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Q2 2011 Earnings Call

CORPORATE PARTICIPANTS

Stacie Frank

Vice President, Investor Relations, Exelon Corp.

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Matthew F. Hilzinger

Chief Financial Officer, Treasurer & SVP, Exelon Corp.

Charles M. Pardee

Chief Operating Officer and Senior Vice President, Exelon Generation Co. LLC

Anne R. Pramaggiore

President and Chief Operating Officer, Commonwealth Edison Co.

Kenneth W. Cornew

Senior Vice President, Exelon Corp.

Kathleen Barron

Vice President-Federal Regulatory Affairs & Policy, Exelon Corp.

Ron DeGregorio

Chief Operating Officer, Exelon Transmission Company

William A. von Hoene

Executive Vice President-Finance & Legal, Exelon Corp.

OTHER PARTICIPANTS

Jonathan Arnold

Managing Director, Deutsche Bank Securities, Inc.

Greg Gordon

Analyst, International Strategy & Investment Group, Inc.

Steven I. Fleishman

Analyst, Bank of America Merrill Lynch

James L. Dobson

Analyst, Wunderlich Securities, Inc.

Hugh N. Wynne

Senior Analyst, Sanford C. Bernstein & Co., Inc.

Brian James Chin

Research Analyst, Citigroup Global Markets (United States)

Paul B. Fremont

Research Analyst, Jefferies & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Theresa and I will be your conference operator today. At this time I would like to welcome everyone to the Exelon Corporation Second Quarter 2011 Earnings Conference Call. [Operator Instructions] After the speakers' remarks there will be a question-and-answer session. [Operator Instructions] Thank you. I would now like to turn the call over to Ms. Stacie Frank to begin. Please go ahead, ma'am.

Stacie Frank

Vice President, Investor Relations, Exelon Corp.

Thank you, and good morning, everyone. Welcome to Exelon's Second Quarter 2011 Earnings Conference Call. Thank you for joining us today.

We issued our earnings release this morning. If you haven't received this, the release is available on the Exelon Web site. The earnings release and other matters we will discuss on today's call contain forward-looking statements and estimates that are subject to various risks and uncertainties as well as adjusted non-GAAP operating earnings. Please refer to today's 8-K and Exelon's other filings for a discussion of factors that may cause results to differ from management's projections, forecasts and expectations and for a reconciliation of operating to GAAP earnings.

In addition, during the call we will be discussing the proposed merger of Exelon Corporation and Constellation Energy Group, Inc. Today's discussion does not constitute an offer to sell or the solicitation of an offer to buy any securities or solicitation of any vote or approval. Furthermore, today's discussion is not a substitute for the registration statement on Form S-4 that Exelon filed with the SEC on June 27, 2011, that included a preliminary joint proxy statement/prospectus or for the definitive joint proxy statement/prospectus and other relevant documents that Exelon will send to its security holders in connection with the proposed merger.

For important additional information regarding the proposed merger, including the risks and uncertainties associated with it, please refer to the earnings release and today's 8-K as well as the joint proxy statement/prospectus.

Leading today's call are John Rowe, Exelon's Chairman and Chief Executive Officer, and Matt Hilzinger, Exelon's Senior Vice President and Chief Financial Officer. They are joined by other members of Exelon's senior management team who will be available to answer your questions. We've scheduled 60 minutes for the call and I'd like to now turn the call over to John Rowe, Exelon's CEO.

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Thank you, Stacie and good morning, everyone. As you know from our earnings release, we had another fine quarter. Our operating earnings were \$1.05 per share, which I think significantly exceeded your consensus expectations. We have had a very busy summer at both ComEd and PECO with extreme heat and violent thunderstorms. One in July on ComEd knocked out over 850,000 customers and it took us nearly a week to get them all back. But the ComEd system is performing better than ever before and handled, without major trouble, a new all-time peak of 23,753 megawatts on the 20th of July.

ComEd got a reasonable result in its last rate case, considering the Appellate Court decision that you had all heard about six or nine months ago, and its continuing its work to get Illinois Senate Bill 1652 enacted. This legislation would support a broad infrastructure improvement program and finally bring some real regulatory stability to Illinois. We simply don't know what the odds are of the Governor signing it; he hasn't been sounding promising to date and we don't know whether the legislature would overturn the veto. It is certainly possible that they would because they want these drops very badly.

In Philadelphia, PECO continues to produce genuinely exceptional financial results and it has handled its extreme heat superbly. PECO also hit an all-time peak last Thursday and again topped it on Friday.

During the second quarter, Exelon Generation's capacity factor in its nuclear fleet was 89.6%, largely as a result of 103 refueling outage days and four units. For the first six months of the year the capacity factor was 92.2% and in spite of a year with an extraordinary number of refueling outages our nuclear group continues to strive to achieve its usual 93% this year.

