margin perspective, using that \$2 to \$4 benchmark that you laid out there, we're well in line in the range of that \$2 to \$4, whereas we were sitting here a year, year-and-a-half ago, we were struggling to be even at the low end of that range. So we've seen improvement across the board, both from a risk pricing perspective and a margin improvement perspective in our load business, both wholesale and retail.

Ali Agha

*Suntrust Robinson Humphrey, Inc.*

Q

Got it. Thank you.

**Operator:** Your next question comes from the line of Travis Miller with Morningstar.

Travis Miller

*Morningstar Research*

Q

Good morning. Thank you. This is a bit of a follow up to that last question, but how long do you expect this magnitude of a load matching benefit that you've got in this quarter to extend? Can we think about this extending through the full year and beyond, or was there something in the quarter that gave you even more benefit on the load matching side relative to what we could see later in the year and ongoing?

Joseph Nigro

*Executive Vice President, Exelon; Chief Executive Officer, Constellation, Exelon Corp.*

A

Yeah, I think there's a couple of answers to that question. And I think the most important one is we're seeing the changeover in the generation stack that we expected to see with retirements and low gas prices. And you've seen

the heat rate expansion that we've been talking about for some time. In addition to that I think what you're going to see going forward is increased volatility and both upside volatility and downside volatility. And I think that has an impact on load serving contracts because you need to make sure that they're priced accordingly.

So we've got the benefit of, I would call it, lower load serving costs in the first quarter and they've come down on a mark-to-market basis for the balance of the year, but our expectation is given that market volatility, we expect to see that that would pass through to continuing to see appropriate risk premiums in our load serving business and appropriate margins.

Travis Miller

Morningstar Research

Okay, great. Thanks a lot.

Q

**Operator:** And your final question comes from the line Michael Lapidès with Goldman Sachs.

Michael J. Lapidès

Goldman Sachs & Co.

Hey, guys. Just want to circle back a little bit on PJM. We keep seeing a lot of announcements or people attempting to get new combined cycles build. We've obviously had a lot clear over the last few years. Gas base is still – is pretty low, meaning still pretty wide in parts of PJM relative where Henry Hub is or even when Pepco is. Just curious your multi-year thoughts about whether lots of plants actually do get built, meaning or do a lot just disappear by the wayside? And what this means not only for, I don't know, your view of are we kind of at newbuild economics in PJM so the concept of building merchant combined cycle in PJM makes sense to you here, just broader thinking about gas plant economics in that market?

Q

Joseph Nigro

Executive Vice President, Exelon; Chief Executive Officer, Constellation, Exelon Corp.

There's a couple of questions there. Let me try to pick them off one-by-one. I think the first one is as it relates to the turnover [indiscernible] (49:25) I think it's clear that we're going to see retirements of generation assets. In our fundamental modeling, we have an add back of an appreciable number of gas-fired generators in PJM, with most of them, say, on the Eastern side of PJM because that's where the economics are more favorable than a territory like NI Hub, for example. You're talking about a long-term investing asset with a build of a combined cycle plant, and you're looking at a market with spark spreads that's a much shorter dated time horizon. In PJM, unlike some of the other markets, the capacity price comes into play as well and is part of the equation.

A

Clearly, we don't see newbuild economics work on the Western side of PJM. On the Eastern side of PJM, it's a much more marginal exercise. I think where spark spreads are and where capacity price is, if you use last year as a benchmark for example, I think you can say that's a marginal calculation. There was some talk, if you go back a year ago, that people were going to be able to lock in gas contracts for 20 years at well under Henry Hub at M3 gas or that Mid-Atlantic type gas. I would tell you I haven't seen that and I don't think that's going to be the case, so there's an element of making sure that you understand what the dynamics of the cost of production are as well.

But I think net-net, fundamentally what we see is a turnover of the stack, our fundamental forecast reflects that. So we have an appreciable add-back of combined cycle plants. And when we take that all into account, as I said previously, we still see upside to the heat rate at NI Hub and we're generally in line with where the market heat rate is West Hub.

Michael J. Lapidès  
*Goldman Sachs & Co.*

Q

Got it. And one real quick follow up, if you don't mind. You all talked a little bit about what the resolution on nuclear fuel means. Can you talk about what that means for fuel costs on a per megawatt hour basis for a typical nuclear plant, like how material is the change on a dollar per megawatt hour? I mean, are we talking \$0.05 or \$0.50, just trying to get my arms around it.

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

A

You're talking about the DOE?

Michael J. Lapidès  
*Goldman Sachs & Co.*

Q

Yes, please.

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

A

A little less than \$1 a megawatt.

Michael J. Lapidès  
*Goldman Sachs & Co.*

Q

A little less than \$1 per megawatt hour. Got it. \$1 megawatt hour, so something that may have been \$7.50ish is now well below \$7?

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

A

Yeah, yeah.

Michael J. Lapidès  
*Goldman Sachs & Co.*

Q

Got it. Thanks, guys.

**Operator:** I would now like to turn the call back over to Francis for closing remarks.

Francis Idehen  
*Vice President-Investor Relations*

Thank you, Britney. This concludes our first quarter call. Thank you, everyone, for joining us this morning.

**Operator:** Ladies and gentlemen, this does conclude today's conference call. You may now disconnect your lines.

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