Our performance this quarter was distinguished by some positive tax items, which are not simply accidents, but the result of very hard work by Tom Terry and his tax guidance. We are on or slightly ahead of plan, just with basic operating news, but the tax benefits allow us to increase our earnings guidance for 2011 up from \$4.05 to \$4.25 per share. This range already includes about \$0.04 per share of incremental storm costs from the major July 11 storm, which we will book in the third quarter. Now we've had continued storms in ComEd; I don't have a good number yet on the expense of the whole, but that was the big one and we've already got that pretty well boxed.

Needless to say, I am personally very pleased at being able to increase the earnings guidance. Our merger work in Maryland is marching along right on schedule, and one of these days I'll wake up retired, hopefully as early as January. So I would really like 2011 to be a good year, and right now it looks like it's going to be a very good year indeed.

Turning to the merger. We made all of our regulatory filings within a month of announcing the transaction. We filed our S-4 proxy statement with the SEC at the end of June. The FERC and DoJ processes are proceeding on course. The Texas and New York processes are on track. We hope to get a decision in Texas next month and New York before the end of the year. The NRC is likely to complete its review by January.

In Maryland, the schedule has been set to have a Public Service Commission decision on January 5, 2012. If you look at those dates, you see the basis for my hope that we actually can get this all done in January or perhaps early February.

We continue to work with the stakeholders in Maryland including the governor's staff. We have several Exelon officers based in Baltimore to ensure that dialogue remains constructive throughout the process. This is one of the lessons we've learned from all of our work in New Jersey five years ago. It is: get your own people on the ground, get direct information and have people get to know you firsthand.

So far everything is on pace and on schedule. I believe we do remain on track to close some the merger early next year. Chris Crane and Mayo Shattuck are in the process of defining the new leadership structure. They will make the announcements of the first layer of executive management announcements late this summer.

Over the last three months we have visited with many of you, I'm sure with all of our larger shareholders, and I'm pleased to say the reaction from you has been generally very positive indeed. Nearly everyone I have talked to and my reports from Bill Von Hoene and Stacie and Chris are similar, recognize that this deal works, it makes financial sense from an earnings position, from a cash flow perspective and from a credit perspective. The combination of

our generation fleet with Constellation's customer facing business provides a strong platform for growth. And the transaction allows us to diversify our fleet across various forms of clean energy and enables us to execute our Exelon 2020 vision for a clean energy future.

Being clean is a competitive hallmark for Exelon. It will become even more advantageous as we move into this new era of EPA regulations. More and more through a combination of economics, gas prices and pending environmental regulations, we expect to see the market biased towards cleaner forms of energy. Earlier this month EPA issued its final cross-state air pollution rule, what we used to call the Transport Rule. The final rule contains many of the provisions that the Clean Energy Group, to which Exelon belongs, suggested and provides more regulatory certainty for lowering NOx and sulfur dioxide emissions beginning as early as next year. We applaud EPA's use of a market-based solution with interstate trading where it could.

Overall, we think the rule will have a positive impact on wholesale prices, albeit with some regional differences. We're still evaluating the rule, and we'll learn more as we see allowance trading in advance of the January 2012 start date.

On the Air Toxics Rule, EPA extended its comment period until early August but has maintained a strong commitment to finalizing that rule in November. This is of the utmost importance to EPA and I expect them to hold to that timeline. The Administration has made it increasingly clear the EPA has its full support.

As we expected, the capacity markets were the first to reflect the environmental regulations. Clearing prices in the most recent PJM auction suggest that generators are taking a long-run economic approach to bidding. And companies continue to announce coal retirements and new plans for complying with the regulations. In PJM alone, plant operators have announced plans to retire more than 8,000 megawatts of operating coal capacity. We continue to believe that there will not be repeal or multi-year delay of the EPA regulations, despite some Congressional attempts to do so. As you can all tell from the current budget stalemate, doing nothing is a Congressional strength and we are glad to be able to position where that's good enough for our purposes.

Opportunities to get one-year extensions when needed for compliance will be evaluated by EPA, maybe justifiable in a number of cases, and indeed Exelon would not oppose that. What we care about is when they are going to shut down a plant they do it promptly and on time. We do not support and do not expect delays in the closing of plants that are not going to be on play.

I want now to turn to the nuclear industry's response to the events at Fukushima and its implications for the U.S. nuclear industry. We are very pleased that from the very first phase, the Nuclear Regulatory Commission has taken a fact-based, balanced and objective approach to assessing U.S. nuclear plants and the Administration has backed the NRC industry card. Our own Chip Pardee has worked daily in coordinating with regulators, policymakers, the Nuclear Energy Institute and our peer companies. He is chairing the industry's Fukushima Response Steering Committee.

On July 12, an NRC task force issued its 90-day report, which states clearly that U.S. nuclear plants are safe, and also describes areas for regulatory improvement. We expect the NRC staff and the Commission to work very diligently in both effectively learning how to improve the regulatory structure, but also making certain that it stays fact based. The industry will work through both NCO and NEI to make certain that all this happens.

The issues identified in the task force report are largely those we expected. Very importantly to us, the task force report appears to find that current standards for the storage of spent fuel and the license renewal process are sound and appropriate. Since these were the areas that defined the high end of the potential cost to us, we are pleased to see that they have achieved this level of stability.

How the NRC implements the remaining task force recommendations will take time to know. The cost to Exelon is still impossible to determine in any degree of detail but we expect when we know that it will be spread over a number of years. Nonetheless, with the challenges ahead for the country's oldest and dirtiest coal plants, I would rather have the challenges of Exelon's nuclear fleet any day. The fundamental competitive strengths that we have remain intact. The value of our fleet will improve as power markets improve and EPA regulations are applied.

Our uprates program continues to provide us with a low-risk, low-cost quote vehicle. We have added 194 megawatts since we began the program in 2009. We have the ability to reassess market conditions as we go, thus we have decided to remove the Three Mile Island and Clinton EPU's from the plan due to economics. But we are moving forward with our other upgrades and plan to bring another 185 megawatts online between now and the end of 2013.

So let me end with the following. This quarter's results represents the eleventh straight quarter in which we have met and generally beaten your expectations, indeed we've beaten our own internal forecasts. The reason for this is not always the same. Constant attention to operations is part of it every quarter, including this last one. In this quarter, some tax benefits were a big part of the change.

But the key message I would like to leave you with is that we keep finding things to improve the system. We are absolutely, totally, rigorously and pathologically dedicated to doing that. We can't guarantee that we'll be successful in doing that every quarter as we go forward but I believe this company is placed, positioned and hung out to dry on the proposition that we can keep things better than the models.

With that, I'll turn this over to Matt Hilzinger.

Matthew F. Hilzinger

Chief Financial Officer, Treasurer & SVP, Exelon Corp.

Thank you, John. Good morning, everyone. I'll start my remarks this morning on Slide 10 and follow with some additional commentary on our second quarter results, an update on hedging and recent regulatory activity. Our earnings release issued this morning provides significant detail about our second quarter results.

We are pleased to deliver another quarter of financial results that met or exceeded your expectations. Exelon's second quarter operating earnings were \$1.05 per share compared to \$0.99 per share in the second quarter of 2010. The earnings drivers for all three operating companies are highlighted on Slides 11, 12 and 13.

Our second quarter results include the recognition of a one-time tax benefit of \$0.07 per share at Exelon resulting from a provision under the Energy Policy Act of 2005 that allows transfers of cash or investments from our non-qualified nuclear decommissioning trust funds to our qualified nuclear trust funds, generating a tax deduction at the time of transfer. Exelon originally exercised this provision in March of 2008 and recognized a significant cash benefit based on the proposed regulations back in 2008. However, since that time the IRS issued final regulations with provisions that allow us to carry back the deduction for two additional years from 2008 to 2006, resulting in earnings of \$0.07 per share from the accumulation of interest and lower tax expense. We also expect to recognize about a \$0.01 per share benefit in the second half of the year for this item as well.

Moving onto Slide 14 for an update on power markets and hedging status. Our prices in both the Mid-Atlantic and Midwest have recovered steadily since hitting their lows in late February. As you can see from the chart on the lower left, Midwest heat rates improved quite significantly as power prices increased despite a decrease in gas price, indicating in part the recognition of environmental compliance requirements by market participants. With

this improvement in Midwest power prices, we increased our hedging activity, including participation in the Illinois Power Authority solicitations conducted on behalf of ComEd and Ameren.

As highlighted in our hedge disclosure section of this presentation, we are slightly above a purely ratable hedge for 2012 and 2013. With further improvement and forward prices in July, we continue to leverage our market views for executing sales within the quarter by selecting the product mix and using various channels to market at value portfolio.

Turning to Slide 15. You can see the diversity in our generation and sales mix. While our nuclear assets are the core of our generation portfolio, a sizeable ownership or control of other assets complements our nuclear base and allow power team to serve more structured products including retail. Following the roll-off of the power purchase agreement with PECO, we continue to utilize several channels to market to minimize liquidity and congestion risk. Exelon Energy, our competitive retail business, has experienced significant growth primarily in Pennsylvania. Their delivered electric sales volume for the period of January to June 2011 increased by over 50% to 9.6 million megawatt per hour compared to the same period in 2010.

Turning to ComEd. The Illinois Commerce Commission issued its final order on ComEd's 2010 distribution rate case at the end of May. ComEd received a revenue increase of \$143 million versus its revised request of \$343 million with the new rates starting in June. The ICC order aligns with many of the recommendations in the ALJ's proposed order approving a 10.5% ROE and a capital structure with equity slightly above 47%. We view this as a reasonable outcome considering the Commission's order reflected the impacts of the Illinois Appellate Court's decision and the depreciation reserve which represents \$85 million of the reduced revenue request.

ComEd targets confirmed return on equity of 10% or better. However, due to the final outcome of the ComEd rate case and the recent impact of the two very severe storms that hit the Chicago area in June and July, ComEd has struggled to earn its target ROE this year. As a result, we have adjusted our full year earnings range down for ComEd.

Going forward, absent the effectiveness of the Illinois Senate Bill 1562, ComEd is looking at alternatives such as formula rate legislation or more regular rate case filings using a future test year in order to achieve a more consistent 10% or better earned ROEs.

Turning to load. Our expectations for both ComEd and PECO for the balance of the year are very similar to what we indicated last quarter. In the Chicago area we aren't seeing any major changes in load or the economy that suggests we need to be more or less optimistic.

In Philadelphia, despite a lower gross metro product growth estimates since last quarter, we anticipate no material changes to our 2011 load forecast. You can refer to the appendix after the slides on load trends and key economic indicators.

Moving on to Slide 16. Last year we announced our intention to pursue the RITE Line, a high voltage 765 AV transmission project in the Midwest to a partnership with Electronic Transmission America, referred to as ETA, a joint venture of AEP and MidAmerican Holdings. The updated project timeline reflects the execution of a partnership agreement between Exelon and ETA that was formalized on July 13. The agreements established operational, financial and management terms for the construction of a line that will extend from Illinois through Indiana to the Ohio border. We expect this line to improve the liability and reduce congestion to this territory once it is fully operational later in the decade, subject to a number of variables, including approvals at PJM and FERC.

The execution of the partnership agreement cleared the path for the FERC rate and incentives filing, which was submitted on July 18. The filing requested total 12.7% return on equity which includes a base return and incentives. The filing also requests other incentives such as our ability to recover abandonment costs and construction work in progress. We have asked the FERC to issue an order on this filing by October and are beginning to work to include the line in the PJM regional transmission expansion planning process.

Our latest cash flow update is on Slide 17. Our business continues to generate strong cash flows from operations of \$4.3 billion and we expect to end the year with \$350 million in cash. Tax benefits associated with the nuclear decommissioning trust funds special transfer tax that I described earlier will be realized in 2012. Capitalizing on the financial health for the business, we are able to deploy capital for value enhancing investments when such opportunities present themselves.

This was the case with our \$305 million acquisition of Wolf Hollow, a 720-megawatt combined cycle plant. This acquisition aligns well with our existing footprint in ERCOT, it works from a financial and credit standpoint giving our existing PPA for 50% of the output of the plan and it will further complement our combined portfolio once we merge with Constellation. We purchased Wolf Hollow at a very attractive price compared to other recent transactions and it will be funded upon closing with cash and available liquidity resources. The acquisition is pending approval from the Texas PUC which we expect to receive in the third quarter.

Before we open the call for questions I'd like to provide you with our business outlook for the rest of the year. As John said, we are raising and tightening our full year guidance range because of our strong year-to-date performance, actuated items in the first six months of the year and our view for the balance of the year.

For those of you who track storms, we have included in our guidance about \$0.04 per share of incremental storm cost related to a severe storm that hit the Chicago area on July 11. This storm ranks as one of the worst to hit the ComEd region, impacting an excess of 850,000 customers. These storm costs have been included in our consolidated third quarter guidance range where we expect to earn between \$1.00 and \$1.10 per share.

Our confidence in our higher full year guidance range is based on the impacts of weather so far this year including the storms, new distribution rates at ComEd beginning in June, consistent operational performance and continued effective management of our own end costs. We delivered strong financial results in the first half of the year even before the tax items that came through and we are on track to maintain our earnings commitments to you over the remainder of the year. I will now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Jonathan Arnold with Deutsche Bank.

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Morning, Jonathan.

A

Jonathan Arnold

Managing Director, Deutsche Bank Securities, Inc.

Good morning. My question relates to the nuclear task force report and then the suggestions in there that it might be considered to put hardened vents on the Mark II Containments. I think we were right, some of those are Exelon plants. Any indications you can give us on whether – what the cost of that might be if that was the way they had with us?

Q

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Chris or Chip, we've done some of that altogether. Would you flush that out for me?

A

Charles M. Pardee

Chief Operating Officer and Senior Vice President, Exelon Generation Co. LLC

Sure. This is Chip speaking. We have started our technical reviews if in fact those vents are deemed to be required. And we don't yet have any firm price numbers but they're not extraordinary costs. These are not significant engineering or construction tasks. So I can just answer qualitatively that those should not be numbers that you would be able to discern.

A

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Chip, you've gotten some of those already, haven't you?

A

Charles M. Pardee

Chief Operating Officer and Senior Vice President, Exelon Generation Co. LLC

Yes. Not on Mark IIs, on Mark Is; but there are sufficient parallels that we can start from a pretty sound basis.

A

Jonathan Arnold

Managing Director, Deutsche Bank Securities, Inc.

Could you give us a sense of what it might have cost on the Mark Is and what the date of those costs were roughly?

Q

Charles M. Pardee

Chief Operating Officer and Senior Vice President, Exelon Generation Co. LLC

They were early enough, decades ago, starting through the '90s and such that I wouldn't care to extrapolate those costs up forward. But again, they were not large numbers, Jonathan, in the big scheme of things.

A

Jonathan Arnold

Managing Director, Deutsche Bank Securities, Inc.

Q

So could we be – are we talking tens of millions? Or single-digit millions?

Charles M. Pardee

Chief Operating Officer and Senior Vice President, Exelon Generation Co. LLC

A

I don't know yet, but neither – again, neither will be big movers for us.

Jonathan Arnold

Managing Director, Deutsche Bank Securities, Inc.

Q

Okay. And then my second question, if I may, on the – in the event that the legislation in Illinois was, you know, doesn't sort of get over the finish line, what would the likely timing of another rate filing be?

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

A

Anne, would you pick that up?

Anne R. Pramaggiore

President and Chief Operating Officer, Commonwealth Edison Co.

A

Sure. We are looking at probably early 2012 for that, but we're still in the process of making decisions. Obviously we're working hard on the legislation and that's our first choice at this point, but that's roughly the timing, Jonathan.

Jonathan Arnold

Managing Director, Deutsche Bank Securities, Inc.

Q

Okay. Thanks a lot.

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

A

Thank you.

Operator: Your next question is from Greg Gordon of ISI Group.

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

A

Hi, Greg.

Greg Gordon

Analyst, International Strategy & Investment Group, Inc.

Q

Good morning. So your – on Page 22, your estimated open gross margin is based on forward curves from June 30, but I think we all know since the CSPAR rules came out power prices had moved up several dollars since then. So is it – are you seeing the same thing that I'm seeing in that prices are up a few dollars, therefore, all things equal, your open growth margin will be modestly higher? And then second, the real big question is, do you think that really truly reflects the fundamental impact of CSPAR? Do you think that just reflects the fact that we had a heat

wave? How much more, if any, do you think sort of fundamental pricing needs to move as a reflection of what you see in these rules?

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

A

Greg, Ken Cornew is good at telling you whether the hot food went to ham or bacon, so he will answer that.

Kenneth W. Cornew

Senior Vice President, Exelon Corp.

A

Greg, we have seen the days immediately following the announcement of the Cross-State Air Pollution Rule, we saw the PJM markets move up about \$1 and the air costs move up a little more strongly, about \$2. Since then we've continued to see some movement, and now we're – the markets are more like \$2 to \$3 up, particularly in the out years of '14, '15. I think the majority of that move does relate to the announcement of that rule. There has been also in the market a realization that the fundamentals that make their way into the spot are real and are likely to continue in the forward market so that we've seen some heat rays move up, and corresponding price move up in the markets because of that. And that wasn't just the heat wave. That started in the middle of the second quarter, backed off a bit with the drop in gas but has recovered again.

So is there more? Potentially. We need to see exactly how emission allowances start trading. I haven't even started figuring out what kinds of allowances we're going to need to dispatch our plants. We haven't seen that yet in the market.

Greg Gordon

Analyst, International Strategy & Investment Group, Inc.

Q

Great. And on the flip side of that, we're starting to hear a lot about the amount of productive gas capacity coming on line in the Marcellus Shale, and to some degree that is not getting to market because of liquids and transmission capacity being constrained. But I know there's a lot of money be flooding that zone to try to fix that. Are you concerned about gas basis being a headwind as we get into '12 and '13 that could mitigate the positive impacts of the things that you just discussed?

Kenneth W. Cornew

Senior Vice President, Exelon Corp.

A

Well, as you know, Greg, the basis numbers have decreased substantially since the onslaught of Eastern gas development. To the extent Marcellus Shale continues to replace shale from Haynesville or other more standard production from the Gulf, you might see a little more decline in the basis, but that gas market for the last nine months or so has been relatively stable. Supply and demand seem to be well in balance. Storage figures are a little lighter than they were a year ago. We feel like the gas market likely will stay in its current range for a good amount of time.

Greg Gordon

Analyst, International Strategy & Investment Group, Inc.

Q

Gentlemen, thank you.

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

A

Thank you.

Operator: Our next question is from Steve Fleishman of Bank of America.

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Good morning, Steve.

A

Steven I. Fleishman

Analyst, Bank of America Merrill Lynch

Hi, John. Good morning. John, I think you mentioned on the Air Toxics Rule that you expect the EPA to hold to their schedule. And then you said you feel they have the full support of the Administration. Any sense of kind of data points that further indicate that?

Q

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Well, I think there was a quote from either the President himself or his staff recently. Kathleen, do you remember exactly what they said?

A

Kathleen Barron

Vice President-Federal Regulatory Affairs & Policy, Exelon Corp.

Well, there was – I think you're probably recalling the statement from the Chief of Staff, and that was a few weeks back, indicating that the White House was supporting the EPA. And then more recently in the context of the appropriation discussion, again a reflection that they would veto a big holdback on EPA's ability to finalize both.

A

Steven I. Fleishman

Analyst, Bank of America Merrill Lynch

Okay. And then I guess one other question I guess on this RITE transmission line. Could this basically allow NiHub power to potentially get into CinHub or AD-Hub? How many megawatts could potentially go across this line?

Q

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Chris, will you pick that up? Did we lose Brother Crane?

A

Ron DeGregorio

Chief Operating Officer, Exelon Transmission Company

Hey, John, this is Ron Degregorio. I'll take that. This line will allow for a greater flow of energy and power from the various points that you mentioned. The ultimate size and power flow that will happen as it relates to the specific design but we're talking nominally 3,000 to 4,000 megawatts.

A

Steven I. Fleishman

Analyst, Bank of America Merrill Lynch

3,000 to 4,000 megawatts. Okay. Okay. Thank you.

Q

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Thank you, Steve.

A

Operator: Your next question comes from James Dobson of Wunderlich Securities.

James L. Dobson

Analyst, Wunderlich Securities, Inc.

Good morning, John.

Q

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Good morning.

A

James L. Dobson

Analyst, Wunderlich Securities, Inc.

A question for you going back to the nuclear task force. You indicated that both a diligent process but perhaps more importantly a fact-based process was your hope. And I was just wondering if you could square that with at least the Chairman's desire, the NRC, to get this sort of rules out in 90 days, similar to the task force report. It would seem to almost make that fact-based approach maybe a little more challenging, if you had thoughts there.

Q

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Well, I can try. The Chairman clearly wishes to look decisive. None of us wish to stand in the way of being decisive about these things as long as they've got the facts in. The full regulatory staff was not included in the preparation of the 90-day report. It is almost inconceivable that the Chairman and the other members of the Commission won't want to hear from their own in-house experts. In addition, they have to give the industry some opportunity to comment on specific proposals. I can assure you we won't do that just for the point of delay. We would like early clarity as much as the public would like early clarity. But these are very complicated things, and it's my guesstimate that the Commission is going to need more than 90 days, in at least the more complex areas. Chip, what would you like to add to that?

A

Charles M. Pardee

Chief Operating Officer and Senior Vice President, Exelon Generation Co. LLC

I think that pretty much covers it. We're watching the other commissioners weigh in at this point in time. And I think from what we can tell, we'll see more clarity around the response to the question in relatively short order, is my belief. But until such time the Commission finishes weighing in, I don't think we'll know more about timelines or the degree to which the public will participate in the process.

A

James L. Dobson

Analyst, Wunderlich Securities, Inc.

That's very helpful. And I guess for clarity, your cost estimates of compliance with whatever new rules, you will be willing to make that available to folks like us that are interested probably about the time the rules are made? So to the extent it takes longer than 90 days, we should anticipate that it will take you that long to complete the cost estimates.

Q

John W. Rowe*Chairman and Chief Executive Officer, Exelon Corp.*

A

When we can give you a number that is within a breadbox level of accuracy, we'll give it to all of you. I mean, right now all we know is that some of our worst fears, particularly about the spent fuel pools, do not appear to be happening. And so that's a very good thing, indeed. But we just can't give you a number yet because we don't know what they have in mind. The vent hardening is not a very big issue. But some of these other things could cost significantly more and you won't have to ask when we know; we'll get it to all of you as fast as we can.

James L. Dobson*Analyst, Wunderlich Securities, Inc.*

Q

That's great. No, thank you very much for the clarification on that, John. And then, Matt, just a couple of clarifications. What was the storm cost in the second quarter? I think you were saying the \$0.04 you would incur for the July storms in the third quarter, but I know you had \$0.03 in the year-ago second quarter and I wasn't clear what the second quarter of '11 had for storm costs.

Matthew F. Hilzinger*Chief Financial Officer, Treasurer & SVP, Exelon Corp.*

A

I think it's around \$0.01 to \$0.02 of storm costs in the second quarter. So we had some storms in June. I'd probably estimate it to be around \$0.02, James.

James L. Dobson*Analyst, Wunderlich Securities, Inc.*

Q

Okay. Got you. So we've got about \$0.01 or so benefit from relative to a year ago. And then on the tax issue, Matt, you said there'd be another \$0.01 in the second half. Is there a reason to believe that wouldn't be in the third quarter? Or just to understand your characterization of the second half versus the ...

Matthew F. Hilzinger*Chief Financial Officer, Treasurer & SVP, Exelon Corp.*

A

Yeah. The \$0.01 is connected to the first \$0.07 and it's just waiting for some final clarification from the IRS. So it's going to largely be dependent upon that. We'd like to see it in the third quarter, but it could move to the fourth. But it's dependent upon the IRS.

James L. Dobson*Analyst, Wunderlich Securities, Inc.*

Q

That's great. Okay, thank you very much.

John W. Rowe*Chairman and Chief Executive Officer, Exelon Corp.*

A

You're welcome.

Operator: Your next question is from Hugh Wynne of Sanford Bernstein.

John W. Rowe*Chairman and Chief Executive Officer, Exelon Corp.*

A

Morning, Hugh.

Hugh N. Wynne*Senior Analyst, Sanford C. Bernstein & Co., Inc.*

Q

Hey. Good morning. I had a question for Chip. You gave us a point of reference for thinking about the cost of the vent hardening on the Mark IIs. The NRC's report had three principal recommendations, and I was hoping you might be able to give us a way to think about the capital or O&M costs associated with those. They're looking for you to ensure that you've got adequate protection against seismic and flooding risk that your plans there, they're looking for you to enhance station blackout, mitigation capability. And finally, they're looking for you to strengthen the emergency preparedness to address prolonged station blackouts. And just by reference back say to what occurred after 9/11, is there some way that you could give us parameters to think about the O&M or capital costs associated with those?

Charles M. Pardee*Chief Operating Officer and Senior Vice President, Exelon Generation Co. LLC*

A

Well, good morning, Hugh. I don't know how much clarity, additional clarity I'll be able to provide, but I don't know if you were able to listen to the call that NEI had yesterday on largely this same subject. And one significant differentiator that we do see thus far with the 90-day report versus actions that were required post 9/11 is that unlike the events of a decade ago, when our principal corrective actions involved adding significant security staff and significant additions to security staff, which as you know, are ongoing O&M expenses versus a highly-concentrated on once and done capital improvements, from what we can see this time around, the task force largely concentrates on the physical attributes of the power plants, which tend to lend themselves to capital versus O&M improvements.

I do know that we have completed our first round of seismic and flooding walk downs in our power plants. We did that several months ago as an immediate action post Fukushima, and we have not found significant deficiencies with our current design basis features, so I am not anticipating at all any large expenditures around the minor deficiencies that we did find. But until such time NRC is more specific about whether or not further strengthening of our seismic or flooding defenses will be required, I can't really speculate to costs. I do know that, again, though those would lend themselves to one-time capital costs instead of ongoing O&M commitments that we'll have to make year over year.

Hugh N. Wynne*Senior Analyst, Sanford C. Bernstein & Co., Inc.*

Q

I think that's helpful, actually. On the enhancing the station blackout mitigation capability, it seems to me that the types of steps that NRC has got in mind are not dissimilar to those that you probably had to take when they looked at the potential for an airplane impact on your nuclear power plants after 9/11, although this time they're also contemplating, I guess, a two station blackout, two unit blackout. When I went back and looked at your CapEx numbers at ExGen in the years following 9/11, I really couldn't see a major upward move in capital expenditures. Is that a fair read across to the likely implications of these new guidelines?

Charles M. Pardee*Chief Operating Officer and Senior Vice President, Exelon Generation Co. LLC*

A

I think that is a fair read across. No, and as you can tell, both John and I are hedging our answers with there is little definition to what the specific actions that we'll undertake actually are, but I think you had that directionally correct. It appears thus far that we'll end up doing, generally speaking, more of the same in improving the robustness of our layers of protection, and certainly not starting from a redesign of significant safety systems or anything like that.

John W. Rowe*Chairman and Chief Executive Officer, Exelon Corp.*

A

Hugh, I don't know if this is helpful or not. It's just the best I can do. After TMI there were major structural changes in plant design requirements. It seems to me that the tone of the post-Fukushima review is not that we'll go back and redesign all the old plants; it's that we'll have to have more consistent measures in place to respond to things that might exceed the design basis. I think Chip and his colleagues call those SAMGs [Severe Accident Management Guidance]. But they tend to be much lower in expense than major rebuilds, and you might take a look at it that way.

Hugh N. Wynne*Senior Analyst, Sanford C. Bernstein & Co., Inc.*

Q

Well, I guess that was exactly my final question. The third recommendation, strengthening emergency preparedness at the plants, is one of that possibly could give rise to higher O&M costs. And I notice going back again to ExGen's experience in the years following 9/11 that the major increase in costs that was seen there was really associated with O&M. And I know at the time you guys had to go out and hire mercenaries like a Renaissance prince to protect your plants, but is there a concern that you may face a significant uptick in O&M costs due to the need to strengthen emergency...

Kenneth W. Cornew*Senior Vice President, Exelon Corp.*

A

From all we can see right now, Hugh, the answer to that question would be no. And if for some reason the complexion changes, as John said, we'll get back to you in prompt order, but I just am not seeing it at all. The defenses that we're talking about with regard to robustness against natural disasters and such aren't the same as adding security officers, as history around 9/11 dictated.

Hugh N. Wynne*Senior Analyst, Sanford C. Bernstein & Co., Inc.*

Q

Right. So in summary, you guys are not really that concerned about either investment cost increases or O&M cost increases as a result of this recommendation?

Matthew F. Hilzinger*Chief Financial Officer, Treasurer & SVP, Exelon Corp.*

A

Hugh, we're not in any panic at all, but we take every round of this with Pilgrim-like gravity. I mean, this was a massive nuclear accident. While small compared to the tsunami and earthquake itself, it's still somewhere between TMI and Chernobyl on the bad things scale. And we will take everything the NRC is doing with the greatest seriousness. We will work with them as closely as they will let us to get efficient and effective responses to this, but I think what we're saying is we don't at the moment see anything that has a major impact on the economics of these plants.

Hugh N. Wynne*Senior Analyst, Sanford C. Bernstein & Co., Inc.*

Q

Great. Thank you very much.

John W. Rowe*Chairman and Chief Executive Officer, Exelon Corp.*

A

Sure.

Operator: Your next question comes from Brian Chin of Citigroup.

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Good morning, Brian.

Brian James Chin

Research Analyst, Citigroup Global Markets (United States)

Hi. Good morning. Recently on the merger developments, recently there's been a few parties that have seemed to signal that further plant divestitures beyond what you guys have announced might be necessary. Can you just provide any comment or color on that?

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

Bill von Hoene will pick that up.

William A. von Hoene

Executive Vice President-Finance & Legal, Exelon Corp.

Good morning, Brian.

Brian James Chin

Research Analyst, Citigroup Global Markets (United States)

Morning.

William A. von Hoene

Executive Vice President-Finance & Legal, Exelon Corp.

We did, as we previously stated, a very careful analysis prior to the filing of our agreement, and our filings at FERC and our dealings with the Department of Justice as to what we believed would be the necessary divestitures. With reference to the tests that are applied by those groups, we believe the divestitures that we proposed, which as you know, is about 2,700 megawatts, are sufficient to meet those tests and we're aware of the filings I think you're probably referencing in FERC, the recent interventions in FERC last week. But we do not believe that we will be required to do additional divestitures to meet the tests that those entities had historically used.

Brian James Chin

Research Analyst, Citigroup Global Markets (United States)

Right. Thank you.

Operator: The next question comes from Paul Fremont of Jefferies.

Paul B. Fremont

Research Analyst, Jefferies & Co., Inc.

Thank you. Just as a quick follow-up to Brian's question. Based on what the PJM Market Monitor was recommending, how would that affect the proposed 2,700 megawatts? And would it potentially delay the timeline for approval at either DOJ or FERC?

Kenneth W. Cornew*Senior Vice President, Exelon Corp.*

A

Paul, as you know, the intervention by the Market Monitor did not recommend any specific additional divestiture, but did indicate that in the Market Monitor's view, that additional divestiture would be required without quantifying that. We studied that, and we discussed this last week the things we would noted that the analysis performed by the Market Monitor differs significantly from the type of analysis that's been typically performed by FERC.

And so the application of that analysis would be new. It would be something that FERC had not done in prior mergers. So our expectation is that FERC will continue to apply the standards and the analyses it has used, and that we meet those tests, and that the Market Monitor's depiction deploying different tests that FERC has not used will not control.

What FERC will determine is whether, based on the interventions a hearing is necessary, and were there to be a hearing ordered by FERC, that would prolong the proceedings. But we don't expect that that will happen, and we think we will be able to address all of the interveners in a way which is consistent with other approvals before FERC will obviate the need for any additional hearing, and will keep us on schedule.

Paul B. Fremont*Research Analyst, Jefferies & Co., Inc.*

Q

Also when you announced the merger, you had initially talked about announcing the first level of reports within a 90-day period. That looks like it's been delayed. Is there something we should think about that's sort of driving the delay in that announcement?

John W. Rowe*Chairman and Chief Executive Officer, Exelon Corp.*

A

I think the only thing that's affecting the delay, since we reviewed some of it with our board just yesterday, is just when and how to communicate to certain people. We're trying very hard to keep this a happy merger in both companies. And right now it is, and I think that we're going to try to keep a soft hand to make certain it stays that way.

Paul B. Fremont*Research Analyst, Jefferies & Co., Inc.*

Q

And I guess my last question is with respect to Commonwealth Edison, it looks like there's \$0.03 that was stripped out as non-recurring for the distribution rate order. But there also looks like there's another \$0.03 one-time item that's included in your \$0.15 operating number for the second quarter of 2011. What's the difference between the two?

Matthew F. Hilzinger*Chief Financial Officer, Treasurer & SVP, Exelon Corp.*

A

Yeah. Hey, Paul, it's Matt Hilzinger. These are items that we've either included or not included in operating earnings in the past. And they're reversing, and we're just keeping symmetry to where they were originally included. So that was for the money, for the EPS that was included in ops has to do with underground cables and

some working capital, kind of a lead lag amount that we basically had reserved through operating earnings in the past, meaning that we put the charge through operating earnings in the past.

We're getting recovery of that, so we're reversing that through operating earnings. The items that have been excluded from operating earnings that you're saying have to do with severance back in '09 and Medicare Part D, those were originally excluded from operating earnings, and so we're excluding them now. So we're just providing some symmetry as to how they went through the original P&L.

Paul B. Fremont

Research Analyst, Jefferies & Co., Inc.

Thank you very much.

Q

Stacie Frank

Vice President, Investor Relations, Exelon Corp.

Thank you, operator. I'm going to turn the call back to John Rowe for closing remarks.

John W. Rowe

Chairman and Chief Executive Officer, Exelon Corp.

I was looking at a summary statement on my own investment portfolio this morning, and observed that the best thing in the last 60 days was gold. Well, I'll leave you with this thought: Exelon is safer than gold. It's got more upside than gold, and it pays a 5% dividend, which is damned hard to get out of gold.

Thank you, everybody.

Operator: Thank you for participating in today's conference call. You may now disconnect.

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